



DANISH  
FOREIGN POLICY  
YEARBOOK  
2011

EDITED BY NANNA HVIDT AND HANS MOURITZEN

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DIIS · DANISH INSTITUTE FOR INTERNATIONAL STUDIES

# DANISH FOREIGN POLICY YEARBOOK 2011

Edited by Nanna Hvidt and Hans Mouritzen



DIIS

Danish Institute for International Studies 2011

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# Danish Foreign Policy Yearbook

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Danish Foreign Policy Yearbook focuses on Danish foreign policy and Denmark's position within an international and transnational context – at the regional as well as the global level. This volume presents the official outline of Denmark's 2010 foreign policy by the Permanent Secretary of State for Foreign Affairs, Claus Grube. In addition, we have included articles by scholars, who represent only themselves and their academic expertise.

In the light of China's emerging superpower status, we have asked Clemens Stubbe Østergaard to analyse continuity and fluctuations in Danish-Chinese relations over the years. Peter Viggo Jakobsen and Peter Dahl Thruelsen then direct the searchlight towards Afghanistan and in particular the presence of the Danish contingent within a British-led brigade in the Helmand province. What has this meant for operational effectiveness? Martin Carstensen criticizes the government for not addressing the root causes of the Danish version of the financial crisis: The liberalised loan market that created a historically unprecedented bubble in the housing market, increasing the dependence of Danish banks on the transnational money markets. Finally, Göran Hydén scrutinizes the 2010 Strategy Document on Danish Development Cooperation, with a view to how the notion of 'development' is understood and operationalized.

The articles are abstracted in English and Danish at the outset of chapter one (for authors' titles and affiliations, see each article). After the articles follows a selection of official documents, which we consider to be pioneering or characteristic of Danish foreign policy during 2010. This is supplemented by essential statistics on Danish foreign policy as well as some of the most relevant polls on the attitude of the Danish population



on key foreign policy questions. Finally, a bibliography offers a limited selection of scholarly books, articles, and chapters published in 2010 in English within the yearbook's focus.

The editors of Danish Foreign Policy Yearbook are Director Nanna Hvidt and Dr. Hans Mouritzen. Louise Lading Clausen, BSc and master's student in political science, has served as the assistant editor.

*The editors*

*DIIS, Copenhagen*

*May 2011*

# Chapter I

## Articles

### Abstracts in English and Danish

#### The International Situation and Danish Foreign Policy 2010

*Claus Grube*

The Permanent Secretary of State for Foreign Affairs describes and analyses the key Danish foreign policy priorities of 2010, a year that was characterized by ongoing recovery from the economic crisis in a still fragile situation. Thus, the article takes its point of departure in global economic trends and the challenges that Europe faces. It then goes on to discuss the new security policy agenda, the world's conflict areas and relations with our European and global partners before concluding with some considerations about the role of the Ministry of Foreign Affairs of Denmark in a changing world.

*Udenrigsministeriets departementschef beskriver og analyserer i sin artikel de centrale prioriteter i dansk udenrigspolitik i 2010. Året var præget af den igangværende bedring efter den økonomiske krise – i en dog fortsat skrøbelig situation. Artiklen tager derfor sit afsæt i globale økonomiske trends og de udfordringer, som Europa står overfor. Dernæst diskuteres den nye sikkerhedspolitiske dagsorden, verdens konfliktområder og relationerne til vores europæiske og globale partnere, hvorefter der afslutningsvis konkluderes med nogle betragtninger om Udenrigsministeriets rolle i en verden under forandring.*

## Danish-Chinese Relations: Continuity and Change 1949-2011

*Clemens Stubbe Østergaard*

Using a policy approach, the article aims to describe and explain both the broader shifts over time in Danish-Chinese relations since 1949 and the recurring crises in relations since 1989. The longer trends of continuity are due to the international systemic overlay, to economic considerations, and from the end of the 1990s to the stabilizing influence of increasing Europeanization of Danish foreign policy outside the security field. The recurring crises commenced with the end of external danger after the Cold War, permitting the luxury of a more value-based and 'activist' foreign policy. The crises were also due to Danish vacillation in the face of disagreements between the United States and the EU, with their shifting influence over Danish policy-makers. Perception lags, political populism and reliance on press-framing contributed, in combination with reticent business interests, to a strident but uninformed public opinion and a lack of open debate over the trade-offs, costs and contradictions inherent in finding an optimal China policy. Denmark's role and importance to China has decreased, but a certain 'soft power' may be assumed. Increasing our knowledge of China and promoting closer EU-China relations remains a challenge for Danish policy.

*Med en policy-tilgang søger artiklen at forklare både de lange linjer og de tilbagevendende kriser i de dansk-kinesiske forbindelser. Kontinuiteten og stabiliteten over tid skyldes systemiske faktorer, økonomiske forhold og siden slutningen af 1990'erne den stabilitet som er fulgt af en tiltagende europæisering af dansk udenrigspolitik uden for det sikkerhedspolitiske område. De tilbagevendende kriser begyndte med ophøret af ydre fare efter den Kolde Krig, som tillod Danmark den luksus at føre en mere værdibaseret og 'aktivistisk' udenrigspolitik. En del af forklaringen skal også søges i den usikkerhed som opstod, når USA og EU var uenige. Perceptionsproblemer, populisme og pressens 'framing' bidrog, i kombination med lavprofilerede erhvervsinteresser, til en heftig, men ikke lige velinformeret offentlig opinion, og en manglende debat om modsætningen mellem Danmark som eksportafhængig nation og Danmark som norm-entreprenør med en værdibaseret udenrigspolitik. Danmarks vigtighed for Kina er dalende, men en vis 'blød magt' kan antages. Det forbliver en udfordring at øge vores vidensniveau om Kina og arbejde for tættere EU-Kina forbindelser.*

## Clear, Hold, Train: Denmark's Military Operations in Helmand 2006-2010

*Peter Viggo Jakobsen and Peter Dahl Thruelsen*

Denmark wanted to make a military difference when it committed troops to the Helmand province in Afghanistan in 2006. To be able to make this difference in a war zone with 290-750 personnel, the Danish government took the unusual step of placing its contingent within a British-led brigade without national caveats. This article analyses the implications of this crucial choice for Denmark's military operations in Helmand. It demonstrates that by and large Britain determined how and where the Danish forces operated. Contrary to expectations, Denmark's 2007 decision to take the lead in Battle Group Centre did not enhance the operational freedom enjoyed by Danish commanders. British commanders continued to use the Danish units where they wanted to, regardless of the consequences for stability in the Danish area of operations. This raises the question of whether Denmark should aspire to take the lead in its own area of operations in future UK-led operations of this type. The resource constraints that compelled British commanders to use Danish units for 'out of area' operations and that limited their ability to fully support their Danish partners are likely to remain constants for the foreseeable future.

*Danmark sendte soldater til Helmand provinsen i Afghanistan i 2006 for at gøre en militær forskel. For at kunne realisere denne ambition i en krigszone med blot 290-750 soldater tog den danske regering det usædvanlige skridt at indlemme sit troppebidrag i en britisk-ledet brigade uden nationale begrænsninger i deres anvendelsesmuligheder. Artiklen analyserer konsekvenserne af dette centrale valg for Danmarks militære operationer i Helmand. Den viser, at Storbritannien stort set bestemte, hvordan og hvor de danske enheder blev anvendt. Modsat forventningerne gav Danmarks beslutning i 2007 om at tage ansvar for Battle Group Centre ikke de danske militære chefer større operativ handlefrihed. De britiske brigadeførere fortsatte med at bruge de danske enheder, hvor de ville, uden hensyntagen til konsekvenserne for stabiliteten i det danske operationsområde. Det rejser spørgsmålet, om Danmark skal tage ansvar for operationsområder i fremtidige operationer af denne type med briterne. De ressourcemæssige begrænsninger, som tvang de britiske chefer til at bruge danske enheder uden for deres operationsområde og som gjorde det svært for dem fuldt ud at støtte danskerne, vil også gøre sig gældende fremover.*

## New Financial Regulation in Denmark after the Crisis – or the Politics of Not Really Doing Anything

*Martin Carstensen*

Since the financial crisis, Danish policy-makers have not been idle. As a response to the mismanagement and lax credit policies of Danish banks, which have led to a long list of destitute banks being wound up, the government has chosen to wait for new international standards to come along, while putting its faith in the Danish FSA (Finanstilsynet) to limit overly risky behaviour on the part of the banks in a future upturn. From making sure that the financial institutions follow the law, the FSA should now proactively alleviate the effects of an inherently unstable financial system and fence in the banks to adhere to a clearer norm of legitimate banking. However, recent scandals, notably the case of ‘Amagerbanken’, show the difficulties in living up to this new proactive role. Out of political considerations, the government has chosen not to reform one of the main culprits of the financial crisis: the liberalised loan market that created a historically unprecedented bubble in the housing market, resulting in an explosive growth in the deposit deficit and in turn significantly increasing the dependence of Danish banks on the international money markets. Taken together, the government has exhibited great reforming zeal, but without solving the problems that laid the ground for the Danish version of the financial crisis.

*Efter finanskrisen har danske politikere ikke ligget på den lade side. Som en reaktion på dårlig bankledelse og bankernes overoptimistiske långivning – med en række konkurser til følge – har regeringen valgt at vente på nye internationale standarder og samtidig styrke Finanstilsynets beføjelser til at modvirke overdreven risikotagning i et fremtidigt opsving. Samlet set er resultatet et ændret fokus hos Finanstilsynet: fra at sikre at de finansielle institutioner lever op til lovens ord til en mere proaktiv tilgang, hvor tilsynet gennem en stærkere betoning af legitim bankvirksomhed spiller en central rolle i at forebygge fremtidige kriser i et fundamentalt set ustabil system. Bl.a. konkursen i Amagerbanken udstiller imidlertid tilsynets problemer med i praksis at leve op til dets nye proaktive rolle. Ud fra politisk-strategiske betragtninger har regeringen valgt ikke at slå ned på en af de vigtigste årsager til at Danmark blev relativt hårdt ramt af finanskrisen, nemlig liberaliseringen af lånemarkederne. Denne skabte en boligboble uden fortilfælde og dermed et historisk højt indlånsunderskud i danske banker, som gjorde mange af dem dybt afhængige af de internationale pengemarkeder. Samlet set har regeringen udvist stor reformiver uden reelt at løse de problemer, der lå til grund for den danske version af finanskrisen.*

## Foreign Aid: What Happened to Development?

Göran Hydén

Using the 2010 Strategy Document on Danish Development Cooperation as a main reference, this article examines what has been happening in the international donor community when it comes to understanding and operationalizing development. It sets out the differences between the way the concept was used in the 1960s and 1970s with how it has been used in the past two decades. The main argument is that the donors have moved from a structuralist understanding of development to one that is largely institutionalist, i.e. an approach in which it is assumed that (a) development is any improvement in the human condition, (b) human progress can be pursued with equal attention at the same time to a range of factors and processes, many of which are at odds with each other, (c) development is pursued ‘holistically’, i.e. through policy coherence and harmonization, (d) foreign aid is increasingly a political matter, not only at the stage of policy formation but also in the implementation phase, and (e) development prospects increase with the greater national ownership of foreign aid that comes from direct budget support. A second part of the article addresses the likely causes why this has happened, and a third part discusses the consequences for partner countries and how they have reacted, including their growing interest in investments instead of grant-based aid. Finally, the article suggests a way forward.

*Denne artikel undersøger med udgangspunkt i ‘Strategi for Danmarks udviklingsarbejde 2010’, hvad der er sket i det internationale donorsamfund med forståelsen og operationaliseringen af begrebet ‘udvikling’. Artiklen sammenligner dets brug i 1960’erne og 1970’erne med de seneste to årtier. Hovedpointen er, at donorerne har bevæget sig fra en strukturalistisk til en mere institutionalistisk forståelse af udvikling, dvs. en tilgang hvor man antager, at (a) udvikling er en hvilken som helst forbedring i de menneskelige forhold, (b) menneskelige fremskridt kan opnås ved lige stort fokus på mange forskellige – ofte indbyrdes modstridende – faktorer og processer på samme tid, (c) udvikling skal tiltræbes på en ‘holistisk’ måde med vægt på policy-harmonisering, (d) udviklingsbistand er i stigende grad blevet et politisk spørgsmål, ikke bare ved de overordnede beslutninger men også i implementeringsfasen og (e) muligheden for udvikling øges gennem højere grad af national kontrol med bistanden, som følger af direkte budgetstøtte. Den næste del af artiklen fokuserer på mulige årsager til denne reviderede tilgang, og en tredje del diskuterer dens konsekvenser for partner-*

*landene og hvordan de har reageret – heriblandt deres voksende interesse for investeringer i stedet for bistand. Afslutningsvis foreslår artiklen en vej frem.*

# The International Situation and Danish Foreign Policy 2010

*Claus Grube*<sup>1</sup>

The year 2010 was characterized by ongoing recovery from the economic crisis in a still fragile situation. Thus, the following exposition of key issues in Danish foreign policy in 2010 takes its point of departure in global economic trends and the challenges that Europe faces. It then goes on to discuss the new security policy agenda, the world's conflict areas and relations with our European and global partners before concluding with some considerations about the role of the Ministry of Foreign Affairs of Denmark in a changing world.

## Global Economic Trends and Challenges for Europe

### Recovering from the Great Recession

The recession of 2008-2009 was the most severe since World War II. The crash of September 2008 led to a virtual meltdown of the global financial system, which immediately spread to global trade and subsequently to the real economy. By the spring of 2009, world trade had declined by about 25 per cent, and many feared that the global economy would experience a deep and prolonged depression comparable to the experience of the 1930s.

However, in contrast to the 1930s, the global policy response to the crisis of 2008-2009 was swift and coordinated. Immediately following the crash of September 2008, the Federal Reserve, the European Central Bank and many other central banks around the world agreed to lower interest rates and inject huge amounts of liquidity into the financial markets. This

1. Ambassador Claus Grube is the Danish Permanent Secretary of State for Foreign Affairs.



was followed by national guarantee schemes for financial institutions in many countries, which gradually restored confidence in money markets, thereby preventing a general run on the banks. In addition, government leaders who gathered in Washington in November 2008 at the first of several G20 summits agreed to combat the crisis in a cooperative manner by means of a large fiscal stimulus and refraining from any sort of trade protectionism.

The global economy and world trade reacted favourably to the coordinated initiatives. Already in the spring of 2009 recovery from the recession had started in Asia, and by the second half of 2009 it had spread to most economies in the world and was progressively strengthened during 2010. In January 2011, the IMF estimated that world economic output had fallen by 0.6 per cent in 2009 and had grown by 5 per cent in 2010. The expansion in the advanced economies in 2010 was estimated at 3 per cent. This is low, given that these economies are emerging from the deepest recession since World War II. In contrast, the more developed economies of Asia, with the exception of Japan, enjoyed a strong rebound, as their large manufacturing sectors had benefited from the global rebound in trade and large fiscal stimulus. As a result, by the end of 2010 their output had risen above pre-crisis levels, while output in the USA was close to the pre-crisis level and in Europe was substantially lower.

Though the global economy performed better than expected during 2010, financial conditions were still considered fragile. In general, volatility in the financial, currency and commodity markets remained elevated, and as a consequence of fiscal stimulus, automatic stabilizers and financial guarantees, budget deficits in most advanced economies soared. During the second half of 2010, it was generally acknowledged that the trajectory of public debt in many advanced economies was unsustainable and that major fiscal and structural reforms had to be implemented to ensure future economic growth and debt reduction. Furthermore, there seemed to be no reduction in the global and regional imbalances on current accounts, which had led to huge deficits in the USA and southern and eastern Europe while augmenting the surpluses in parts of central and northern Europe and parts of Asia. The current accounts of India, Brazil and Latin America in general show only moderate deficits, which corresponds with the economic growth in these regions.

The Great Recession of 2008-2009 showed the strengths and vulnerabilities of the global economic system and exposed the underlying logic of current economic policies. Globalization as a defining characteristic

of global economics withstood the pressure of protectionist forces and greatly helped economic recovery. In addition, global leaders managed to cooperate in the midst of the crisis, thereby minimizing its fallout. On the other hand, the Great Recession aggravated the structural, budgetary and financial imbalances in many of the advanced economies and showed emerging markets to be much more resilient to economic slowdown in these economies than previously. This may mark a turning point in the international economic and political system. Looking forward, growth in the emerging markets and developing economies may be expected to be notably higher and much less dependent on growth in the advanced economies at a time when the latter will put into effect fiscal and financial policies that will lower growth for a number of years.

The last decade has been characterized by shifting wealth in the world economy, and a number of emerging economies have become increasingly powerful engines of growth and development. Already in 2007, before the Great Recession, 84 developing countries had per capita growth rates of more than double the average rate of the OECD. A continuation of this trend would mean that developing countries in 2030 will produce around 57 per cent of world GDP. Sustained elevated growth rates have characterized not only the dynamic middle-income countries but also low-income countries, which as a group saw average yearly per capita growth rates of 3.3 per cent in the period 2001-2007. While their share of global GDP had shrunk in previous decades, it is now increasing, albeit from a low level. The Great Recession did not halt the process of shifting wealth in the world economy; rather, it may have speeded it up. After a deep dip in 2009, growth is recovering fast in the majority of developing countries, while many advanced economies are struggling with low growth, increasing debt, falling revenues and growing unemployment. But growth in the developing countries, which in 2010 is estimated to have accounted for roughly half the growth in the world economy, also helps the advanced economies.

### **Consequences for Global Governance of the Changes in the Global Economy**

The changing international economic landscape also means that global decisions can no longer be taken by a few important countries. Economic and political power is spreading, changing the international system. During the financial and economic crisis and the international negotiations on climate change, systemically important economies have increasingly

sought solutions in informal ad-hoc constellations and forums such as the G20, rather than in established rules-based and representative global institutions, such as the UN and the international financial institutions.

The emergence of new forums such as the G20 are to a large extent a consequence of the need to overcome obstacles associated with often cumbersome and lengthy decision-making processes in the established and rule-based institutions and the emerging economies' demand for influence over global governance. Emerging countries see the G20 as a less binding and more effective platform for influencing decision-making in the representative global institutions. For this reason, global institutions have come under pressure to recast themselves in order to mirror the global economic and political realities of today. A shift in votes to the benefit of the emerging economies was decided by the World Bank in April 2010 and the IMF in October 2010. A reform of the UN Security Council is still pending. For Denmark, it is a priority that global governance structures be reformed in order to ensure that they retain their legitimacy and efficiency.

The G20 emerged as the leading global forum for managing the global economic crisis in 2008-2009. In 2010 it maintained momentum, though at a somewhat slower pace. But the G20 is not representative of the world community. The international community is facing a growing agenda of challenges requiring transboundary and collective action in areas such as development, trade, stability and climate change. At the same time, global governance is being challenged by new influential powers, new alliances and more assertive non-state actors. The need for globally representative and legitimate institutions such as the UN, the WTO, the IMF and the World Bank to deal with these issues is growing, not diminishing.

### **Challenges for the European Economies and the Eurozone**

As the economic and financial crisis developed, public finances deteriorated and debt soared in EU member states during 2010. By the end of the year, 24 member states including Denmark had entered the excessive deficit procedure, breaching the 3 per cent deficit threshold of the Stability and Growth Pact. Most dramatically, the economic and financial crisis had exacerbated unsustainable trends in the economic policies of a number of member states to the point where their ability to refinance their debts was put into question by an increasingly attentive financial market. Two member states, Greece in May and Ireland in November, crossed that line, thus facing the risk of sovereign default, and had to apply for help. The EU and the IMF responded by providing credit lines and loan guarantees.

Denmark contributed bilaterally to the assistance established for Ireland out of solidarity and due to our profound interest in economic financial stability in EU member states and the eurozone. Simultaneously with the financial assistance to Greece, a provisional EU crisis mechanism was established consisting of a EUR 440 billion eurozone European Financial Stability Facility (EFSF) and a EUR 60 billion European Financial Stability Mechanism. The European Council in December agreed to the outlines of a permanent European Stability Mechanism (ESM) to take over in 2013 when the EFSF expires, as well as on a limited treaty amendment to allow for the establishment of such a mechanism. In accordance with the European Council conclusion, Denmark has requested association with this work without prejudice to decisions on whether to participate or not in possible future financial assistance to member states on an ad-hoc basis.

A taskforce under the leadership of the President of the European Council, Hermann Van Rompuy, outlined a fundamental strengthening of economic cooperation in the EU, and in October it presented recommendations for strengthening the Stability and Growth Pact and for the initiation of a new supervisory procedure for detecting and correcting macroeconomic imbalances. The overall focus in the EU is on the consolidation of the public finances, based on a common recognition that an exit strategy must now be vigorously pursued with a view to restoring confidence and long-term economic sustainability. The sovereign debt crisis in particular has demonstrated the imperative of a budgetary balance and debt reduction, as well as structural reforms and improved competitiveness, as prerequisites for economic recovery and growth.

Growth-oriented consolidation must be accompanied by structural reforms, guided by the Europe2020 Strategy for smart, sustainable and inclusive growth that was agreed in 2010 as a more focused successor to the Lisbon strategy. The economic crisis has come at a time when Europe is facing other significant challenges. European companies are experiencing increasing competition as the emerging economies gain more weight in the global economy. Demographic changes are impacting on long-term labour supply. If we are to maintain our prosperity, Europe must tackle these challenges, creating growth and employment consistent with fiscal consolidation and long-term macroeconomic stability. The Europe2020 Strategy provides the direction for boosting Europe's long-term growth potential.

In 2010, as a first result of the efforts to enhance economic policy coordination, agreement was also reached on the initiation of a 'European

Semester' by 2011 consisting of a synchronization of economic coordination processes under the Stability and Growth Pact and the Europe2020 Strategy, supplemented with the new supervision of macroeconomic imbalances. The European Semester enables *ex ante* coordination prior to national budgetary and economic policy procedures, as well as establishing the framework for a more integrated and comprehensive approach to economic policy in the EU.

### **Global Free Trade**

As the world economy rebounded from the economic crisis, it became even more evident that Denmark has a vital interest in global free trade. In order for our economy to grow, we need access to global markets, including the emerging markets, with their high economic growth rates. It is essential that the fight against protectionism through the EU and the G20 continues.

At the G20 meeting in Seoul in November, leaders declared their strong political commitment to bringing the Doha Development Round negotiations to a successful conclusion. 2011 was recognized as a critical window of opportunity, in between elections in major G20 countries. Towards the end of 2010, the WTO prepared for a renewal of intensive negotiations in order to make use of the potential revival of political momentum. A conclusion of the Doha Development Round is the most effective means of ensuring that both developed and developing countries can reap the benefits of further trade liberalization within a multilateral trading system.

With the adoption of its new strategy, Trade, Growth and World Affairs, the EU remains dedicated to a successful outcome of the Doha negotiations while at the same time continuing its push to deepen bilateral trade relations. In 2010, the EU concluded free trade agreements with South Korea, Colombia and Peru. Furthermore, the EU continued negotiations with, *inter alia*, India, Canada, Mercosur and Ukraine and has started negotiations with individual ASEAN countries, beginning with Singapore and Malaysia. Also the negotiations with strategic partners continued, including the USA, China and Russia. The EU's agreement with Russia on the bilateral conditions for Russia's accession to the WTO was a significant breakthrough that might pave the way for accession by the end of 2011.

### **Green Growth**

As a result of many decades of ambitious environment and energy policies and the declared aim of a number of EU member states to adopt a more

low-carbon development path, the EU has an advantageous platform in the green race that is currently going on globally. Even with other countries and regions ambitiously speeding up in this race, Denmark is still among the frontrunners, with our strong vision presented in 2010 to become independent of fossil fuels by 2050. A major part of the economic stimulus packages put in place across the EU aims to spur research and the development of clean-tech solutions and underpin a green transition of its economies. Through the lens of the Danish government, this transition agenda represents a huge win-win opportunity, both with a view to dealing with the pressing environmental and climate change challenges, and to securing a more resilient economy. Along with working towards independence of fossil fuels on a national basis, Denmark is also keen to play a role in the transition of the global economy to a greener and more sustainable path. In 2010, Denmark launched a major new international initiative, the Global Green Growth Forum. This Forum, which will take place in the autumn of 2011, is aimed at accelerating the transition to a global green growth economy – ‘the next industrial revolution’ – by bridging the gap between policy, capital, business and technology. The Forum will be executed through a partnership between governments and global corporate partners and allow for a clear business focus on the transition to a global green economy through high-level discussions and sectoral debates focused on, for example, energy and transportation road maps. The aim is to assist in creating the right policy conditions, as well as finding solutions and best practices for the transition to the green economy globally.

### **Value, Growth and Knowledge for Denmark**

One of the government’s top priorities is to ensure renewed growth and create jobs in Denmark. An international outlook is crucial for Danish enterprises. Increased exports are a precondition for bringing Denmark back on the growth track and reaching the Danish 2020 target.

In 2010, the Trade Council, an integral part of the Ministry of Foreign Affairs, launched a new strategy towards 2015 for export promotion, the internationalization of Danish enterprises and the effort to attract foreign investment. The strategic targets include growth and employment defined as increased exports for Danish enterprises by DKK 30 billion to be realized over the next three years and the annual creation of more than 1,000 knowledge-intensive jobs through foreign investments. Additionally, the strategy aims at reaching out to more Danish exporters and potential exporters. The Trade Council provides tailored services on political,

economic and commercial issues both at home and through the missions abroad. With the specific aim of boosting exports for small and medium-sized growth enterprises, the Trade Council launched the Vitus Programme, which annually teams up with twenty selected companies with the aim of securing concrete export orders in only nine months. With the strategy, The Trade Council will focus on the fifty most important Danish export markets. This applies to traditional neighbouring markets, which continue to account for the vast proportion of Danish exports, but also to the emerging economies that have the potential to achieve a considerably increased share of Danish exports.

## Taking Stock: One Year After the Lisbon Treaty

As a small state, Denmark primarily promotes its interests through international organizations such as NATO, the UN and the WTO. Yet it is first and foremost the EU that provides Denmark with a gateway to influence on the global scene. 2010 was a challenging year for Europe. In the midst of the economic crisis, however, the EU member states managed to stand together in a demonstration of unprecedented solidarity. The economic crisis paved the way for a strengthening of economic governance in the EU. However, sound economic policies alone do not provide an answer to the crucial question: How can Europe remain influential in the face of emerging economies? Intensified globalization and the recent economic crisis have accelerated the diffusion of global power and have put the position of Europe under increased pressure. The EU still struggles to project itself on the world stage. On the one hand, the EU is the world's biggest economy and the world's largest contributor of development aid. Together, Europe has a global network of representations and diplomats matched by no other region in the world. On the other hand, the EU has not been able to make full use of all these resources and potentials. Instead, Europe has been speaking with too many different voices. For the EU member states, it has become increasingly clear that they need to stand together in the face of global transformations. In this respect, the year 2010 was a momentous one for the EU, the year of the long-awaited implementation of the Lisbon Treaty, which has made the EU more open, democratic and internationally potent.

The Lisbon Treaty will help the EU punch its weight in the world. 2010 saw the establishment of the new High Representative for Foreign Affairs

and Security Policy and the EU's new External Action Service. To create an entirely new diplomatic service for Europe in only one year is an unprecedented achievement, which will enhance the EU's ability to influence world affairs. The High Representative, Catherine Ashton, has had a challenging start. Most importantly, perhaps, she did not have a staff or a decision-making structure in place when she began her work at the beginning of 2010, all of which had to be negotiated and agreed during 2010. Yet there is still some way to go before the External Action Service is fully functioning. This gives Denmark all the more reason to support the High Representative in her difficult tasks. We need to overcome national idiosyncrasies and improve our coordination on the ground. This also involves close cooperation between the EU delegations and the tried and tested diplomatic services of the member states. One of Baroness Ashton's first major tasks in 2010 was to develop relations with the EU's strategic partners. The Heads of State and Government agreed in September to mandate Ashton to build relations with strategic partners based on reciprocity and on mutual benefits as a way to leverage Europe's economic weight. Catherine Ashton presented a first status report in December on the possibilities and challenges with regard to a more coordinated and interest-based approach to the EU's strategic partners such as China, Russia and the USA.

What the treaty does not contain, however, is the vital ingredient for success: political initiative. This is where rotating EU Presidencies play an important role in mobilizing all member states. The Danish government is working towards mobilizing political initiatives during the upcoming Danish EU presidency in 2012. Preparations are well under way. Of course, a major issue will be renewed economic growth and Europe's global role. Part of the Danish presidency's agenda is already clear. The renewal of a number of multiannual programmes, policies and funds with long-term implications are to be negotiated during the Danish Presidency, which include, inter alia, the EU's multiannual financial framework for 2014-2020, the Structural and Cohesion funds; the Common Agricultural Policy; and the 8th Framework Programme for research and technological development. It will be a difficult task. The aftermath of the current economic crisis will still be high on the agenda in 2012. However, it is important that we use the crisis to make the EU stronger. We have an opportunity to foster a comprehensive revitalization of EU policies, which should ensure that we achieve our long-term policy goals for 2020.

The year 2010 marked the end of a transition period following the entry into force of the Lisbon Treaty. Denmark fully supports the new institu-



tional balance. It will be crucial to avoid further institutional discussions and instead focus on concrete issues which matter to European citizens. The Lisbon Treaty provides new instruments for enhancing European economic policy cooperation and projecting the EU's influence more effectively across the globe. For Europe, the challenge in the years to come is to use all these instruments strategically and with greater common determination. The degree of success is ultimately dependent on the willingness of both member states and EU institutions to cooperate constructively.

## The New Security Policy Agenda and the World's Conflict Areas

### Security Policy

In many ways, Denmark has never been more secure than it is today. No conventional threat confronts us – and none is likely to do so for the foreseeable future. However, as illustrated by several foiled terrorist attacks on Danish soil in recent years and the hijacking of Danish ships off the coast of Somalia, we are faced with a number of new and unconventional challenges. This is a consequence of broader developments. The international system today is very dynamic and unpredictable in character, with threats like terrorism, the proliferation of weapons of mass destruction, piracy and cyber attacks having the potential – sometimes very unexpectedly – for direct or indirect effects on Danish society and Danish interests. Demographic, climatic, social and economic factors in fragile and failed states continue to provide a breeding ground for radicalization, conflict and instability, risking both regional spill-over and the creation of safe havens for terrorists, organized crime and private militias. Furthermore, several states remain determined to develop nuclear weapons and ballistic missiles which, in time, will be capable of reaching Europe. Hence, Danish security policy must navigate a very complex environment.

Also in 2010, Denmark's security policy was marked by its comprehensive and targeted international engagement. Strong international institutions are the key to an effective and robust international order. Hence, Denmark has continued its active involvement in multilateral institutions, playing a major role in global security and stability, first and foremost in the UN, NATO, the EU and the OSCE. As an active partner in multilateral cooperation, Denmark made substantial and concrete contributions, both civilian and military, to numerous international missions, including

the UN Interim Force mission in Lebanon (UNIFIL), NATO's maritime counter-piracy operation, Operation Ocean Shield, off the Horn of Africa and, most importantly its involvement in Afghanistan.

The successful NATO summit in Lisbon witnessed the adoption of a new strategic concept for NATO. Replacing a concept dating back to 1999, the new concept serves to bring NATO in line with the new security environment. From a Danish perspective, we have every reason to be very satisfied with the new concept. It is in line with the Danish analysis of the new threat scenario, as well as our conclusions with regard to the capabilities, doctrines and organizational adjustments required to counter it. First, it reaffirms the Alliance's core task of defending our population and territory while stressing that today effective territorial defence often starts far from our own borders. Hence, the concept manages to strike the right balance between Article 5 tasks in the traditional sense and the need to tackle a new threat environment. Secondly, it clearly underlines the need for continued military transformation to ensure that the structures, forces and capabilities of the allies are sufficiently flexible and deployable to be able to cope with the challenges of the new environment. If NATO is to engage efficiently and credibly in operations far away from its borders, we must organize and adjust our capabilities accordingly. Thirdly, a 'Comprehensive Approach' is established as an important and integral part of the Alliance's modus operandi, explicitly stating that a civilian planning capability is to be established. The distinct focus on the Comprehensive Approach has been a Danish priority within the Alliance since 2005, and its inclusion in the new strategic concept is not least attributable to Danish efforts to promote the issue in recent years. Finally, the concept underlines the need for an innovative and global partnership approach to counter global threats. The fact that Danish warships are already patrolling the Horn of Africa alongside Chinese, South Korean and Indian naval vessels or the still growing number of non-NATO countries participating in ISAF in Afghanistan clearly illustrates that we need to move beyond the conventional partnership mindset that has guided the Alliance since the end of the Cold War. The underlying geographical criteria of this approach have become too restrictive and must be replaced by more flexible, functionally defined principles. Thus, we need to explore new channels of security dialogue and cooperation and forge ties where our interests, and not only borders, meet.

It seems safe to conclude that in the aftermath of the Lisbon summit NATO stands equipped with a well-thought-through strategic concept

that links strategic vision with a clear conception of the capabilities required. Furthermore, the Alliance took the important decision to establish a territorial missile defence covering the allies' borders and populations. Besides the operational aspects of building a new and important capacity, this decision also sends a clear signal that transatlantic solidarity and cooperation remain as strong as ever and reaffirms that collective defence is a core task for the Alliance. The establishment of a NATO missile defence will both add a critical element to the NATO toolbox and serve as a reconfirmation of the basic principles of the Alliance.

The NATO summit also featured renewed, strengthened cooperation between NATO and Russia. This has come after some difficult years of stalemate. The fact that President Medvedev and the Alliance reached agreement on further developing cooperation in a variety of areas, such as Afghanistan, a common threat assessment and missile defence is a clear example of how the new security environment motivates intensified, global cooperation to counter common threats and challenges. Moreover, in the long run intensified cooperation with Russia on common challenges might help us overcome disputes on matters where we do not see eye to eye today.

The relationship with Russia also saw some positive developments in 2010 regarding the question of nuclear disarmament and non-proliferation. In April, the New START agreement – the Strategic Arms Reduction Treaty – between the USA and Russia was signed by President Obama and President Medvedev in Prague. The signing took place exactly one year after Obama delivered a speech in Prague in which he launched his vision of a world without nuclear weapons: a global zero. New START limits each side to 1,550 strategic warheads, a cut of about 30 per cent, a level not seen since the fifties. By the end of the year, the US Senate had ratified the treaty. Another positive development in the nuclear field was the release by the USA of a Nuclear Posture Review, which, as a new step, included expanded negative security guarantees, stating that the USA would not use nuclear weapons against non-nuclear states that abided by their NPT (Non-Proliferation Treaty) commitments. This is a criterion which Iran in particular does not fulfil at present due to its lack of cooperation with the IAEA on its nuclear programme. These events came shortly before the review conference of the NPT in May, which, with the collapse of the 2005 review conference in mind, was deemed to have had a positive outcome with the adoption of a forward-looking final document. An important element was the decision to hold a conference in 2012 on establishing a

Middle East zone free of nuclear weapons as well as other weapons of mass destruction. The movements in the nuclear field raised expectations of a positive spill-over to other areas of disarmament, a sentiment which could be felt at the 1st Committee (disarmament) of the United Nations General Assembly. In this respect, the Secretary General hosted a high-level meeting in support of the work done by the Conference on Disarmament. Denmark supports the positive developments in the area of disarmament and non-proliferation. In 2010, it was thus decided to appoint a disarmament ambassador.

## Afghanistan

The terrorist attacks of 9/11 were planned by Al-Qaeda in Afghanistan. The present international military involvement in Afghanistan came in response to these attacks and with a mission to create stability in Afghanistan and hence prevent a tragedy such as 9/11 from happening again. Al-Qaeda has a very limited presence in Afghanistan today, with intelligence showing that the movement's focus has shifted to countries such as Pakistan, Yemen and Somalia. Today, the international NATO forces operating under the International Security Assistance Force in Afghanistan (ISAF) are in the country in order to ensure that it stays on the path towards stability. However, after more than thirty years of conflict, Afghanistan is not only one of the poorest countries in the world; it also faces immense challenges due to the virtual absence of governance structures, lack of human resources and a shattered infrastructure. On almost every parameter the starting point was low, and the creation of a stable Afghanistan able to secure itself internally and externally, provide good governance and create development for its people still requires tremendous Afghan and international efforts. Afghanistan therefore remains one of the most important and complex foreign policy challenges for Denmark. We have contributed to ISAF since 2003 and have supported the country's civilian development for much longer. Denmark's military presence in Afghanistan is primarily based in Helmand Province in a very challenging security environment. With 750 soldiers, Denmark is one of the largest contributors of forces per capita.

2010 was a year which saw the first results of a significantly increased military presence and the strategy applied by ISAF. The momentum of the insurgents was reversed. Especially the situation in the south changed for the better. Previously unchallenged strongholds of the insurgents were taken over by international and Afghan security forces. This was also noted

in the US review of the American AfPak strategy, publicized in December. Regrettably, there are also indications that the security situation in some parts of the north and east of Afghanistan worsened in the course of 2010.

Furthermore, 2010 provided new impetus and a clear direction for the relationship between Afghanistan and the international community. At three high-profile international conferences – at London in January, Kabul in July and Lisbon in November – Afghanistan and the international community agreed on a timeframe for restoring Afghan ownership of, and full responsibility for, the country's own affairs in the areas of security, governance and development. This transition process has been carefully prepared by the Afghan government, ISAF, NATO and the international community. And, as a result of this process, President Karzai has announced that he expects Afghan security forces to assume full security responsibility by 2014. The gradual transition from combat to training and support will continue up to 2014. Within that period, we will also scale down the number of troops deployed in Afghanistan. By the end of 2014, Denmark will no longer have combat soldiers in the country. At the NATO summit in Lisbon, the international community in turn committed to assisting Afghanistan in preparing itself for taking over responsibility. Furthermore, NATO declared itself ready to enter into a long-term partnership with Afghanistan that stretches beyond 2014 with a view to enabling and consolidating the transition to Afghan responsibility. A sustainable and irreversible transition requires the building of Afghan capacities to provide the basic features of statehood. Afghan society needs stronger resilience.

There has already been progress. The Afghan National Security Forces, comprising both the army and the police, have grown impressively in numbers. Their capacities to undertake operations themselves with less support from the international troops, including the Danish combat troops in Helmand, have increased. There has also been small but significant progress when it comes to governance and development. In Helmand, which has fourteen districts, there are now eleven district governors. A few years ago there were only five. The parliamentary elections in September were encouraging in that they were planned and conducted by Afghan institutions for the first time since the 1960s. But a lot more still has to be done. Looking ahead, the focus of the Alliance and the Afghan government and institutions will therefore be on consolidating progress made as well as strengthening Afghan capacities, both those of the Afghan security forces but also, and just as importantly, the capacities of government institutions. The Afghans themselves will increasingly move to the forefront,

while the roles of internationals will become increasingly mentoring and supportive in nature. Training and capacity building will define our engagement.

Afghanistan is already one of the largest receivers of Danish development assistance. Danish development cooperation with Afghanistan amounts to annual contributions of approximately USD 85 million. Focus areas for civilian cooperation include state building and political efforts, education and livelihoods. What is involved is a comprehensive civilian and military approach in which military interventions support reconstruction and development initiatives and vice versa. In line with commitments made at the Kabul Conference in July and overall principles for international aid, the Danish funds are mainly channelled through the Afghan government to ensure maximum national ownership and accountability.

There are, of course, risks involved in providing aid to fragile states such as Afghanistan, where institutions are weak and corruption is widespread. However, the alternative, a world of increased instability, is simply not acceptable. In a fragile state, a higher tolerance of risk can produce very good results and directly contribute to the stabilization of the country. Overall, the developments of 2010 in Afghanistan give cause for cautious optimism: Optimism because negative trends have been reversed and the international and Afghan forces have regained the initiative in the fight against the insurgents; and caution because this progress is fragile and not yet irreversible. We need to consolidate and build on these positive developments. In parallel, a political solution to the conflict should be pursued through the Afghan-led efforts to achieve reconciliation and the reintegration of those insurgents that are ready to renounce violence, cut their links with terrorist groups and accept the Afghan constitution, including the rights that the constitution gives to women. It remains a major challenge to find a political solution to the conflict that is suitable not only for Afghanistan, but also for the multitude of interests in the region.

After nine years of international presence in Afghanistan, a particular challenge is to deal with the growing fatigue with the international military presence in Afghanistan: fatigue among Afghans and fatigue among constituencies in ISAF countries. Regrettably, by the end of 2010, 39 Danish soldiers had lost their lives in Afghanistan and many more had been wounded. In that light, the fatigue is both understandable and unavoidable. However, it is important to realize that, if we leave before the Afghans themselves are ready to take on full responsibility, we risk seeing the past

years' progress lost. Restoring Afghan ownership of, and full responsibility for, the country's own affairs is not a calendar-driven event, but a conditions-based process. This is the only way to ensure that the transition becomes sustainable to the benefit of Afghanistan and its people.

## **Pakistan**

With a rapidly growing population of 180 million, widespread extremism and terrorism throughout the country, low economic growth, extensive corruption, fragile democratic institutions, and a nuclear capability, the continued stability of the Pakistani state is in itself a major international security concern. In the course of 2010, Pakistan witnessed the biggest natural disaster in its history – the flooding of the Indus River – affecting up to 20 million people. In addition, the situation in Pakistan has regional implications for the effort to build stability and peace in Afghanistan. This is mainly due to the instability and lack of state control in the Pakistani border areas, as these offer sanctuaries for Taliban and other militant groups, including Al-Qaeda. The army continued to conduct more limited military campaigns in 2010 against factions of the Taliban. There is no doubt that the Pakistani government faces challenges that would seem overwhelming to any government. Denmark has therefore played an active role both bilaterally and through the EU and the UN to support democracy, stability and development in the country. As one of the top donors per capita, Denmark contributed a total of DKK 130 million in flood relief-related humanitarian aid. Denmark also supported reconstruction and long-term development and participated in the November Pakistan Development Forum held in Islamabad. A new Danish development programme was approved and initiated, totalling DKK 130 million for the period 2010-2012.

## **New Danish Policy on Fragile States: The Need for an Integrated Approach**

A new policy paper on the Danish approach to fragile states was launched in September by the Minister for Foreign Affairs and the Minister for Development Cooperation. The policy takes as its starting point the argument that, if we are to be efficient in addressing the security and development issues related to fragile states, our foreign, security and development policies must be closely integrated. Fragile states constitute a considerable challenge to poverty reduction, economic development and regional stability. In the worst cases, states fail and become breeding grounds for

global threats and challenges, as witnessed in Afghanistan, Yemen and Somalia. Hence, we often need to combine our instruments in an integrated approach that respects humanitarian principles. This applies both to bilateral Danish efforts and to efforts channelled through the EU and multilateral frameworks such as the UN and NATO. This new initiative includes the establishment of a Stabilization Fund of EUR 20 million a year consisting of both development and non-development funds. In 2010, the focus of the Stabilization Fund was on three regions: (1) the wider area of the Horn of Africa, including Yemen; (2) Afghanistan/Pakistan and neighbouring countries; and (3) the Western Balkans/Caucasus. Activities within these three regions are closely coordinated with Danish development aid and include the Danish Defence Command as an implementing partner. Moreover, the new framework has set in motion a review of Danish civilian capacities with a view to identifying options for strengthening civilian Danish involvement in stabilization efforts in fragile states, either through bilateral engagements or contributions through the EU and multilateral frameworks such as the UN.

### Counter-Piracy

2010 was marked by continued and escalating piracy off the coast of Somalia. Since 2008, there has been a steady increase in the number of attacks and piracy-related incidents. While piracy has become more prevalent, the ratio of successful attacks (actual hijackings) in relation to attempts has dropped significantly. This is primarily due to two factors: First, to the international naval presence and continuous pursuit of suspected pirates in the region; and secondly, to self-protection by the shipping industry in terms of increased adherence to best management practices in order to deter piracy. To this end, the Danish response is multi-dimensional. In terms of a naval response, Denmark has participated in NATO's counter-piracy efforts through Operation Ocean Shield with our new flexible support ships equipped with helicopters, fast boats and boarding teams. Through their numerous interventions, many acts of piracy have been prevented and substantial numbers of pirate skiffs, weapons and equipment destroyed.

In recognition of the growing impact of piracy on commercial shipping, including the safety of seafarers and regional trade around the Horn of Africa, the international community created the Contact Group on Piracy off the Coast of Somalia in 2009. The Contact Group was formed as an international cooperation mechanism against piracy, as called for in



UN Security Council Resolution 1851/2008. The Contact Group has established four working groups. Denmark is the chair of Working Group 2 on legal issues, where one of the key issues is ensuring that acts of piracy are prosecuted. The Working Group has worked intensively to establish a legal toolbox addressing all the legal aspects of counter-piracy. Due to its lack of judicial capacity, Somalia is currently unable to prosecute pirates. Even though many proposals for an international piracy court have been discussed, an increasing number of piracy suspects are being prosecuted today in an increasing number of states both in and outside the region. In line with this practice, most states in Working Group 2 argue that the most feasible way ahead is prosecution by national courts under national law in one or more states in the region with the support of the international community. The issue of prosecution is intimately related to the issue of imprisonment. With a view to facilitating a larger number of prosecutions, Working Group 2 is looking at the need to establish legally sound and practically operational systems for the transfer of convicted pirates to imprisonment in states other than the prosecuting state, including in Somalia.

### **The Middle East**

2010 was a year with no notable or sustainable progress in the Middle East peace talks. Direct negotiations between Israel and the Palestinians were briefly relaunched in September following intensive US efforts to that effect. However, when the Israeli Government decided not to extend the moratorium on settlements that had expired, the Palestinian side suspended further direct talks. It was once again demonstrated that the parties have a long way to go and that they have not yet made the difficult decisions that peace requires. The conflict between Israel and the Palestinians and between Israel and its Arab neighbours is a source of tension and an obstacle to prosperity and opportunity for all people of the region. Continuing conflict also strengthens the hands of extremists and rejectionists across the region, thus undermining the stability and prosperity of the Middle East. A negotiated two-state solution that will bring a just, lasting and comprehensive peace to the Middle East and the wider region remains the elusive, but essential goal. A key element is the continued gradual implementation of the Palestinian Authority's Two-Year State-Building Plan, which has brought improved security, better delivery of services and a growing economy to the West Bank. The EU will continue actively to support the plan, which provides for the necessary and defining structures of a state.

Events on the seas outside Gaza in May captured the world's attention because of the loss of lives during the Israeli military operation against the ships in the NGO flotilla that were intent on breaking Israel's blockade of the Gaza Strip. This tragic incident reminded us how untenable the situation surrounding Gaza is. There was no progress to be witnessed on negotiations between Israel and Syria or Israel and Lebanon in 2010. It is doubtful whether this situation will change without progress in Israeli-Palestinian negotiations. EU relations with Syria have improved over the last few years, but the longstanding EU-Syria Association Agreement agreed by EU Ministers in 2009 has not yet been signed by Syria. Political stability in Lebanon proved fragile towards the end of 2010, as the Special Tribunal for Lebanon came closer to finishing its work. As a stabilizing factor, UNIFIL retains its crucial role in southern Lebanon. As described above, a Danish contingent of forces participates in UNIFIL.

The Danish-Arab Partnership Programme (DAPP) continued in 2010 with the double objective of establishing a basis for improved dialogue, understanding and cooperation between Denmark and the Arab region and supporting existing local reform processes in the Middle East and North Africa. During the latter part of 2010, it was decided to redefine the DAPP in 2011. The double objective would continue, with an increased focus on women, media and youth. However, a separate thematic focus was also to be launched to promote dialogue and collaboration between Israeli and Arab partner organisations, and DKK 10 million was to be set aside in 2011 for this particular purpose.

A matter of great concern in the region and beyond is the development of Iran's nuclear programme. In its November report on Iran, the International Atomic and Energy Agency (IAEA) concluded that it continues to be unable to verify that Iran's nuclear programme is exclusively for peaceful purposes. Iran has continued to defy its obligations according to several IAEA and UN Security Council resolutions. Both are clear breaches of Iran's international obligations. Although already subject to UN and EU sanctions, a fifth set of UN sanctions against Iran was adopted in June and was, *inter alia*, followed by EU sanctions. Negotiations with Iran have been conducted by the five permanent members of the Security Council and Germany following a dual-track approach in which negotiations are offered at the same time as sanctions are threatened due to non-compliance. 2011 will demonstrate the depth of Iran's will to live up to its international commitments and to restore the international community's confidence in the peaceful nature of its nuclear programme.

## The Korean Peninsula

2010 witnessed increased tension on the Korean Peninsula. Two incidents in particular contributed to a highly tense atmosphere between the two Koreas. In March, 46 South Korean sailors died when the South Korean navy corvette Cheonan was sunk. A commission comprising international experts afterwards declared that the evidence recovered overwhelmingly pointed to the conclusion that the corvette had been hit by a torpedo fired by a North Korean submarine. In November, North Korea carried out an artillery attack on the South Korean island of Yeonpyeong. The South Korean authorities returned fire, and fighter aircrafts were sent to the area. Much of the international community and the South Korean government viewed the attack as the most serious since the end of the Korean War, and the South Korean population demanded that its leaders take measures to prevent future attacks. The international community, including Denmark and the EU, expressed its concern and strongly condemned the North Korean aggression while urging North Korea to comply with its international obligations.

The North Korean aggression must probably be seen in the context of the initial steps being taken by the North Korean leader Kim Jong Il to position his youngest son Kim Jong Un as the country's future leader. The later attack in November must probably also be seen in relation to the North Korean disclosure of uranium enrichment facilities. North Korea's nuclear possessions and ambitions not only pose a concrete threat to the country's immediate surroundings, but are also extremely worrying for the international community at large, given the real risk of proliferation and the threats to regional stability in north-east Asia. The self-imposed isolation of North Korea is also deeply disturbing when considering the deplorable humanitarian situation inside the country, which is bound to have severe long-term implications for its population. Despite the complexity of the problem, the international community has no option but to continue to look for solutions on the Korean peninsula and to continue to put pressure on North Korea.

## The Changing Nature of International Terrorism

In 2010, Al-Qaeda and other militant Sunni extremist networks remained the main source of the global terrorist threat. The global threat from these networks remained extensive and is not anticipated to be significantly reduced in the short or medium term. At the same time, the threat has significantly diversified. This is partly due to the fact that Al-Qaeda remains un-

der pressure, suffering both considerable losses by air strikes and Pakistani military action, and popular Muslim disaffection partly due to recent and past indiscriminate targeting of civilians, including not least many Muslims, by its operatives and allies in various parts of the world. Although the capacity of Al-Qaeda to plan and carry out attacks on its own may have decreased, it has been successful in using its influence to convince other violent extremists to combine their fight against local governments in their home countries with attacks on Western targets. The discovery in October of two improvised explosive devices (IEDs) concealed in air freight destined for the USA demonstrates that affiliates of Al-Qaeda have the ability and the will to strike against perceived Western targets, in this case trying to exploit vulnerabilities in international aviation security. Sea freight, notably in the Red Sea, is another area which has recently attracted the interest of Al-Qaeda. Furthermore, Christian minorities in the Middle East, which have already come under challenge, seem to have become a direct target, further undermining efforts to prevent sectarian violence.

The nature of terrorism is opportunistic. It remains complex and constantly challenges our way of viewing the world. What we saw in 2010 is a further metamorphosis of the threat scenario. Some of the trends that have been further amplified include the suggestion that the immediate threat to Europe and Denmark from some of the regional affiliates of Al-Qaeda is almost comparable to the threat emanating from Al-Qaeda itself, and that both pressure and opportunity have forced Al-Qaeda to encourage individual jihadist or solo attacks via its extensive propaganda. Therefore, the threat increasingly comes also from groups or individuals that are not directly controlled by Al-Qaeda and work in isolation, but are inspired by a common extremist ideology. We have seen possible examples of this in Denmark too. There are some indications that the focus of the terrorists has increasingly shifted to Africa. Apart from the tribal areas in Pakistan, there continues to be a great number of places in the world where militant extremists can operate with a certain degree of freedom. This is because governments and state structures are fragile or even failed and thus not in full control of their territories. This applies in the short and medium term, particularly to certain areas in Africa, where we also have seen warning signs that violent extremists are more actively seeking to create new safe havens in the Sahel region, which spans the southern border of the Sahara Desert, as well as in the Horn of Africa. This is a development that Denmark has worked to prevent through a combination of bilateral projects and international cooperation, building not least on the

UN Counter Terrorism Strategy and EU cooperation. In 2010, Denmark played a very active role in developing the EU counter-terrorism activities under the EU Instrument for Stability.

With the terrorist attacks in Uganda in July, the concern of the threat of international terrorism in the Horn of Africa has been reinforced. The Somalia-based radical Islamic rebel group, Al-Shabaab, claimed responsibility and thus placed the group in the category of terrorist groups that are both willing and able to strike internationally. With the absence of state institutions and of the rule of law in Somalia, the risk of the country becoming a safe haven for terrorists remained pertinent. Denmark has further expanded its involvement in East Africa, among other things supporting the ICPAT anti-terror program of the Intergovernmental Authority on Development (IGAD) in Eastern Africa. Aiming at establishing an anti-terror network among the various authorities in East Africa, Denmark has focused on strengthening the anti-terror capacity within these countries, as well as their capacities to implement agreements on mutual legal assistance and extradition within the counter-terror framework. As part of the efforts to assist the strengthening of institutions to counter the financing of terrorism in the Horn of Africa, we support the Ethiopian government in its efforts to strengthen its institutions to fight money-laundering and to take initial steps in exploring the potential for capacity-building with Somali remittance companies.

The Sahel region has also experienced an increase in the threat from terrorist groups with attacks carried out against local and Western targets by Al-Qaeda in Islamic Maghreb (AQIM). During 2010, AQIM was responsible for kidnappings of a number of Western citizens, some of whom were subsequently killed, and for attacks on military and civilian targets in Mali, Mauritania and Niger. The reach of AQIM is still relatively limited, but it is growing, and there is a concern that if it is left unchecked they will also acquire influence in neighbouring countries. This is accentuated by weak law enforcement and border control in the region, as well as possible links to local insurgencies and the organized smuggling of people and drugs through the area. The EU has decided to develop a strategy for how to support security and development in the Sahel region, and Denmark is backing this process. Also in 2010, Denmark pursued a multi-pronged strategy that had as its main element the prevention of terrorism through various projects countering violent extremism, the most effective measure against terrorism being to prevent people turning into terrorists in the first place.

## Parthers – European and Global

### The EU's Neighbours

The perspective of EU membership continues to be a strong driver for change in neighbouring countries that are striving to live up to the EU's criteria for membership. Since the enlargement with ten central and eastern European countries in 2004, the geographical focus for EU enlargement has shifted to the south-east. However, this changed in 2010, when Iceland obtained candidate country status and formal negotiations were opened immediately thereafter. Being already a member of the European Economic Area and Schengen, Iceland enters the negotiations from a different starting point to other candidates. Nevertheless, like other candidates Iceland still has to align itself with the *acquis*.

Having made significant progress in negotiations during 2010, Croatia has set an example for the other countries in the western Balkan to follow, both actual and potential candidate countries. Croatia is now very close to being able to join the Union – an impressive achievement when compared to the situation just fifteen years ago. However, it still needs to make progress in areas such as judicial reform, fundamental rights and the fight against corruption, issues that the EU is determined to see tackled before accession. As to the other countries of the western Balkans, the European Commission issued its opinions on the membership applications of Montenegro and Albania in 2010, and in December the European Council granted Montenegro the status of candidate country. Serbia's membership application was forwarded to the Commission for its opinion. The process of visa liberalization for the countries of the western Balkans continued, as visa liberalization was extended to Albania and Bosnia-Herzegovina. Negotiations with Turkey are advancing at a slower pace. In 2010, the adoption of the constitutional reform package was a major achievement. Turkey still has work to do within areas such as freedom of speech, freedom of the press and human rights, but it seems that a credible membership perspective continues to be a strong driver for reform for Turkey.

Cooperation with the Eastern Partners of the EU – Ukraine, Moldova, Georgia, Azerbaijan, Armenia, and Belarus – developed further in 2010 first and foremost within the bilateral track. In the EU, Denmark has emphasized the need to develop the attractiveness of the Eastern Partnership for our partners, especially within the free trade area, as a vehicle for growth, reforms and prosperity. With a new government in place in Ukraine, negotiations for an Association Agreement and a Deep and Comprehensive

Free Trade Agreement continued and are likely to be concluded in 2011. In Ukraine, we have seen the stabilization of power between the president, the government and parliament. Some positive reforms have been achieved, but the EU has also expressed concern at the new government's handling of free media, human rights and democracy, for example, during the local elections in October. Likewise, the EU launched negotiations on an Association Agreement with Moldova in January and with Georgia, Azerbaijan and Armenia during the summer. Despite the economic downturn in Moldova, its pro-European government was re-elected with a strengthened mandate in November in elections that met most international standards. During 2010, the EU's policy of critical engagement with Belarus continued. The dialogue with Belarus focused on the need for reforms and improvements in human rights. Unfortunately, hopes for progress after the presidential elections in December have faded because of a severe crack-down on the opposition, journalists and civil society, and the EU is now revising its policy towards Belarus.

The Baltic Sea Region is facing many challenges requiring action at a regional, rather than national or local level. In 2009 EU leaders agreed to launch Europe's first macro-regional strategy, the EU Baltic Sea Strategy. This aims to provide an integrated framework for strengthening cooperation in the region between EU member states, as well as with their non-EU neighbours. As coordinator of six of the strategy's fifteen priority areas, and playing a leading role in several of its approximately eighty flagship projects, Denmark has assumed considerable responsibility for implementation of the strategy and has thus committed itself to close cooperation with regional neighbours to deliver a greener, cleaner, smarter Baltic Sea Region. A year after implementation of the strategy was initiated, positive results can already be seen, including efforts to clean up the Baltic Sea by reducing pollution from agriculture and shipping.

## Russia

Mutual efforts by the Russian and Danish governments to expand bilateral relations further also bore fruit during 2010, reaching new peaks in terms of political dialogue and economic cooperation. The most high-profile event was the first state visit to Denmark involving modern Russia in April. Apart from strengthening important personal ties at the highest levels of state and government, the visit proved of great value to Danish and Russian business, as a large part of the programme was devoted to business and investment promotion. Important issues, such as respect for

human rights and the rule of law, were also on the agenda of the political talks. Prime Minister Rasmussen and President Medvedev signed a declaration on Partnership for Modernization, the first of a number of similar declarations signed subsequently between Russia and the EU and EU member states. It expresses the strong mutual interest in cooperating over the economic and political modernization of Russia. Promoting bilateral trade and direct investment, as well as cooperating on improving the framework regulations, including the rule of law, in Russia are key issues in this respect. After a slump in bilateral trade due to the international crisis, Danish-Russian trade increased by almost a third in 2010. In view of the promising forecasts of high economic growth in Russia in the years to come and, hopefully, further improvements in the business climate, Russia is set to become an even more important economy for Denmark and other EU countries.

### **Transatlantic Relations**

There is no doubt that the USA is still the leading global power, despite the development of a new world order. The USA continues to be a natural and very close ally with which Denmark shares both values and economic interests. Therefore, Denmark cooperates closely with the USA on a very broad range of political and economic issues, both bilaterally and through multilateral organisations. Many of these areas of cooperation are described elsewhere in this article.

In the coming year and during the Danish EU Presidency in 2012, there will be very positive perspectives for the continued strengthening of transatlantic cooperation. The Lisbon Treaty provides a solid basis for a stronger and more unified EU, and the implementation of the Lisbon Treaty and the EU's approach to strategic partners provides a strong basis for strengthened EU-US partnership on the global scene. The first EU-US summit after the Lisbon Treaty was held in November. On this occasion, President Obama and President Van Rompuy discussed and initiated enhanced cooperation on a range of important issues, including the transatlantic economy, energy and cyber security. Also in the years to come, Denmark will work to ensure the strengthening of increased and results-oriented cooperation with the USA, both bilaterally and through the EU.

### **China and India Still on the Rise**

With the COP15 Climate Conference in Copenhagen as a significant prelude, 2010 will probably stand out as the year when the central emerging



nations sought in earnest to translate their acquired economic strength into international political clout. What so far had been the somewhat hazy contours of a new and different global political order became a much more evident and tangible reality in 2010. Danish foreign policy in 2010 was in many ways a reflection of this, with a stronger focus than ever on strengthening relations with the BRIC countries, and in particular with the largest emerging economies, China and India. China and India account for forty per cent of the world's population and, combined with sustained high growth rates in recent decades, these two Asian nations obviously occupy a unique position in the new economic and political world order.

Against the backdrop of the sixtieth anniversary of diplomatic relations, Sino-Danish relations reached new heights during the past year. Prime Minister Rasmussen visited China in April, where he held talks with both Premier Wen Jiabao and Vice President Xi Jinping. Based on the Comprehensive Strategic Partnership of 2008, among other things Premier Wen and Prime Minister Rasmussen signed an agreement on the opening of the Danish University Centre in Beijing. In May, the Minister for Commerce, Chen Deming, paid an official visit to Denmark, heading the largest Chinese trade delegation ever in Denmark, with around 120 leading Chinese companies. In October/November, Minister for Foreign Affairs Lene Espersen visited Shanghai, where she participated in the closing ceremony of Expo 2010 and met with Foreign Minister Yang Jiechi and discussed current foreign policy issues and bilateral affairs. Minister for Foreign Affairs Espersen also paid an official visit to India in December. The main purpose of the visit was to sign, together with Indian External Affairs Minister Krishna, a Danish-Indian agreement on stronger bilateral ties. Prior to the visit, lengthy negotiations had taken place involving most of both the Indian and the Danish central administrations. The result was a comprehensive agreement on increased bilateral cooperation within sectors of particular mutual interest, including the environment, energy and climate, food and agriculture, education, biotechnology, shipping and information technology.

A key objective of Danish foreign policy towards the emerging world has been to pave the way for taking full advantage of market opportunities without wavering, of course, over central values and concerns, such as human rights. With a string of business, trade and investment-related events on both trips, Minister for Foreign Affairs Espersen sought to promote commercial relations between Denmark and China and India, respectively. The strong commercial focus on India was underlined by a large Danish commercial delegation within the area of green technology,

which accompanied the Minister for Foreign Affairs throughout her visit, and also by the Minister's opening of a Danish-Indian business seminar on clean technology. The rise of China, India and other emerging global players has prompted calls for a more unified European approach to its strategic partners. HR Ashton made it her specific priority to strengthen strategic partnerships with China and India. This resulted in a number of debates in the Foreign Affairs Council on shaping the concrete building blocks for a much more strategic partnership with the two largest emerging economies. For China, with its booming reserves and its pressing need to diversify, European government bonds proved attractive investment targets. The EU-China summit in October also demonstrated the increasing economic complementarity of China and the EU, as well as the need for mutual understanding of each other's ability to move fast on key issues. For India, the EU-India summit in December laid the foundations for developing the strategic partnership further.

### **New Strategy for Denmark's Development Cooperation and Continued Focus on Africa**

In May 2010, Minister for Development Cooperation Søren Pind launched a new strategy for Denmark's development cooperation: 'Freedom from Poverty - Freedom to Change'. The new strategy firmly situates Denmark's development policy as an integral part of the proactive Danish foreign and security policy and as an equal and independent element in Denmark's global engagement. As such, Denmark's support for the education of girls in Afghanistan and for humanitarian and development efforts in the Horn of Africa goes hand in hand with the presence of Danish soldiers in Helmand and Denmark's counter-piracy efforts in the Gulf of Aden.

On the basis of the new strategy, Denmark will concentrate its development assistance on fewer countries and sectors and tailor it to the strategy's five priority areas: enhancing efforts to promote freedom, democracy and human rights; significantly strengthening Danish support for market-driven economic growth and employment creation; continuing Denmark's active work to promote gender equality; giving priority to supporting fragile states; and, finally, continuing to place the environment and climate change high on Denmark's development agenda. Focusing on creating results in these five areas will help ensure that Denmark is active in areas where it can best make a difference, achieve the best possible results and contribute to setting the agenda. The new strategy underscores the need to take calculated risks in order to advance new agendas and en-

sure higher development returns and stronger results. Tackling risks was therefore high on the agenda in 2010, including at an International Conference on Results, Risk Assessment and Management in Development Cooperation held in Copenhagen in November, where work commenced on an improved system for assessing and measuring risks involved in concrete interventions.

The results of development cooperation – being better able to document, communicate and learn from what works and what does not – is an integral element of the new strategy. Several initiatives were taken to improve our ability to measure results, including the launch of a new international research programme that looks into the effects and outcomes of development cooperation. This focus also means concentrating the geographical scope of Denmark's development cooperation, and the decision was taken to reduce the number of partner countries from 26 to 15 in the years to come. This will allow for an increased engagement in Africa and in fragile states, where poverty and needs are greatest.

In Africa, Denmark has strongly encouraged and supported the continental and sub-regional organizations in their endeavour to handle, intervene and mediate in the conflicts and crises on the continent. This has, for example, been the case with regard to Somalia, where we work for the increased involvement of the UN and regional organizations such as the African Union (AU) and the Intergovernmental Authority on Development (IGAD). The new Danish focus on fragile states manifested itself in increased involvement in countries such as Zimbabwe, Sudan and Somalia during 2010. In the case of Zimbabwe, the establishment of the Inclusive Government comprising the three main political parties, ZANU PF, MDC-T and MDC-M, had paved the way for the stabilization of the economy and improvements to living conditions, as well as created hopes for a lasting process of political reform. Denmark has responded to this development by means of proactive political and diplomatic support to Zimbabwean reformers, both inside and outside the Inclusive Government. Denmark has reworked its development support from mainly humanitarian assistance to a programme of transitional support. In 2010, disbursement exceeding DKK 100 million was aimed at supporting private sector-led growth with a focus on agricultural inputs and credits, contributing to infrastructure development through a joint donor fund, and supporting democratization, the rule of law and respect for human rights.

The conflict in Somalia continues to be high on the international and Danish agenda, as the humanitarian crisis has worsened in recent decades,

and very little political progress has been achieved towards peace and stability. The conflict has a destabilizing effect on the entire region, as well as international consequences due to the risk of piracy, unregulated waves of migration and the threat from radical groups engaged in international terrorism. The radical Islamic rebel group Al-Shabaab has gained a greater foothold in parts of Somalia, while the transitional federal government remains fragile and unable to gain more control over the country. More positively, regions in Somalia like Somaliland and Puntland are more stable and deserve increased international support to achieve further progress. The Danish engagement in Somalia is guided by the new policy towards fragile states mentioned above. The overall objective is to contribute to the development of a Somalia that is capable of ensuring security and promoting economic and social development. Danish assistance reached DKK 154 million in 2010. Denmark's involvement will be intensified during 2011-2014, with an emphasis on active diplomacy, security including piracy, good governance, growth and employment, and improved living conditions.

Developments in Sudan attracted increased attention during 2010, while the 2005 peace agreement is drawing to a close. The landmark elections in April were held in a peaceful and orderly fashion. The referendum in southern Sudan in January 2011 was equally peaceful and transparent, although the parties to the peace agreement were still negotiating the conditions for co-existence after it lapses in July 2011. One of the major outstanding issues will then be whether the people in Abyei are to be affiliated to the north or the south. The many tensions in Sudan have to be managed carefully to prevent conflicts breaking out. Denmark contributes to this through the EU, the UN and the AU and by providing funds – in total DKK 184 million in 2010 – for reconciliatory measures, dialogue, support for internally displaced persons and humanitarian assistance.

Creating growth and employment in the private sector was singled out as a key challenge for development in Africa by the Africa Commission, a challenge that the new development strategy has made one of its key priority areas. The African Guarantee Fund (AGF) is one of the five initiatives proposed by the Africa Commission which aims to address some of the key constraints to accessing finance faced by African small and medium-sized enterprises. The AGF has been designed to provide guarantees to African financial institutions for their loans to the SME sector. Apart from Denmark, which granted DKK 150 million to the AGF in 2010, the founding shareholders are Spain and the African Development Bank,

which together will contribute USD 50 million. Other donors, development finance institutions and private investors are expected to join in. Operations will start by mid-2011. Initially, the business will be focused on a limited number of countries, but the aim is eventually to cover the whole of Africa.

### **The Nordic Region Pointing the Way Forward**

Nordic cooperation enjoys a solid base of popular support, which provides the region with a strong starting point from which to face future challenges. In 2010, Denmark held the Presidency of the Nordic Council of Ministers and Nordic cooperation on foreign and security policy. The Presidency of the Nordic Council of Ministers has been a common task of the Kingdom of Denmark, that is, Denmark, Greenland and the Faroe Islands. Two major, overarching issues were addressed in 2010: the Nordic globalization effort, and freedom of movement for citizens and companies. The goal is a sustainable Nordic region in the broad sense. The globalization effort is well under way. During the annual Nordic Globalization Forum in 2010, the Nordic Prime Ministers agreed on concrete initiatives in the field of green growth which may contribute to lifting Nordic area companies and countries out of the crisis.

Furthermore, the focus has been on removing obstacles to cross-border freedom of movement in relation to knowledge, ideas and people and preventing new obstacles from arising, especially related to differential implementation of EU legislation. Regarding Nordic foreign policy cooperation, the main topic is the implementation of the Stoltenberg Report on Nordic foreign and security cooperation and the Gade-Birkhaus Report on Nordic-Baltic cooperation. The latter is the result of the work of the former Danish Minister for Defence and the former Latvian Prime Minister on developing the Nordic and Baltic cooperation. This report complements the Stoltenberg Report and has 38 concrete proposals. Its implementation will begin in 2011 – the jubilee year when the renewed independence of the Baltic States will be celebrated.

### **Arctic Council**

The first of a series of Deputy Ministers' meetings on engaging issues on the Arctic agenda took place in Copenhagen in May, this being politically the most important Arctic Council event in 2010. It was decided to initiate an exercise aimed at strengthening the effectiveness and efficiency of the Arctic Council and at solving the observer question: the applications

for observer status from China, Italy, the Republic of Korea, the European Commission and Japan. The Arctic Council worked on a package solution that includes the establishment of a permanent secretariat, a common budget, a strengthening of the decisions of the Council, an increased use of taskforces, a solution to the observer question, and the enhancement of communication and outreach efforts. Negotiations on the package solution can be expected to continue until the ministerial meeting in Nuuk in May 2011, which concludes the Danish Chairmanship of the Arctic Council. In Nuuk, the ministers are also expected to sign a legally binding Search and Rescue Agreement among the eight Arctic states. It will be the first time in history that a legally binding agreement has been established in the Arctic Council.

### **Democracy and Human Rights: The Policy of Values**

Respect for and protection and fulfilment of human rights are fundamental to the lives, integrity and dignity of all human beings and constitute a key element of the Danish Government's basic values. Human rights are also closely linked to democracy, as they are best assured by democratic societies based on justice and the rule of law. However, respect for human rights and democracy is far from given. In 2010, the value debate thus continued to influence the human rights agenda, as a number of countries continued to question the universality of human rights and took action to infringe upon these rights. Thus, it seems clear that the rights and values that we wish to foster and protect are continually being challenged, and we need to find new ways of promoting and supporting them. The goal is still to counter any attempt to violate human rights or to question their universality. There is an intensified need for a more effective and targeted approach in order to promote these rights and values and to ensure their realization.

Within the EU, these challenges have also led to a discussion on how the EU can proactively influence the global debate on human rights and democratic values. In June, the Danish and German foreign ministers presented a common initiative on the challenges and opportunities facing the EU with regard to the promotion of human rights and global values. The initiative reflects the conviction that the EU needs to send out a coherent and audible message in the defence and strengthening of human rights and universal values. The Lisbon Treaty provides new opportunities to strengthen the ability of the EU as a leading international force in the

promotion and protection of human rights. Against this background, the Danish-German initiative outlined a number of concrete initiatives, such as holding timely and substantive discussions at ministers' level within the EU on human rights issues, developing a detailed human rights strategy, improving the EU's dialogue mechanisms on human rights and establishing a forceful human rights unit within the EEAS.

In line with the strategic Danish priorities for democracy and human rights support, in 2010 the Danish government established an autonomous and independent institute to complement and strengthen Denmark's democracy assistance, particularly by supporting multi-party systems in a selected number of developing countries. The scope of activities will, for instance, be young people and women in politics, parliamentary development, capacity and organization building, campaign training, anti-corruption, policy development and election and party legislation.

Despite the continued questioning of human rights by some countries, 2010 also witnessed some positive steps when it comes to the promotion of human rights and fundamental values. UN resolutions on Burma, North Korea and Iran were adopted with an increased majority and showed that it is still possible to address the human rights situation in a particular country internationally. There was also, for the second consecutive year, a clear decline in the number of states voting in favour of the OIC resolution on the defamation of religions. Together with the USA, the EU also succeeded in restoring a reference to 'sexual orientation' in a resolution on extrajudicial executions. These positive steps are good examples of how outreach and communication across various geographical regions can contribute to achieving concrete and direct results.

Concrete action when human rights are violated in individual cases is an absolute ethical demand. But promoting democracy and human rights also requires a comprehensive, long-term process, which needs to take into account the political context and specific circumstances in each country. Reaching out to other nations and engaging in a dialogue based on an in-depth understanding of other people's cultural and historical points of departure are important steps in the promotion and protection of human rights and fundamental principles. Without compromising its value-based point of departure and the absolute protection of human rights, Denmark will continue to base its international human rights policy on these premises.

## Denmark's Ministry of Foreign Affairs in a Changing World

In 2010, we witnessed a new phenomenon in which a non-state actor played a very significant, and primarily negative role in foreign policy, namely the leaking of classified information by WikiLeaks. The illegally obtained and leaked American documents risk compromising international diplomacy, which is dependent on governments, like all other organizations, being able to consult each other in confidence. It is still too early to determine the full extent of the many documents leaked in 2010. However, it seems safe to conclude that the activities of WikiLeaks may have long-term changes in diplomacy.

Having the best possible analysis of developments in the tectonic plates of global politics and the global economy is pivotal for ensuring that Denmark's Ministry of Foreign Affairs remains effective and performs at its best in its work to promote and safeguard Danish interests. Both in the long term and in its day-to-day work, its focus will be on ensuring that Danish interests are promoted through traditional channels, such as the most important multilateral organizations, and not least the EU, with the new possibilities provided by the Lisbon Treaty. Of course, there is still a great need for strong bilateral diplomacy, which, apart from its own merits, is also a prerequisite for effective multilateral diplomacy. In a world characterized by a growing diffusion of power with an increasing role for non-state actors, we must also strengthen our focus on improving the ways in which we reach out to and cooperate with non-state actors.

The decline in public finances and increased debt levels that Denmark is also experiencing at present has consequences for the Ministry of Foreign Affairs. The general trend towards decreasing public spending has already resulted in budget cuts for the Ministry, leading to, inter alia, the closing of Danish embassies and staff reductions during 2010. Since the downward pressure on public spending can be expected to continue in the years to come, it will be crucial that the resources allocated to the Ministry be prioritized even more sharply than before in promoting Danish interests abroad. This development can be expected to lead to a general trend towards maintaining a certain breadth in promoting Danish foreign policy interests while at the same time steering that policy towards greater depth and focus in promoting and safeguarding Danish interests.



# Danish-Chinese Relations: Continuity and Change 1949-2011

*Clemens Stubbe Østergaard<sup>1</sup>*

Denmark's relations with China go back to 1674, and the first thorough Danish description of the country was published in Aarhus in 1641, based on secondary sources.<sup>2</sup> For the present analysis, we limit ourselves to the turbulent period since the founding of the People's Republic in October 1949. How can we explain the broader shifts over time in Danish-Chinese relations, which are generally characterized by continuity? How can we explain the momentary crises in relations that have appeared fitfully in recent decades?

There are elements of stability and continuity: The One China principle was never compromised, support for China's place in the UN was maintained throughout, economic relations never ceased and relations were never adversarial. There has been no major conflict. Yet there have also been fluctuations, with crises in relations occurring around issues of human rights, the status of Dalai Lama, the EU arms embargo against China, non-intervention in sovereign national affairs, etc. Nonetheless, after a crisis relations have usually been mended by the two sides quietly finding a compromise after some time.<sup>3</sup>

## A Policy Approach

In the following, I will set out the approach employed in this chapter. It draws on policy analysis, seeing policy outcome as the dependent variable, and postulating a number of independent variables that can help explain the consistency and variation in Danish policy.<sup>4</sup> National policy

is produced by the government and it is seen as influenced by the overall international systemic context, by important external actors, by business interests, by parliament and by mass public opinion. The latter is in turn affected by three independent variables: the media, the world of NGOs and government actions.<sup>5</sup>

Policy towards China is in the last instance produced by the Danish *government*, and based on broader policy preferences, electoral commitments and conceptions of basic values or identity. The various institutions of government may differ in their views and interests, with ministries and idiosyncratic individuals carrying the torch for specific policies, and they may act as gatekeepers in letting in pressure and support from favoured external actors. Just as there are 'transatlanticist' politicians and officials in Denmark who look to the US for guidance and support, so too there are 'Europeans' who see closer European integration and policy coordination as the surest way forward for Denmark. Each grouping facilitates its preferred external actor's influence, not least on perceptions and discourse, sometimes making Danish policy 'oscillate' between the two poles. This aspect increases in importance with the diffusion of authority in the making of foreign policy.

The character of overall *systemic influence* has varied over the last sixty years of bilateral relations, from bipolar, to multipolar, to unipolar, etc. The changing international context went from bipolar to multipolar in 1971 and to unipolar with the end of the Cold War around 1991. Recently there has been a further embryonic change in the global balance of power, associated with the rise of China and other large developing countries (BRICS, BASIC, etc.). The resulting international system has been called 'multinodal',<sup>6</sup> drawing an analogy with the characteristics of the internet.

The most relevant *external actors* for the analysis are the United States, the European Community – in particular the Commission and the 'Big 3'<sup>7</sup> – as well as China.<sup>8</sup> It is a central argument of the following analysis that it matters greatly to the stability and content of Danish policy whether the two first actors, the US and the EU, are 'in alignment' and how strong their influence is.

*The United States* is an ally of Denmark, in NATO and in various 'coalitions of the willing'. During the course of the Cold War, Denmark for the most part<sup>9</sup> followed the China policies of the US-led Western bloc, based mainly on security policy considerations in the conflict with the Soviet Union. With the end of the Cold War, conflicting views on policy towards China appeared in the US, based on differing economic, strate-

gic and ideational interests.<sup>10</sup> In President Clinton's first term of office, a moralistic policy stance was introduced which had a certain appeal for Danish politicians. But American economic interests soon prevailed, and attempts to link change in human rights with Most Favoured Nation status were dropped in May 1994. From early 1997 the US foreshadowed a further change in policy in the direction of engagement, perhaps partly necessitated by competition with the EU for the increasingly important China market.

The *European Union*, together with its previous incarnations, is the other important external actor exerting influence on Danish decision-makers. The European Commission is an actor in its own right as regards policy towards China.<sup>11</sup> It sees itself as in for the long haul, having commenced its policy in 1975, created a foundation for it in 1985, started a tour de force in China strategy in 1995 and launched a number of important but unfinished initiatives over the last decade. The Big 3, France, Germany and England, have reinforced the Commission's push until recently, when Sarkozy and Merkel stepped on the brakes, while the UK proceeds to have excellent relations with China, about which public opinion is positive.

Danish *public opinion* has also been an important influence on government. The 'moods of opinion' that Holsti talks about have been central to several of the observed 'fluctuations' in policy.<sup>12</sup> As mentioned, it is not an independent variable but a result of the varying inputs from three independent variables: information from the media, from NGOs and from government. Together with the generally low level of public knowledge and interest in the subject, this helps explain the fact that public opinion largely ignored or was favourable to China before the Tiananmen events of 1989. First, the media, their framing in various periods, their sourcing, their lack of their own correspondents and the CNN effect are clearly major influences on public opinion.<sup>13</sup> Secondly, information from NGOs has had an increasing influence. Starting in the mid-eighties, perhaps with China's decreasing strategic importance to the West, a number of international NGOs began providing their information and pushing agendas in a bid to influence public opinion, as, for instance, 'Human Rights Watch-Asia', or the 'International Campaign for Tibet', with its headquarters in Washington. Some were partly funded by the National Endowment for Democracy under the United States Congress, while others, like Amnesty International, were more independent. Their depiction of China was uniformly critical. Thirdly, an important input into public opinion has been the information provided by the government itself. This could be

anything from setting school curricula to stimulating public debate on policy, publishing White Papers, etc.<sup>14</sup> A basic purpose might be to tackle the problems of perception in keeping up to date with a fast changing, very important but distant country like China. This has been a fairly neglected area until recently, and it is still badly lacking. There have been no intelligent public debates on the trade-offs, costs and contradictions in finding an optimum China policy, only somewhat populist discourses aimed at the short-term mobilising of electoral support for or against the government.<sup>15</sup>

One grouping which might have helped raise the level of information is the Danish *business lobby*. But like the dog that did not bark, this interest group is mostly 'conspicuous by its absence' from policy formulation. There may be several explanations for this. The really important firm these days so far as China is concerned is Maersk (until the mid-1980s it was EAC<sup>16</sup>). It is likely that the company desires to remain 'above' Danish domestic politics and thus avoid being associated with its policy fluctuations (though certainly supporting the basic policy of continuity, of which it would not need to remind the government). It is also a company that has very close connections with the US and its military – another reason not to 'choose sides'. The second echelon of companies which might take an interest are a lot smaller, in contrast to Sweden, where a larger group of globally represented corporations were aware of China early on.<sup>17</sup> The biggest group consists of all the small and medium companies which are myopically content with nearby export markets like Germany.

A final independent variable with an input into government policy-making is the Danish *Parliament*. With its questions to the minister, its party discussions, its election campaigning and its committees, it can certainly affect policy. Opposition parties at both extremes of the spectrum have on a regular basis urged the government to criticize China, to upgrade relations with Taiwan, to boycott the Beijing Olympics, to liberate Tibet, etc., all in harmony with opinion polls conducted during frenzied media storms on those subjects.<sup>18</sup>

Gathering all these strands together, the argument in the following will be two-fold. First, the elements of continuity in policy over the longer term should be explained partly by the strong but changing international systemic overlay (which ended in 1991), partly by important economic considerations,<sup>19</sup> and after the end of the 1990s also by the increasing importance of the EU in Denmark's China policy. Secondly, the recurring crises in relations should be connected in part with the end of external

danger after the Cold War, which permitted Denmark the luxury of pursuing a more value-based foreign policy.<sup>20</sup> But in part, they are also due to the shifting balance and alignment between the US and the EU, exerting their influence on policy-making, while Denmark for various reasons seems to vacillate between them. This balance was opaque to some during the 1990s. The EU ‘wins’, except for defence and security policy issues, where the US remains the dominant power for Denmark.<sup>21</sup> Perceptions also matter, and at a time of rapid changes in China’s situation and the global balance of power, Denmark’s image of China has been haunted by a lack of precision and by a time lag which, given the post-Cold War change from elite-based to populist foreign policy-making,<sup>22</sup> sometimes damages policy.

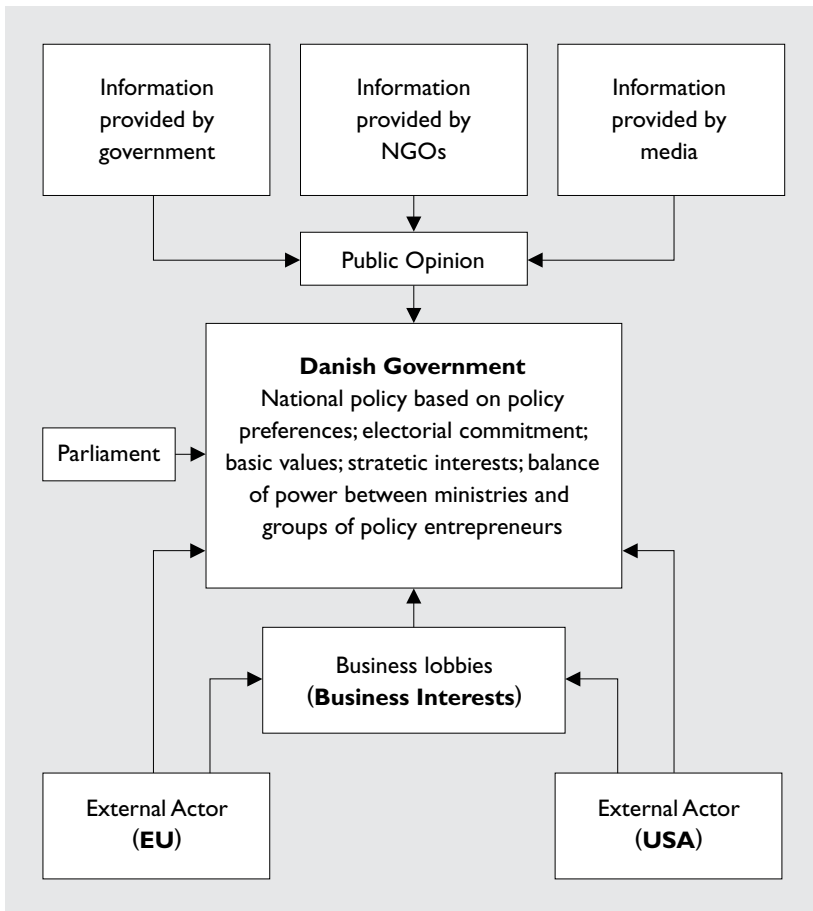


Figure 1: A policy approach to Danish-Chinese relations<sup>23</sup>

The present analysis is based on policy documents, previous research efforts, participant observation and background interviews with some central officials. The emphasis is on the Danish side, but attempts will be made to map the changing interests of China in the bilateral relationship. The analysis divides relations into six phases, each one emphasizing systemic overlay, external actors, government policy, perceptions and public opinion, and finally China's motivations.

As the state at the other end of the bilateral relationship, China is also important here. Suffice it to say that this is where the biggest changes have occurred. With its increasing economic and political power, its changing society and changing priorities, Denmark's role and importance for it has changed markedly over time. This has not always been noticed in Copenhagen. Before 1972 we were important for economic (technological) and status reasons. Before 1982 we were important for strategic reasons and as an access point to the European Community. Before 1989 our importance was mainly economic. After 1992 we were of still less political interest, being somewhat peripheral to the EU, and with the widening of the EU in 2004 we were just one of 24 small and medium powers in European politics. Meanwhile, China had grown to be the world's second largest economy and had developed an assertive nationalism in its public opinion, nourished by the world's largest Internet community and the turbulent events of 2008. These developments may help explain changes in China's patterns of reaction to Danish policies in some of the 'crises' that have arisen.<sup>24</sup>

## 1949-1971: A Small but Important Partner at a Time of Need

The bipolar systemic overlay did not immediately assert itself: There was a brief period when the US was ambivalent about policy towards the new communist state. This vacuum allowed the UK and the Nordic countries to protect their economic interests by giving diplomatic recognition to the PRC in the early weeks of 1950.<sup>25</sup> With the onset of the Korean War in June, the US decided that Taiwan was a strategic asset to be guarded and thus that the losing side in China's civil war, the Guomindang, now bunkered down on the island of Taiwan, should be recognized as the government of all of China, however fictive this was.

This also meant a divide among the Western countries regarding the representation of China in the United Nations – as one of its founding

members. While the US and many of its allies made sure that the government on Taiwan represented China in the UN system, those countries which had recognized the government in Beijing at an early moment were bound to support its claim for UN membership and the Perm-5 position in the Security Council. This claim was finally made good in 1971, when the US modified its position.

Otherwise Danish policy did not deviate much from the Western bloc during the Cold War. From the Chinese point of view, there is no doubt that gaining the diplomatic recognition of the Nordic states at a time when China was very fragile and vulnerable was invaluable.<sup>26</sup> Though the Danish side maintained its economic interests, there was also an element of sympathy for a China that had 'stood up' and was now seen as claiming its rightful place in the United Nations. Thus Denmark and the other Nordic countries were early Western supporters of a One China policy and thus of China's claim to Taiwan, a number one priority in its foreign policy. For the next fifteen years Denmark, like the other Nordic countries, had the highest level of representation in China of any Western country, as well as being the only NATO country with an ambassador in China.<sup>27</sup>

After China's break with the Soviet Union in 1960, technologically advanced countries like the Nordic states became increasingly important to China's development. This was particularly true of Denmark, which possessed global firms like EAC or Maersk without being a global power or former colonial master and had a high technological level without being a strategic rival. Beginning with the trade agreement in 1958, and coming to fruition in the 1960s, economic relations grew in particular around Denmark's strong shipping, communications, electronics and measuring instruments industries.<sup>28</sup>

As relations with the Soviet Union were reaching a nadir, with armed confrontations on the border in 1969 and the Soviets sounding out the US as to whether it would accept a nuclear attack on China, Chinese diplomacy was grasping at any sort of support. The long and complex campaign pursued by Zhou Enlai from 1969 on resulted in the Nixon visit and the Shanghai Communique of 1972. This set in motion the process which resulted in diplomatic relations in 1979, which induced a change in the systemic overlay and introduced the era of the Strategic Triangle and the China Card.

## 1972-1989: Broad Strategic Cooperation and Denmark as a Bridge to the EC. External Actors Aligned

Given the new multi-polar world situation, the PRC becoming an important proto-ally for the West in the Cold War against the Soviet Union, and US diplomatic recognition switching from Taiwan to Beijing in 1979, relations were unproblematic. For Denmark, following the policies of the Western bloc now came to mean developing a close working relationship with China over the next decades. There was never any mention of human rights, democracy or other norm-based issues.<sup>29</sup>

But 1972 was also the year when Denmark by referendum became a member of the exclusive club that the EC then was. After successfully siding with the US against the Soviet Union, China's next move was to link up with Cold War Western Europe, the neighbour to the other side of the Soviet Block.<sup>30</sup> Denmark was well placed for this, and it had a very active ambassador, with connections at the highest levels of the foreign-policy establishment in Beijing.<sup>31</sup> Growing economic integration in the EEC was part of this picture, and the Chinese were praising European unity from 1972 onwards. In 1974, Danish Prime Minister Poul Hartling was the first Western state leader to be received by Zhou Enlai and Mao Zedong, in what remains a high point in Sino-Danish relations.

It is, I suggest, possible to interpret the successful Hartling visit not only as related to security objectives, but also as a kind of preamble in China's attempts to link itself more closely to the EC. Denmark at that time was one of only nine member countries, and China had for some time been approaching Europe, with a peak in the autumn of 1972. Primarily for Chinese domestic reasons, momentum was lost during 1973, and the visit of the French President Pompidou in September brought no results. The British elections in February 1974 and disagreements among the Nine as seen at the energy conference in Washington seemed to bring the objective of closer relations still further from realization. Writing off the UK, the Chinese then sought to advance the issue with Germany and France, scheduling vice-Foreign Minister Qiao Guanhua to visit. So the Danish visit could serve as a test ground for the talks with the two bigger European countries. This may have been one reason for the visit being elevated to a higher level than expected, including the renowned meeting with Chairman Mao.



The Chinese side reacted relatively positively to the Danish suggestion that an ambassador with observer status be accredited to the EC in Brussels. Though the business of the EC apparatus was at that time mostly economic in nature, the political effect of such a representation would be significant.

The visit was timely, in so far as the EC summit in Paris was not far away. Unfortunately, at the time Europe did not have any policy on China, almost to the point of ignoring its existence. One Chinese reason for the increasing summitry with visiting EU heads of state – of which this was only the second example – was no doubt to raise the level of knowledge of China and its political positions among West European countries. From the Danish point of view, the intention was to reach a more sophisticated EC balancing between Moscow and Beijing, which incidentally was very much in line with American ideas post-1972 of maintaining equally good relations with the two, and better than their mutual relationship – an early manifestation of ‘playing the China card’.

It would take only a year before a separate ambassador to Brussels was accredited, and in June 1978 a big trade agreement came into force, to the dismay of the Soviet Union. It was followed in 1985 by the agreement which is still today the basis of relations. The Hartling talks had undoubtedly played a role,

It was the break with the Soviet Union that set in motion China’s contacts with Europe, but by the end of the 1970s the importance of Europe related more to trade, technology and China’s development goals. Its strategic aspect had evolved from building a ‘united front’ against the main threat, the Soviet Union, to supporting the rise of a European ‘pole’ so that a triangular global strategic situation could soon develop into a genuinely multi-polar world. Once the perceived threat from the Soviet Union resided, with its weakening through the war in Afghanistan, and once the Sino-Soviet process of normalization had begun, China adopted an independent and omni-directional foreign policy from 1981-82. The focus was now on development, and Denmark, like the rest of Europe, was no longer so important for China’s security. This was especially the case since its relations with the United States in the 1980s were excellent, with extensive arms sales. Denmark’s importance for China in the 1980s lay in its vote in the EEC, its NATO membership as China tried to approach this organisation, its UN position, particularly its Security Council membership in 1985-86, and its role as a source of technology and capital. Pressure from the business lobby from 1982 had resulted in state loans

for contracts with Danish industry with a gift element of 86%.<sup>32</sup> Summits continued, the Danish media gave a highly favourable picture of China, and nothing disturbed the idyllic picture.<sup>33</sup> For Danish policy the most important thing was that the two important external actors, Europe and the United States, were aligned. China's strategic role was still important, and there were broad and intensive bilateral interactions. The Hartling visit was not controversial given the Sino-American rapprochement, and it likely had strong support from the EAC.

## 1989-1997: The External Actors Diverge, and Populism is Given Free Reign

The Danish government reacted very strongly and very quickly to the use of the military to stop the demonstrations in Beijing in 1989. A junior member of the embassy was sent to the MFA to announce the cancellation of the programme of development assistance since 1982, as well as any further talks, and in multilateral contexts Denmark supported sanctions and conditionality against the Chinese government. While the US was already covertly sending negotiators already in the autumn of 1989, and the EU decided in October 1990 'gradually' to resume the large projects undertaken since 1984, Denmark in 1992-93 was among the last countries in the world to normalize relations with China.<sup>34</sup>

China's strategic interest had meanwhile decreased with the normalization of Sino-Soviet relations in May 1989 and the demise of the Soviet Union in 1991. In the new uni-polar world, China briefly turned to the Third World for support while recovering from the blowback of Tiananmen, focusing particularly on neighbours in the region, then in 1992 revived market reforms and started a new phase of very fast growth and steeply rising foreign direct investments.<sup>35</sup> The international context had by then changed further, the US administration passing from the former China envoy George Bush to Bill Clinton. In his campaign Clinton had criticized Bush for 'cuddling dictators', and the China policy of his first term was led by Secretary of State Warren Christopher, as well as being influenced by House Democratic Majority leader Nancy Pelosi, who had been very active in supporting Chinese dissidents, as had China ambassador Winston Lord.<sup>36</sup> The stress was now on human rights and on using linkage, for instance, using the annual bestowing of 'most favoured nation' status in trade as leverage in forcing results from China. This policy

of linkage was a failure and it was discontinued in 1994, Albright replacing Christopher and economic considerations were henceforth given the priority, but not before a rough passage in relations, owing to the after effects of Christopher's adventurous departures in the US's Taiwan policy.<sup>37</sup> Retreating from the brink of conflict in 1995-1996, the US and China then found a new relationship, already visible in Clinton's State of the Union address in January 1997 and confirmed by Madeleine Albright in June.

Ahead of developments in the US's China policy, from early 1994 the EU Commission had been exploring avenues towards a new China policy. In policy speeches and texts, as well as in extensive talks in Beijing, Trade Commissioner Sir Leon Brittan had already been laying the foundations for several important comprehensive new policies, which were revealed in 1994-95.<sup>38</sup> Brittan had the support of Germany and France, and a good chance of winning British backing. Denmark was perhaps not closely in touch with these developments and the ongoing changes in China, and had been through a turbulent time with the Maastricht 'no' vote, serving as EU Chair and having the opt-outs referendum in 1993. When the neo-Gaullist Jacques Chirac became President of France in 1995, this gave a further push among the Big 3 towards using a strong EU-China relationship to counter the uni-polar situation, in which Chirac had the support of German Foreign Minister Klaus Kinkel.

In Denmark emotions were running high on the subject of China and government was in flux. It is likely that, as Mouritzen argues,<sup>39</sup> the cessation of 'external danger' with the end of the Cold War and the binding in of Germany gave Denmark increased freedom of manoeuvre. 'During these favourable conditions, Denmark can afford to safeguard 'luxury' values externally that are in no way essential to Denmark's own immediate needs.'<sup>40</sup> There is an added element, in so far as the perceived disappearance of external danger meant that it was no longer possible to argue for foreign policy elitism, which could have kept China policy more consistent, and perhaps did up to 1989. One could, of course, argue that a non-working relationship with China in an era of globalisation would in itself be an economic and political 'external danger' as surely as if we had completely alienated the US. But to grasp this in the mid-1990s one would have needed a precise assessment of the potential and likely trajectory of China's development.<sup>41</sup>

In a careful and well-documented analysis, Nina Skakke has shown that there were two active discourses on China in Denmark of the 1990s.<sup>42</sup> One was supported by various opposition parties at both extremes,<sup>43</sup> the

other by government parties. One saw China as static, the other as dynamic. One wanted to confront China, the other to have dialogue with it, though both in the framework of an activist foreign policy. Regarding Denmark's China policy, the first wanted a tougher line, with an emphasis on morality and giving the alliance with the US priority over Denmark's identity as an EU country. The second, mostly hegemonic, discourse advocated moderate activism, wanted to retain of the One China policy, was optimistic about China's development and came to see the EU as indispensable. It increasingly wanted to combine a political dialogue that included human rights with economic engagement and security issues. One finding, however, is that under the Nyrup government of the mid-1990s, the dominant discourse came to resemble the confrontational one, both discourses constructing China as a threat. Skakke finds that, although in practice the One China policy is maintained, the fact that the holders of the hegemonic discourse did not convincingly face up to the violent attacks of the other discourse in a documented manner meant that China's legitimacy as a state and a nation was left in doubt in the entire order of discourses of these years.

Newly empowered Danish public opinion took a very dismal view of China post-Tiananmen. Several lobbies and NGOs were very active on Tibet, on Taiwan, on human rights, but most importantly the 'framing' of Danish media stories on China was now emphatically 'China is one big unchanging human rights problem', entailing massive negative coverage. This resembled the US situation, as noted by a highly experienced author and journalist: 'The cardinal sin committed by American news organisations in covering China is to portray it, always, in one overly simplistic frame ... In the 1980s the frame was 'China is going capitalist'. And in the 1990s the frame then became repressive China.'<sup>44</sup> Whether this resemblance was due to the dependence of Danish news organisations on international, particularly US news sourcing, or whether it was due to a lack of their own correspondents in China, the basis on which the public and the politicians formed their perceptions was increasingly out of touch with changes in both China and in other EU countries, including the Commission's views on China.<sup>45</sup>

In this climate it was difficult to discuss openly and expressly the contradictions between Denmark as a trading nation dependent on exports, and Denmark as a norm-entrepreneur pursuing a value-based foreign policy. An activist foreign policy was desired, and in the context of China policy, this meant changing China.<sup>46</sup> In addition an election was due in

early 1998, and the fate of the rights-oriented Radical Party was important to the government's future. Though other lobbies were active, apart from a few protests, Danish industry does not seem to have been very vocal in the phase treated here.<sup>47</sup> The small and medium-size industries that dominated the membership of Dansk Industri had not really 'discovered' China. In a vicious circle, their impressions from media coverage simply confirmed them in their reluctance to venture into China, and their focus was rather on nearby and less controversial countries. In contrast, Sweden, with its many big industrial concerns, was highly aware of China's potential at an early stage.

Almost as in a Greek tragedy, these many strands led, with a certain inevitability, to a split in the EU and one of the more serious crises in Danish-Chinese relations. In 1997 neither the US nor the larger EU countries were willing to sponsor the usual resolution condemning China for its human rights situation at the UNHRC in Geneva. This was invariably defeated before coming to a vote, but it had served a purpose in the sponsoring countries since 1990. Thus the United States did not like to lose the leverage which 'the ritual' provided in an important area of Chinese vulnerability. The EU resolved the contradiction between trade and norms/ideals by institutionalizing an EU-China dialogue on human rights, which still runs.<sup>48</sup> The major countries were squarely behind the Commission's new China policies, and France in particular was unwilling to take any further part in condemning China, arguing correctly that human rights had improved. After four years of a freeze in relations, because China had sold Mirage fighters and Lafayette frigates to Taiwan, Chirac was now finalizing negotiations on a partnership agreement with China. Economic competition with the US was also heating up, with Boeing signing contracts with Beijing, presided over by Vice President Al Gore, while Chirac was hoping to finalize a \$2 billion order for Airbus planes a few months later.

Among the minor countries in the Commission, Denmark was pressured by the US behind the scenes to table the resolution. Its existing economic interests in China were still minor, public opinion was already heavily mobilised in favour of changing a repressive China, and Denmark's imprecise perceptions and lagging understanding of where China was going, as well as of its own importance to Beijing, meant that it could not make a correct cost-benefit analysis.<sup>49</sup> The Chinese reaction was immediate, in cancelling of high-level visits and more gradually, instead of continuing their recent rise, exports to China declined by around half a billion DKK.<sup>50</sup>

## 1998-2000: A Transitional Phase of Recovery and Europeanization of Policy

In the rebound from the experience of splitting the EU by championing a resolution which five of the leading EU members could not vote for, there were signs of a Danish review of the policies of the previous eight years. While outwardly keeping a defiant face on things, new thinking was proceeding on how best to manage the contradiction between being a trading nation dependent on exports and wanting to be a norm-entrepreneur exporting Danish values, in this case to China. As early as 1 August 1997, the Minister of Foreign Affairs responded to a question in Parliament by saying:

*The government's policy towards China has been fixed over a long time span: the government works actively and in a goal-oriented manner to maintain and strengthen the close contacts with China on all levels, both politically and economically. (...) In the political field, Denmark and China have for a long time led a governmental dialogue on global and regional as well as bilateral issues. The bilateral political dialogue includes the question of human rights, where the government has continually expressed criticism of the situation in China. (...) Denmark's policies are in line with the EU's efforts at engagement.<sup>51</sup>*

In another context, the minister warned against the media tendency to demand action all the time – and quickly.<sup>52</sup>

The 'external danger' might have disappeared after 1991, and applause from public opinion was thundering, but it was still a problem for Denmark to lose political contacts, lose investment and trade opportunities, to have split the EU and to find itself somewhat isolated. The result of deliberations after the 1997-events was, it seems, a decision to proceed with the promotion of democracy and human rights through the EU, in a joint effort with other EU countries, and by means of 'critical dialogue'. The EU was an ever stronger external actor seen from Denmark, while the US remained important in security affairs. To place matters in the hands of Brussels was also to remove them from the populist arena and reintroduce a measure of foreign policy elitism and possibly professionalism. To bring an end to the crisis still closer, Denmark showed China consideration by participating in the handover ceremony for Hong Kong and by the Permanent Secretary's visit in November for talks with China's top foreign-policy person, Vice-premier Qian Qichen, who subsequently declared: 'The

relationship between Denmark and China is not dominated by any major conflicts (...) we place great trust in our relationship.<sup>53</sup>

Neither Denmark nor the EU sponsored critical resolutions in the UNHRC in 1998 or 1999, the foreign minister arguing rightly that human rights conditions were improving.<sup>54</sup> A policy speech by Foreign Minister Helveg Petersen in 2000 summed up the new goals in Denmark's China policy, as did Minister for Development Poul Nielson in a talk in 1999: The integration of China in the international community, recognition of progress made in human rights, but a stress on the continued result-oriented EU-China human rights dialogue.<sup>55</sup> Beginning in 1997 a policy of engagement had been in place, active balancing policy had ended with activism now reduced to human rights dialogues, conditions for lifting the EU arms embargo and demands for a peaceful resolution to the Taiwan issue.

It is evident at this time that the MFA leadership felt *the need to develop an Asia policy* in order to base decisions on firmer ground than hitherto, and efforts in this direction seem to have commenced in late 1997 or early 1998. They may have gained added urgency from the stagnating figures for exports to China, but also from the surge in Danish firms' investments in the country in 1996-1998.<sup>56</sup> In addition, among the Nordic countries, in the spring of 1997 Sweden had pioneered a large concerted effort at developing its Asia policy led by ambassador Børje Ljunggreen, which involved establishing a large panel of experts and stakeholders, holding hearings, funding serious research studies collected in several large volumes, and finally in November 1998 producing a proposal which was the subject of a day-long debate in Parliament in March 1999, resulting in decisions forming the basis of a systematic and intelligent new development in Swedish policy and institutions.<sup>57</sup> The Danish initiative could be seen as an instance of 'parallel action' in a salient environment, a term coined by Gunnar Nielsson and developed by Hans Mouritzen.<sup>58</sup>

The trajectory of Denmark's Asia strategy effort is interesting to follow. The aim was to strengthen the foundations of Danish policy towards particularly East and Southeast Asia, given their increased political and economic importance, which was deemed set to continue to develop in spite of the Asian financial crisis. In August 1998 the ministry invited about fifteen representatives from research, business, the media, etc. to meet with the Minister and top officials in the MFA in October for a five-hour brainstorming session on Denmark's Asia policy, including the role of China and how to balance different policy priorities like trade, human rights and development.

Organized by the Asia bureau, the initiative does not seem to have been sustained in the years that followed, perhaps for lack of a policy entrepreneur. Denmark remained the only North European EU state not to have an Asia strategy.<sup>59</sup> In the absence of one, short-term considerations and transient problems can block the long-term view, as well as consideration of the Asian region in its totality. It is difficult to explain why the Asia policy initiative came to nothing, with a hiatus of nine years before the Asia bureau again began producing strategies for China and India in 2007-2008. The most likely explanation is the pressure of other business changes in the ministry, the EMU referendum defeat, preparations for Denmark's EU Chairmanship in 2002, and the country's involvement in three wars. However, strategy or no strategy, there was a definite strengthening of Denmark's China policy when a new foreign minister, Mogens Lykketoft, took office in January 2001. Preparation for a new big push was underway.

## 2001-2007: Full Speed Ahead, but an External Actor Gets in the Way

With a strong Danish Foreign Office team in place, in Copenhagen and in Beijing, there was a concerted effort to strengthen relations.<sup>60</sup> It was supported by incoming Prime Minister Fogh, thus aligning the efforts of the two ministries, as seen in his two important visits to China in 2004 and 2008. At the same time, the Europeanization of Danish foreign policy, stressed from 1999,<sup>61</sup> gained further ground.<sup>62</sup> With the Danish 'no' to the Euro in September 2000, one way to move forward was to increase activity in the areas of EU policy where Denmark was not constrained by its opt-outs. This was regarded as a 'compensatory policy',<sup>63</sup> adopted to reduce the impression of Denmark sitting on the sidelines. It was also the end of 'active internationalism', which had excluded the EU almost from the beginning.<sup>64</sup>

The external actors were at first aligned on China policy. The United States attitude after 9.11 and during the run up to the Iraq war was marked by benign neglect and attempts to 'get China aboard'.<sup>65</sup> But while China appeared 'depoliticized' at this time, the second Bush administration was dismayed to discover belatedly that the 'comprehensive strategic partnership' agreement between the EU and China in 2003 might entail a level of cooperation that was too close for US comfort.<sup>66</sup> There was a fear that it would literally be strategic, and the US took action to block developments.



After 2001 the EU moved at full speed under Chirac, Schroeder, Blair, etc. to produce one of the two important policy papers of 2003, 'A maturing partnership' the other being China's first policy paper on the EU.<sup>67</sup> Much was implemented within a year, and by March 2004 EU had become China's biggest trading partner, and China the second biggest partner of the EU. But the Chinese were clearly hoping for more than just an economic partnership, namely a political one based on long-term cooperation, possibly including a military aspect. High-level military-to-military exchanges, strategic security consultation mechanisms and cooperation in officer training and defence industries were hoped for. This shocked Washington, and matters came to a head when in 2004 Chirac and Schroeder tried to lift the EU arms embargo put in place among the sanctions for Tiananmen Square, which placed China among a few of the world's worst pariah states. The US laid down what amounted to a 'hegemonic veto', and a divided Europe, including Denmark, succumbed to the transatlantic pressure to desist from a closer partnership with China.<sup>68</sup> In the following years, 2006-2007, relations with China took a bad turn, with new leadership in the Big 3 (Sarkozy and Merkel), rising outsourcing and trade deficits, increasing Chinese activity on 'European turf' in Africa and with Europe unwilling to accord market economy status to China. Also, the widening of EU membership in 2004 had consequences for Sino-Danish relations, couched and embedded as they were in an EU which now had a considerably changed view of China. For the many new former East bloc members, China was both a competitor and one-time ally, but later mortal enemy, of the Soviet Union, as well as being regarded by many of these governments as ripe for regime change, a communist anomaly. In Germany, after reunification, these viewpoints are represented too.

The Danish government's China policy was carried by the strong momentum established from 2000 and was still very focused and active up to and including 2007, when a partnership was agreed on. Under Fogh and the preceding government's Foreign Minister Lykketoft, crises were avoided and diplomatic capacity in China was expanded. Lykketoft clearly noted that dialogue and cooperation rather than sanctions were the way to influence China's development. 'By turning our backs we risk supporting forces that oppose reform.'<sup>69</sup> Human rights were mentioned in speeches, though with a touch of relativism, and promoted through EU mechanisms. In a speech at Tsinghua University, for example, Fogh said quite wisely: 'In China you tackle challenges in a different way, in a manner reflecting Chinese tradition, history and culture. There is no one true path

to be followed by all nations.<sup>70</sup> He warded off attacks from the Socialist Party, which complained that it is officials who really determine unchanged Danish China policy,<sup>71</sup> by saying: 'Policy toward Taiwan is fixed. It follows from Denmark's China policy, and is firmly anchored in the EU; it harks back to guidelines from 1988, which changing governments have agreed on following. Human rights are a focus, but the government's foreign policy will continue to be set in ongoing and close cooperation with the other EU countries.'<sup>72</sup> In the Permanent Secretary's annual overview of foreign policy in 2004 there is *for the first time* a section on Asia, discussing inter alia the rise of China, and the MFA also held a China seminar for officials and politicians.<sup>73</sup> Several ministers, among them Bertel Haarder, had by now come back from China convinced of the need to put in place China-strategies, and the dynamic Asia bureau in the MFA began producing a China strategy document in a noteworthy process involving both stakeholders and the world of research.<sup>74</sup> The Ministry of Science produced its own very advanced and innovative strategy.<sup>75</sup> One should also take note of the many concrete achievements of these years: a Danish Cultural Institute in Beijing, an innovation centre in Shanghai, a Danish university centre in Beijing, the strategic partnership agreement, resumption of mixed committee meetings, continued cooperation in the human rights and democracy fields, etc.

Public opinion in this phase was fairly positive towards China. The media's attention was on other issues like Islam, Iraq and the war on terror, which as time passed also served to reduce the focus on rights and an easy belief in the possibility of introducing change in other countries. The global NGOs did not hammer China before 2007. The business community was generally content, and in Parliament many more members had a first-hand impression of China because ministers and committees travelled there. Perceptions of China were catching up and their precision improving.

In this general atmosphere of mutual trust and expectation of still closer cooperation, the Chinese were able to live with the fact that in 2003 Fogh received the Dalai Lama at his Marienborg residence. Things would be very changed in 2008-2009.

## 2008-2009: External Actors Converge, and a New Crisis Emerges

The United States regarded the arms embargo issue as a litmus test of the ability of the EU and China to develop genuine strategic relations, and conversely of the EU's commitment to the transatlantic security relationship. The US prefers a situation in which the connection with Washington is much stronger and more significant to both China and Europe than the connection they have with each other.<sup>76</sup> Since the last years of the Bush administration, the US has worked hard to increase transatlantic convergence and to keep its European allies from becoming too close to China. This trend of a transatlantic dialogue about its re-emergence is worrying to China, particularly in view of the assertive US policy since January 2010 of engagement + 'containment light'.<sup>77</sup>

The negative turn in EU-China relations since 2007 has meant that negotiations on the Partnership and Cooperation Agreement which is to replace the 1985-agreement are going nowhere. The 2003 agreement is neither comprehensive nor strategic, and there has been a general souring in relations led by Nicolas Sarkozy and Angela Merkel, while Britain remains closer to China. The Commission is increasingly exercised by 'fair trade' and IPR problems, and also by disappointment at not being able to change China in the directions it desires. EU goals have revolved around getting China to effect *internal* transformations, pressing for openness, pluralism, sustainability, marketization, etc. But great powers do not make internal changes because other countries desire them, they do it out of self-interest, and the EU has seen little progress in promoting its political values.<sup>78</sup> Instead China has increasingly turned to other large developing countries, whether in a BRIC or a BASIC context.

Danish policy was set to continue its progress after 2000, but 2008 was an *annus horribilis* for China. Starting with problems in Tibet, public opinion was strongly affected by the determined exploitation of the Olympic Games in Beijing by numerous NGOs and lobbies, which viewed them as an opportunity to hold the Beijing government to ransom on countless demands by threatening boycotts. Business too was discontented with China's increasing limitations on privileges hitherto extended, and in any case had burned its fingers on the Mohammed-cartoon issue. In an atmosphere of popular hostility to China, in August the Danish Prime Minister's Press Office declared that he would meet the Dalai Lama in May 2009.<sup>79</sup> This despite the strong Chinese reaction when Chancellor Merkel

met him in September 2007, and the postponement of the EU-China summit and the serious crisis in French-Chinese relations after Sarkozy did so in November 2008.<sup>80</sup> Chinese popular opinion was very inflamed in 2008 with events around the Olympic torch relay and the strong impression that the Western media were treating China unfairly.

Perception obviously lagged. China in 2009 was not the China of 2003: It was a much larger economy, more confident, more attached to its social and political system in view of a US in the throes of financial crisis while China's strong growth continued. Events had made Tibet a 'core issue', and the Dalai Lama was coming to be viewed as a separatist leader. The Foreign Ministry in Copenhagen saw this clearly, but its warnings were not heeded. The prime minister's attention was probably elsewhere, and his foreign policy advisor a transatlanticist. Whereas Balkenende, the Dutch prime minister, had stated clearly that the problems it would give Holland did not warrant meeting the Dalai Lama at the head of state level, the then Danish prime minister and foreign minister went ahead in May *after* the French had already had to kowtow seriously on April 1.<sup>81</sup> After half a year's costly freeze in relations, fairly similar to the 1997 result, Denmark skilfully succeeded in negotiating an end to this major bilateral crisis, with a verbal note restating Danish policy and confirming all the positive aspects of relations.<sup>82</sup> In this positive spirit, only slightly marred by the infelicities of COP-15, the stage was set for a successful celebration of the sixty-year anniversary of diplomatic relations in 2010 and high-level meetings in 2011.<sup>83</sup> But the tables had been turned since 1950, and it is worth considering what China's interest in Denmark is today.

## Concluding Remarks

We can explain the long-term trends of continuity in Danish-Chinese relations by means of the systemic overlay until 1991, which from the end of the 1990s was then functionally replaced by the Europeanization of Danish foreign policy. In the interregnum, dominated by activist internationalism and populism, government mostly manages to protect core policies with a view to maintaining economic relations. The interest of the Chinese side is in Denmark as a member of the EU and NATO. This might indicate a long-term declining trend in Denmark's importance, as China itself became more integrated into multilateral contexts, as EC membership was expanded and Denmark's role thus further watered down, and as its influ-

ence in NATO was also diluted, as in fact it became more of a small state than in previous decades.<sup>84</sup>

The recurring crises in relations in recent decades can be attributed to the effects of the assumed removal of 'external danger'. Instead of elite foreign policy making, the door was opened to what one observer has called 'Paradise Hotel democracy'.<sup>85</sup> This in turn meant that perception lags, popularity-seeking, election-campaigning, press-framing and CNN effects became important factors. And in situations where the two most important external actors were going in different directions and no serious debate was being undertaken on the contradictions between the opposing identities of trading nation and norm-entrepreneur, Denmark took a zig-zag course (a *slingrekurs*). With the diffusion of foreign policy decision-making and often very young politicians in high positions, the sense of history was also weak, the MFA insufficiently listened to. The hazard is not over, as events in 2009 showed, and in future Gallup-guided sops to globalisation-discontented groups could determine new short-sighted actions toward China.

Europeanizing foreign policy has stabilized things somewhat. Business and economic interests exert a stronger influence on the EU's policy than the European Parliament does. But EU member states are now too divided and diverse e.g. in terms of economic development to pursue a common line in practice.<sup>86</sup> There are other problems. Though a lot is going on, as is obvious from the EU Country Strategy Paper 2007-2013 on China and the fifty sectoral dialogues, there have been disappointments on both sides. Europe cannot change China, and while China hoped Europe would become one pole in a multi-polar international system, this did not happen. Now China is unable to gain the closer relationship it seeks with the EU, while Europe lets the US divide and rule, aided by the diversity since widening, and thus hinder China-EU cooperation, as is happening at the moment. China compensates by seeking stronger bilateral relations with important European states, but this contributes to the division and weakening of the EU. This paradox is the more regrettable since Europe does not have the same interests as the US does and may actually have more in common with China than the US has.

Where is Denmark in all this? It still has some areas of attraction, perhaps in the sense of *soft power*: Its social model is interesting to China's reformers, the country retains some goodwill from its early support for China, as well as from the importance of Hans Christian Andersen, and it has shown a willingness to cooperate in a number of important fields

in Science & Technology and Research & Development. Denmark is also one of five Arctic powers, which may make it very interesting indeed. What detracts from its score? The continuing questioning of a core interest, i.e. a matter of sovereignty, Denmark's close alliance in security matters with the US, which distances it from 'the Rest' (that is not 'the West'), and its decreasing respect for multilateralism with the increasing militarisation of its foreign policy, which has replaced activist internationalism. The contrast with Sweden is illustrative, and Denmark will be challenged to use its coming Chairmanship of the Council as effectively in relation to China as Sweden did in 2009 when it managed to reverse the drifting apart of the two sides.

Yet it is worth attempting to reverse the course of the decline in favourable views of China in Europe and the rising intellectual rejection of EU-promoted values in China.<sup>87</sup> If Denmark is really to achieve a strategic partnership, this will entail mobilizing factors at all levels, from elites to business and academics to the grassroots level. This has been done somewhat more intelligently in Sweden, the country that may be regarded as the closest to Denmark. It will also mean tackling the fact that China and Europe inhabit different worlds and have diverging interests in a number of fields. Differences in values must not be ignored, but instead the two sides should be encouraged to respect each other's views, to meet halfway and perhaps crucially to have more realistic expectations. Denmark would also do well to follow the recommendations in a recent EUISS study: increase our knowledge of China, recognise China as a big power, undermine the nationalist trend in China rather than feed it, bind China into a multilateral order, seek compromise among the respective interests of EU and China, and engage China in multilateral resolutions of conflicts in Africa or Asia.<sup>88</sup> Finally, the fine Danish-China action plan – within the broader Asia strategy – should now be implemented and not remain a document for festive occasions, or one that only serves internal Danish purposes.<sup>89</sup>

# Notes

1. Clemens Stubbe Østergaard is a Senior Research Fellow at the Nordic Institute of Asian Studies. The editors wish to thank Dr. Erik Beukel, senior researcher at DIIS, for reviewing a previous draft of the present article.
2. Rev. Hans Hanssøn Skonning: 'Geographia Historica Orientalis' Aarhus 1641; see Brødsgaard and Kirkebak, 2000, Bramsen 2008.
3. These patterns accord with the expectations of adaptation theory, with its assumption that over the long term policy is determined by the objective characteristics of the state, such as its capacity to influence and its internal vulnerability, while in the short term there can be deviations owing to the perceptions of specific decision-makers (Mouritzen, 1988; Due-Nielsen & Petersen, 1995). An 'acquiescing' policy, under which the state accepts compromises because of 'stress sensitivity', would be expected and does seem to fit the 1949-89 period, when, for instance, the issue of human rights was never raised, nor was the Dalai Lama received. After the end of the Cold War, in adopting the policy of 'active internationalism', Danish decision-makers then seem to have rated influence-capacity as sufficiently high to justify an active 'balancing' policy toward China, at least until 1997.
4. A similar consideration of national policy on the Chinese side will not be attempted here, but it would be likely to show areas of policy disagreement between the MFA, the Ministry of Commerce and the PLA, with their diverging interests. See Lampton, 2001a. Public opinion does not dictate policy, but in recent years it has gradually set limits on the government's freedom of manoeuvre in high-profile conflicts.
5. Stumbaum, 2009.
6. Womack, 2010.
7. France, Germany and the UK.
8. See below.
9. An exception was seen in 1957-58 when the UK ignored the US-imposed embargo, giving Denmark and others courage to enter into a trade agreement with China.
10. Lampton, 2001b, 1994.
11. See Algieri, 2007; Cassarini, 2009.
12. Holsti, 1996.
13. Treated in Østergaard, 1990; Østergaard, 2009; Mann, 2001; Ming, 2010.
14. Or providing scholarships and graduate studies, supporting the training of journalists to qualify them further and give them first-hand knowledge of China, sending Asia-experienced journalists out as correspondents for Danish state radio, creating area studies programmes covering East Asia, and so on.
15. Skakke, 2007.
16. 'ØK og Kina', Weekendavisen, 7 September 1979.
17. They are also often politically correct companies, with a fear of the wrath of public opinion.
18. Given the increasing importance of going through or coordinating with the developing institutions of European foreign policy, the picture is complicated by an additional layer. Denmark's role in contributing to the formulation of EU policy on China will not be treated here.
19. It is obvious that the long previous economic relationship, involving the largest Danish corporations like the East Asiatic Company (EAC), Great Northern and Maersk, created an important tradition for relations which did not simply disappear in 1949. On the contrary, China's importance as a market has grown immeasurably.
20. Mouritzen, 1997.
21. Larsen, 2009.
22. Mikkel Vedby Rasmussen, Interview, Politiken, 3 April 2011.

23. Based on Stumbaum, 2009
24. Often involving what are seen as very selective human rights policies, or political support for the Tibetan government in exile, both easily construed as slights to China's sovereignty and as intervention in its internal affairs.
25. See the careful analysis in Odgaard, 2000.
26. There had been early voices among party leaders arguing for closer relations with West European countries; see Boardman, 1981 n. 1 and Siika 1983 for Nordic aspects.
27. One indication of the importance attached to this was that Geng Biao, a strong ambassador, was posted to Copenhagen. He later became Minister of Defence and was instrumental in overcoming the Gang of Four after Mao's death.
28. This was also the time (1964) when China's foreign policy theory operated with an intermediate zone between the two superpowers and China, consisting of non-aligned countries and a number of Western countries, including Denmark and by now also France, with which diplomatic relations were established in 1964.
29. This also holds true for the Danish parliament, which never mentioned human rights in China from the UN Human Rights declaration in 1948 until 1989.
30. The former 'intermediate zone' had now become a 'second world' of countries that had interests different from those of Washington and the Soviet Union; see Deng (1974).
31. See his analysis in Paludan, 1981. In 1980 Defence Minister Kjeld Olesen called China 'the third superpower'.
32. With a gift element of 76-86%, DKK 823 million were disbursed. In 1984-91 credits amounted to DKK 3 billion. At the end of 1988 nearly a third of Danish exports were directly related to these loans. When they stopped, exports dropped by a third. From 1993 mixed credits were started, export credits with a gift element of 35%, the aim being to ensure Danish market share in China.
33. Østergaard, 1990.
34. The Minister for Industry, Anne Birgitte Lundsholt, visited China in 1992, and Foreign Minister Helveg Petersen in October 1993. For details of bilateral events, see Brødsgaard, 2000; Østergaard, 1990.
35. Danish participation; see Danmarks Eksportråd, 2009.
36. Lampton, 1994.
37. In a break with policy, under Christopher emerging independence-seeking forces in Taiwanese politics had been encouraged in various ways, leading to an increased Chinese fear of a unilateral declaration of independence by Taipei. The upshot was the crisis in the Taiwan Straits, when China announced repeated (unarmed) missile manoeuvres in the direction of the two most important trading ports of Taiwan, sending Taiwanese stocks into free fall and American aircraft carrier groups towards the strait.
38. Brittan, 1994; European Commission, 1995.
39. Mouritzen, 1998.
40. Mouritzen, 1998: 98-99.
41. Regarding this, in its new globalisation report Danish Industry finds that since 1993 Danish manufacturing exports have risen by 25% less than those of the Euro-zone countries. The loss of market share could endanger maintaining the link to international growth and thus cause a long-term worsening of our competitiveness at a time when exports are of growing importance for both growth and financing welfare. Information, 23 March 2011.
42. Skakke, 2007, based on parliamentary proceedings.
43. There is a certain consistency in the right-wing Danish People's Party, which for over twenty years since 1990 has been comparing China to Nazi Germany.
44. Mann, 2001: 102.
45. An example of grossly inaccurate media coverage was a TV programme on orphanages in China, which proved extremely manipulative; cf. Mette Thunø, 'Kina i mediernes vold', Politiken, 10 September 1995, and Lisbeth Knudsen, 'Billeder kan også lyve', Det Fri Aktuelt, 13 January 1996.
46. Holm, 1998.



47. Heinz Andresen, 'Erhvervsliv frygter Kinas svar. DI: dialog er det bedste middel', Børsen, 8 April 1997. The Conservative Party wanted all EU countries to be behind Denmark if it were to sponsor the resolution.
48. Inzelbach, 2011.
49. Jeanette Ringkøbing, 'Kina straffer sidste forårs danske angreb.' Politiken, 11 February 1998.
50. There had been a clear warning when Denmark announced that it would table a separate resolution with the backing of the United States: 'I can say that relations between China and Denmark will be seriously damaged politically and economically if Denmark really insists on this resolution. It will be the biggest loser', said an MFA spokesman (AFP/AP 8.4.97 UN Rights Debates).
51. Helveg Petersen, 1997. In his speech to the UN General Assembly speech in September, Prime Minister Poul Nyrup did not mention China in his human rights section, and the new Permanent Secretary, Friis Arne Petersen, did not mention the China resolution in his overview of Danish foreign policy in 1997.
52. Holm, 1998: 24.
53. With Vice-premier Li Lanqing's visit to Denmark in February 1998 relations were finally back on track. But the transition was messy, and in 2000 Nyrup bowed to pressure from public opinion and met the Dalai Lama at head of state level for the first time. In view of the coming celebrations of 50 years of diplomatic relations, and perhaps of the meeting's location in Kastrup airport, the Chinese reaction was muted.
54. This was supported by experts: see Morten Kjærum, 'Den fremstrakte hand', Politiken, 16 March 1998. The US's China policy was wavering in this phase, sponsorship being dropped in 1998, then reversed in 1999, but, faced with suggestions by the Clinton administration that they co-sponsor a resolution tabled by America, the EU meeting in March 1999 declined and stressed the need to maintain unity among its member states.
55. Helveg Petersen, 2000; Nielson, 1999.
56. See Danmarks Eksportråd, 2009.
57. Fremtid med Asien, 1998; Regeringens skrivelse, 1999.
58. Mouritzen 1997: 39. From the early 1990s the influence of the Nordic, or Swedish, model had been weakened somewhat by Denmark's seemingly better economic performance and a degree of triumphalism derived from its membership of the two 'winner' clubs, the EC and NATO. This may be part of the explanation for Denmark 'going it alone' with a policy of active internationalism. Today the Swedish economy is again stronger, it is an EU member, and as regards interests and values it is the country closest to Denmark in the 'parallel action' sphere of the latter's neighbours.
59. Hellvin, 1997.
60. This effort could build on the previous ambassador Bramsens's successful build up of goodwill in Sino-Danish relations.
61. Petersen, 1999: 18. 'The EU is the main platform for Danish foreign policy. In the EU, Denmark participates in decisions on a wide range of European affairs and has an effective channel for influence on global issues.'
62. Larsen, 2009.
63. Holm, 2002: 33.
64. Nevertheless, Danish euro-scepticism remains a problem in respect of influence over attempts to Europeanize foreign policy.
65. Østergaard, 2007b.
66. Kemenade, 2007 and Zhang, 2009.
67. Commission of the European Communities, 2006 and European Council Conclusions December 2006. The Chinese policy paper can be found in Østergaard 2007a
68. See Foreign Minister Møller in Notat, 2005. Møller cited consideration of the transatlantic relationship. Paradoxically, one of the ways the US succeeded was through pressuring the European business community over the potential consequences for exports.

69. According to Mogens Lykketoft in, 'Empty demonstrations are of no use', *Politiken*, 12 February 2001. Foreshadowing problems to come a few years later, Lykketoft also noted: 'The EU has many common points of view, attitudes and values that to an increasing extent we want to impress on the international society, and these are in opposition to the viewpoints of the new American administration' (Holm, 2002: 38).
70. Speech at Tsinghua University, February 2004.
71. Rasmussen, 2001: 168.
72. *Ibid.*: 163.
73. 'Danish foreign policy is adapting to the fact that the increasing Asian economic weight will bring along increased Asian influence on global security as well as economic and political cooperation. Not least 'The rise of China' is changing political and economic patterns in Asia as well as globally. The EU's new Strategic Partnerships with China and India reflect this reality. (...) Denmark must seize the new opportunities that this change [the change produced by China's rise] will bring' (Petersen, 2005: 27). This Permanent Secretary had early on been aware of China's rising political and economic importance.
74. 'Denmark-China - a mutually beneficial partnership', Ministry of Foreign Affairs, 2008. Online, HTTP: [www.netpublikationer.dk]
75. Ministry of Science, 2008.
76. Peter Foster, 'US-China relationship marginalises Europe,' *Daily Telegraph*, 23 September 2009.
77. Zhang, 2009.
78. Mattlin, 2009.
79. Information, 20 August 2008.
80. See, for instance, 'Worsening Sino-French ties hurting Airbus', *Dong An Ilbo*, 2 March 2009.
81. Full text: Press Communique between China and France, April 1, 2009. Online, HTTP: [www.news.xinhuanet.com]
82. Verbal Note, 2009. The detailed history of this important event in Sino-Danish relations remains to be written. While all parties in Parliament subsequently acknowledged the note, individual politicians outside government evidently feel free to criticize it. This may warn of further populist zigzags in China policy down the road.
83. Jia, 2010.
84. Whereas many politicians and media remain convinced that Denmark is of such importance to China that our demands for change there must naturally carry great weight.
85. See above, n. 6.
86. It is also a problem that domestic opposition to European political integration sets limits to Denmark's input into EU foreign policy.
87. For the view of a young US-educated student of law, see Wang, 2008.
88. EUISS Institute Note: The Chinese Dilemma, IESUE/COPS/INF (09)11, 25 September 2009.
89. 'In implementing the strategy, 'Denmark in Asia: Opportunities for the Future', the Danish government has decided to draw up an action plan for increased and focused efforts in China. The action plan for Denmark's cooperation with China sets out specific initiatives that aim to enhance Denmark's position in China and contribute to safeguarding and promoting Danish interests in cooperation with China, including with regard to the major challenges facing China. The action plan is not a catalogue of all existing Danish cooperation with China, but focuses on areas and efforts that will be assigned special priority in the coming years.'

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# Clear, Hold, Train: Denmark's Military Operations in Helmand 2006-2010<sup>1</sup>

*Peter Viggo Jakobsen and Peter Dahl Thruelsen<sup>2</sup>*

When a majority in the Danish parliament voted to commit troops to the Helmand province in early 2006 as part of the North Atlantic Treaty Organization's (NATO) Stage III expansion to the southern provinces of Afghanistan, it did so in the knowledge that the operation would be dangerous and likely to result in casualties. Although it did not expect the Danish contingent to become immediately engaged in what was to be labelled the 'toughest fighting' the Danish army had been involved in since 1864<sup>3</sup>, southern Afghanistan was known to be a difficult area of operations. The willingness to sign up for Helmand in 2006 and to accept responsibility for Battle Group Centre the following year signalled a Danish determination not to make a merely symbolic contribution. Defence Minister Søren Gade summed up the rationale in this way in 2007: 'We do not go just to show the flag. We want to make a real contribution and to make a difference'.<sup>4</sup>

Denmark arguably succeeded in doing more than just showing the flag, given the amount of praise it has received from NATO for its willingness to volunteer for a dangerous mission and for staying the course in spite of suffering the highest number of casualties per capita in the alliance (40 soldiers killed and 153 wounded as of February 2011). But how can a small state like Denmark 'make a difference', how has Denmark sought to make a 'real contribution' in military terms, what have the Danish contingents done in Afghanistan, how have they operated and why?

This article aims to answer these questions, since the operational pattern of the Danish contingents in Helmand (2006-2010) is difficult to make sense of. Team 1 quickly found itself stuck in a compound in Musa Qaleh successfully repulsing one wave of Taliban attacks after another.<sup>5</sup>

Teams 2 and 3 conducted a campaign of manoeuvre patrolling the desert in search of Taliban units to destroy. Team 4 and 5 were fighting in the Green Zone to clear and hold territory. Tasked to hold the territorial gains in the Danish area of operations in the Green Zone, Teams 6-9 nevertheless spent a lot of time conducting operations outside it, while Team 10 abandoned the Green Zone to focus instead on an area just outside the town of Gereshk, thus beginning to lay the foundations for the shift from combat operations to training assistance that will be the main focus for the Danish contingents from 2011 through to 2014, when all Danish combat units are scheduled to be withdrawn from Afghanistan. Beyond 2014, Denmark's military contribution is envisaged as consisting mainly of a small number of advisors, instructors and enablers.<sup>6</sup>

How can this bewildering operational pattern be explained? Why did the Danish contingents devote a lot of effort and blood to clearing and holding territory in the Green Zone, only to abandon it again? Why did Teams 2 and 3 conduct operations in a way that differed markedly from the operations conducted by the other teams? Part of the reason, of course, has to do with the Taliban forces that were opposing the Danish troops, but the principal factor shaping the evolution of the Danish involvement is the directives and shifting priorities emanating from the British-led brigade that the Danish contingents were a part of. As we shall see, directives and guidance from Denmark and NATO's International Security Assistance Force Commander (COMISAF) played much less of a role in shaping operations. Our analysis shows that the Danish contingents essentially followed British orders and that Copenhagen gave the Danish commanders a free hand to 'plug and play' with the British-led brigade. Yet this freedom to plug and play also made it very difficult for Danish commanders to resist British orders and directives in situations when their priorities and readings of the operational situation differed. Contrary to what one might have expected, the 2007 decision to double the number of troops to allow the Danish contingent to assume responsibility for its own area of operations seems to have done little to enhance the leverage of the Danish commanders vis-à-vis their British superiors.

To explain the evolution of this operational pattern, we have broken the Danish experience (2006-10) down into five phases, each characterized by its own distinctive operational pattern. We shall analyse each phase separately in a structured and focused manner in order to discern how directives from the British brigade and Denmark (Army Operational Command, the Danish Defence Command and the Ministry of Defence)



shaped the Danish contingents' conduct of operations in each phase.<sup>7</sup> The analysis of each phase is guided by the same questions: How can the different drivers explain the operational pattern observed, how were operational disagreements with the British commanders resolved, and how did the Danish contingent actually operate?

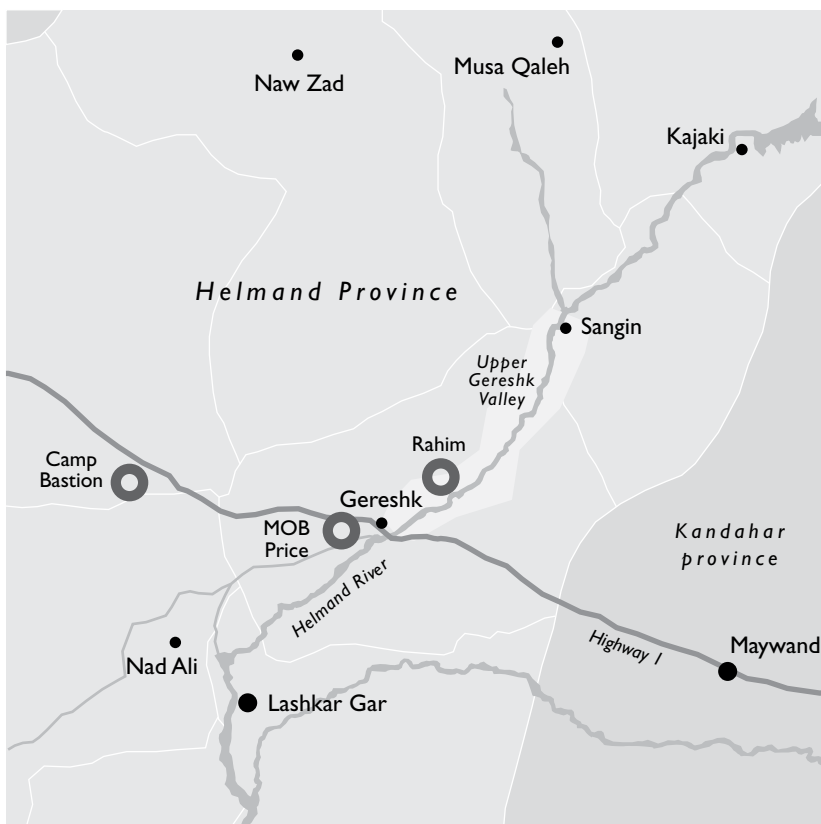
While the Danish operational pattern was also influenced by the Taliban and directives from COMISAF, the Afghan government and the governor in Helmand, the influence of these drivers was mainly indirect. They set the stage for the plans and directives formulated by the British commander and the Danish authorities, and it is this that makes the latter two drivers the most important ones. It was the British commander and to a lesser extent the Danish authorities that decided how the Danish forces should react to orders and requests from NATO's chain of command and the Afghan authorities. COMISAF's intentions and directives travelled down through the chain of command, where they were translated into operational directives at each level of command. It was thus the British brigade commander's interpretation of the directives provided by NATO Regional Command South which eventually reached the Danish commanders. Since the British commanders in Helmand rarely felt compelled to follow directives from COMISAF and Regional Command South, and because the British command culture leaves each commander considerable leeway to define his own concept of operations,<sup>8</sup> the directives reaching the Danish contingent to a large extent reflected British priorities and the British commander's own understanding of his mission. The British influence on the Danish contingent was reinforced by its small size (290-750 personnel), which created a dependence upon the British Brigade that significantly limited the Danish commander's leverage in disputes over operational issues. This could have proved fatal if British commanders had used the Danish contingents as cannon fodder, but they never did. British-Danish cooperation was generally good, and the operational disputes that did occur never got out of hand.

In what follows, each of the five distinct operational phases that we have identified will be analysed in turn. The principal findings will be summarized in an analysis at the end that also discusses its implications for future deployments.

## Phase I: Sitting Ducks in Musa Qaleh (Team I, May-October 2006)

The British pre-deployment *Joint UK Plan for Helmand* was based on a classic counter-insurgency (COIN) ‘ink-spot’ strategy.<sup>9</sup> The idea was to start by clearing and holding a secure zone (the ink-spot) covering the Lashkar Gar-Camp Bastion-Gereshk triangle to allow building, i.e. economic development and reconstruction, rule of law and good governance to take place. This development was then supposed to act as a magnet on the surrounding areas, making the population there more susceptible to government influence. Thereafter, the British wanted to use the clear-hold-build approach to expand the secure area north of Gereshk in the direction of Sangin and Kajaki (see map 1).<sup>10</sup>

The British 16 Air Assault Brigade commander’s attempt to implement this plan was immediately shot to pieces by fierce Taliban resistance and a



Map 1. Major cities and military camps in central Helmand

demand from the Helmand governor and Afghanistan's President Karzai that the British deploy troops to a number of northern towns threatened by the Taliban.<sup>11</sup> The British government forced their commander to do so against his will, and his force was spread thin to garrison the towns of Sangin, Musa Qaleh, Now Zad and the area of the Kajaki dam (see map 1). Although the British rushed extra 1,500 personnel into theatre, they were overextended and incapable of securing the Lashkar Gar-Camp Bastion-Gereshk triangle as the pre-deployment plan had envisaged.<sup>12</sup>

By the time the Danish Team 1 had become operational in July 2006, the British-led forces were scattered across Helmand province and pinned down by the Taliban in 'platoon-houses' inside the northern towns. Accordingly the light reconnaissance squadron, which made up the core of the 290-strong Danish contingent, quickly found itself on its way to Musa Qaleh to relieve a small and exhausted British unit that was running out of food, water and ammunition and in danger of being overrun. The Danish squadron commander, Major Johannesen, and the Danish Major Billenstein serving on the British staff were unhappy with the assignment. They both thought that the Danish reconnaissance squadron was better suited for patrolling and reconnaissance tasks in the Helmand desert where it could use its mobility, surveillance equipment and fire power to cover wide areas and conduct hit and run operations against the Taliban. The squadron would not be able to use its vehicles and exploit these advantages inside a town.<sup>13</sup>

Although sympathetic to these arguments, the British commander would not budge,<sup>14</sup> so on July 21, the Danish reconnaissance squadron set out for Musa Qaleh. The 70 km drive took almost five days, and after several hard engagements with Taliban forces, the 140-man and 40-vehicle strong unit entered the district centre just past midnight on 26 July. In the month that followed, the Danish unit became sitting ducks subject to more than fifty attacks. It received some reinforcements, including eight snipers from the Danish Special Forces Jaeger Corps,<sup>15</sup> but did nothing but defend itself until it was relieved by a stronger British unit on 25 August.

Miraculously, the Danish unit came out of the ordeal without loss. Their British colleagues taking over were not so lucky, and Musa Qaleh was eventually handed over to the village elders in October 2006 as part of a locally brokered peace deal. Three months later, however, the town fell to the Taliban, and in December 2006 it had to be retaken again by ISAF and Afghan forces.<sup>16</sup>

After the Musa Qaleh engagement, Team 1 participated in several British- and Canadian-led operations in both Helmand and Kandahar prov-

inces. These operations were of a more mobile nature, enabling the reconnaissance squadron to exploit its comparative advantages better. It would therefore be wrong to regard the Musa Qaleh assignment as an example of a British commander misusing a Danish unit as cannon fodder. His decision was motivated by operational necessity, and he did not ask the Danish unit to conduct operations that his own British units did not. This was also how the Danish commander saw it. His end of tour report thus characterizes cooperation with the British brigade as 'frictionless' and 'without problems'.<sup>17</sup>

At the same time, Musa Qaleh illustrates the dilemma facing a small nation like Denmark wanting to make a small but meaningful military contribution to a multinational war effort. Although Johannesen would have preferred not to go to Musa Qaleh, he was not in a position to say no because Denmark had made his unit available to the British brigade without 'national caveats', meaning that the British could treat the Danish unit as one of their own. Thus, Major Johannesen was not given any guidance from the Army Operational Command upon deployment. His marching orders were essentially to do what the British told him to as long as it was in accordance with the laws of war and his unit was capable and trained to carry it out.<sup>18</sup> Lacking the ability to field a military force capable of conducting its own independent operations, Denmark had opted for close integration with the British in order to make a 'military difference'.

Britain was the partner of choice for the Danish Defence Command and Ministry of Defence for a number of reasons. The Americans were perceived as too big, too aggressive and too difficult to plug into technologically; the Germans and the Nordics as too timid and incapable of providing combat support in case of emergencies. The British had the right size, a command culture and doctrine similar to the Danish, they were willing and capable of fighting, and the experience of Anglo-Danish cooperation in Iraq was positive. To gain a measure of influence on the British planning process and to minimize the risk that the Danish unit would be used as cannon fodder, Danish officers were attached to British headquarters in both the United Kingdom and Afghanistan in an attempt to influence the British planning process,<sup>19</sup> but the relationship was at the end of the day based on trust. The closest one comes to a national caveat was the decision barring the Danish contingent from taking and interrogating prisoners.<sup>20</sup>

## Phase 2: Patrolling the Desert (Teams 2-3, October 2006-August 2007)

By the time Team 2 took over, a new British Brigade (3 Commando Brigade) had arrived with a new concept of operations that changed the Danish operational pattern completely.<sup>21</sup> The overall clear-hold-build philosophy remained the same. The ambition was still to create a secure area connecting Lashkar Gar and Gereshk while maintaining a presence in most of the 'platoon houses' established by the outgoing brigade. The method was different, however, as the new campaign plan put a far greater emphasis on manoeuvrability. To avoid being pinned down in the northern towns, the new brigade created several Mobile Operations Groups (MOGs)<sup>22</sup> to conduct long-range patrols over large areas in order to detect and destroy Taliban forces and thus prevent them from mounting large-scale attacks on the small contingents garrisoning the towns.

The new concept of manoeuvre was a heaven-sent opportunity in the view of the incoming commander of Team 2, Colonel Mathiesen. Like his predecessor, Mathiesen also wanted to use his light reconnaissance squadron for patrols in open terrain that would allow it to exploit its mobility and speed to take on the Taliban at a time and place of its own choosing, rather than sit inside a 'platoon house' waiting to be attacked. The Danish Team 2 became part of a MOG conducting the kind of mobile operations that Mathiesen preferred. Its first assignment was to patrol the area north of Highway One and west of the Helmand River with the purpose of detecting Taliban and criminal activities.<sup>23</sup> Later, Team 2 operated in the northern parts of Helmand Province in the area between Musa Qaleh and Now Zad seeking to disrupt Taliban operations relieve the pressure on the two towns and establish positive relations with the locals.

While combat operations constituted a major part of the operations conducted by Team 2 and the following Team 3, the manoeuvre concept also envisaged efforts aimed at establishing dialogue and positive relations with the local population. Efforts aimed at 'winning hearts and minds' in the form of civil military cooperation (CIMIC) activities and quick impact projects consequently played a greater role than had been the case for Team 1.<sup>24</sup>

Two months into the deployment of Team 3 (February-August 2007), a new British brigade (12 Mechanised Brigade) arrived in Helmand armed with a new operational concept. Recognising that the MOGs were having no enduring effect on the Taliban, the new brigade wanted to establish a

more permanent presence in the populated areas of Lashkar Gah, Gereshk and Sangin. To this end it had conceived a campaign plan involving large-scale clearing operations followed by the establishment of a network of patrol bases and forward operating bases (FOBs) which would then serve as vantage points for conducting operations against the Taliban and establishing friendly relations with the locals.<sup>25</sup>

This change in the British operational concept had a direct impact on Team 3's operational pattern. Its light reconnaissance squadron had initially picked up where Team 2's had left off conducting MOG patrols in order to disrupt Taliban supply lines. But the 12 Mechanised Brigade's new emphasis on clearing operations soon meant involvement in large-scale combined air and ground operations involving 1000+ ISAF troops aimed at re-establishing Afghan government authority in Sangin and Kajaki.<sup>26</sup> These operations were not conducted with an eye to winning local hearts and minds. To give an example, *Operation Achilles* involved a heavy artillery barrage on a Taliban stronghold in Sangin followed by a massive ground attack, an approach that served to alienate the local population that the whole idea in the overall clear-hold-build COIN strategy was to win over.<sup>27</sup>

The shift from MOG patrols to large-scale clearing operations did not cause problems for Team 3, as the reconnaissance squadron continued to be employed as a manoeuvre unit conducting tasks that it had trained for and which were in accordance with Danish doctrine.<sup>28</sup> As a result, Team 3 was very pleased with its cooperation with the British brigade, and its end-of-tour report states that it had had a 'huge influence' on its assignments with respect to both planning and implementation, and that the key to influence is to be proactive in the planning phase and professional and effective in the execution phase. Moreover, the report considers it crucial to establish and maintain positive personal relationships in the British Battle Group and Task Force headquarters.<sup>29</sup>

### Phase 3: Clearing the Green Zone (Teams 4-5, August 2007-August 2008)

In August 2007, when Team 4 rotated in, 12 Mechanised Brigade was stuck in the clearing phase of its clear-hold-build campaign. Its inability to hold cleared territory and initiate building activities allowed the Taliban to sneak back in and re-establish their influence once the ISAF troops

had moved on. This condemned the 12 Mechanised Brigade to continually 'mowing the lawn', as its commander put it.<sup>30</sup> In addition, its heavy-handed approach to clearing operations had made the local population more critical of ISAF and the Afghan government. To address these problems, the incoming 52 Infantry Brigade opted for a more static and 'people-centric' approach which focused more on presence and the protection of the population than on killing the Taliban (enemy-centric).<sup>31</sup>

It was not this change in the operational concept that was to have the greatest impact on the Danish operational pattern for Teams 4-5, however; it was decisions in Copenhagen to increase the size of the Danish contingent to 640 personnel and, most importantly, to put it in charge of Battle Group Centre, which consisted of the town of Gereshk and the middle part of Green Zone. The Danish Defence Command wanted Battle Group Centre for logistical reasons and because Gereshk (50,000 inhabitants) seemed to offer the best opportunities for development and reconstruction activities that played a major role in legitimating the Danish Afghanistan operation to the Danish public and parliament. The British initially wanted Denmark to take charge of Battle Group South but in the end accepted the Danish request for Battle Group Centre in late June. As a result, the commander of Team 4, Colonel Kristensen, found himself with a new area of operations that was considered the most dangerous and difficult of the three Battle Group centres into which the British had divided the Green Zone.<sup>32</sup> Kristensen only realized the full implications of this change after his arrival in theatre.<sup>33</sup> Once he had seen for himself the difficulties of the terrain and the hardship and casualties suffered by the British at their FOBs in the Green Zone, he telephoned home to request a Leopard tank platoon. His account of the operational realities convinced the Danish Defence Command to reverse an earlier decision not to deploy tanks. The Danish parliament approved the deployment of three tanks in October, and the tanks became operational in Helmand the following month.<sup>34</sup>

Team 4's tour was dominated by efforts to clear the Green Zone north of Gereshk. In September its mechanised infantry company participated in *Operation Palk Wabel*, the 12 Mechanised Brigade's last major operation involving some 2,500 personnel, aimed at pushing the Taliban further north, away from Gereshk. A month later, when 52 Infantry Brigade assumed command of Task Force Helmand, Team 4 took charge of its own area of operations, Battle Group Centre, the Danish troops were moved to a new Main Operating Base (MOB) Price outside Gereshk. Team 4 spent

the remainder of its tour conducting offensive operations as part of the Task Force's attempt to clear the area between Gereshk and Sangin of Taliban. The efforts culminated in *Operation Thunder*, a major operation involving 1,500 personnel, which resulted in the establishment of FOB Armadillo (later renamed FOB Budwan) in mid-January 2008 (see map 2). With this push north in the Green Zone, a message came in on the ISAF mission secret computer network stating that 'the Taliban has left the upper Gereshk Valley'.<sup>35</sup>

Team 5 picked up the baton from Team 4, leading an operation to push the Taliban even further north. At the end of the operation in May 2008, a new patrol base was established some four kilometres north of FOB Budwan. Patrol Base Attal, as it was named, was manned with a platoon of Afghan soldiers and a small British advisory team. The patrol base represents the farthest north in the Green Zone that the international forces reached from Gereshk.

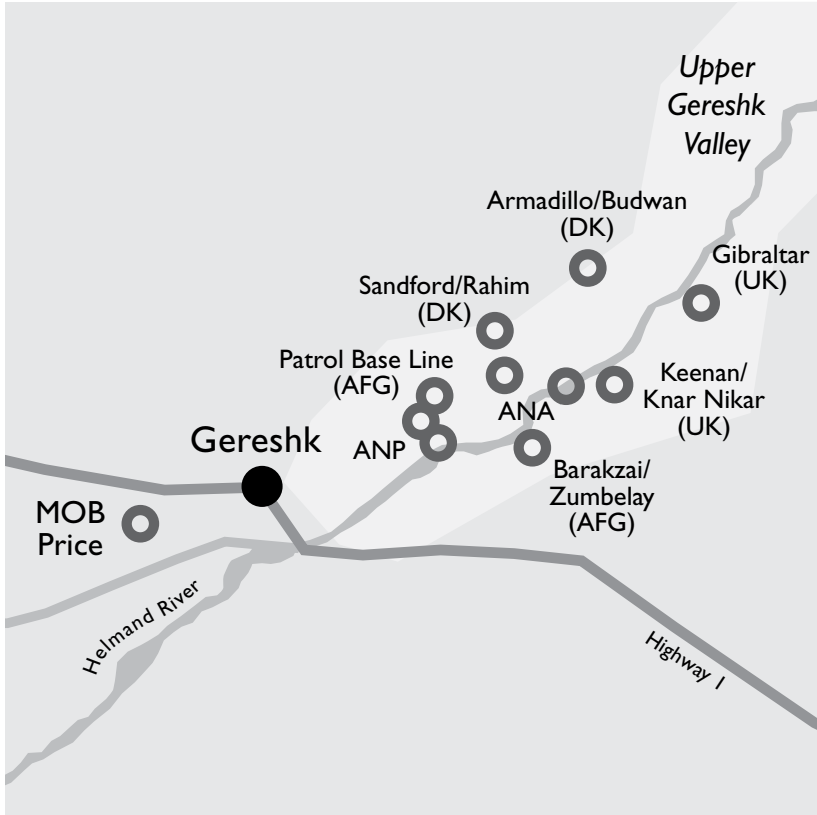
Teams 4 and 5 successfully played an important part in clearing the Green Zone. In the clear-hold-build COIN strategy, however, clearing is the easy part. The hard ones involve holding and building in the cleared areas to prevent the insurgent grass from growing again, and the difficulty of these tasks became apparent even before Team 5 had finished its tour.

The efforts to hold the newly captured terrain began to crumble even before the establishment of Patrol Base Attal as a result of a decision by the Afghan National Army (ANA) to close two of the patrol bases they were occupying in the Green Zone. This led to a deterioration of the security situation, as the Taliban quickly stepped up their attacks on FOB Keenan (later renamed Knar Nikar) and FOB Sandford (later renamed Rahim) (see map 2). The new Patrol Base Attal manned by the Afghan Army also came under frequent attacks and was eventually closed in October 2008.<sup>36</sup>

Yet at the time when Team 5 took over, the situation in the Danish-led Battle Group Centre's part of the Green Zone was probably the best it ever became during the Danish involvement in the area. At this time, FOB Armadillo (with Danish forces) and FOB Gibraltar<sup>37</sup> (with British forces) marked the forward line of the international and government forces. From this line south to the city of Gereshk, international and national Afghan troops virtually controlled the area (see map 2). In conversation a platoon commander from Team 4 described the situation as quite calm and said that the Danes had established a good relationship with the population there. The locals began to move back to the formerly Taliban-controlled area and reported Taliban activities directly to the Danish troops, who



responded by sending small patrols out to investigate or to engage the enemy. Because of the developing permissive environment, these patrols were only between ten and fourteen soldiers strong.<sup>38</sup>



Map 2. Bases in the Danish area of operations in central Helmand as of February 2008

From a COIN perspective, the developing permissive environment created an opportunity to start moving from the 'hold' to the 'build' phase, and the British 16 Air Assault Brigade, which rotated into theatre for its second tour two months after Team 5, sought to exploit the progress achieved by the 52 Mechanised Brigade by giving priority to civilian-led build efforts. Among other things the civilian element of the Provincial Reconstruction Team (PRT) – the civil-military unit tasked to improve security, extend the reach of the Afghan government and facilitate reconstruction in Helmand – grew from 45 to 94 staff, emphasizing the Brigade's commitment and understanding of the importance of civilian efforts in a COIN campaign.<sup>39</sup> Further strengthening the civilian input was the introduction of a new

integrated civil-military plan in April, *The Helmand Road Map*. The plan to cover the Helmand province, however, was developed as a 'UK eyes only' plan, meaning that the Danish partners were not consulted or incorporated into its design. The Road Map upgraded the civilian part of the PRT to a 'two-star' headquarters superior to the 'one-star' military task force (the Brigade). Consequently, military activities were only to be implemented if they were supportive of the civilian plan and priorities of the province.<sup>40</sup>

In reality, however, there was a discrepancy between the plan and its implementation. According to a Danish Staff officer on Team 5, it seemed that the 16 Air Assault Brigade had a hard time letting go of its *raison d'être* (to conduct air assaults), since it concentrated more on kinetic clearing activities than on civilian build activities.<sup>41</sup> The more fundamental flaw undermining the British plan in the Danish area of operations was a lack of resources, however. When tasked by the British to adapt the *Helmand Road Map* to Gereshk, the Danish deputy commander and his stabilisation advisor drew up a quite sophisticated plan for the district. The plan followed the seven strands of the Road Map that were to lead all activities at the district level,<sup>42</sup> and the British-led PRT was so pleased with the plan that it was used as a model to guide the work in the other focus districts.<sup>43</sup> In spite of the good intentions, however, the necessary resources – especially the civilian ones – required for its implementation never materialized. Even though the PRT later deployed two British stabilisation advisors and a so-called Military Stabilisation Support Team (MSST), in September 2010 only one expert in the high priority field of rule of law was available for the engagement in Gereshk. One year after its adaption the Danish plan was no longer being followed.

Denmark was also to blame for this lack of resources. In December 2007 the Danish Ministries of Defence and Foreign Affairs had drawn up a joint plan of their own: the *Helmand Plan 2008*. Since it was primarily a policy document intended for domestic consumption, it contained little operational guidance for the personnel on the ground. This had the advantage of giving the Danish personnel in Helmand a free hand to plug into the *Helmand Road Map*. But the strategic-operational disconnect also meant that it failed to commit the civilian and military resources necessary to allow the Danish Battle Group to push the 'build' phase in Gereshk. The lack of priority accorded to the 'non-kinetic' aspects of the Danish operation is reflected in the low number of CIMIC personnel and civilian advisors that Team 5 deployed with. It only had eleven CIMIC officers, three fewer than it was supposed to, and no replacements were sent when

two of them were killed by a suicide bomber.<sup>44</sup> Moreover, Team 5 only had one civilian advisor deployed to its Headquarters in MOB Price during most of its tour and no one to fill the gap when the advisor went on leave for two weeks every six weeks.<sup>45</sup> The Ministry of Foreign Affairs' decision to take the lead in education, a strand not included in the *Helmand Road Map*, and to give a priority to the building of two schools in Gereshk did not help the Danish Battle Group struggling with the more immediate tasks of establishing basic security, rule of law and economic development in the city.<sup>46</sup> While the Danish Defence Command was frustrated with the lack of civilian follow-up, the Danish military did not do much to support the process either. Thus Team 5 did not prioritize security escorts for its civilian advisor and its CIMIC sections.<sup>47</sup>

As had been the case with Team 3, Teams 4-5 had a positive working relationship with the British brigades and experienced no problems of cooperation. The Danish units were used in accordance with Danish doctrine and were able to influence their operational tasks in terms of both planning and execution.<sup>48</sup> While the British-led PRT was disappointed that Denmark did not commit more civilian resources to support the implementation of the civilian plan that the Danish officers had drawn up for Gereshk, this did not adversely affect military cooperation between the British Brigade and the Danish Battle Group.

## Phase 4: Mowing the Lawn While Running Errands for the British (Teams 6-9, August 2008-August 2010)

The British concept of operations during this phase boils down to more of the same. While the various UK commanders rotating into theatre all arrived with an ambition to conduct a civilian-led and population-centric COIN approach in accordance with the new UK and US doctrines,<sup>49</sup> the fundamental problems that had plagued the British Task Force since 2006 did not go away: The personnel needed to hold and build cleared territory remained insufficient. Business as usual also continued in the Danish Battle Group: it was still left to each new commander to draw up his own operational plan upon arrival.

What made this phase different for the Danish Battle Group was a shift in the British focus and resources away from the area north of Gereshk to the area to the south between Lashkar Gah and Gereshk (see map 1), in-

creased British demands for Danish involvement in operations outside the Danish area of operations, and a major reduction in the number of Afghan National Army personnel deployed in the Danish part of the Green Zone. This made it increasingly harder for the Danish forces to hold their ground.

Team 6's involvement in *Operation Quab Tzuka* in early September 2008, a major British-led operation undertaken to transport a 100-ton turbine from Kandahar Province through extremely hostile areas to the Kajaki Dam in central Helmand, was a harbinger of things to come. Although the delivery of the turbine to Kajaki in early September was touted as a major success in the Danish press,<sup>50</sup> the operation had the effect of depleting troop levels in most of Helmand Province, with severe consequences for the security situation. British requests for Danish participation in operations outside the Danish area of operations with adverse security consequences for that area were to become a defining feature of Phase 4.

The shift in the British focus away from the Danish part of the Green Zone was motivated by a Taliban attack on the Helmand Province capital of Lashkar Gah in early October 2008. This was just under a week after 3 Commando Brigade had taken command in Helmand for their second tour. The new Brigade wanted to pursue a population-centric approach, but the Taliban attack derailed this plan. In military terms the attack on Lashkar Gah was a disaster for the Taliban, but in terms of affecting the local population's perceptions of the ability of the Afghan government, the Afghan security forces and indeed ISAF to protect the locals, it was a major success. The Afghan governor of Helmand demanded that the British take action to secure the area around his capital, and the area between Lashkar Gah and Gereshk consequently became the principal focus of the new Brigade, leaving fewer resources to support the Danish efforts to hold their ground in their area of operations.

To make matters worse, at the same time the ANA decided without warning to pull out their battalion of seven hundred soldiers, leaving only around a hundred Afghan soldiers in the Danish area. Their withdrawal led to the closure of the Patrol Bases Attal and Barakzai (later renamed Zumbelay). The Taliban quickly took over these areas, settling in the latter patrol base, thus gaining a major psychological victory in respect to both the international forces and the local population. From this time on the influence in the area east of the river was minimised, only consisting of small bubbles around FOB Gibraltar and FOB Knar Nikar. On the west side of the river, the situation around FOB Budwan also deteriorated markedly (see map 2). The next three Danish teams launched several operations to regain influ-

ence in these areas, but a sustainable high level of dominance was never re-established. Instead, the Danish hold on the Green Zone continued to crumble. The first months of Team 7's tour of duty, starting in February 2009 under the command of Colonel Lissner, was dominated by the struggle to regain control of the Danish part of the Green Zone, or at least to challenge the Taliban influx into the area. In the course of the spring the Battle Group launched a series of operations to this end, including an operation in May 2009 which led to the recapture of Patrol Base Zumbelay. After the operation, the base was manned by a Danish platoon. Patrol Base Zumbelay was eventually closed in October 2010 following a decision to concentrate Danish forces in a new area closer to Gereshk.

Team 7 became heavily involved in operations outside the Danish area of operations. The Danish commander, Colonel Lissner, twice made a company available for 3 Commando Brigade for week-long operations, but the 19 Light Brigade that took over in April 2009 wanted his entire Battle Group to help clear the Babaji area south of Gereshk as part of *Operation Panchai Palang* in July 2009. The Danish involvement was only supposed to last for one week, but it was extended to two weeks because the operation did not go according to plan. The problems led to British requests for even more Danish support, but Colonel Lissner was in no position to help as he only had a home guard platoon and quick reaction platoon left holding the ring in the Danish area of operations. The fact that the 19 Light Brigade had decided to close FOB Gibraltar to free more British troops for *Operation Panchai Palang* did not help matters. The closure of the FOB gave the Taliban greater freedom of manoeuvre in the area, which they exploited to increase their pressure on the remaining FOBs in this part of the Green Zone.

By the time the Danish troops returned to the Green Zone from *Panchai Palang*, their hold of the Green Zone had deteriorated further. As a major last attempt to regain influence in the Green Zone and to prepare for Team 8 arriving in August 2009, fifty to sixty Danish Special Forces were sent into the area. Officially the Jaeger Corps had been deployed to support the upcoming presidential election (20 August 2009), but instead it ended up supporting operations out of FOB Budwan in an attempt to regain some of the influence lost in the Green Zone. Although they reportedly killed and wounded some forty to seventy insurgents during their operations, nothing sustainable was gained from the engagement.<sup>51</sup>

Team 8 arrived in Helmand equipped with a plan to consolidate the remaining Danish foothold in the Green Zone. The Danish staff had been training with 11 Light Brigade in the UK, and they had learned that this

Brigade – which was to arrive in Helmand Province in October 2009, just two months after Team 8 – had been inspired strongly by the US lessons from eastern Afghanistan. 11 Light Brigade consequently saw the use of bases as the key to a successful COIN strategy, and their plan for the Danish part of the Green Zone envisaged the construction of new lines of patrol bases manned by both Danish and Afghan forces in order to secure Gereshk. The bases were to be built close enough that they would be able to support each other.

However, 19 Light Brigade, which was already in theatre when Team 8 arrived in August, was still pushing for a major effort in the Babaji area. Upon his arrival, the Danish Battle Group Commander, Colonel Kjær, found to his surprise that the British 19 Light Brigade wanted to determine how many of his units were to be allocated for the operations in Babaji south of Gereshk. The Danish Battle Group was to have its main efforts in that area and not in the Green Zone northeast of Gereshk as with previous teams, and the British wanted the Danes to report extensively on several matters to the Brigade. It was also very specific in its demands, wanting to micromanage its use of the Danish units. After several arguments with the British Brigade, Colonel Kjær decided to devote his light reconnaissance squadron to the task, leaving most of the Green Zone to the mechanised infantry company stationed in FOB Budwan. As a consequence, the Danish hold of the terrain around FOB Budwan and FOB Zumbelay was de facto lost.

While the arrival of 11 Light Brigade in October led to a reduction in the Danish involvement in ‘out of area’ operations, this Brigade’s plan for new patrol bases situated closer to each other created another challenge. The Danish Battle Group did not have enough troops to implement this plan and proposed closing FOB Budwan to enable it to concentrate its troops in a more confined area closer to Gereshk. However, the plan to close FOB Budwan was rejected following a variety of objections from Copenhagen, the British Brigade and the higher level Regional Command South,<sup>52</sup> forcing the Danish Battle Group to spread its forces thinner than it would have preferred.<sup>53</sup> In keeping with the new British plan, the Danish Battle Group spent the remainder of its tour launching several operations in the Green Zone to regain control of the area and establish new bases. These efforts culminated in January 2010 when the Battle Group carried out *Operation Tufaan Feschar II* aimed at re-establishing control in the areas of FOB Budwan, FOB Rahim and FOB Khar Nikar. The area surrounding FOB Budwan was cleared of Improvised Explosive Devices

(IEDs) by British and Danish engineer units, and Patrol Base Bahardur was established to fill the gap in the line between FOB Rahim and FOB Khar Nikar across the Helmand river (see map 3). As in all the other instances when the Danish Battle Group had completed major operations in the Green Zone, they experienced some very positive initial gains, regaining their freedom of manoeuvre, pleasing the local population because the Taliban had disappeared and experiencing a minimum number of hostile incidents. However, this progress only lasted for a few months.

The ability of Team 9 (February-August 2010) to hold the gains achieved by Team 8 was undermined by the unexpected departure of the Afghan police units manning the patrol base line north-east of Gereshk. A longer struggle with the British Brigade and Afghan police had led to this situation. In February 2010 the Afghan police in Gereshk reported to the Danish Battle Group that they had been ordered to participate in an eight-week training course in the neighbouring province of Kandahar. The approximately 240 police officers were to be replaced by the better equipped and trained Afghan Civil Order Police (ANCOP). However, they would only be bringing some 180 police officers into the area. This implied that some of the more than thirty police posts in and around the city either had to be closed or manned by Danish units.

Negotiations went on for two to three weeks, with British, Danish and Afghan officers travelling round the city to decide which posts to decommission and which the ANCOP were to occupy. While agreement was reached to shut a third of the police posts down, no solution was found to the manning of the patrol base line. The Danish Battle Group did not want to take over the task, since it would pin down its best armed and most manoeuvrable mechanised infantry company in the four patrol bases. Members of the Danish staff had a clear view of the ANCOP and knew that it would not man the base line when the regular police units departed.<sup>54</sup> Nonetheless no solution was found.

Several days prior to the police's departure from the base line, the Battle Group decided to deploy a mechanised infantry platoon to the two most northerly bases – Clifton and Britzar – to monitor the situation. This, it could be argued, sent a signal to the Afghan police that the Danes would solve the problem of manning the entire base line. The Danes reported to the British 11 Light Brigade that they had units in two of the four posts, but that they did not intend to man the last two. One morning in early March at 06.00 hours, the Danish guard at patrol base Britzar reported to the Battle Group that civilians were looting the two other bases

of Spondon and Malvern, indicating that the Afghan police had left the area. The locals were stealing everything of value, including even the gates to the bases. Within days the British commander of 11 Light Brigade ordered the Danish Battle Group to retake the two 'lost' bases. The Danish commander fought the decision but eventually had to obey.

Although the Battle Group launched an operation to this end shortly afterwards, the area around the two patrol bases had already been plastered with IEDs. The operation eventually led to the retaking of Malvern, but Patrol Base Spondon was not reoccupied until July. The situation in the area remained fragile, and when Team 9 rotated back home in August 2010, it had earned the dubious honour of being the team in which most Danish soldiers have been wounded, primarily due to patrol base line duties.<sup>55</sup>

The Battle Group launched several operations during its tour to improve the living conditions of the soldiers there, improve security, improve logistics and improve relations with the locals. In early July, one month prior to the arrival of Team 10, the Battle Group launched its largest operation in the area of the patrol base line. During the operation Patrol Base Spondon was retaken and reopened, Patrol Base Malvern moved to a better position, the lines of communication between the four bases improved, and large areas of farmland cleared to improve the line of sight from the bases.

On the periphery of this development, the troops at FOB Budwan were losing their last hold over the area. The company at the FOB had on several occasions 'lent out' a platoon during leave periods to patrol base line duties. This meant that the level of patrol activity in the area of FOB Budwan was reduced to a minimum. In May 2010 the company commander reported that he was only able to move some 500-2000 meters from the FOB before having contact with insurgents.<sup>56</sup> Apart from this, by this time some 38 of his soldiers had been wounded within the first three months of their tour. This meant that the operational capacity of the company was now minimal. In the last one to two months of Team 9's tour of duty, virtually no patrols were conducted from either FOB Budwan or the patrol base line.

While Danish officers generally describe their overall relationship with the British during this phase as good, it is clear that they were strained at times as a result of the increased British use of the Danish units 'out of area'. Since this usage had negative consequences for the security situation in the Danish area of operations, it is hardly surprising that it gave rise



to disagreements concerning operational priorities. Even so none of the officers we have interviewed felt that the British overstepped the line and misused the Danish contingents. None felt that they had been forced to accept something that they considered professionally unsound or out of line with the broad national directives they had been given prior to deployment. What is clear, however, is that the establishment of a Danish area of operations did not prevent the British brigades using the Danish contingents as they saw fit. Having an area of operations did not provide Danish commanders with much leverage in their disagreements with the British brigade commanders concerning operational priorities.

## Phase 5: Retreat to Victory: Abandoning the Green Zone (Team 10, August 2010-February 2011)

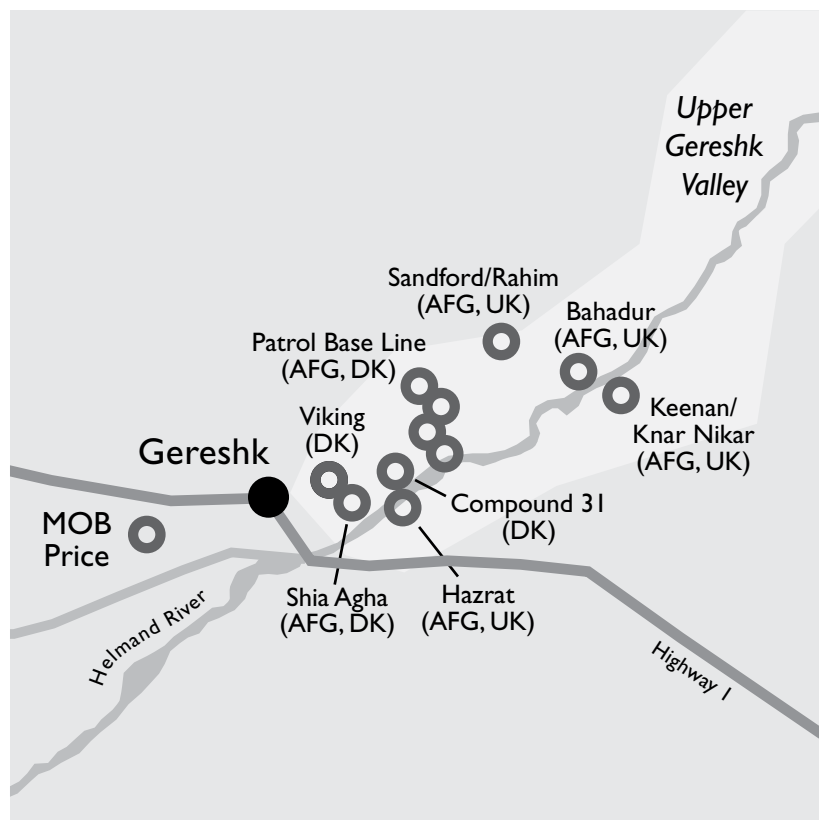
The arrival of 20,000 American soldiers in Helmand in the spring of 2010 completely changed the strategic context. The lack of resources that had overstretched the British and Danish forces, compelling them to attempt to clear and hold larger areas than they were capable of doing, were eased as the British Task Force transferred responsibility to the American forces for the areas around Musa Qaleh, Kajaki and Sangin in March, June and September 2010 respectively.<sup>57</sup> This allowed the British to focus on consolidating their hold of the area between Lashkar Gah and Gereshk and significantly reduced their need to use Danish forces out of area. In addition, the shift in the strategic focus from combat to training and partnering with the Afghan security forces following COMISAF's Strategic Assessment in 2009 also proved beneficial from the Danish perspective, as it led to an increase in the number of ANA soldiers in the Danish area of operations.

The latter development was the result of six months of difficult negotiations between Copenhagen, London and Washington. Since the United States and the United Kingdom also wanted Afghan units to train and eventually hand over responsibility to, it had not been easy to secure an ANA battalion for the Danish Battle Group to train and partner with. The Danish negotiators got their way in the end, however,<sup>58</sup> and the shift from combat to partnering in the Danish pattern of operations was heralded by the publication of the *Danish Helmand Plan 2010* in April 2010.<sup>59</sup>

When Team 10 arrived in theatre in August, some 1500 Afghan sol-

diers and around 300 Afghan police were stationed in the Danish area of operations. To free resources for the new partnering mission, the Team 10 commander, Colonel Fredskov, revived Team 8's old proposal to concentrate the Danish forces closer to Gereshk. He consequently proposed to establish a new ring of bases closer to Gereshk and to close FOB Zumbelay and FOB Budwan. The British Task Force (4 Mechanised Brigade and later 16 Air Assault Brigade) were reluctant to close these bases, but since the Americans who were taking over responsibility for the northern areas had no need for FOB Budwan, Colonel Fredskov prevailed in the end.

FOBs Zumbelay and Budwan were closed in October 2010 and January 2011 respectively, and the Deh Adam Kahn (DAK) area, located between Gereshk and the patrol base line, became the Battle Group's principal operational focus. The Battle Group saw this as a threat to consolidating the positive developments in Gereshk, and a plan for taking control of the



Map 3. Bases in the Danish area of operations in central Helmand as of February 2011

area was developed in close dialogue with the local Afghan authorities and security forces. In early October a Danish mechanised infantry company entered the area together with Afghan and British soldiers. In the first several weeks of operations fighting was seen on an almost daily basis, but as the international and national forces established their hold on the area a more positive atmosphere developed. In January 2011, after a large *shura* in the area, the new Patrol Base of Shia Agha, manned by Danish and Afghan soldiers, was opened. In the following months two additional bases – Compound 31 and Patrol Base Viking – were also established in the DAK area (see map 3).

The arrival of American forces and the increased emphasis on Afghan capacity building enabled the British and Danish forces in Helmand to move from ‘clear’ to ‘hold’ and ‘train’, thus setting the scene for the partnering missions that will become the main focus of ISAF’s efforts through to 2014, when the Afghan security forces are scheduled to assume responsibility for their country’s security. The problems of overstretch that had plagued the British Task Force since its deployment in 2006 were significantly reduced, and this naturally eased the tension between the British and Danish forces that had surfaced in the previous operational phase. Against this background, it is hardly surprising that Danish officers generally describe their relationship with the British as good, citing only minor problems related to cumbersome staff procedures, attempts at micromanagement and problems caused by the lack of synchronisation between the British and Danish rotations.<sup>60</sup>

## Lessons Learned: Implications for the Future

Denmark wanted to make a military difference when it committed troops to Helmand in 2006. It deliberately chose a dangerous assignment in order to signal its commitment to NATO and the United States. Since making a difference in a war zone with less than 300 personnel is impossible without support, Denmark teamed up with Britain in the hope that this partnership with a great power would enable it to punch above its weight. The Danish government boldly made its contingent available to Britain without caveats in order to enhance its military effectiveness and to maximise goodwill in Britain and NATO.

In doing so, Denmark had to trust Britain not to abuse the Danish

contingents as cannon fodder, and as this analysis shows, the British partner proved worthy of this trust. Danish commanders and officers generally agree that cooperation with the British has been good and that they have not been given tasks that they were not trained for. Nothing suggests that British commanders have given Danish contingents assignments that they have not given to their own units too. Relations between the staffs of the British Task Force and the Danish Battle Groups were not always smooth, and criticisms of British Task Force staffs for 'British arrogance' and unwillingness to accept plans from a subordinate battle group have been a recurring theme in our interviews, but these problems never got out of hand.

Somewhat surprisingly, the establishment of a Danish area of operations in 2007 did not result in a higher degree of operational independence from the British. The decision to increase the Danish contingent to battle group strength (750 personnel) seems in part to have been influenced by a desire for more operational independence,<sup>61</sup> and this clearly failed. The British Task force repeatedly overruled objections from Danish commanders during phase 4 (August 2008-August 2010) that 'out of area' operations would have adverse consequences for security in the Danish area of operations, and it also rejected Danish attempts to move patrol bases within the Danish area.

The British insistence on using Danish units out of area was to a large extent driven by a lack of resources. The British Task Force never had the military and civilian resources that were required for the implementation of its clear-hold-build strategy. Prior to the influx of American forces in Helmand in 2010, the British commanders repeatedly tried to clear more territory than they were capable of holding, and they never came close to mobilising the resources necessary for the build phase. While this mismatch between resources and objectives was in part forced upon the British commanders by the Afghanistan authorities and their own government, the same mismatch is visible in Iraq, where the British (and Danish) troops lacked the resources to pacify the Basra area.<sup>62</sup>

In view of the budget cuts that the British armed forces are currently facing, it seems safe to conclude that Denmark's preferred comrade in arms will continue to lack the resources necessary to conduct large-scale military operations for a sustained period of time. It follows that resource constraints are likely to continue to force British commanders to use Danish units outside their area of operations and limit their ability to support Danish units with scarce assets such as tactical lift in future joint operations.

Since the Danish armed forces are also in for major budget cuts,<sup>63</sup> larger Danish contributions do not appear to be a realistic way to remedy this problem. Instead, the question that this analysis raises is whether Denmark should 'go low' on future operations in this context and refrain from accepting the de facto operational responsibility in its 'own area'. Needless to say, such decisions will have to be made on a case by case basis and also take other considerations into account, but the Afghanistan experience shows that more national lead is not necessarily better.

# Appendix

Battle Group / Battalion	Period	Team
3 Reconnaissance Battalion / Guard Hussars	May 2006 – October 2006	Valdemar 1
3 Reconnaissance Battalion / Guard Hussars	October 2006 – February 2006	Valdemar 2
1 Battalion / Jutland Dragoons	February 2007 – August 2007	Valdemar 3
1 Battalion / Royal Life Guards	August 2007 – February 2008	Valdemar 4
1 Battalion / Guard Hussars	February 2008 – August 2008	Valdemar 5
1 Battalion / Jutland Dragoons	August 2008 – February 2009	Valdemar 6
Composite Battle Group	February 2009 – August 2009	Valdemar 7
3 Reconnaissance Battalion / Guard Hussars	August 2009 – February 2010	Valdemar 8
1 Battalion / Royal Life Guards	February 2010 – August 2010	Valdemar 9
2 Battalion / Royal Life Guards	August 2010 – February 2011	Valdemar 10

Table 1. *The Danish Battle Groups in Helmand Province*

Task Force/Brigade	Period	Team
16 Air Assault Brigade	April 2006 – October 2006	Herrick 4
3 Commando Brigade	October 2006 – April 2007	Herrick 5
12 Mechanized Brigade	April 2007 – October 2007	Herrick 6
52 Infantry Brigade	October 2007 – April 2008	Herrick 7
16 Air Assault Brigade	April 2008 – October 2008	Herrick 8
3 Commando Brigade	October 2008 – April 2009	Herrick 9
19 Light Brigade	April 2009 – October 2009	Herrick 10
11 Light Brigade	October 2009 – April 2010	Herrick 11
4 Mechanized Brigade	April 2010 – October 2010	Herrick 12
16 Air Assault Brigade	October 2010 – April 2011	Herrick 13

Table 2. *The British Brigades in Helmand Province*

# Notes

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2. Peter Viggo Jakobsen, Ph.D., is an Associate Professor at the Department of Political Science, University of Copenhagen. Peter Dahl Thruelsen, Ph.D, is a Research Fellow at the Royal Danish Defence College. The editors wish to thank Jens Ringsmose, lecturer at the University of Southern Denmark, for reviewing a previous draft of the present article.
3. Mathiesen, 2008: 7.
4. Cited in Nielsen, 2007.
5. For lists of the Danish teams and the British brigades please see the Appendix
6. Ministry of Foreign Affairs and Ministry of Defence, 2011: 3-4.
7. George, 1979.
8. Farrell, 2010: 784.
9. Pritchard and Smith, 2010: 68.
10. King, 2010: 314; Prichard and Smith, 2010: 68, 70-71.
11. Farrell and Gordon, 2009: 20.
12. King, 2010: 315.
13. Interview with Major Lars Ulslev Johannesen, 3 May 2011.
14. Johannesen, 2008: 70-3.
15. Johannesen, 2008: 188, 206.
16. Thruelsen, 2007.
17. DANCON/RC(S)ISAF, 2006: 3, 11.
18. Interview with Lars Ulslev Johannesen 3 May 2011.
19. Rasmussen, 2011: 29-32.
20. The Danish contingents were allowed to detain persons temporarily and to hand them over to the British or the Afghan authorities for interrogations. Since temporary detentions involved a lot of paper work (on Team 3 the detainment of 4 persons for 2 days produced 130 pages of documentation) (DANCON/RC(S)ISAF 2007: bilag 1: 5), the Danish contingents generally shied away from detaining suspects, instead leaving the Afghans or British troops to make arrests and do interrogations (Aagaard, 2009; Brøndum, 2008; Krogh, 2010).
21. Farrell, 2010: 576.
22. Also referred to as Mobile Outreach Groups.
23. Mathiesen, 2008: 11.
24. Mathiesen, 2008: 17.
25. Farrell, 2010: 577.
26. DANCON/RC(S)ISAF, 2007: 9.
27. Conversations in April, 2007 with Danish and British soldiers who had participated in the operation.
28. DANCON/RC(S)ISAF, 2007: 9.
29. DANCON/RC(S)ISAF, 2007: 5.
30. Grey, 2008.
31. Farrell, 2010: 577.
32. Hundevad, 2008: 93-4; Rasmussen 2011: 62-3.
33. Hundevad, 2008: 17.
34. Ibid. 101-3.
35. Ibid. 241-4.

36. Telephone conversation with chief of operations of Team 6, January 2010; Udenrigsministeriet and Forsvarsministeriet, 2009: 13.
37. FOB Gibraltar was established in November 2007 when FOB Arnhem was moved from the desert into the Green Zone.
38. Interview with Captain Peter Seemholt, platoon commander of the mechanised infantry company on Team 4, January 2010.
39. Farrell, 2010: 581-2.
40. Thruelsen, 2008: 20.
41. Telephone conversation with Danish staff officer of Team 5, January 2010.
42. The seven strands were: politics and reconciliation, governance, rule of law (justice, police and prisons), security (military), economic development and reconstruction, counter-narcotics and communications.
43. Interviews conducted with the commander, deputy commander and stabilisation advisor of the Danish Battle Group in April 2008.
44. Thruelsen, 2008: 32.
45. Ibid. 29.
46. Rasmussen, 2011: 77-8, 85-6.
47. Thruelsen, 2008: 36.
48. Interviews with staff officers serving on Teams 4-5, May 2011.
49. Land Warfare Centre, 2009; The US Army and Marine Corps, 2007.
50. Kromann, 2009.
51. TV2, 2010.
52. Interview with high level staff officer from Team 8, 3 May 2011.
53. FOB Budwan was eventually closed in January 2011, some seventeen months later, as the big influx of US troops made it less important.
54. Interview with Danish Staff officer, 7 April 2011.
55. Around 80 soldiers were wounded on team 9.
56. Talks with the company commander at FOB Budwan May 2010.
57. House of Commons Defence Select Committee, 2010: 78.
58. Rasmussen, 2011: 111-13, 121-2.
59. Ministry of Foreign Affairs and Ministry of Defence, 2010.
60. Interviews with Team 10 officers, May 2011.
61. Rasmussen, 2011: 31-2.
62. King, 2010.
63. The economic plans presented by the government and the main opposition parties (the Social Democrats and the Socialist People's Party) in the run-up to the 2011 general election both proposed an annual two-billion DKK cut in the defence budget from 2015 onwards (A og SF, 2011: 55; Regeringen, 2011: 15).



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# New Financial Regulation in Denmark after the Crisis – or the Politics of Not *Really* Doing Anything<sup>1</sup>

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## Introduction

Since the financial crisis, Danish policy-makers have not been idle. As a response to the mismanagement and lax credit policies of Danish banks, which have led to a long list of destitute banks being wound up, the government has put its faith in the Danish Financial Supervisory Authority (Finanstilsynet, from hereon the FSA) to limit overly risky behaviour on the part of the banks in a future upturn. The new weapons consist of a significantly strengthened mandate to dismiss managers and board members who do not live up to ‘fit and proper’-standards; the power to order financial institutions to commission an investigation by an external actor paid for by the financial institution being scrutinized; and a mandate to intervene in troubled financial institutions at an earlier stage than was previously possible based on supervision and criticism of financial institutions’ business models. On the other hand, the government has kept from going it alone in the area of capital standards, having a strong conviction instead that Denmark should follow international standards. While waiting for the international initiatives to find its way through the European Union into Danish regulations, the government has focused its energy on beefing up the FSA. The result is a change of focus in the latter, from making sure that financial institutions follow the law to more proactively alleviating the effects of an inherently unstable financial system and fencing in the banks to adhere to a clearer norm of legitimate banking. However, recent scandals, notably the case of Amagerbanken, show the difficulty the FSA has in living up to its new proactive role.

The following four sections describe, analyse and evaluate the new regulatory instruments that have been implemented in Denmark since the financial crisis. The next section provides a short overview of the crisis as it affected Denmark, after which the new supervisory approach of the Danish FSA is analysed in greater detail. Section three provides some explanations for why these policies were chosen. The concluding section argues that, although the political system has churned out a large number of laws, for political reasons the government has been unwilling to change the policies that had most impact in exacerbating the crisis, namely the liberalised loan market and the tax relieves given to home-owners. In other words, the strengthened mandate of the Danish FSA does little to prepare Denmark for a future international financial crisis.

## The Financial Crisis in Denmark

Financial markets in Denmark were strongly affected by the global financial crisis that materialised when Freddie Mac and Fannie Mae were taken over by the American government on 7 September 2008 and Lehmann Brothers filed for bankruptcy on 15 September 2008. Markets reacted with shock to the fall of Lehmann Brothers, leading to the freezing up of international and domestic money markets, in turn making it increasingly difficult and costly for banks to find funds for their day-to-day business. Already before September, starting in the summer of 2007, Danish banks had experienced difficulties in raising liquidity on the money market.<sup>3</sup> Due to their aggressive lending policy and comprehensive involvement in the building sector, some small and midsize banks had experienced difficulties in raising sufficient capital when asset prices started falling in 2007. Most prominent was the case of Roskilde Bank, at that point the eighth largest bank in Denmark, where an overly risky business model with large exposure to the stagnating building sector led to insolvency, and in the summer of 2008 the National Bank put the bank up for sale even before the financial crisis had really taken off. Another problem was the large-scale involvement of Denmark's biggest bank, Danske Bank, in the Irish and Baltic markets, which made investors unsure what was actually on the bank's balance sheets and how it would be affected by an imminent devaluation of its Baltic assets. More generally, between 2005 and 2008 Danish banks had built up an enormous deposit deficit – to a significant degree financed through loans from the international money market –

which reached the exceptionally high level of DKK 624 billion at its peak in 2008. The severity of the crisis is illustrated by the head of Danske Bank and president of the Danish Bankers Association, Peter Straarup, confessing that had the Danish state not stepped in to guarantee all deposits in October 2008, Danske Bank and a large number of other banks would have collapsed very quickly.<sup>4</sup> It did not help the Danish banks that the downturn in the economy was relatively harder in Denmark, that is, the Danish economy was already overheated through an explosion in housing prices from 2005-2007, with real GNP in Denmark falling dramatically compared to, for example, the USA.<sup>5</sup>

As in other Western countries, when the financial crisis hit, the measures taken by the Danish state were focused on two overall challenges: Sustaining financial stability, that is, keeping the financial system afloat; and keeping the financial crisis from causing too much turmoil in the real economy. Regarding the latter challenge, the preferred policy choice was a mixture of expansionary monetary and fiscal policy. On the monetary front, the central bank more or less floored the lending rate to boost consumption and production, bringing the rate down from 4.6 per cent to 1.05 per cent in little over half a year. The expansionary monetary policy was complemented by expansionary fiscal policies, where the net effect on the fiscal balance of the fiscal packages of 2008-2010 was -3.3, putting Denmark on par with Sweden (-3.3 per cent) and the weighted OECD average of -3.9 per cent, but still far behind Ireland's 8.3 per cent.<sup>6</sup>

A range of temporary measures were taken by the central bank to provide liquidity and credibility to the Danish financial system, such as creating temporary credit facilities, offering an expansion of the collateral base, and creating an option to obtain credit on the basis of excess capital adequacy. However, these facilities were not used to any great extent by the Danish banks. More important were the two bailout bank packages (popularly called Bankpakke I and II). The first bank package, presented on 5 October 2008, issued a two-year state guarantee of all deposits (exclusive of covered bonds, i.e. SDOs, SDROs and mortgage credit bonds). A considerable portion of the guarantee, a maximum of DKK 35 billion, was financed by the banking sector, and expenses beyond this would be paid by the state.<sup>7</sup> With Bankpakke I the state thus issued guarantees of DKK 4,200 billion in deposits. On 18 January 2009 the government and opposition agreed on the second bank package (Bankpakke II, 'the credit package'), the aim of which was to create the necessary conditions to boost lending by injecting state capital contributions into Danish credit institu-

tions experiencing difficulties raising the necessary capital to stay solvent. In monetary terms this was indeed a significant measure: If all credit institutions made use of the scheme, the state would end up injecting around DKK 100 billion into the sector.<sup>8</sup> With the credit package, the government also introduced an extension of the state guarantee – which expired on 30 September 2010 – making it possible for solvent financial institutions to apply for an individual guarantee for loans with a maturity of up to three years (until 2013). As of June 2010, 63 institutions had been approved for individual government guarantees totalling DKK 364 billion.<sup>9</sup>

Finally, in October 2010 the government introduced Bankpakke III. As well as doubling the deposit guarantee from €50,000 to €100,000, the aim of the policy is to provide a programme for an orderly process to wind up destitute banks,<sup>10</sup> and it is thus not a programme for the *continuation* of destitute banks. Put simply, the destitute bank is placed under the authority of the state liquidation company, Finansiell Stabilitet (Financial Stability), which oversees the winding up of the bank. Customers with less than €100,000 in deposits would receive their money back, whereas customers with more than €100,000 in deposits would have to wait for the estate to be settled. Shareholders will in all likelihood have lost their investment and bondholders will be forced to take losses. Note that Denmark stands alone among its European peers by letting depositors and creditors lose money following bankruptcy in banks.

Bankpakke III had its first big test in relation to the winding-up of Amagerbanken in February 2011. In the fall of 2008 the chairman of the board of Amagerbanken, N. E. Nielsen, declared that the bank's finances were 'as fit as a fiddle', but through 2009 and 2010 severe devaluations of loans were made, making it necessary for the bank to seek a guarantee from the state. The guarantee was given based on the ability of the bank to raise an additional DKK 878 million and the FSA's assessment that future devaluations were expected to be relatively limited. However, in February 2011 the board of directors of the bank, now headed by representatives of Finansiell Stabilitet, devalued a total of DKK 3.144 billion in loans for the fourth quarter, and the bank was put under the authority of Finansiell Stabilitet and wound up. This set off a harsh debate about the usefulness of Bankpakke III. Critics claimed that it was a far too drastic step to use it in this case, since it was expected to leave tax-payers with a bill of seven billion DKK. Instead, in this view, a sale of the bank should have been forced through, possibly with an amount of dowry, or alternatively the state should have invested in the bank with the aim of selling it on later.

Thus, in the somewhat polemic voice of a finance professor, the choice to let Amagerbanken go bankrupt and let tax-payers pay around DKK 7 billion for it is by far the biggest scandal concerning state finances in Danish history.<sup>11</sup> Another problem with Bankpakke III was that the bankruptcy made international creditors uneasy about the state of the Danish financial sector. Thus, much to the frustration of other Danish banks, the winding-up of Amagerbanken led to a downgrading of the creditworthiness of a number of Danish banks by the credit-rating institution, Moody's. The reason was that Moody's had not expected the government actually to use Bankpakke III and make Denmark the first country on the European continent to let depositors and creditors lose their money.

The policy measures described above were broadly aimed at keeping the Danish financial systems afloat and alleviating the harshest consequences for the real economy. In this the Danish case resembles the responses of other Western nations. As Tsingou<sup>12</sup> argues, generally the first type of response to the financial crisis from Western governments was to take a case-by-case approach to the predicaments of individual financial institutions (e.g. Northern Rock in the UK, or the Fed-supported buy-out of Bear Stearns by JP Morgan Chase in the US), while the second type of response took place in a systemic context, with central banks injecting liquidity and capital, and governments orchestrating bail-outs and take-overs. The Danish case fits this trajectory.

## A New Approach to Financial Supervision

So far the government has focused its efforts on beefing up the Danish FSA. The changes in financial supervision have occurred at both the institutional and ideational levels, so far resulting in a more aggressive and pro-active FSA. The new supervisory approach had already been presented in November 2009, when the FSA published a new strategy (called *Supervision with an edge: Strategy 2011*) with the explicit aim of creating a new approach to financial supervision based on the lessons of the financial crisis.<sup>13</sup> The strategy anticipated the legislative changes already underway by emphasising the importance of checking the durability of the business model of financial institutions, and the systemic risk that individual institutions pose. The new approach of the FSA is based on a number of new policies implemented in 2009 and 2010 that aim at strengthening the supervisory capacity of the FSA (especially Law no. 579, 1. June 2010). The

new policies may be divided in terms of increasing control over the financial institutions, increasing the level of information in the market, and disciplining banks and enhancing consumer protection. There is a long list of new regulatory measures that have been taken following the financial crisis, varying broadly in significance and scope, and it would go beyond the theme of this paper to account for them all.<sup>14</sup> Instead the focus will be on the policies that have been particularly intended to strengthen the FSA, as well as redefine the role of the state in relation to the financial sector.

### Evaluating the Business Model of Financial Institutions

First, at the most fundamental level, the FSA now evaluates the business model of financial institutions, assessing whether the business model ‘contributes to the viability of the company’<sup>15</sup> and whether it poses a risk to general financial stability. In consequence, the FSA is now mandated to define what a sound business model is and to intervene accordingly. According to the Danish Bankers Association (DBA), the FSA thus has actual management authority over financial institutions, and the interest organisation for insurance and pension firms, *Forsikring og Pension*, has also noted that the possibility of intervention by the FSA in the interests of sustaining financial stability is now almost unlimited (Hearing statement, 2009). It may thus be argued that the law has produced a shift between shareholder interest and stakeholder interest in favour of the latter. The significance of the new law lies in the FSA’s ability to assess financial institutions at the micro-level, or to put it more popularly, to review, criticise and ultimately change central parts in the engine room of banks. An important reason for the supervision of the business model of financial institutions is, according to FSA director Ulrik Nødgaard, a wish to ‘counteract new, risky niche banks from sprouting’,<sup>16</sup> or to put it differently, to limit the ways in which banking business may legitimately be conducted in Denmark.

Concretely the review of the business model is based on the FSA’s ‘supervisory diamond’. In the experience of the FSA, Danish credit institutions that experienced turbulence in the financial crisis (as well as in earlier bank crises) shared characteristics such as strong growth in lending at the expense of credit quality, over-optimistic assessments of credit risks (especially in relation to the building sector) and too large engagements in the property market.<sup>17</sup> From this perspective, the ‘supervision diamond’ lays down five value limits: The sum of large engagements (<125 percent of base capital), growth in lending (<20 percent per year), exposure to the building industry (<25 percent of total lending) stable funding (lending / capital <1)



and >50 percent liquidity over the minimum liquidity demand. A financial institution that exceeds one or more of the value limits may now (to a greater or lesser extent) be considered to have an unsound business model. The FSA also evaluates 'softer' criteria that are not measurable through accounting figures, for example, issues of (mis-)management: 'If the FSA senses that the management is not in control of the situation or, for example, is not following the approved credit policy of the institution', this will be included in the assessment of the institution's business model.<sup>18</sup>

The aim of the supervision diamond was presented to the public as laying down value limits to shame irresponsible banks by putting them in the pillory of public opinion. The Director of the FSA, Ulrik Nødgaard, explained this as follows:

*We want to create limits to how banking can be practised. We will not manage banks ourselves, but we will employ tighter limits for how banks can be managed. [...] You could say that we are fencing in the banks. The limits we are putting up will not affect the typical bank, but will catch the financial institutions that depart from the norm.<sup>19</sup>*

The supervisory diamond will also be used to determine when the FSA should intervene. As mentioned, the FSA can in principle intervene when it deems a financial institution's business model unsound. According to the new law, the FSA must now intervene when it seems likely that a financial institution may lose its licence in the shorter or longer term, that is, without the institution necessarily violating any laws. Before the new law was implemented, there had to be a 'significant' risk that the institution would lose its licence in the shorter or longer run; now there need only be 'a not insignificant' expectation. The risk is judged against both internal and external circumstances (i.e. against the state of the financial sector as a whole). Examples of 'inner circumstances' are high growth in lending or high exposure to the building sector, that is, the limits stated in the supervision diamond.<sup>20</sup>

### **Dismissing Management with Reference to Financial Stability**

Secondly, the FSA now has a stronger mandate to dismiss management and board members. Earlier it had been a problem for the FSA that, even though in principle it had the power to fire managers and board members due to mismanagement, it was very difficult to do in practice. The reason was that the fitness of actors was judged against their ability to hold a position in the financial sector generally, and the courts were very hesitant to judge a person unfit to work in a whole sector. This meant that the ability

to fire managers and board members had never been exercised by the FSA. The new law states that the FSA can order an actor to be dismissed when the FSA finds a reason to assume that the actor will not be able to do his job satisfactorily. The eligibility of management should to a significant degree be evaluated against its risk to the financial system as a whole, and assessments of ‘fit and proper’-standards are now made continuously as part of normal inspection. Thus, if, in the course of its inspection, the FSA is made aware of overly risky behaviour or mismanagement, it must evaluate whether the management is living up to the ‘fit and proper’ standards and if necessary order the dismissal of the director or board members.

The significance of the new law is based both on the focus that is placed on financial stability as a criteria for judging management qualifications, and the discretion it gives the FSA in assessing whether a person has acted in a way that gives reason to assume that he or she will not manage the firm prudently in the future. Compared to, for example, the British FSA’s ‘fit and proper’ standards, which are confined to judging eligibility against personal attributes such as integrity, competence and financial soundness, the Danish regulation thus provides significantly more discretion to the FSA by giving a priority to considerations of general financial stability in judging management qualifications. The significance of the new law is also indicated by the fact that, between its implementation in July 2010 and February 2011, it had been used to dismiss six directors of Danish financial institutions.

### Publishing Supervisory Reports

According to a controversial executive order from the FSA, credit institutions are now obliged to publish the FSA’s risk-assessments, criticisms (*påtale*) and orders (*påbud*). Again, comparing the policy to the British regulation, its significance is evident. According to the British law, ‘Neither the Authority [i.e. the FSA] nor a person to whom a warning notice or decision notice is given or copied may publish the notice or any details concerning it’.<sup>21</sup> Compared to Norway and Sweden, the new law puts Denmark ahead of the two other Nordic countries.<sup>22</sup>

Reports on developments leading to the breakdown of a financial institution must also be released publicly. Before, reports only had to be published when the state had posed security or put means at the disposal of the institution and only on the condition that the legal entity declared bankruptcy. Following the new policy, a report is also to be published when most of the operations of the financial institution have been terminated or transferred to another legal entity<sup>23</sup>.

Taken together, these new policies serve three overall purposes: to enhance the possibility of the FSA to intervene at an earlier stage, to increase the level of information about financial institutions, and to delimit the legitimate type of banking business in the financial sector. The new law represents a marked institutional change and a reorganisation of the relationship between the state and the financial sector. By setting standards for the viability of financial institutions' business models, the state has moved closer to the engine room of such institutions and in the process strengthened the role of the FSA in financial regulation. The result is a fencing in of Danish banks and thus a clearer, and more institutionalised demarcation of what constitutes 'normal banking business'.

## Why a New Approach to Financial Supervision?

In regulatory terms, the period since the financial crisis has thus far been characterised by a haste to implement a number of laws that improve the powers of the Danish FSA in intervening in financial institutions. Why did policy-makers and officials find it necessary to act so proactively and provide the FSA with a significantly strengthened mandate for supervision? There are three central reasons, all of which are primarily domestically grounded: 1) a change of sentiment in the political system concerning banking supervision following a number of banking crises in Denmark; 2) organisational change within the Danish FSA; and 3) a divided and weakened banking sector.<sup>24</sup>

### A Change of Sentiment Regarding Banking Supervision

The Danish experience of the financial crisis played a vital role in creating the impetus for beefing up the Danish FSA. It was not so much what happened after the fall of Lehmann Brothers – the international seizing up of the interbank money markets – as what happened before the crisis really took off, namely the crises in small and midsize Danish banks, that helps explain the haste to implement the new laws. The list of banks that folded as part of the financial crisis is long, the most prominent being Roskilde Bank, EBH Bank, bankTrelleborg, Amagerbanken and Fionia Bank. Common to these banking crises were issues of mismanagement (some of it intentional, such as price manipulation in EBH Bank, but mostly due to incompetence), a, too lax credit policy, a large exposure to the building sector and the fact that the FSA had not been able to stop the crises from un-

folding. The most intensely discussed case has been the crisis in Roskilde Bank. The bank received more than forty orders from the FSA, primarily to bring down the number of risky projects that the bank was financing, only to be ignored by the now infamous and retired bank manager, Niels Valentin Hansen. The FSA has also chosen to bring fifteen individuals previously affiliated with the bank (e.g. the director, board members and an auditor) to trial for breach of fiduciary trust.<sup>25</sup>

The crises were thus not the result of new, advanced financial instruments. As the Director of the FSA, Ulrik Nødgaard, noted with reference to the banking crises of the 1990s:

*What is depressing about this is that what happened in Denmark in many ways was exactly the same as the last time: too high growth in lending, too lax credit control and too large exposure to the building sector.*<sup>26</sup>

The period after the financial crisis saw a public debate about how it was possible that no one stopped the credit craze of the 2000s, which led to a rise in the total deposit deficit in Danish banks from DKK 131 billion at the end of 2005 to a whopping DKK 624 billion just three years later, obviously increasing the vulnerability of Danish banks to the shock of September 2008. The main culprits identified so far have been the director of the National Bank, Nils Bernstein, for not sounding the alarm strongly and early enough, the banks for their greed and naive belief that the markets would never turn, the FSA for its weak supervision, and finally the government for over-heating the economy with ideologically motivated tax credits and a liberalisation of mortgage credit that fed an already booming housing market.

The many crises in both small, midsize and large banks were decisive in framing the issue in a way that generated widespread support for reform initiatives;<sup>27</sup> or more specifically, a general political mood was established that the FSA needed to be beefed up by introducing new laws enabling a significantly stricter regulatory regime. This appears from both newspaper coverage of the reform process and from interviews with public officials. In a retrospective article, the Minister of Economics and Business Affairs, Brian Mikkelsen, thus exclaimed, referring to the management of the destitute banks, that:

*This is as scandalous as it ever could be. Unimaginably incompetent. That is the lesson of these cases.*<sup>28</sup>

In an opinion piece, the opposition leader and Social Democratic chair, Helle Thorning-Schmidt, called the banks ‘irresponsible’ and a threat to national prosperity and welfare, the lesson being that ‘When the banks cannot behave themselves, then we must take the initiative’. She also notes that it would behove the banks to show more humility towards the taxpayers who have saved them from the crisis. In a similar vein, the chairman of Finansielt Stabilitet, the state-run liquidation company that has dismantled destitute banks, Henning Kruse-Petersen, says that generally he has been shocked by the business models of a lot of the now liquidated banks, stating that it ‘this looks like bungling’. After some stalling, with the retiring chair of the DBA calling the bail-out of Danish banks ‘packages, not presents’, the new chair of the DBA and director of Denmark’s largest bank, Danske Bank, Peter Straarup, also found it necessary to admit the obvious: that Danish banks carried a ‘very large part’ of the responsibility for the crisis.<sup>29</sup>

The widespread political frustration over how the banking sector managed the boom of the 2000s created the necessary room to usher in a new approach to financial supervision in Denmark. This is seen, for example, in the case of openness in financial supervision – that is, in publishing supervision reports – where a marked change of sentiment has occurred. Before the new laws were implemented, confidentiality in financial affairs was accepted by the political system to a much greater degree. The previous law on confidentiality in financial supervision was, according to a senior FSA official, greatly inspired by a report by the law professor, Jan Schans Christensen<sup>30</sup>:

*The starting point was that supervision is something that goes on behind closed doors. (...) A change of opinion has occurred since 2008: why should it not be possible to see the information that the FSA has found important? We have become more open. That is definitely a change that has happened, which the crisis has probably helped with – that there should be more openness.*<sup>31</sup>

The report by Christensen states that a regime of supervision that enables the FSA to publish the risk situations of financial institutions on a regular basis would conflict with a fundamental right to privacy, as well as pose a potential threat to financial stability. As noted in the report: ‘The duty of confidentiality on part of the FSA is, so to speak, a key pillar in the chosen legislative construction’.<sup>32</sup> The new policy of publishing all supervision reports by the FSA obviously represents a significant break with this ap-

proach. According to the senior FSA official mentioned above, the new legislation generally constitutes a change of attitude towards financial supervision and regulation, while a senior official in the Ministry of Economic and Business Affairs calls the new policy ‘very radical’.

This change of sentiment seems to have occurred most strongly at the political level. At times the political parties behind the laws thus wanted to go even further than the models envisaged by the FSA. Again the law about publicising supervision reports is an interesting case in point. Originally the law was planned to be less radical – bringing the Danish system in line with the Norwegian and Swedish systems – and so the FSA worked out a less intrusive law, where, for example, supervision reports were not subject to mandatory publishing. However, the political parties behind the law wanted as much openness as possible, and thus insisted that all reports must be published.

This change in sentiment also appears from the new regulation that mandates the FSA to review financial institutions’ business models. As one senior FSA official said,

*the opinion has previously been that the FSA must check that the rules are followed, but they should not have responsibility for the business. It is a change in approach, when we are supposed to review the business model. That is a political demand. (Interview with senior FSA official)*

A further consideration central to the crafting of the new regulation as well as in the clean-up after the financial crisis is that powerful actors in the political system, civil service and the larger banks appear to want a ‘consolidation’ of the Danish banking sector, that is, fewer banks. Thus, in interviews, officials at the FSA and the Ministry of Economic and Business Affairs noted that the new regulation will lead to ‘less innovation’ and put smaller banks under pressure because of the growing administrative burden. It comes as no surprise that this is not the official agenda of the government, but newspaper reports have speculated that, following the financial crisis, the government has sought to limit the number of Danish banks. As the business editor of the Danish paper *Politiken*, Niels Lunde puts it: ‘When the state’s company, Finansiell Stabilitet, stretches a safety net under a bank in crisis, it is not to save the bank, but rather to put it up for sale’.<sup>33</sup> Because of the urban-rural divide in Danish politics, it is politically controversial to propose that small local banks should be closed down, so this aim is not stated officially. However, the board of the state-

run liquidation company, Finansiell Stabilitet, has made it very clear that, after the tidying up of the banking sector, ‘there will be significantly fewer credit institutions (...) We probably also have way too many’, calling the current number of banks ‘grotesque’.<sup>34</sup> The Director of the National Bank, Nils Bernstein, as well as the FSA Director, Ulrik Nødgaard, also expect fewer Danish banks in the future.<sup>35</sup> Thus, in January 2011, Ulrik Nødgaard even went so far as to openly encourage the financial sector to consolidate, engaging the Danish Bankers Association, which thought it unheard of that such assessments could be made beyond the private dialogue between individual financial institutions and the Danish FSA.<sup>36</sup>

Taken together, then, it was not difficult for the government and opposition to establish a discourse of crisis<sup>37</sup>: the crisis was global in scope and recognised by everyone, including in Denmark, where a number of banking crises had achieved considerable public attention and prompted public outrage. It is generally acknowledged that the government also played a role in the crisis by ‘overheating’ the economy, primarily with untimely tax breaks and a reluctance to increase property taxes<sup>38</sup>, and the crisis-ridden banking sector showed itself to be a useful scapegoat<sup>39</sup>. The crisis thus created a window of opportunity to establish a new and more aggressive supervision of Danish banks.

### Organisational Change in the FSA

Another important reason for the strengthening of the FSA is a change in its management, where the three directors – two vice-directors and one director – have been replaced. In 2009 the then finance director (*finansdirektor*) in The Ministry of Economic and Business Affairs, Ulrik Nødgaard, who played a central role in the crafting of the two bank packages, was appointed the new director of the FSA. With this change, a change of approach to supervision also followed. Under the former director, Henrik Bjerre-Nielsen, supervision was conducted with a close eye on the law, making sure the FSA did not move out of its judicial constraints. This in turn contrasted with the approach of Eigil Mølgaard, who preceded Henrik Bjerre-Nielsen. According to one FSA official, during Mølgaard’s directorship, the FSA pushed its judicial mandate as far as possible with the aim of supervising aggressively. This led to numerous law suits against the FSA, which, without the necessary judicial mandate, incurred liability for damages. This was also subject to an expert group report.<sup>40</sup> Bjerre-Nielsen’s more restrained or, in the words of a senior official, risk-averse approach of was thus a reaction to the problems connected with conducting

an aggressive supervision without the necessary legal mandate. As Bjerre-Nielsen put it in a retrospective interview:

*My starting point was that it was the management – not the FSA – that should run the banks. The FSA should intervene if the rules were violated.<sup>41</sup>*

Bjerre-Nielsen's more reactive approach has been heavily criticised following the unveiling of the impotence of the FSA in handling the Roskilde Bank crisis. Under Nødgaard's directorship, the FSA now supervises more aggressively, being backed by a new legal mandate.

As part of this process, the FSA seems to have undergone a change in its organisational culture. It has thus been noted in press reports how, following the financial crisis, the Danish FSA changed course by moving in a much more energetic and proactive direction<sup>42</sup>. It seems that so far the FSA has taken its new role of 'supervisory sheriff' to heart, as is seen from the increase in police reports and the active use of the new regulatory instruments. Thus, in a recent high-profile case, the FSA used a number of the new regulations, just a week after their implementation, against the Danish bank, Saxo Bank, which was suspected of meddling with its sales system by paying too low prices to its clients and of not taking necessary measures to avoid money laundering. That the Danish FSA has become more aggressive and open in its work is also acknowledged by Nødgaard, who says that 'We have live ammunition in the belt and we are using it proactively'<sup>43</sup>.

Finally, it has also helped the effort to create a more aggressive FSA that, after a number of years losing qualified employees to the private sector (interview with senior FSA official), the FSA budget has been boosted by a total of DKK 25 million (about 12.5 per cent of the total budget of DKK 198 million), making possible the hiring of twenty new employees. More organisational change in the Danish FSA may very well be around the corner. In the wake of the criticism levelled at the FSA following the collapse of Amagerbanken, the Director of the National Bank, Nils Bernstein, has yet again seen a window of opportunity to propose a fusion between the supervisory authority and the National Bank. Currently supervision is divided between the FSA's micro-perspective on individual financial institutions and the National Bank's macro-perspective on the financial stability of the economy as a whole, which the National Bank oversees. The idea is to strengthen financial supervision by creating a clear connection between the regulation of individual institutions and the fi-



financial stability of the system as a whole. The idea is supported by experts and the opposition, and the Minister of Economic and Business Affairs, Brian Mikkelsen, has appointed a committee to study the pros and cons of a new organisational structure, while emphasising that a choice has not yet been made.

### **A Divided and Weak Banking Sector**

How, then, have the Danish banks greeted the new, proactive approach to financial supervision? Overall responses have been mixed. On the one hand the DBA has agreed that new and better regulation is necessary. As the director of the association, Jørn Horwitz put it: 'Actually we want regulation. (...) We are pretty interested in not seeing a recurrence'.<sup>44</sup> The DBA has also demanded that directors who have mismanaged their banks be prosecuted and fined or sentenced to jail terms.<sup>45</sup> On the other hand, the organisation is sceptical as to the amount of legislation that has been passed, and the association is strongly against Denmark moving further than countries that Danish banks compete with. In the DBA's view, new regulation should be 'international and balanced' to protect the competitiveness of Danish firms. The association also finds specific laws problematic. A prominent example is the executive order that requires all supervision reports to be published. According to a joint hearing statement with the Mortgage Credit Association and the Mortgage Credit Council, the organisations 'strongly dissociate' themselves from this proposal because the law would harm Danish competitiveness and was generally far too extensive.

However, given how comprehensive the regulatory changes are, the Danish banking sector has been remarkably silent in its criticism. There are at least two reasons for this. First, the financial crisis in Denmark primarily arose due to mismanagement and lax credit policies that led to an enormous deposit deficit that became impossible to finance after the interbank money market froze. In other words, the financial crisis left the banks looking bad and also made them dependent on the help of the political system and of tax-payers. In such a situation it is difficult to complain too loudly, and a lot of actors probably felt they could do without too much political attention, which might in turn make the banks look bad to markets and customers. Secondly, the banking sector is internally divided. Generally the larger banks want a consolidation of the sector – that is, to buy out their smaller competitors – whereas smaller banks are fighting for their existence. These differences in views, though, are seldom aired pub-

licly, a rare instance being when director of one of the large banks, FIH, predicted that the number of banks would halve by the start of 2011.<sup>46</sup> No matter what the reason for the hesitancy of the Danish banks in publicly criticising the new regulations, their defensive has created a political atmosphere in which there is plenty of room to introduce new legislation.

It should be noted, however, that the reluctance on the part of the banking sector to voice strong opposition to the new laws does not mean that it was not heard in these matters. As Pedersen argues, the Danish economy is structured as a ‘negotiated economy’, with a generalized political system of negotiation, meaning that coordination between the political system and civil society is characterised by ‘a combination of institutionalized learning and organized negotiations’,<sup>47</sup> with adjustments to international challenges being an everyday feature of the system. This description of the background against which policy is created corresponds well to the process behind the crafting of a new supervisory approach in Denmark. As a senior official in the Ministry of Economic and Business Affairs pointed out, the banking sector was in many cases heard – often on a more informal level – in these matters even before the proposal for a new law was formulated. That the financial sector plays an important role in negotiations over new policy proposals is also based on the inability of the sector to choose exit as an option on account of the long history of institutionalized class cooperation in the Danish polity.<sup>48</sup> Thus, the more or less radical nature of the laws primarily stems from political frustration and a sense of the necessity of doing something, rather than a disregard of the interests of the banking sector.

## Conclusion: The Politics of Doing Something Without Really Doing Anything

In Denmark, a long list of new financial regulations has been implemented in wake of the financial crisis. In the hope of avoiding a crisis of similar proportions as that experienced in the fall of 2008, the bulk of the new laws seek to strengthen the FSA in disciplining Danish financial institutions. We may conclude by asking: Has enough been done? It is clearly too early to give any final answer, but an obvious starting point for a tentative answer is to revisit the main causes of the crisis. These were, in brief, too lax credit policies that led to an unsustainable level of deposit deficit in the banks, a boom in house prices and an over-expansive fiscal policy. As

should be clear from the above analysis, the new laws leave the two last problems untouched and only deal with the first to some degree.

First, the government could have chosen to do more to control the lending practices of the banks, not by increasing state interference with their concrete lending policies, which it has done a lot, perhaps too much, to control, but rather by unilaterally increasing banks' capital requirements, following in the footsteps of countries like Norway, Ireland or Switzerland. Instead it has chosen to wait for international regulations to be agreed. On the one hand, then, the Danish government has exhibited great patience in waiting for international initiatives in the area of capital requirements, while on the other hand a long list of laws, primarily dealing with supervision of financial institutions, have been put together within a relatively short timeframe. Thus, the consultation process for the main law concerning the new approach to banking supervision was officially started on 27 November 2009 and passed into law on 1 June 2010. That is, the main parts of this relatively comprehensive change to Danish financial supervision was, at the most, put together in a period of about eleven months (from Bankpakke II from January to November 2009) and implemented already less than two years after the outbreak of the financial crisis in September 2008. Moreover, in contrast to countries like Norway and Sweden, no expert commissions have been set up and no large independent reports on the origins of the financial crisis have been written. In other words, although the Danish government has shown great haste in implementing new laws, it has been reluctant to conduct any thorough studies of the crisis and come up with a truly progressive solution to the problems experienced during its own financial crisis. The reason might be the role that the government played during the crisis, that is, the government's own policies, which merely seem to have worsened the effects of the international crisis on the Danish financial system.

The answer to the question of whether the new regulation will be enough in large part hinges on the ability of the FSA to use the weapons it has been handed effectively. Thus, the laws *might* be effective in avoiding future systemic crises, but only if the FSA has the means to put them to use. Recent events like the case of Amagerbanken suggest otherwise. Thus, in the summer of 2010 the FSA assessed that only DKK 130 million of the loans in Amagerbanken had to be written off, and then in February 2011 the bank collapsed following a devaluation of loans worth more than DKK 3 billion, which spurred widespread criticism of the FSA and speculation that it has given banks too long a leash while they were subject to the state

guarantee (Bankpakke I).<sup>49</sup> The supervisory effort of the FSA was thus deemed ‘sloppy, embarrassing and incompetent’ by experts, because it had been unable to predict the enormous devaluation of Amagerbanken’s assets. Even though the government has emphasised its increased spending on the FSA, it seems at best naïve to believe that the latter’s approximately 220 employees are able to effectively oversee the whole of the Danish financial system. In other words, an effective post-crisis regulatory regime demands more than new regulatory measures and a ten percent increase in the FSA’s budget.

As for the two other problems, the housing boom and the overheating of the economy through untimely tax reductions, the government has proved even less willing to change the pre-crisis regime. As recently argued by the National Bank,<sup>50</sup> the most important factor in explaining the housing boom of the mid-2000s was the invention and implementation of loan forms that exempted borrowers from repaying their loan for a number of years, leaving only variable interest to be paid (*afdragsfrie lån*). The success of these loans has been enormous, superseding in a matter of years traditional repayment loans as the dominant method of financing house purchases.<sup>51</sup> According to estimates by the National Bank, the increase in real housing prices from the fourth quarter of 1999 until the peak in first quarter of 2007 would have amounted to about 40 per cent if lending had not been liberalized, compared to the actual increase of 71 per cent,<sup>52</sup> and unsurprisingly a number of experts – and to some degree the National Bank – have called for their abolition. So far the government has seen no reason to phase out the new types of loans. Instead a commission has been set up to study whether banks have extended loans to customers they are not actually fit for. In other words, a decision will not be taken this side of the election.<sup>53</sup> On the matter of tax reductions for home-owners, the opposition and the government have been very clear that they have no plans to increase taxes.

Taken together, the new regulatory initiatives seem like a case of doing something without really doing anything. Out of a concern not to smother a possible looming upturn by increasing banks’ capital requirements or levying new taxes, as well as a fear that a sudden increase in expenses for home-owners will lead to a very significant loss of votes in the coming election – and perhaps a lack of willingness to admit that a number of the government’s own policies actually increased the severity of the financial crisis – the government has put its focus of reform on the FSA, equipping it with significant weapons that it nonetheless seems unable to use effec-

tively. The Danish case illustrates the fundamental problem that politics poses for financial regulation. As a report by the Warwick Commission stated: 'In the middle of a boom, it is in no one's political interests to stop it. Politicians want the boom to last until the next election'.<sup>54</sup> Now the boom is long gone, but Danish politicians are still reluctant to do anything beyond what is decided internationally. Unfortunately, if indeed the FSA and the new regulations decided on in international forums show themselves insufficient to counter the eagerness of banks to lend in the next boom period, the policy of doing something without *really* doing anything may very well turn out to be an expensive choice for the Danish state and, in the end, Danish taxpayers.

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2. Martin B. Carstensen, Ph.D., is an Assistant Professor at the Department of Political Science, Aalborg University. The editors wish to thank professor Finn Østrup at the Copenhagen Business School for reviewing a previous draft of the present article.
3. Nationalbanken, 2008.
4. Lunde, 2010a.
5. Rangvid, 2011. See Østrup (2010) for a fuller discussion of the financial crisis in Denmark.
6. OECD, 2009: 63. For a discussion of the economic crisis, which was already well under way before the financial crisis, see Goul Andersen (2011).
7. The financial sector was to inject a maximum of DKK 35 billion (equivalent of 2 per cent of GDP) into a fund. Any deficit in the fund would be financed by the state, which would also reap any profit from it. In 2009 the state expected to turn a profit from the guarantee, despite the considerable funds used to dismantle Roskilde Bank (Finansiel Stabilitet, 2009), but in 2010 Prime Minister Lars Løkke Rasmussen expected the programme to balance, meaning that the state would not profit from it.
8. When the deadline for applications from individual institutions expired on the 31 December 2009, 43 applications had been received, leading to a payout of DKK 46 billion, see [www.oem.dk]. The Danish central bank expects the government's costs for financing re-lending and capital injections into banks and mortgage-credit institutes to be offset by interest payments from the financial institutions. The interest payable on the capital injections averages 10.1 per cent, (cf. [www.nationalbanken.dk]).
9. Finansiel Stabilitet, 2010.
10. For an explanation of the programme, see [www.oem.dk].
11. Kjær, 2011.
12. Tsingou, 2010: 25.
13. The Danish FSA, 2009.
14. A range of laws have been passed. To mention some: The FSA has been mandated to order external investigations of financial institutions paid for by the institution itself; a new wage policy in the financial sector has been agreed by the opposition and government; a ban on sale of the credit institutions' own stocks through loan-financing has been implemented; risk labelling of financial products and certification of bank employees who advise consumers about high risk-financial products is expected implemented by August 2011, at which time the FSA is also expected to be mandated to administrative fining of financial institutions; finally, the Danish FSA has also started implementing a so-called 'bank bully register' that is supposed to list large clients with risky enterprises, enabling the FSA to obtain a better overview of high-risk clients. Moreover, there are now plans for increased capital requirements for banks that are deemed 'too big to fail' (Andersen, Nielsen and Nyholm, 2011). The scope of this article does not permit a discussion of all new financial regulations passed in Denmark since the crisis, but see Danish Bankers Association 2010 for an overview.
15. Danish Government, 2009a: 27.

16. The Danish FSA, 2010b.
17. The Danish FSA, 2010.
18. Answer by the Danish FSA to query by the author, 4 October 2010.
19. Bentow, 2009.
20. The Danish Government, 2009a: 31.
21. Online, HTTP: [www.legislation.gov.uk].
22. Answer from FSA official to email query from author, 7 October 2010.
23. The Danish Government, 2009b: 11-12. This has occurred with all financial institutions that have been liquidated by the state through the state-run company Finansiell Stabilitet as part of the bailout of the banking sector. The new regulation thus makes it possible to publicise accounts of how these banks got into trouble, which has been a political demand of both government and opposition.
24. The following analysis is based on interviews with officials from the Ministry of Economic and Business Affairs, the National Bank, and the Danish FSA, as well as general newspaper coverage.
25. The crisis in Roskilde Bank also led to an independent investigation of the Danish FSA, where three employees were heavily criticised for negligence and faced possible suspension from duty, whereas the then director of the FSA, Henrik Bjerre-Nielsen – now director of the state's liquidation company, Finansiell Stabilitet – was found to have acted in accordance with the rules (Aagaard, 2011). Subsequently, the report was criticised for acquitting the director (Jeppesen, 2011).
26. Aagaard, 2010b.
27. Cox, 2001.
28. Aagaard and Hansen, 2010
29. Svaneborg and Sandø, 2010.
30. Jan Schans Christensen, 1996
31. Interview with senior FSA official.
32. Christensen, 1996: 20
33. Niels Lunde, 2009a.
34. Jørn Astrup quoted from Arentoft, 2009.
35. Arentoft, 2009.
36. Sehested, 2011.
37. Hay, 2001; Cox, 2001
38. Economic Council, 2008; Goul Andersen, 2009, 2011
39. Lunde, 2009b
40. Ekspertgruppen, 2004.
41. Davidsen-Nielsen and Drachmann, 2010.
42. Aagaard and Iversen, 2010; Langsted, 2010; Kjær, 2010
43. Despite all the optimism, it should be kept in mind, though, that the Danish FSA was less than successful in assessing the books of the now wound-up Amagerbanken (cf. above). Kjær, 2010
44. Iversen and Jelbo, 2010.
45. Jeppesen and Christensen, 2010.
46. Lunde, 2010b.
47. Pedersen, 2006: 246.
48. Ibid.: 247.
49. Dyrekilde, 2011.
50. Nationalbanken, 2011.
51. Ibid.
52. Ibid.: 54
53. The next election must be held no later than November 2011.
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# Foreign Aid: What Happened to Development?<sup>1</sup>

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After fifty or so years, foreign aid faces a new challenge. For the first time criticisms of it are not merely being raised by groups in the donor countries arguing that it needs to be made more effective. It goes beyond the question of whether foreign aid should be tweaked this way or that, for example, whether technical assistance is or is not a good mechanism, or whether budget or sector support is better than project support. Nor is it merely, as was the case with structural adjustment in the 1980s, the lament of recipient governments that foreign aid hurts, or a matter of the heated ideological references to neo-colonialism and imperialism, as in the 1970s.

What is new is that the ability of aid to contribute to development in a sustainable manner is increasingly being called into question. It comes especially from African countries where foreign aid has failed to make a difference for the better and where there is now a growing awareness that there are other ways to make progress than relying on foreign aid. Today's argument is targeted on specific policy or governance issues that adversely affect aid-recipient countries. Some of it may be more political than substantive, but the international discourse on foreign aid has reached a point where many of the premises on which it rests are being called into question. Using a medical metaphor, the patient has doubts about his doctor. He no longer trusts the prescriptions that are being issued. At the same time, he has become more self-confident and ready to argue with the doctor's advice.

Policy-makers in the donor community are therefore faced with a set of issues they have not encountered before. If foreign aid doesn't really produce development, what has gone wrong? This article argues that much

of what is wrong with foreign aid is its understanding and treatment of development. Ever since governance began to define the donor agenda, development has been subsumed under a series of institutional policies and reforms in which there is an assumption of causal relationships between intervention and defect, with little if any attention being paid to underlying conditions. The result is a series of half-baked measures, stop-and-go approaches and arguments, even contestations, with the recipients. If foreign aid is going to have a life after the Millennium Development Goals and the Paris Declaration, it requires, if not a full paradigm shift, then at least some serious soul-searching that needs to be carefully planned and introduced before 2015.

In order to get its points across, this article has been written in essay form. It tries to place the present in a longer term perspective. Acknowledging its benefits and costs, the essay uses a bird's-eye rather than a frog's-eye view of things. It takes advantage of what the intellectual and political horizon offers. In the process, it may lose sight of many details that those on the ground experience as particularly important. Yet, there are occasions where being able to rise above day-to-day concerns and issues is justified in the interest of improving the overall objective of a particular enterprise. In all modesty, I suggest that, after fifty years of foreign aid and the doubts about its value that come from those countries that at present most depend on it, this is one such occasion.

The essay is divided into four parts. The first part is a review of how development was understood in the 1960s and 1970s when it was interpreted as changes at the macro-level. It is followed by an analysis of how the sense of development has been lost as focus has changed to the micro-foundations of policy choice and as development has become what donors determine it to be. The third section presents African reactions to the current architecture for administering foreign aid and shows how it fits into their view of the world as countries become more fully integrated into the global economy. The final section discusses the implications of these reactions for donors.

## When 'Development' Meant Development

Development has become an inflated concept applied to virtually any effort in countries of the South that is intended to produce an improvement in human well-being. It has shifted from being an analytical to a

programmatic term associated with planned activities typically involving outside funding. While the tension between analysis and programming has always been there, this shift has been taken to the very end-point of the spectrum. Development, viewed as a historical process through which countries go, has given way to a homogeneous conception that development is something that can be fixed and accelerated with the assistance of external interventions.

Development in the last few decades has been uniformly presented as positive. It conveys an overly optimistic perspective on human progress. It overlooks the fact that development has both winners and losers, and in the end both costs and benefits. As the Danish Strategy for Development Cooperation – *Freedom from Poverty, Freedom to Change* – puts it: ‘The purpose of development is to create change for the better’<sup>3</sup>. It is no longer a theory-based but rather a practical concept that is applied to provide legitimacy to a wide range of policy initiatives. Development has become such a versatile term that it has no discerning qualities when it comes to deciding what really makes a difference to the destiny of a given society.

Development may be described as planned or intentional social change, as the Strategy document asserts, but in the way the concept is being applied today by the donors at large it oversimplifies the equations that explain how it may be brought about. At no time in history has planned change for the better provided each person with the political, economic and social opportunities to create lasting improvements to their living conditions and security, one of many such categorical propositions that the Strategy and other similar donor documents set out. On the contrary, even in relatively egalitarian societies such as those in Scandinavia, development has been characterized as much by zero-sum as positive sum games. In other words, development inevitably has its losers as well as winners.

The thing about development is that its paths vary and they are not linear. Despite attempts by theorists to rein in the meaning of development as a simple formula or model, practice has always resisted such efforts. Whether based on the assumption that growth comes before improvements in health and education or vice versa,<sup>4</sup> development is made up of slow-moving variables that are less prone to policy manipulation than some theorists and most practitioners are typically ready to admit. Development is ultimately dependent on intentional social changes in the underlying socio-economic structures in society, and we know from historical experience that such changes take time to materialize. Furthermore, as recent events in the Arab world suggest, they are likely above all

to be the result of conscious collective action by social groups that have a stake in the system but are denied the opportunity to influence its course. These are 'critical junctures' that set the country loose on a new path, often, though not always, in a positive direction, as a case study of the integration of Latin American labor movements into a democratic setting confirms.<sup>5</sup>

In the early days of foreign aid – the 1960s and 1970s – donors had a more historical sense of development than they do today. They realized that development is first and foremost a matter of structural change or transformation. For instance, investment in transforming agriculture was given a priority as the foundation for national progress. Although the donors at the time may have been too much caught up in what individual projects could achieve in pursuit of national development, they did target structural constraints. There was a clear sense that history matters and that, for instance, democracy or good governance could not be built on just any foundation; it required a certain level of development to be sustainable. The Danish aid strategy adopted by Folketinget in 1971 echoed this proposition that economics comes first, politics second:

*The purpose of Denmark's national assistance to developing countries should be, through cooperation with the governments and authorities of these countries, to support their efforts to achieve economic growth and, in this way, to contribute to ensuring social progress and political independence.*<sup>6</sup>

This and similar strategy documents produced by other donors in those days confirm the interpretation that development is not necessarily a product of good governance, as is being argued today, but may just as well be a precondition for it. Nor did it assume that poverty reduction could be pursued largely through investments in the social sector.

The premises of foreign aid at the time reflected the conventional wisdom articulated in the academic literature. The approach was structural, i.e. indicating that factors underlying political choice and behavior were essential for understanding progress. The first guide to foreign aid in those days was modernization theory. Development in modernization terms emphasized the roles of urbanization, industrialization, marketization and education as drivers of change. These structural forces were expected to produce the human mind and mentality that could sustain progress. Simple correlational analysis would prove that human welfare was generally higher in urbanized, industrialized countries with a market economy

and good-quality institutions of higher learning. The Canadian political scientist, Seymour Martin Lipset, went as far as showing that these conditions were also congenial to the institutionalization of democracy.<sup>7</sup> What modernization theorists of the 1960s ignored was the question of what led to urbanization, industrialization, the need for a market economy and academic and professional education. The human component was lost in the analysis. The role that individuals had played as thinkers and inventors, and that played by groups as catalysts of new forms of social organization was downplayed in favor of a focus on the levels of progress that had already been achieved. Nor did it acknowledge the intricacy of the linkages between the various sectors that had led to progress in developed countries.

Many may have forgotten – or are not aware of it – but the initial rationale for foreign aid in Scandinavia was that we should do in developing countries what we know best at home. The big Nordic projects in the cooperative sector in Kenya and Tanzania stand out as prime examples, but a similar logic applies to assistance projects in fields such as adult education and agriculture. The assumption was that, by transplanting ideas and methods from developed to developing countries, experts could help fuel progress along the same lines in the latter. Projects, however, typically failed to serve as catalysts for change and remained isolated, with few if any linkages to other sector activities. When funding came to an end, these activities also tended to die out. The externally funded project approach conceived in a top-down fashion was clearly not sufficient to transform the basis for development.

In retrospect, one may argue that these projects did little to improve human conditions, but they provided valuable lessons for all those who had the opportunity to work in the field. They brought home to Denmark, as they did to other donor countries, the knowledge of development that was crucial for how foreign aid should be designed in the future. These aid workers were often critical, and some even frustrated, with the way things worked – or rather did not work – in developing countries, but their voice was important for the policy community. They provided the practical feedback that was so critical in the early years of foreign aid. Above all, they communicated a sense of the structural limitations to progress. Although the expectation was that foreign aid would be merely a temporary phenomenon filling the gap until the recipient countries could take full charge of their own development, practice turned it into an increasingly significant factor in the recipient's destiny.

The dependency theme was central to the theory of development that replaced modernization theory in the 1970s. It was, however, not so much dependence on aid as on the capitalist system that came to preoccupy analysts. Portraying development in a world system context as a zero-sum game, developing countries – or underdeveloped countries, as the preferred term was – would constantly be at the losing end as developed countries surged ahead. Like modernization theory, it was teleological, placing all countries in a decisive struggle over the future of capitalism. For dependency theory analysts like Samir Amin, the only alternative for African countries at that time was to disengage from the capitalist system and obtain more congenial conditions for development by joining the then world socialist system.<sup>8</sup> Like modernization theory, it collapsed due to many of its faulty premises. As a scheme drawing largely on Marxist theory, including in particular Lenin's theory of imperialism, it aimed at transplanting concepts to the African scene regardless of whether they fitted reality or not. Thus, 'objective' conditions ripe for revolution were imagined where none existed, and 'classes' were invented where social contradictions had yet to mature to create them. Like modernization theory, it overlooked the human component and the reality on the ground in Africa. By being cast at a world systems level, the analysis was in fact even further removed from the African conditions than was the case with modernization theorists.

Underdevelopment or dependency theory was more difficult to put into policy practice, but it did not pass unnoticed in the international community, where one ambitious project that eventually failed was the establishment of a New International Economic Order. A more indirect but still important policy consequence of the radicalization of the development discourse was the turn away from concerns with economic growth toward the redistribution of resources, both globally and within countries. In the days of modernization theory, foreign aid was first and foremost an act of practical solidarity, albeit based on a strong dose of idealism. The effect of underdevelopment theory was to strengthen the moral basis of foreign aid, cement solidarity as a political act and thus set the stage for what has become aid dependency in many countries. It is no coincidence that aid disbursements grew in leaps and bounds during the 1970s. The decade may even be described as the 'golden age' of foreign aid!

These early theories had their shortcomings, but they were built on the premise that a transformation of productive forces was a prerequisite of development. For example, poverty reduction in the 1970s focused on the redistribution of land and other critical resources. Improved social



services depended on creating greater economic and social justice. These policies ran into their own problems, but they rested on realistic premises by accepting that development is a process of social transformation which takes time, is not linear and often entails suffering.

## How the Sense of Development Was Lost

If historicity, albeit superficially and ideologically applied, characterized theorization about development in the 1960s and 1970s, development analysis since the 1980s has been ahistorical. The shift marks a major epistemological and methodological turn from a macro-perspective to a micro-foundation for deciding policy. It made a hero of the rational individual capable of finding optimality in the midst of chaotic and changing conditions. It gave donors the tools that they needed not only for project analysis but also to approach policy – and later governance – at the macro-level. For agencies concerned with optimizing outcomes, this was emancipation and viewed as a great step forward. Answers to development problems lay in models, not in practical reality. The stand taken by the international donor community echoes the thesis, most powerfully argued by Fukuyama following the collapse of the Soviet Union, that we have reached the ‘end of history’.<sup>9</sup> Only the market model and its associated Western liberal democracy are left to guide the world forward. In pursuing its global agenda, the OECD donor community has tried to press the most out of this new thesis.

Gone is the humility that local circumstances matter: Structures are the foundation on which institutions are built, and policy interventions have political repercussions. Development has been lifted out of context to appear as stylized facts fabricated from econometric models and managed as if free from the constraints that politics and socio-economic structures constitute. In this perspective anything appears possible, and the relevant measuring rod becomes the achievements of the developed societies of the West. Modernization theory also compared developing countries with the West, but in that perspective there was a recognition that such a comparison was only relevant if history were taken into account. Today’s development analysis compares all countries in the present, expecting everyone to be able to do the same in the here and now, whether this refers to poverty reduction, democratization, respect for human rights or any other aspect of the donor agenda. Development has been turned into a set of context-free indicators where no attention is really being paid to where a

particular country comes from or starts in a historical sense. This inevitably leads to unrealistic goals, unfortunate pressure on recipients and great disappointment when things do not work out the way they were planned.

The new institutional perspective, drawn from the ideas of prominent academics-cum-Nobel prize winners like Douglass North, Oliver Williamson and Elinor Ostrom, has helped place governance at the top of the global agenda. The result is that development analysis has been standardized into a neo-liberal terminology and methodology according to which individuals act in their own interests and governance consists of aggregating these interests in ways that create positive-sum outcomes. The model of rational individuals making their own choices transcends historical conditions and omits the fact that circumstances differ and some persons therefore make their decisions from more favorable positions than others. Whether as peasant, worker or manager, the individual in this theoretical scheme is seen as capable of acting rationally to overcome hurdles of whatever kind. For example, the peasant is seen as able to succeed on his own in the market place, while the weak and vulnerable are competent to engage in civic action to promote their cause.

There are several problems with this ahistorical stance that donors have adopted in the past couple of decades. These are increasingly evident today, but a full review of their consequences for foreign aid – and above all, development in recipient countries – has not yet been made. Thus, further attention and discussion need to be devoted to at least the issues raised below.

1. *Globalization of the agenda.* The establishment of the Millennium Development Goals (MDGs) may boost the legitimacy of the United Nations, and the achievement of policy coherence within the European Union may enhance the voice of the donors, but what are the consequences for recipient countries? They suffer as much as they benefit from the weight of these measures. The MDGs, while conceived of as global in scope, are donor-driven and largely top-down initiatives that leave recipient country governments with little or no opportunity to affect their own destinies. These governments are being judged on criteria that they have not set for themselves. The effect is that they tend to be ‘named and shamed’ – not a particularly good incentive for compliance. Despite this obvious contention, donors continue to enforce their agenda.

2. *Governance as ‘miracle pill’.* Governance has taken on such a wide meaning that it is being used to legitimize donor interventions in a broad range

of public activities, from reforming public services to holding elections, enhancing public accountability and strengthening human rights regimes. In the case of Denmark, like many other European donors, this catch-all use of the concept reflects the manner in which foreign policy, including foreign aid, is made to respond to a broad range of political constituencies in the country. The strategy documents, including *Freedom for Poverty*, *Freedom to Choose*, easily become as much political statements as viable guides to action. For example, Danish policy on governance starts from the premise that human rights are unquestionably universal. But what does one do where these values are at best poorly understood and institutionalized? Punish, condemn, lecture or just lie low? Strategies remain vague on what to do. As a result, governance tends to be treated as a miracle pill that is often shared with partner country officials in unrealistic and sometimes insensitive terms.

3. *Veneration for scientific methods to measure results.* While promoting human rights and good governance inevitably takes time and deserves a historical perspective – compare, for example the time it took for human rights to evolve to their current status in Western democracies – donors find themselves caught in the dilemma of having to prove that their support will yield tangible results within narrowly set timelines. Much scientific effort has gone into refining methods for measuring outcomes, but it has often led to an increasingly myopic view of what explains development. By zeroing in on specific interventions that are part of a rational strategy or plan, as, for example, in logframe analysis, there is a tendency (a) to exaggerate the significance of the particular intervention and (b) to downplay the complexity of the factors that determine outcomes. Results do matter to recipients and donors alike, but development, as Hirschman emphasized over half a century ago, does not come about overnight – it must be constantly nurtured in order to be reached.<sup>10</sup> Process matters too. The experience of implementing policy (not just in recipient countries) tells us that it is a mistake to assume that design blueprints are the best guide for reaching results. Positivist social science methods of measuring results, therefore, miss the complexity and the ‘bigger picture’ in which a given policy or reform is being carried out.

4. *Bias in capability expansion.* For more than a decade now, the donor community has pursued a strategy of poverty reduction through the expansion of health and education. This can be seen as an understandable reac-

tion to the excesses of the Washington Consensus policies of the 1990s, but OECD donors may have allowed the pendulum to swing too far in the opposite direction. Some of this can be explained by their interest in combining poverty reduction with debt relief: Donors have simply wanted to ensure that the money they release will go on programs aimed at helping the poor rather than for other policy purposes. Yet, the expansion of the social sector has been so rapid that the feasibility and sustainability of this approach is now being called into question. Fuelled in recent years also by the Millennium Development Goals, programs aimed at increases in school enrollment at the primary and secondary levels, disease control and access to water, while morally difficult to question, have created a recurrent cost burden that neither central government, local authorities or citizens themselves can carry.<sup>11</sup> It is necessary to re-examine the thesis from the early days of foreign aid that, to be sustainable, aid must give priority to expanding the capabilities that enhance economic growth and transform the way things are produced. Influential authors like Ha-Joon Chang,<sup>12</sup> Erik Reinert<sup>13</sup> and Mushtaq Khan<sup>14</sup> have convincingly showed that no country has been able to sustain a rapid transition out of poverty without attention to how productive capabilities, whether on land or in industry, can be strengthened. At the same time, it is important to recognize that poverty reduction through investments in economic growth works better in some circumstances than in others, as demonstrated in studies by, for example, Fosu.<sup>15</sup> From a Nordic aid perspective, it may make immediate sense that priority is given to education and health issues, given the welfare traditions in these countries, but it is not clear that it has the same payoffs in African countries, especially when such support accelerates expansion at the cost of building capabilities. Schools are being built, but teachers, textbooks and other necessary support are not available in sufficient quantities.

5. *Faith in the state.* Donors, especially those that are 'like-minded', have continued to believe in the state as the institution through which to channel most aid. The ODA model has remained unchallenged despite having elevated the weakest link in the national development chain, namely the state, to supreme status, especially in African countries. This may have been viewed as unproblematic in the early years of foreign aid when aid was considered to be a shorter term complement to indigenous resource mobilization in the developing countries, but it has become highly controversial over the years as it has become institutionalized and developed its own pa-

thologies. Donors have the right to be upset by corruption in political circles in recipient countries, but they also have to ask themselves how far they are part of the problem. By pumping money into the state machinery where the institutional cogs do not engage each other as assumed in the Weberian model of rationality and legality, alternative uses of funds to those intended are inevitable, if not by design, certainly by default. In the long run, the state is bound to play as important role in African development as it has in other regions, but this will only happen once it has been strengthened from within these countries. The problem with the extensive reliance on ODA is that it tends to undermine rather than encourage this process in a viable manner. Public sector reforms attempted in the past five decades have achieved little. The only success story – Botswana – is one where targeted technical assistance rather than basket funding or budget support was adopted as the preferred mode of assistance. The government apparatus was allowed to grow at its own pace using only selective inputs from foreign sources.

6. *Treating civil society differently.* This is a corollary of the critique of the ODA model. The way foreign aid is channeled to recipient countries creates a first (government) and a second (civil society) ‘team’. The first gets all the perks. This ‘bulk’ money is pumped into the national treasury, making it tempting for cash-strapped governments to use funds for purposes other than those agreed upon in official contexts, such as the national budget or contract agreements with donors. On the other hand, even though they receive a considerable chunk of the aid budget in Scandinavian countries today, civil society organizations only qualify for project support, which means much smaller amounts of money, and also a much lower rank in donor minds. This separation of how to fund government and civil society is unfortunate because it enhances government power at the expense of citizen organizations. This is evident in the growing number of restrictions on civil society that have been introduced in African countries in recent years. It may be no coincidence that these restrictions have been introduced after the donors adopted the Paris Declaration and its insistence on greater national ownership of the aid money. Governments in Africa continue to interpret national ownership to be *their* ownership, no one else’s. Increased funding for civil society by donors will help little, if anything, to create equity between governments and citizens as long as the playing field remains biased in favor of the former. Moreover, it perpetuates a situation in which government and civil society both regard themselves as accountable to the donors rather than to each other.

7. *Securitization of aid.*<sup>16</sup> The threat to civil society also comes from the growing security concerns of donor governments. It may be most pronounced in the United States, but it is also apparent in the way European donors conduct their aid. There has been a gradual conflation of development, humanitarian and security aid in the past fifteen years, facilitated if not driven by the integration of aid into the mainstream of foreign policy. Insistence on policy coherence and a 'whole-of-government' approach to conflict-ridden and fragile states encourage short-term responses that overreach themselves, rather than a more targeted and longer term response based on an understanding of the local dynamics of conflict and conflict resolution.<sup>17</sup> This is evident in Afghanistan in particular, but also in African countries where conflict has destabilized the polity, for example, Liberia and Sierra Leone. Concerns about securitization have been expressed by Folkekirkens Nødhjælp and its sister organizations in the global faith community because they see the danger that, as long as it is assumed that humanitarian, reconstruction and development programs have significant security benefits, such concerns are likely to trump needs-based ones. The point is that securitization encourages a policy mentality that focuses on the immediate at the expense of development concerns that are truly long term. Moreover, it sometimes leads donor governments to pay lip service to its own ideals in the interests of fighting terrorism or other threats to global or national security. In this respect, the current situation resembles that of the Cold War period.

All these factors have contributed to making donors increasingly insensitive to history and local circumstances. Development in the 1960s and 1970s, though put into practice as supply-driven project initiatives by the donors, was seen as larger than these singular interventions. Foreign aid was a hand-maiden of development. Tanzania in the 1970s is a good example of how the donors rushed to support what was perceived as a development strategy that combined a sense of history with its locally grounded vision of the future. Development generated a sense of both mission and enthusiasm that drove local actors and donors to support it. Whether this donor enthusiasm helped or subverted Nyerere's *ujamaa* strategy is still an open question, but following the paradigmatic shift toward neo-liberalism and a positivist approach to development in the 1980s, the sense of development as something historical and contextual was lost. Macro-variables gave way to a micro-foundation on which to define progress. A rational choice-inspired institutionalism evolved as the main approach in

the international policy community. This meant that the ownership of the concept moved away from developing to developed countries, where this theoretical and methodological orientation was most strongly grounded. In practical terms, it meant that the donors became the agenda-setters. Development in the last couple of decades has been what governments and agencies in the donor community believe it is. From a recipient country perspective, therefore, development has become something external, an activity that lacks the qualities to mobilize groups, communities and nations to strive for collective ends. It is in this important respect that the sense of development today has been lost.

## African Reactions

Not all recipient countries are in Africa, but the majority are, and there is therefore reason to examine the reactions of government leaders and others in countries on that continent to the way foreign aid has been dispensed in recent years. To place their reactions in the proper context, two observations are necessary. The first is that African nations did not emerge through a social contract between citizens and their government but as a result of a struggle for diplomatic recognition by the international community at independence. The international recognition that donors give to individual nation states in Africa because they are survivals of colonial creations gives incumbent leaders a right to what Englebert calls 'legal command', that is, the right to 'boss' citizens around at their own will.<sup>18</sup> This explains the lack of constructive relations between state and civil society and also the great sensitivity of African political leaders toward donors and their insistence on measures that appear to call into question the ability of these leaders to act responsibly. If there is a notion of social contract in the minds of African leaders, it is not with civil society but with the donors. It is outwards, not inwards, which is why foreign aid in the form of ODA is increasingly being criticized by a generation of more independent-minded people in African countries.

The second observation is that government leaders in many African countries have come to take foreign aid for granted. They are not only financially but also politically dependent on the donor community and its thinking. Incumbent leaders see little incentive to call into question the usefulness of government-to-government transfers of foreign aid and have over the years learnt how to maximize them.<sup>19</sup> They tend to be grate-

ful for the Paris Declaration and its call for greater national ownership. With budget support it is not hard for them to argue that this must mean government ownership, since in the ODA scheme it is only government that is responsible to the donor community. This system, however, limits the incentives and willingness of political leaders to initiate reforms of their own, contributes to hindering the growth of civil society and citizen activism, and makes government leaders more preoccupied with responding to donors than to their own citizens.

It takes courage to break out of this pathological mould, as the case of Paul Kagame of Rwanda illustrates. He challenges the donor assumption that governance comes first, development second, and pursues policies to lay the economic foundations for a better society, which in the long run may include a greater measure of democracy than he believes is possible at this stage in his country's development. Kagame is a realist, a leader who takes his cues from the circumstances on the ground in Rwanda, including customary institutions, instead of trying merely to maneuver in accordance with the governance track of the donors.

This incipient critique of foreign aid, even in circles that are dependent on it, is directed at both its substantive and operational aspects. The priority that the donor community has given to providing support for the expansion of services in the education and health sectors has created an imbalance that government leaders as well as others now recognize as hampering national development efforts. Without a sense of what the development of a country really entails, the donors have failed to see that the expansion of capabilities in the social sector is not sustainable without a viable productive sector. There is a call for a return to economic growth to restore the balance and lay down a more reliable basis for long-term poverty reduction. This call has been endorsed by former president Ben Mkapa of Tanzania and incumbents like Kagame, Armando Guebuza of Mozambique and Jakaya Kikwete, who played a leading role in setting the tone for the recommendations of the Danish Africa Commission.<sup>20</sup> As has been stated most forcefully by the Executive Director of the NEPAD Secretariat of the African Union:

*African leaders must cast aside a tendency to 'manage poverty' and instead pursue basic economic growth if they want to improve the lives of their people ... If we stick to the paradigm of 'how can we manage poverty and reduce it?', we won't be able to develop Africa ... It has to be radically different.<sup>21</sup>*



This insistence on poverty reduction at the expense of other capability expansions is also an irritable element in the implementation of the aid architecture built around the principles of the Paris Declaration. A prominent idea behind providing general budget support, aligning foreign aid to national systems and harmonizing donor inputs was to reduce the time that recipient governments have to spend on reporting back to individual donors on their specific projects or programs. This had the consequence of moving donor interest from the implementation to the formulation of policy, from being concerned with *what* happens to being involved in discussing *how* it happens. Foreign aid took on a new political dimension, which is reflected in the now broadly accepted notion that it is an integral part of foreign policy and thus becomes a responsibility of the ambassador heading the donor mission in recipient countries. Denmark was one of the first countries to move in this direction, but it has now been accepted by others as well.

What has happened in practice is that administrative reporting by recipient governments has indeed diminished, but the policy dialogue with the donors that has replaced it is increasingly becoming a bone of contention. These dialogues typically involve senior civil servants who are kept very busy in handling matters inside their own ministries. Participating in policy dialogues diverts their attention from issues that they deem to be more important. Wherever this system of policy dialogues has been taken seriously, as in Tanzania, dozens of committees of donor and ministry representatives have been established to meet on a regular basis. Not surprisingly, this has led to what may be described as a 'Paris Declaration fatigue'. Representatives of the recipient government agencies are often absent from the meetings. The potential drawbacks associated with bureaucratizing the exercise were an issue identified already in the first evaluation of the implementation of the Paris Declaration.<sup>22</sup>

The reactions of government leaders and senior civil servants stem from their practical interactions with donor representatives at whatever level. It is sometimes more an expression of personal irritation than an explicit statement of how the donor presence undercuts national development ambitions, although, as suggested above, when given the opportunity, former and incumbent presidents will highlight the problem of being caught in the donors' net of priorities. In many countries, ministers and senior civil servants do their best to keep donors out of the policy process, especially when it takes on the character of being an attempt at political dialogue, as the case has been since the Paris Declaration.

A more independent critique comes from outside government, from business leaders, professionals, academics and civil society activists. This critique reflects, at least in part, the growth of a more self-confident middle-class made up of people who do not earn their income from government but from private sources. Some of it also comes from members of the African Diaspora. Middle class here refers to the group of people who have enough money to spend on non-necessities and who embrace bourgeois values like industry, ambition, neatness, order, moderation and continual self-improvement. Its members teach their children to live a life different from their own. In African societies, for example, it typically entails abandoning the reciprocal obligations to a broader circle of kith and kin inherent in the economy of affection.<sup>23</sup> Although this group of people is still proportionally small in many African countries, it is an increasingly influential force in countries like Ghana, Kenya, Nigeria and South Africa. This new middle class is different from its counterparts in Europe and other regions of the world with a legacy of aristocratic or feudal rule. It has no domestic enemy to overturn or remove. The attention of these people is therefore directed towards the political elite that misuse public resources which could have been applied to improve the delivery of government services and goods. It is in this context that their criticism also extends to the donors for having propped up governments that have done little, if anything, to make aid more effective.

Authors like Yash Tandon,<sup>24</sup> writing on behalf of civil society, are particularly upset that the starting point for the discourse is aid, not development. The perspective on what should be done is external and not driven by local stakeholders. For others in this group of intellectual and activist critics, the main issue is the way the rest of the world treats Africa as a continent to pity. The most vocal representative of this stance is Dambisa Moyo, a Zambian economist with a career largely outside her own country. Her argument is that Africans must take charge of their own destiny and not be pushed around by donors or 'rock stars' (referring here to the charitable initiatives that have been taken by European musicians to highlight specific poverty issues in Africa).<sup>25</sup> People in the African business community hold similar views. Malik Bakayoko, an operations counsel with the Coca Cola Company in West Africa, argues that Africans must stop thinking of themselves as victims, just as Europeans must stop looking at Africa as a charity case and instead start working with business entrepreneurs as peers and partners.<sup>26</sup>

These Africans are saying that the image of the continent must be changed to reflect the growing self-confidence of people outside the gov-

ernment. By making this point, they are also begging outsiders to diversify their relations with Africans. Donors have become increasingly insulated as they abandoned their support of projects and programs and began focusing on block grants to specific sectors or the national budget at large. Despite good intentions and a readiness to learn more about the countries in which they work, development cooperation staff tend to be confined by the new aid architecture to interacting with a small circle of high-level officials who an increasing number of independent-minded Africans see as representing neither the rich nor the poor in society.

Their independence has been facilitated and is now reinforced by a series of factors that contribute to changing Africa today. Most notable may be the expansion of Chinese interest in the continent and its resources. The Chinese today are less donors than investors. They interact with governments, but they are also directly involved in the business sector, which makes them earn an experience that puts them ahead of Western donors who continue to see development cooperation as their main instrument for interaction. The Chinese, whatever one thinks of the methods they use, speak to African interests by, for instance, putting money into building critical infrastructural projects. For a majority of Africans, roads, railroads, bridges and many other investments that facilitate the movement of goods and people have a much greater value than schools and health centers that are built in a rush with donor money but fail to perform because there are not enough teachers, doctors or other support. The massive investments that Western donors have made to expand education for all have backfired in many countries. In Tanzania, for instance, because of the rush to meet MDG targets, the rapid expansion of the education sector has become a disaster. According to the Minister of Education, Mr Kawambwa, no less than 46.5 per cent of all pupils failed to pass their Standard Seven national examinations in 2010. Even if the total number of pupils in the classroom is much higher than before, this still means that, after seven years of schooling, almost half remain largely illiterate and unable to function better in society.<sup>27</sup> What is preferable, many Tanzanians ask: to rush but stumble on the way, or to move slowly but reach one's destination?

Another factor that has changed the attitude of many Africans toward foreign aid is the diversification of resource flows, not just from China, but also from other countries. African countries – for better or worse, it may be argued – are an increasingly popular destination for direct foreign investment. Business people from a large number of Asian and Arab countries

recognize that, not only does Africa possess boundless valuable natural and mineral resources, it also has an untapped market that offers opportunities today that have hitherto been overlooked. Yet another phenomenon that is much more important today than it was just five or ten years ago is the private remittances from Africans in the Diaspora, whether in North America or Western Europe<sup>28</sup>. Billions of US dollars are sent back to Africa every year by those who live outside the continent but still have links to family, friends and community. A good deal of Africa's poverty reduction happens that way, but it is never acknowledged in the official assessments of MDGs and other global targets.

Africa's role in the world is changing, although there is reason to be cautious. Social transformations take time. Many weaknesses and pathologies will therefore continue to be part of African governance. Beginning with the elite, it still has many shortcomings. It remains relatively small if measured against the total population. It is not socially cohesive but often made up of people with diverse backgrounds, whether ethnic or racial. It is not extensively differentiated by profession and in most countries is still concentrated on the state. The power of an independent middle-class that can demand adherence to the rule of law and other means that make business as well as social life more predictable is beginning to make a difference, but it is not yet strong enough to have regular systemic influence. Furthermore, the African elite sit on top of a mass of small producers on the land and informal traders in the market place. These people are largely self-employed and do not share the conditions of a proletariat as has been the case in countries undergoing rapid industrialization elsewhere. The typical situation in African cities is mass poverty, which does not easily translate into social and political mobilization along class lines.

When ten years ago analysts at DFID in the UK initiated a new set of studies aimed at identifying why policy fails to find any traction in the political realities of African countries, they focused their search for 'drivers of change' in the structural conditions that determined the implementation of specific donor-supported policies. There is reason today to extend this search to society at large. The true drivers of change in Africa remain to be investigated. It may be the celebrated 'bourgeoisie' that has been credited with being the principal force behind the rise of liberal democracy. It is not quite a 'law of development' but probably as close as one can come to such a law that a country's progress must be set and controlled by a group or class of people with a modern mindset. Whether this group is referred to as the 'bourgeoisie', the 'middle class' or anything else is of less impor-

tance, but the underlying social and productive constellations matter, as Barrington Moore Jr. showed in his seminal analysis of the varying routes to modernity that democracies and dictatorships took in the twentieth century. His conclusion from this analysis was that an enlightened and strong middle class was the best guarantee for democracy because, wherever it was weak, it gave in to dictators, as the examples of both fascist and communist countries demonstrated.<sup>29</sup> How far this thesis also holds for Africa is likely to become evident in the years to come, as the social and productive basis for collective action changes and new voices critical of neo-patrimonial or clientelistic rule may acquire added weight.

Africa's growing integration into the global economy generates new social forces that are likely to reshape the countries on the continent in significant ways in the foreseeable future. For governments that have grown dependent on foreign aid, as well as for donors who have taken their role for granted, this constitutes a new challenge.

## Implications for Donors

Although individual donor governments and the international donor community at large are reluctant to change position, this has nonetheless happened over the years as lessons have been learnt. It seems to be happening again now. There are several signs confirming this. The Paris Declaration has opened the door to a greater recognition that foreign aid must be more effectively part of the national policy process in partner countries. OECD countries are also trying to diversify their relations with partner countries beyond foreign aid, as, for example, the Danish Africa Commission report recommends. The approach to governance is shifting towards a better understanding of local structural conditions through the adoption of political economy analysis. An especially interesting example is the attempt inside the World Bank to move away from a purely deductive to a more inductive logic in designing interventions in member states.<sup>30</sup> All these steps indicate that donors are aware of this new challenge. The question is how far they are ready to go. The answer is that there is a need to think outside their usual boxes and embrace the challenge as an invitation to a new chapter, if not a new paradigm.

To fully appreciate what is at stake here, another analogy from medicine may be helpful. The conventional approach to treating disease is drug-based. These synthetic hormones are foreign invaders setting up new

reactions, some of which address their intended target, others of which cause side-effects, anticipated as well as unexpected. They are temporary fixes to major and often persistent health problems. This may also be an account of how donors have approached governance: As a foreign mechanism aimed at quick fixes of institutional shortcomings with as many unanticipated as anticipated consequences. There are two problems with this approach. The first is that it is myopic: It focuses on a symptom that is obvious but very rarely the real cause of the ailment. In so doing, it overlooks the consequences for other parts of the living organism. For example, donor efforts to fight corruption may affect the target, but the overall effects on the polity are not known.

The second problem is that the patient's knowledge of his condition is typically ignored. The patient has become used to trusting the doctor's advice and is not encouraged to engage in self-diagnosis or the search for alternative medicines. Yet, we know from at least a quarter-century of research in the field of medicine that self-reported health statuses are better predictors of health and well-being than data drawn from medical records. For example, such self-reporting adds enormous explanatory power to multivariate models of mortality.<sup>31</sup> Self-reporting tends to include factors that are not covered by clinical records, such as family history, socio-economic status or behavioral characteristics. Individuals who report 'poor' health are likely to die sooner than those who believe they are healthy. Self-reporting offers knowledge that is relevant to identifying a trajectory rather than a specific level of health. Equally important is the fact that, in most countries around the world, individual patients are increasingly looking for answers to medical problems on their own, some in the form of changes in diet and lifestyle, others through enzyme therapy or holistic medicine. The point is that, with more knowledge of how one can make a difference to one's own life, people are empowering themselves and feeling good. In Africa, a social and political consciousness is forming that allows people to see their country's trajectory beyond the walls of foreign aid.

The new chapter in foreign aid calls for the encouragement of self-reporting as a spontaneous exercise in partner countries and for looking to solutions beyond foreign aid. In Africa, the African Peer Review Mechanism (APRM) is a tentative step in the right direction, although its methodology has proved too complicated and has thus extended the time needed for carrying out the exercise. The main point is that societies must learn how to appreciate improved governance using their own experience. Events in the Arab world at the end of 2010 and early 2011 indicate what

can be achieved through spontaneous local action. The process of achieving reform may not be as neat or polished as if it is done under the supervision of donors, but its effects may be greater and longer lasting. It inspires and catalyzes action in ways that donor-funded projects never do.

This is not said to imply that foreign aid is useless. It does suggest, however, that donors can follow up on the steps that they have already begun to take toward providing more space for stakeholders – not just governments – in partner countries to decide on what to do. Donors need to retreat from the position that encourages governments to treat them as part of a social contract. What is required is an approach that empowers individuals and social forces outside government to make claims and demands on public authorities, whether for specific goods or greater accountability. Direct project funding to individual civil society organizations is not likely to be enough to achieve these objectives. The ODA model needs to be modified, if not abandoned, to enable all non-governmental actors to compete for funding on an equal footing with governments. These stakeholders are much better placed than donors to locate specific reforms in the context of their own country's development. They can bring back an approach to governance that is embedded in a relevant development context. Development can once again take on a meaning that is historical and political and thus more in tune with what can be accomplished by local stakeholders.

A number of more specific points can be deduced from this analysis for the purpose of thinking through what the next chapter may entail:

- *Begin by accepting the Cardoso principle*<sup>32</sup> that 'the glass is half-full, not just half-empty', i.e. build on domestic institutions and cease treating them as broken and in need of fixing. How a country or problem is perceived is important for the way policy interventions are planned and carried out. Where a country comes from and how far it has reached is a better measuring rod than where it stands on a global ladder, whether it is focused on economic growth, governance, or human development. Domestic institutions have a development potential that is particularly relevant in the context of enhancing national ownership and involving multiple stakeholders.
- *Engage with all stakeholders on an equal basis.* Make resources available on terms that are the same for government, parliament, local government and civil society. Reconsider the principles associated with ODA and create funding mechanisms that allow others to benefit on terms

similar to those applied to government. As part of this examination, encourage twinning arrangements and private-public partnerships.<sup>33</sup>

- *Think investment, not grants.* Grants create zombies; investments create reformers and entrepreneurs. Development is a risky business, but one that deserves patience and a long-term perspective, not the time frame of annual government budgets. By consolidating aid money, for example, in professionally managed development funds, the urge to spend money within the artificial time period created by budget horizons can be significantly lessened.
- *Break the donor cartel.* Danish strategy (like that of other Nordic donors) talks about coordination, harmonization and a greater role for the EU, but diversity and flexibility are often more desirable than homogeneity and concentration. There is no evidence that donor coordination and harmonization really make aid more effective. Furthermore, if the donors are serious about letting their aid be better grounded in the realities of recipient countries, flexibility is necessary to make this happen. Coordination and harmonization may sound right in a donor perspective, but the real challenge of the Paris Declaration is how far the donors are ready to align their support with the dynamics of domestic institutions, especially if there are perceived to be risks involved. Coordination and harmonization – and thus the perpetuation of the donor cartel – are likely to discourage risk-taking and willingness to support the growth of domestic institutions from within.
- *Follow the lead of the Asians.* Invest in what African countries themselves prefer: infrastructure. This is the continent's Achilles Heel. The social sector is one that African governments and international non-governmental organizations can fund on their own at a pace that is realistic and avoids the 'force-feeding' that has characterized the donor approach to poverty reduction in the past ten years.

This may at a first glance look like a tall agenda, and it is likely to be a special challenge in the Nordic countries, with their corporatist traditions of making policy and with a variety of stakeholder interests being allowed to formulate aid policy. With particular reference to Denmark, Engberg-Pedersen argues that this mode of policy-making explains why, as the current Danish Strategy confirms, it is 'filled with objectives, priorities, strategies,



etc.<sup>34</sup> This broad consensus has allowed aid strategies over the years to be steadfast, but also more like a 'wish list' dominated by domestic interests rather than those of the potential beneficiaries. At a point when foreign aid is being challenged from the recipient end and its future is at stake, it will be interesting to see whether the broad consensus will turn out to be a bane or a boon. Can a radically different approach emerge in this context?

1. I wish to thank Mette Kjaer, Bertil Odén, Nicolas van de Walle and an anonymous reviewer for helpful comments on earlier drafts of this essay.
2. Göran Hydén is Professor Emeritus at the University of Florida and a Development Policy Analyst. The editors wish to thank Lars Engberg-Pedersen, senior researcher at DIIS, for reviewing a previous draft of the present article.
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22. B. Wood et al., July 2008.
23. For a full account of how the economy of affection works, see Hydén, 1980.
24. Tandon, 2009.
25. Moyo, 2009.
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28. The Center for Global Prosperity, 2009.
29. Moore, 1966.
30. V. Fritz et al., September 2009.
31. Idler and Benyamini, 1997.
32. The principle is attributed to the former president of Brazil, Hernando Cardoso, who got upset every time donors complained that recipient countries had not done enough to meet their obligations or targets. His point is that what matters is not just the level of a country's achievement in comparison with others, but also where it started and how far it has come.
33. For details about how such development funds would look and how they would be professionally managed, see Dag Hammarskjöld Foundation, 1995.
34. Engberg-Pedersen, 2009: 107-136.

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# Chapter 2

## Selected Documents

### **General Foreign Policy · 158**

Speech by the Danish Minister for Foreign Affairs Lene Espersen at a reception for the Diplomatic Corps, 19 March 2010

### **Development Policy · 164**

Speech by the Danish Minister for Development Cooperation Søren Pind at a reception for the Diplomatic Corps, 19 March 2010

### **Environment and Climate · 169**

Speech by the Danish Prime Minister Lars Løkke Ramussen at Peking University, 'Greening Together – Chinese-Danish Cooperation on the Road towards a Green Economy', 12 April 2010

### **Danish Domestic and Foreign Policy · 176**

Address by the Danish Prime Minister Lars Løkke Rasmussen at his annual meeting with ambassadors in Denmark, Copenhagen, 23 April 2010

### **Danish-Russian Relations and Trade · 184**

Speech by the Danish Prime Minister Lars Løkke Ramussen at the Danish-Russian Business Conference, TAP1, Carlsberg, Copenhagen, 28 April 2010

### **Climate Change and Deforestation · 186**

Speech by the Danish Prime Minister Lars Løkke Ramussen at the Oslo Climate and Forest Conference, Oslo, 27 May 2010

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## General Foreign Policy

### Speech by the Danish Minister for Foreign Affairs Lene Espersen at a reception for the Diplomatic Corps, 19 March 2010

Distinguished Ambassadors and Excellencies,  
Ladies and Gentlemen,

First of all, a warm welcome to all of you here at Eigtveds Pakhus. I am extremely pleased to see that so many have managed to come here today. As Denmark's new foreign minister, I look forward to begin a close co-operation with you and with the governments that you represent. A frank and regular dialogue between us for the mutual benefit of our countries is important. And I look forward to getting to know you personally over the next years.

Apparently, the Danish press has also discovered that meetings between the Danish Government and the diplomatic community are important. At least, the meeting in January received a lot of publicity. Perhaps even a bit too much. To be honest, I was actually quite relieved this morning, when I woke up and noted that my two kids were perfectly healthy and ready for school, and that no other private matter threatened our meeting today. Thank God, I thought!

But the main reason, why I have been looking forward to meeting you today, is the fact that I have a few messages, I would like to convey in my new capacity as Denmark's foreign minister. And the first message is one of continuity. I would like to underline that the active Danish foreign policy on a broad range of issues, which has been a hallmark of the

Government since 2001, will continue. Denmark's willingness to confront international challenges in a pro-active and direct manner will continue unchanged also when the going gets tough as in Afghanistan's Helmand Province. And so will the commitment of the Danish Government to coordinate closely with our partners and allies.

Unfortunately, the fight against international terrorism and our efforts to reduce global warming are not only about enhancing our security in the classical sense. They are instrumental for our economic security as well. If instability in the Middle East causes oil prices to skyrocket, or if pirates are allowed to undermine commercial shipping around the Horn of Africa, there would be a price to pay for the Danish economy. The same is true, if sudden changes in the weather pattern destroy peoples' livelihood in parts of Africa or Asia, setting off large-scale movements of climate refugees. In such circumstances, there would be economic repercussions for Denmark as well. In short, ladies and gentlemen, dealing effectively with 'hard' security threats that emanate far from our borders, is a precondition for creating a stable framework for economic growth at home. Because today's globalised world is hot, flat and crowded as the American journalist Thomas Friedman has put it, everything is connected, consequences are felt immediately, and there is nowhere to hide. As a consequence, Denmark's foreign policy will continue to require multi-tasking and a global outlook.

Being the foreign minister, however, it is my job to make sure that the Danish taxpayer gets value for his money with regard to the role Denmark is playing on the international stage. It is my job to evaluate ongoing policies and set new priorities, if needed. Having spent the last three weeks since my appointment looking at what we are doing around the world, I have decided to single out two priorities to be at the top of my agenda in the short term. The first one is that we work in common in the European Union, so the EU can play a much stronger role on the global stage. This is not a new priority for Denmark, but it is one that appears more important than ever for a number of reasons, which I will get back to in a moment. My second key priority is to turn foreign policy in all its aspects into a growth engine for the Danish economy. Again, this does not constitute a dramatic leap into the unknown, but I will make certain that what we have been doing already in this regard is beefed up and injected with a new sense of urgency.

Let me briefly explain, why the EU's performance on the global stage is so important today. First and foremost, there is a strong demand for the EU to take on a greater international responsibility. Within the last cou-



ple of years alone, this demand has been on display in Georgia, where EU observers have helped stabilise the situation following Georgia's brief war with Russia in August 2008. The demand was on display again during the gas dispute between Russia and the Ukraine a year ago, where both parties called for EU involvement, and today, we see the demand off the shores of Somalia, and in Afghanistan where European soldiers and police officers are training their Afghan counterparts.

Secondly, the global financial crisis has accelerated a major shift in the distribution of political and economic power from the West to the East. From the US and Europe to China and India. As a consequence, a new world order is emerging, which some observers are labelling the G2 to signify the exclusive club of the US and China. Others have argued that what we are really witnessing today is the rise of the so-called BASIC-countries – that is Brazil, South Africa, India and China. Either way, China is at the centre of things and Europe less so.

The US and China will be shaping the global agenda in the 21st century. The question is, if Europe will be able to do so as well? Basically, we need to figure out, whether we want to meet the demand out there in the world for a stronger Europe or whether we should content ourselves with being a secure, prosperous, but also irrelevant and inward-looking region.

The well-known professor from Oxford, Timothy Garton Ash, has warned Europe's leaders against choosing the second option – that is the inward-looking Europe - which he compares to a Greater Switzerland. Professor Ash says, and I quote: 'The trouble with this is that, in the longer run, by choosing to be only a Greater Switzerland we will gradually lose the conditions that make it possible to actually be a Greater Switzerland. For the point of having a European foreign policy is not power in itself, but the power to protect and advance interests that are increasingly shared between all European countries, and challenged in a world of non-European giants.'

In short, Professor Garton Ash is saying that because things are the way they are in Europe, things will not stay the way they are. We need to change in order to preserve. For by doing nothing we will decline, which evidently is a change, but a change we have not chosen. So if we want to maintain Europe's international position and our welfare societies, we have to change our policies.

After nine long years debating treaty reform in the EU, we are finally about to get the tool box necessary to make Europe's voice heard loud and clear on the global stage. The Lisbon Treaty was an essential first step for

a more coherent and more efficient Europe, but now EU Member States should make full use of the instruments in the tool box. The new EU External Action Service headed by Catherine Ashton must get off the ground quickly and begin its work of converting Europe's economic leverage and democratic pre-eminence into political influence on the global stage. More than anything, Europe is a community of values, and EU procedures and institutions must be structured in such a way that we become better able to communicate these values to the rest of the world. Billions of people around the world look with envy at what we as Europeans have achieved in the last 50 years and Europe can do more to bring democracy, security and economic progress to these people.

Despite the doom and gloom that we often hear about Europe in the news media, we should keep in mind that the EU is still the world's biggest exporter of goods and the biggest recipient of foreign investments. We are the biggest donor of development assistance in the world and the EU's internal market consists of 500 million consumers with much greater purchasing power than Chinese or Indian consumers.

Therefore ladies and gentlemen, the potential for a stronger Europe is there, but Member States should make more room for Lady Ashton and her efforts to forge a more dynamic and robust EU foreign policy. If Member States continue the age-old habit in Europe of petty quarrels and national rivalry, we will simply get squeezed by the US, China, India, Russia and others, when global challenges like human rights or climate change are discussed.

Turning to my second big priority – foreign policy as a growth engine for the economy – it is my intention to act as Denmark's growth ambassador abroad. Growth is what the Danish economy needs more than anything else today, and as foreign minister, I will do my utmost to ensure that Danish companies get a much stronger presence in the new growth markets outside Europe. Markets like China, India, Brazil, Mexico and Vietnam, where I hope that the EU will help pave the way by concluding bilateral agreements on free trade, while we wait for a global free trade agreement in the WTO. Growth is also about influencing the international framework conditions through multilateral organisations like the UN, the EU and the IMF. In this context, I will work hard to create a better business environment inside the European Union and a more effective Single Market, which still take almost 70 percent of Danish exports.

Drawing upon the experience from my previous job as Minister for Economic and Business Affairs, I will co-operate closely with Danish com-

panies on issues like market access, trade liberalization, innovation and marketing of Danish goods and services. I also plan to spearhead visits by Danish business leaders to key export markets in the near future.

Growth, ladies and gentlemen, is the talk of the town in Copenhagen these days. Growth is at the centre of a new strategy adopted by the Danish Government called 'Denmark 2020', which is aimed at bringing Denmark up to speed with globalisation in the 21st century. It is also at the centre of a new strategy for the Trade Council here in the Ministry of Foreign Affairs. With the strategy, the Trade Council will aim to help Danish companies increase their exports by more than 25 billion dollars during the next five years as well as create 5000 knowledge-based jobs in Denmark by attracting more foreign investments.

Of course, Denmark will not be able to push the 'growth-button' alone. As a small country with an open economy, we are very dependent on Europe getting back to a solid growth track. Therefore, I am happy to note the high level of agreement and synergy between our own national strategy – the 'Denmark 2020' – and the new economic proposal from the European Commission called 'Europe 2020'. The similarity is not just in the names. Both are focussing on knowledge-based growth, a transformation to a green economy, more investment in research and green technologies, flexible labour markets and getting more young people to stay longer in the educational system. Neither Denmark nor Europe will be able to compete with China or India on price. It will never happen, and there is no point in trying to go down that road. We can only be successful by competing on knowledge, innovation and a multi-skilled workforce.

Luckily, we enjoy a comparative advantage here thanks to Europe's strong technology base and ambitious climate and energy policy. We must now make an all-out effort to build upon this advantage in the coming years. Before we get to 2020, however, Europe needs urgently to confront mounting public deficits, rising unemployment, a declining ability to compete, too low birth-rates and weak domestic consumption. At present, Greece might be dominating the headlines, but these economic vulnerabilities are shared by EU countries across the continent.

The financial crisis has been merciless in exposing our economic weaknesses in Europe. A man, who knows a thing or two about wealth creation, Mr. Warren Buffett, the world's third richest man, has captured Europe's current predicament this way, and I quote: 'It's only when the tide goes out that you learn who has been swimming naked.' To various degrees, some more than others, but all guilty of a little exuberance, European countries

forgot their swimming pants during the economic boom years that lasted until 2008. Now, we have to get the swimming pants back on quickly in the form of fiscal sustainability and economic reforms, so we can exit from our stimulus policies in an orderly and coordinated way.

Ladies and gentlemen, I have tried to outline two key priorities for Denmark's foreign policy in the short term. For both of them to materialise, Europe will need to move. Therefore, let me conclude by giving you a short fable that illustrates what is at stake, if we the 27 EU Member States don't pull together and start to move our common enterprise called Europe. The fable goes like this:

*Once a crayfish, a swan and a pike set out to pull a wagon,  
And all together they settled in their traces;  
They pulled with all their might, but still the wagon refused to budge.  
The load it seemed was not too much for them;  
Yet the crayfish kept crawling backwards, the swan headed for the sky, and the pike  
moved towards the sea.  
Who is guilty here and who is right – that is not for us to say;  
But the wagon is still there today.*

Thank you.

## Development Policy

### Speech by the Danish Minister for Development Cooperation Søren Pind at a reception for the Diplomatic Corps, 19 March 2010

Distinguished Ambassadors and Excellencies,  
Ladies and Gentlemen,

As our Foreign Minister did, I would like to bid you a warm welcome. I am also very happy to be here today – maybe even slightly happier than our Foreign Minister.

While Lene has been a minister since the Government took office in 2001, I only have 25 days experience in this field. It has been 25 very gratifying days. And it has also been a humbling experience to suddenly be in charge of a portfolio of 15 billion kroner and part of a global effort affecting the lives of millions of people.

I have sometimes been labelled the lonesome cowboy or my party's 'enfant terrible'. Nothing could be more unfair. I am 40 years old – at least they could have the common decency to call me an 'adult terrible'. My first days in office have, however, reminded me that the word 'minister' is derived from Latin and means 'servant'. Being a servant requires a certain amount of humility which I am quickly acquiring in view of the challenges facing us.

Everybody here present today is a partner in development – either as a long-standing donor, an emerging one or as a partner country. It is a true privilege for me to meet you today and I hope we can have an open and

frank debate. But – as President Ronald Reagan said – ‘before I refuse to take your questions, I have an opening statement.’

Like our Foreign Minister, I have a message of continuity today. But I also have a message of change in Danish development policy. On my first day in office, I held a speech for my new colleagues in the Ministry. I told them that they were doing the noblest of jobs because they were essentially in the business of promoting freedom. I told them that development cooperation is ultimately about setting people free – about enabling people to be masters of their own destiny and enabling them to lead healthy, productive lives of their own choice.

A decade ago, Nobel Laureate Amartya Sen wrote a book called ‘Development as Freedom’. He sees freedom as a precondition for development. But freedom alone does not guarantee development. To be free also means having the necessary capacity and skill to grab the opportunities that freedom provides. Development to me is about individuals, families and communities realizing their potential, increasing their choices and enjoying the freedom to live their lives as they choose.

I have today launched a public hearing of the Government’s new draft strategy for Danish development cooperation. We expect the strategy process to be completed in May this year. The strategy emphasises freedom both as an end in itself and as a means to development.

In the new strategy, we set out five priorities for our development work in the years to come. I have already indirectly touched upon two priorities: The promotion of democracy and of market-based economic growth as essential elements in development and poverty eradication.

20 years after the fall of the Berlin Wall, it is clear that we are not at the End of History. I am not sure that we are – as the scholar Robert Kagan has slightly teasingly labelled it – facing the ‘The Return of History and the End of Dreams.’ But we do live in times of turmoil and the need to promote core principles, values and rights has not diminished.

Danish development policy is a central part of an active Danish foreign and security policy. It is an equal and independent element in our global engagement. Our Foreign Minister mentioned in her speech the Danish soldiers in Helmand and warships in the Gulf of Aden. These efforts go hand in hand with our support to girls’ education in Afghanistan and humanitarian and development efforts on the Horn of Africa. Development is fundamentally about eradicating poverty, but it is also about projecting soft power and winning hearts and minds. And it is an important part of Denmark’s image abroad as a decent and benevolent nation.

Therefore, I am very pleased that the Danish government has just recently – despite the economic crisis – decided to maintain Denmark’s high level of ODA for the years to come. All donors must deliver on their promises. It is essential for our credibility that the international community lives up to its ODA commitments.

Permit me to briefly touch upon the five priorities set out in the strategy. First, we will enhance our efforts to promote freedom, democracy and human rights. Secondly, we will significantly strengthen our support for market-driven economic growth and job creation. Thirdly, we will continue to drive the gender equality agenda. Fourthly, fragile states will figure much more prominently in our development cooperation. And, finally, environment and climate change will be high on our development agenda. Let me elaborate a little further on these five strategic priorities.

Freedom, democracy and human rights are fundamental values in their own right. And I believe they are a precondition for sustainable development. Poverty and hunger do not thrive in open societies where citizens can take active part in the political process, choose their leaders and hold them accountable. And instability and conflict have poor living conditions in pluralistic societies based on dialogue, free speech and the rule of law. Three days after taking office, I visited Zimbabwe. There, I clearly witnessed how a lack of democracy and good governance tears a society apart and stands squarely in the way of development. In our development cooperation, we will work with partners to strengthen democratic institutions, protect fundamental human rights, fortify institutions of good governance and fight corruption. Denmark will strengthen its efforts in international fora to promote these values. In partner countries, we will work with governments, parliaments, and civil society to ensure democratic ownership and a public sector that effectively delivers the services that citizens rightfully demand.

Market-driven economic growth and job creation is a *sine qua non* for sustained poverty reduction and for reaching the 2015 Millennium Development Goals. Ever since the birth of Civilisation, individuals, communities and nations have built their wealth on private initiative, entrepreneurship and trade. Every year, millions of young people in developing countries enter labour markets that do not offer enough jobs. That means limited opportunities for young people to unfold their skills and drive to make a living for themselves and their families. This is a terrible waste of human potential. And it is a cause for discontent and instability. The proportion of Danish ODA allocated to private sector led growth will increase

over the coming years with a particular focus on Africa. We shall work for free trade and market access; support better framework conditions for private initiative in partner countries; help strengthen access to energy, technology and innovation; support small and medium enterprises as important engines of growth; and focus more on vocational training.

As a third priority in our new strategy, we will continue to put gender equality and women's rights and opportunities at the top of the international agenda. Promoting equal freedoms, rights and opportunities for men and women is a fundamental value. And liberating the resources that women possess is key to development and achieving the MDGs. In particular, we will focus on women's economic rights and possibilities and their access to and active participation in politics. Access to education for women will be another priority area as will women's sexual and reproductive health and rights.

A fourth priority will be to increase our engagement in fragile and conflict-ridden regions and states. One third of the world's poorest people live in countries, where the state has little or no legitimacy. Stability and security are necessary for development. A stronger focus on fragile states in our humanitarian, reconstruction and development efforts will also require increased willingness to take risks. We are ready to do that to achieve our goals.

Finally, as a fifth priority, we will sustain our efforts to promote environmentally sustainable development and combat climate change and its consequences. Denmark will provide its fair share of fast start financing amounting to approximately 225 million USD. And we will maintain our strong focus and leading role on climate adaptation.

Enough about the priority areas in the new strategy. As Sir Winston Churchill once said: 'However beautiful the strategy, you should occasionally look at the results.' Churchill was a very sensible man and I think we should all follow that piece of advice in our development efforts. With our partners, we will strengthen the monitoring of results to ensure maximum impact of our interventions.

Keeping up aid volumes is essential for reaching the MDGs. But quantity only matters if the quality is right. We must all work closely together to enhance aid effectiveness. We owe that to the tax payers and not least to the end beneficiaries.

Denmark will seek to remain at the forefront of the aid effectiveness agenda. To me, that means an increased focus in our development efforts and an effective division of labour. It means that we must look at our com-



parative advantages and that we don't shy away from tough choices. Needs in developing countries are infinite, but resources are scarce. We should focus our efforts where the chances of making a lasting difference are the greatest. Denmark remains firmly committed to the principles of aid effectiveness. Bilaterally, we will confine our development cooperation to fewer partners and we will be present in fewer sectors in each country. Our cooperation will be stronger and our interventions will carry more weight where we are present. Multilaterally, the same will apply – we will work with fewer organizations where we will have a stronger voice and stronger impact.

Wishing to do the Good is noble and right. But in development cooperation there is also the principle of 'do no harm.' We should always make sure that development interventions help free people from poverty and oppression. And that our common efforts do not – unintentionally – contribute to keeping people in poverty and lack of freedom. When hunger hits a country, our immediate reaction is to rush in and help. But we also need to take a longer-term perspective. When a house catches fire for the first time, you call the fire brigade. You probably do the same thing, if a new fire erupts. But when a house has caught fire for the tenth time, you start reflecting. Is there something basically wrong with the structure of the house that needs to be changed? Or should we vacate the house and construct a new one? I think there is a good case for continuously rethinking our development efforts, learn from our successes and mistakes and always have the long-term goal in mind.

In my introductory remarks, I said that I was very happy to be here today. And I am. But I wish we were not here addressing issues of poverty, oppression, and lack of opportunity. I firmly believe that our ultimate aim as partners in development is to make ourselves obsolete. I look forward to working closely with all of you towards that end.

Thank you.

## Speech by the Danish Prime Minister Lars Løkke Ramussen at Peking University, 'Greening Together – Chinese-Danish Cooperation on the Road Towards a Green Economy', 12 April 2010

Distinguished President Zhou,  
Professors and students,  
Distinguished guests,  
Dear professors and students,

It is a particular pleasure to be here today at Peking University. There is a Chinese proverb: 'A nation's treasure is in its scholars'. I find these words more true than ever. Why? Because today we stand at cross roads. If we are to ensure growth while preserving our environment we need to think anew. We need innovation, education, research and development that will help us through the transition to a green economy. In other words, we need the students and professors of this highly prestigious university as well as other universities to make this change possible.

I firmly believe that China can play a positive role in this change. You can only be impressed by the optimism and dynamic mentality of the Chinese people. A tremendous transformation is taking place, and the China of today is vastly different from the China of just a few decades ago. We see it in terms of China's role on the global stage. We see it in the Chinese economy. And we also see it in the Sino-Danish relationship.

Today, I want to address the following issue. How can China and Den-

mark cooperate in order to address the dual challenge stemming from the global economic crisis and climate change.

On the one hand, we must continue to deal with the global economic crisis and find new ways to create sustainable growth and employment. On the other hand, we must transform our societies into low-carbon economies in order to address global climate change and future energy security. This dual challenge is changing the global landscape.

My answer to this dual challenge is clear: we need to cooperate on a global green revolution to pave the way for a sustainable, green global economy. And we need to act now, if we are to succeed. In other words: 'Dig the well before you are thirsty'.

Ladies and gentlemen,

Over the last decades globalisation has profoundly transformed our world. Despite our differences, Denmark and China have shared the same approach to globalisation. We have focused on the positive opportunities that globalisation presents. And both our countries have managed to reap the benefits.

In China the benefits of economic liberalisation and open markets have been tremendous. During the last 30 years 300 million people have been brought out of poverty. This year China will be the second largest economy in the world. And many predict that in a few years time, China will become the world's leading economic power.

Both our countries also recognize the challenges that globalisation presents. Old patterns of production and trade must be replaced by new ones. Old habits must change and new ideas be introduced. If we are to reap the benefits of globalisation, we must be able to adapt. And more importantly, we must be willing to cooperate. This has become even more apparent following the global economic and financial crisis. Even though countries have been hit very differently from the economic crisis, we have all felt its effects. No country has been left untouched. This also applies to China, even though the growth rates have remained impressive during the crisis.

I draw two important conclusions from the economic crisis:

Firstly, we need more not less international cooperation. In today's globalised world of interdependence no country can counter the negative impacts of a global economic crisis by acting on its own. I am pleased that due to international cooperation not least within the G20, we have managed to avoid the worst effects of the global economic crisis. We have avoided protectionist measures which could have deepened the crisis. And

we are in the process of establishing international rules to strengthen control and supervision of international financial markets.

Secondly, the economic crisis should be used as an opportunity to ‘reset’ our economies on the base of a new green growth. We urgently need to counter climate change and protect the environment. This also implies that we change the way we produce our goods. I firmly believe that the way out of the global economic crisis is the transformation of our societies into low-carbon economies. And I believe that once again international cooperation is essential to ensure such a transformation.

Denmark and China have been strong partners in globalisation. I am confident that we will also be strong partners on the path towards green growth that will not only ensure economic development and job-creation, but also combat climate change and ensure our energy supplies.

Denmark may be a small country but when it comes to energy efficiency and cleantech, we offer valuable experience and technologies. As China embarks upon realising her ambitious targets to ensure sustainable growth, we may benefit mutually from an even closer cooperation in clean technology. It is my clear impression that China is not going to repeat what some industrialized countries did: Grow now, clean up later.

The first movers of today are the winners of tomorrow. And so are the fast movers. On clean technology Denmark is a first mover. And China is a fast mover. If we join forces and engage in close cooperation both our nations will benefit. Eventually, we will become the leading cleantech economies of tomorrow.

Globally, we will see a massive increase in green investments in the years to come. There has already been a huge increase, but more is needed. It is estimated that we will have to make additional investments of more than 10 trillion USD in the period 2010 to 2030 to meet international climate change targets. This means that each country needs to make additional investments in the order of around 1 percent of its GDP by 2030.

The approach of my government is that green growth is not only good for the planet, it is also good economics. Export of Danish energy-technology has tripled over the last decade and has grown substantially faster than export of ‘ordinary’ goods. Cleantech now represents 16 percent of Danish exports (2008). And within the EU, Denmark is among the leading exporters in this field. Our industries are highly specialized and we are constantly looking to take advantage of new opportunities. China is one of our key markets and Chinese companies some of our most important partners.

But there is no room for complacency. My government has set the goal that by 2020 Denmark should be among the three most energy-efficient countries in the industrialized world. And we should also be in the top-three in terms of countries that increase their share of renewable energy the most. In the next decades, we aim to reduce our CO<sub>2</sub> emissions with the long-term goal of becoming completely independent of fossil fuels.

This will no doubt require a tremendous and sustained effort by all, but it will also contribute to reducing costs in our households and to keeping our companies competitive in the global market place. Our experience demonstrates that by combining environment-friendly legislation and public and private investments, we have been able to bring down CO<sub>2</sub> emissions and at the same time provide market opportunities for our companies. I see the same process taking place in China today.

Ladies and gentlemen,

While the market opportunities in cleantech could seem boundless, it is clear that the global competition is becoming more intense. It might be tempting to conclude that this would lead to less cooperation between countries. I would argue the exact opposite. We need more cooperation, exchanges and sharing of experiences to the benefit of our peoples and our economies.

Denmark and China are a perfect example of this. We are both focused on reaping the positive benefits from globalisation and the green revolution. And we are uniquely positioned to forge even closer bonds between our governments, our businesses and our research and educational institutions. For both our countries, the same lesson applies: To remain at the forefront of the green revolution, we must continue to invest in innovation, education, research and development. My government has made investment in research and education, particularly in technical fields, a key priority. We expect to learn a lot from China, which is clearly an emerging force in knowledge-intensive industries.

Cooperation between Denmark and China in the field of research and education has developed rapidly and successfully. In 2007, we established a Danish Innovation Centre in Shanghai, which cooperates with Chinese companies and research institutions. All universities in Denmark have partnerships with Chinese universities, including several of them with Peking University, most prominently Copenhagen University. I am therefore pleased that President Hemmingsen of Copenhagen University is present today. And later today, Premier Wen Jiabao and I will attend the signing of an agreement to establish a joint Sino-Danish Centre for Research and

Education with the Graduate University of Chinese Academy of Sciences as the main Chinese partner. The centre will promote mutual research collaboration between Danish and Chinese scientists. This important initiative will create a broader platform for Sino-Danish knowledge-based collaboration. I know that there are contacts also to Peking University on establishing ties with the centre.

The overall vision for our collaboration in the field of education and research is to lay the groundwork for adding value to the Chinese and Danish societies through exchange of knowledge, technology and highly educated manpower. Such bilateral cooperation will also stimulate increased networking and cultural understanding, which will benefit both Denmark and China in a global context marked by mutual interdependence.

Bilateral cooperation is not enough, however. To meet the global challenges facing us all today, we need to create a stronger, more effective rules-based international framework. China's role on the global stage is strong and will only grow in the years to come. Increased economic power naturally leads to increased political weight and increased political responsibility. The world needs China to cooperate with other responsible stakeholders in tackling regional and global issues such as economic growth, non-proliferation, poverty alleviation and human rights, regional conflicts and counter-terrorism, trade and climate change. It is in our common interest that China actively contributes to addressing these issues. China is a key partner for the European Union and we look forward to strengthening both our strategic dialogue and our practical cooperation in the years to come.

Climate change is perhaps the clearest illustration of the critical importance of concerted multilateral action to meet global challenges. This was at the heart of the agenda at the COP15 climate summit in Copenhagen in December of last year. A lot was at stake – and still is. That is why we worked so hard in Copenhagen to achieve a global agreement. And this is why the outcome of COP15 – the Copenhagen Accord – is so important.

125 heads of state and government convened in Copenhagen to start building a new global framework to combat climate change. The Copenhagen Accord is a major achievement in this regard. Premier Wen Jiabao played a decisive role in brokering the agreement and I would like to take this opportunity to thank him and the Chinese Government for continued support to the Copenhagen Accord.

This agreement provides the fundamentals of a global framework and reconfirms the principles established by the United Nations Framework

Convention. It sets out the target to limit global warming to below 2 degrees Celsius and creates a critical link between this goal, the international cooperation to achieve it, and the contributions of individual countries.

The Accord also includes important elements related to technology development and transfer as well as financing, which will assist developing countries in implementing mitigation actions. The decision to establish a Technology Mechanism will help countries in moving towards low-carbon societies.

Today – a few months after the COP15-conference – 118 countries have associated themselves with the Copenhagen Accord. This includes China and other major economies. The countries represent more than 80 percent of global emissions and almost 90 percent of the world's GDP. We shall build on this to further strengthen international cooperation aiming to address global warming and further low-carbon growth.

Much of the transition will take place in the national economies and within the economic planning of individual countries. National governments have a key role in creating incentives and establishing the right regulatory framework for markets and companies to undertake green investments.

China's national initiatives in recent years towards a path of sustainable economic growth are impressive and targets for renewable energy indeed very ambitious. Yet I am confident China will make it, given the remarkable development in the utilisation of renewable energy resources that has already taken place over the last 5 to 10 years.

As we look to the next UN climate change conference – COP16 in Mexico – Denmark is working with the incoming Mexican presidency to ensure that the current momentum is translated into concrete action. We look forward to continuing to work closely with China and other key countries towards creating a strong global framework.

Ladies and gentlemen,

Let me conclude by underlining that the foundation for the bilateral relations between our countries rests on a strong historical footing. I am proud to note that the friendship between Denmark and China goes back a long time. Denmark was among the very first Western countries to recognize the People's Republic in 1950. This year in May we will therefore celebrate the 60th anniversary of diplomatic ties between our two countries.

It was an important milestone when Chinese Premier Wen Jiabao and my predecessor in October 2008 launched a Comprehensive and Strategic

Partnership agreement between China and Denmark. I look forward to broadening and deepening these ties.

In economic terms, our relations have never been stronger. Never! China is Denmark's biggest trading partner in Asia. And some 400 Danish companies are established here, contributing to growth and employment and helping to spread advanced technology, not least in the cleantech sector. These companies are strongly anchored in the Chinese society and employ many university graduates like yourselves. I hope that many of you will decide to seek employment with Danish companies when you have completed your studies!

I would also like to use this opportunity to encourage more Chinese students to attend Danish educational institutions. Around 3000 Chinese students are already enrolled at Danish institutions located in Denmark and China. They study everything from engineering, humanities and vocational training to business administration. And please do not worry about our difficult language. Denmark is – also – an English-speaking country and in almost all academic fields you will find study programs in English!

As I close my remarks, let me reiterate the basic point that Denmark and China – although very different in size and political system – can and will benefit from closer cooperation in many areas. I see the basis for a strong and expanding partnership as we take on the challenges and opportunities in front of us. Green growth and combating climate change will be at the very centre of our common efforts. As tomorrow's innovators and leaders, you – the youth and students of China – have a vital role to play in this.

As a testament to the friendship between Denmark and China, we have dispatched our national icon – the statue of Antusheng's [HC Andersen] Little Mermaid – to be displayed at the Danish EXPO 2010 Pavilion in Shanghai. I hope that you will all go and see her!

I now look forward to an interesting dialogue with you all. Thank you for your attention.



## Danish Domestic and Foreign Policy

### Address by the Danish Prime Minister Lars Løkke Rasmussen at his annual meeting with ambassadors in Denmark, Copenhagen, 23 April 2010

Ambassadors, Your Excellencies,

Thank you for coming today. I have been looking forward to our meeting. I see these gatherings as an important channel of communication between the Danish Government and our partners and friends who are represented in Denmark. I am pleased that you have had the chance to meet with the new Foreign Minister and the new Minister for Development Cooperation.

This is actually a particularly good time to have this meeting. A lot has happened in Danish politics over the last few months. In February, I presented a completely reorganized cabinet with many new ministers. And we launched an ambitious and proactive new work programme called 'Denmark 2020'. This week, the cabinet held a retreat to discuss specific measures that the Government will be taking to turn this work programme into concrete action. We have also continued the important work of our national Growth Forum.

We have a lot of work to do. The list of challenges on our domestic and international agenda is long. Getting our economy back on a stable path of growth and employment is at the top of our to-do list. Like it is in most countries. This is not an easy task. Global competition has become more intense, particularly from Asia. This is indeed a challenge for a country like Denmark, as it is for all European countries.

I have been able to witness this first-hand. I visited Singapore, Japan and Korea in March. And only a couple of weeks ago I visited China. The goal was to strengthen bilateral relations, facilitate business contacts and get a better understanding of the challenges that we face in Denmark. Asia is truly a fast mover. Denmark might be a first mover in some areas. But Asia is a fast mover.

I met leaders, business executives and students full of drive, purpose, energy and commitment. We have a lot to learn from the Asian countries with their impressive growth rates and sharp focus on education, research and innovation and green growth. But there was also a clear interest in learning from us: What is the Danish take on education and research? How do we handle the transition to a green economy? I am pleased that my visits paved the way for new partnerships in some of these key areas.

In my remarks today, I will first address the current economic challenge facing Denmark. Then I will briefly touch on the green agenda. And finally I will turn to Afghanistan and conclude with a few general remarks on Danish foreign policy. After that, I look forward to your questions and comments.

Tackling the most severe financial and economic crisis in decades remains the central domestic challenge for Denmark. A full recovery is still not secured. But there are encouraging signs. The Danish economy started to grow again in the third quarter of 2009. And we expect sustained growth at a modest rate in 2010 and 2011. Unemployment in Denmark has increased. But it remains relatively low compared with most other European countries.

The Danish government has taken extraordinary measures to counter the crisis. We have supported our financial sector. Our fiscal policy is among the most expansive among the OECD countries in 2010. We have increased public investments. And we have introduced fully financed tax cuts that will significantly increase household disposable incomes in 2010. This is why we are getting through the crisis with lower unemployment levels.

The crisis – and the many public initiatives to counter it – has left Denmark with a budget deficit of around 5.5 per cent in 2010. We expect to receive a recommendation from the EU later this year to reduce our deficit to less than three per cent in 2012.

20 EU member states have already received similar recommendations under the Stability and Growth Pact. And most of them face higher deficits and debt levels than we do. But that does not change the fact that

consolidating our public finances will be a key challenge for Denmark in the coming years.

We are fully committed to meeting the EU recommendation. Our strategy is to implement the full consolidation on the expenditure side. The main element will be keeping public consumption constant until 2013. And since we still want to increase funding for highly prioritised areas such as health care, we will have to reprioritise.

The economic crisis has worsened a number of challenges that were present even before the crisis hit us: Due to demographic changes over the coming years, we will be experiencing a net loss of people on the labour market. And increasing global competition forces us to take a critical view of our productivity and growth potential.

The crisis has made it clear how fast the world's economic gravity is shifting towards the emerging markets. While most developed countries have experienced low or even negative growth, countries like China and India have sustained growth rates in the range of 8-10 pct.

It is extremely positive that a growing number of people living in developing countries experience such rapid improvements in their standards of living. But for Denmark - and for Europe - it is also a wake-up call.

The truth - still not fully acknowledged - is that we now face tough competition in all parts of the value-chain, including innovation, research and development. Chinese engineers typically receive a much lower wage than their Danish colleagues. But often have equal or better skills.

This is but one example. I saw this trend throughout Asia where you clearly see how fast things are progressing. I was impressed - but honestly also a little worried on behalf of Denmark. I sometimes fear that we take Denmark's position as one of the most prosperous countries in the world for granted. That would be a mistake. If we are to maintain our prosperity and way of life, we need to improve our productivity and our ability to compete on the global stage.

My government has set the goal that Denmark should be one of the ten most prosperous countries in the world in 2020. This is a very ambitious goal, which can only be achieved if we make bold choices. To assess the challenges and suggest solutions, I have established a national Growth Forum with participants from the business, academic and political community.

One important topic on the Forum's agenda is the green economy. Danish companies have a strong position in green technology. In the coming years, demand for green tech will increase substantially. Danish com-

panies should be at the forefront of the new green markets. We have set the goal that Denmark should be among the three leading countries in the world with regard to energy efficiency and renewables by 2020.

Good framework conditions are the key to realizing this potential. But the competition in the green tech sector is getting tougher, not least from emerging economies. There is no room for complacency. We need to continue to invest for the long-term in research, innovation and development.

The Growth Forum is also addressing how Denmark can become better at attracting foreign investments and skilled labour. And it is taking a new look at our education system – especially our primary school system. We have set the goal that Danish pupils should be among the top five by international standards in 2020. Human resources are our most vital asset in this era of intensified global competition. Finally, we will have to take a closer look at our productivity gap which is increasing compared to other countries.

In short: we need a reform agenda that is both broad and deep. For a small and open economy like Denmark, international cooperation – not least within the EU – is crucial. Through the EU's internal market, Danish companies gain direct access to 500 million European customers. Instead of just 5 million in Denmark. This illustrates in all simplicity why Denmark can only be a 'winner nation' if Europe is a 'winner region'.

Throughout the crisis, the EU countries have cooperated closely to get the economy back on track. This is extremely positive. We have coordinated our national crisis measures within a common framework for economic recovery. We have taken a wide range of measures to strengthen the EU's common rules on financial regulation. And we are coordinating our fiscal exit strategies within the Stability and Growth Pact.

I also see a strong role for the EU when it comes to improving long-term growth and job-creation. At the latest European Summit in March, we launched a new European growth strategy – the 2020 Strategy. We agreed that the strategy should be more ambitious, more focused and more effective than its predecessor – the Lisbon strategy. And from a Danish perspective, we welcome the prominent role that transformation to a knowledge-based and green economy plays in the strategy.

I would also stress the crucial importance of close transatlantic cooperation and concerted action at the global level to address the crisis. Through the G20 and other foray, we have managed to avoid the worst effects of the global crisis. We have to a large extent avoided protectionist measures which could have deepened the downturn. And we are establish-

ing international rules to strengthen regulation and supervision of global financial markets.

We have already taken many important initiatives to tackle the economic challenges ahead of us – in Denmark, in the EU and globally. But the reality is that the scale and the urgency of the challenges we face are not always fully acknowledged and understood in all parts of our societies.

To sustain our long-term prosperity and welfare systems, we need to bring our public finances back on track. We will have to prioritise even more and provide public services even more efficiently. We need to implement further reforms of our labour markets to ensure future labour supply. And in order to keep jobs in Denmark, we need to ensure that our productivity and our wage levels are better aligned.

I believe that many European policy-makers – including myself – face the same central dilemma: On the one hand, there are the economic realities. On the other, there is the need to gain broad public support for strong policy measures. In that context, European cooperation can – to some degree at least – help to create a better understanding of the problems and the necessity to confront them.

I will now turn to the green agenda and our efforts to address climate change. In essence, we are confronted with what I have called a dual challenge: Countries must continue to deal with the global economic crisis and find new ways to create sustainable growth and employment. At the same time, we must transform our societies into low-carbon economies to address climate change and future energy security.

In this new global landscape, we have chosen to see this as an opportunity, rather than a problem. In our view, the transition to a green economy is not only good for the planet, it is also good for business. There are no quick fixes or easy solutions. But with a sustained focus on a green recovery, I see a potential win-win situation to the benefit of our economies and the global climate.

Without concerted global action, however, we will not be effective in addressing climate change. This is what was at stake at COP15 in Copenhagen last year – and still is. And this is why the outcome of COP15 – the Copenhagen Accord – is so important.

I went into COP15 with high ambitions. In our efforts to reach an agreement, we tried to build a bridge between the complex national economic interests of the Parties and the equally complex international agenda relating to reducing global emissions and distributing the costs. This had never been done before. And the negotiations were every bit as difficult

as we expected. But despite the twists and turns, we got an agreement, a global deal. In my view the best possible deal, in light of the circumstances.

The Copenhagen Accord provides the fundamentals of a global framework to combat climate change. It sets out the target to limit global warming to below 2 degrees Celsius. And it creates a critical link between

- this goal, which was first defined by science and since then acknowledged by politicians,
- the international cooperation to achieve it, and
- the contributions of individual countries.

The Accord also includes important elements related to technology development and transfer as well as financing. So far, 122 countries have associated themselves with the Copenhagen Accord. This represents around 90% of world GDP and 83% of world emissions. This sends a strong signal. Denmark is working closely with the incoming Mexican presidency to ensure that the current momentum is translated into concrete action at COP16. In fact I had the chance to discuss this with President Calderon just yesterday.

Moving from the green agenda, I will now turn to one of the most critical security challenges in front us, namely Afghanistan. This is an absolute priority for Denmark. As it is for NATO and for the international community. I see Denmark's military engagement as a fundamental question of our own security. To prevent Afghanistan from once again becoming a safe haven for terrorists. And the means to do so is first and foremost to introduce a viable Afghan security regime.

We have been fighting in Afghanistan for nearly ten years now. The last four years at the very forefront in the Helmand province, primarily with the UK. Our engagement has not been without sacrifices and it is not over yet. Denmark remains fully committed. But status quo is no longer an acceptable situation – neither for us nor for the international community. Significant progress in the remainder of 2010 is required. I therefore welcome the additional US and international forces.

The Danish engagement still enjoys a wide political and public support. It is a reflection of the importance of the task and a clear sign of the deep respect for the Danish men and women who risk their lives every day in Afghanistan. But continued political and public support clearly comes with a price tag – progress.

We have just presented a new plan for our engagement in Helmand Province – the so-called Helmand Plan 2010. The focus is on capacity-

building. The plan enjoys wide support among the political parties. But it also reflects this strong political demand for progress.

It is my sincere hope that we can begin to transfer lead security responsibility over to the Afghans within a foreseeable future. This is our goal. A goal that is shared by the Afghans and the rest of the international community. Our security engagement in Afghanistan goes hand in hand with our development assistance. This is absolutely key to the long-term stability and reconstruction of Afghanistan. In general, our development assistance remains a central part of our foreign policy. We have just presented a draft strategy that lays out a new, forward-leaning strategic framework for our development assistance effort.

Let me conclude with a few general remarks on Denmark's foreign policy:

There will always be continuity in our foreign engagement. Nuances might change. But at the core, Denmark's international involvement is based on cooperation and partnerships with friends and allies and strong rules and institutions such as the EU, NATO and the United Nations. In my view, Denmark must maintain an active foreign policy engagement. Our goal is to make a difference in the world. To help find solutions. To carry our share of the burden, also when the going gets tough. Our policy must be guided by both our fundamental values and our national interests.

It is when the public can see that we are promoting both values and interests – and generating concrete results – that the support for our international involvement is the strongest. You see this in Afghanistan where we are among the top contributors measured per capita, despite suffering high casualties. And you see it in our development assistance where we remain among the leading donors in the world, despite the economic downturn.

Globalisation is bringing together our domestic and international agendas. Simply put, our domestic policies will not be effective without a strong foreign policy. Pursuing economic recovery at home does not make sense without an active international effort to promote economic development, growth and trade. As we look to the long-term challenges, it is clear that we are faced with some tough choices. We need to confront these head-on today.

A clear lesson from the economic crisis is that we need more international cooperation, not less. We need more exchanges and sharing of experiences to the benefit of our businesses and our people. And we need more effective and concerted multilateral action to counter global challenges.

The global map is changing. New centres of power are emerging. For a country like Denmark, it is vital to maintain strong relations with all the key players. I am pleased that I have had the chance to meet with leaders and strengthen cooperation with a broad range of countries. I see this close dialogue as the most effective way of generating results and promoting Danish values and interests abroad.

Thank you for your attention. I look forward to our discussion.



## Danish-Russian Relations and Trade

### Speech by the Danish Prime Minister Lars Løkke Ramussen at the Danish-Russian Business Conference, TAPI, Carlsberg, Copenhagen, 28 April 2010

Danish-Russian trade has picked up again and there is growing interest in new investments. However, there is potential for far more. Rich possibilities exist and it is our joint responsibility to fully exploit them.

It is encouraging that the Danish and Russian business communities have joined forces and agreed to develop their cooperation. This is to take place through the establishment of a Russian-Danish business forum that includes a number of leading Danish and Russian companies. It is my hope that with the establishment of this new business platform we will witness a powerful boost both in commerce and investments in the years to come.

There are many exciting projects in the pipeline between the Danish and the Russian business communities. This is a clear proof of increased commercial interaction between our two countries.

Later today, President Medvedev and I will sign a declaration concerning a modernisation partnership between our two countries. One goal is to support the Russian modernisation process through an expansion of contacts and cooperation in many different areas. This declaration will create the basis for more dynamic bilateral relations.

Danish companies have a great deal to offer regarding both products and know-how. We can deliver products and technical solutions that can contribute to improving Russian energy efficiency. This is one of the key

objectives that President Medvedev has defined for Russian society. Later today a bilateral cooperation agreement on energy will also be signed.

Denmark has also a lot to offer in the area of agriculture and food. Many of our companies are already actively involved in modernising Russia's agriculture and food production.

In the area of transport, Danish shipping companies are responsible for a large part of the goods transported to and from Russian harbours. Our shipping lines have achieved considerable market shares in Russia because they deliver absolute top quality transport solutions. Our pharmaceutical companies are also world market leaders. Many Russian diabetics use high quality Danish insulin, for example.

Danish companies' exports to and direct investments in Russia contribute to the diversification and modernisation of the Russian economy. It is also my distinct impression that many more Danish companies are ready to invest in Russia if the framework conditions are right.

I hope that this state visit will inspire the Danish and Russian business sectors to expand the existing contacts and pave the way for new business opportunities that benefit both our countries.

The economic crisis has increased pressures on political leaders all over the world to protect domestic markets. Although the worst has been avoided, there is still a risk for global protectionism. It is important that we all refrain from this. International trade must be strengthened. Trade is part of the solution for the global economy.

This is of course also true for our bilateral economic cooperation. If we are to realise the joint vision of closer trade cooperation, barriers must be broken down. We must create better symmetry in the framework conditions for our companies.

It is our opinion that Russian membership of the WTO will foster an even more dynamic development in bilateral commerce and direct investments. Russian WTO membership will create stability and predictability in terms of framework conditions. I am confident that it would set the conditions for a boost in trade and direct investments.

I will conclude by expressing my sincere hope that this business conference will have a lasting impact on Danish-Russian commercial relations. That we will experience renewed growth in commerce and investments as a consequence of the contacts made today.

As I started out saying bilateral relations between Denmark and Russia have never been better. I hope you will seize the moment!

Thank You.

## Climate Change and Deforestation

### Speech by the Danish Prime Minister Lars Løkke Ramussen at the Oslo Climate and Forest Conference, Oslo, 27 May 2010

Your Royal Highness,  
Heads of state and government,  
Ministers, Ladies and Gentlemen,

I appreciate the opportunity to address you here today. We are gathered to launch a new partnership with the purpose of reducing deforestation, forest degradation and climate change.

At COP15 in Copenhagen, we reaffirmed the fundamental principles established by the United Nations Framework Convention on Climate Change. We also reached a political understanding – the Copenhagen Accord, which establishes a framework for concrete actions in the field of adaptation and mitigation.

It is encouraging that 126 countries have associated themselves with the Copenhagen Accord. And 79 countries have provided information to the appendixes on their efforts. Together these countries represent almost 90% of the world economy.

One fundamental feature of the Copenhagen Accord was its insistence on immediate action. And this is why we are gathered here today in Oslo. The new partnership for REDD+, which we are now launching, and the process of establishing the partnership demonstrates how the Accord can be the vehicle for concrete action that we wanted it to be. Norway and France should be commended for having shown the way forward.

Additional processes have been launched and probably new partnerships are emerging building on the Accord and the experience from REDD+. At the informal ministerial climate dialogue in Petersburg informal consultations on critical issues such as mitigation and MRV and on adaptation were launched. Individual countries joined efforts and took leadership. I hope they will be equally successful in achieving concrete outcome as an important contribution to UNFCCC negotiations towards COP16. And we offer our full support and collaboration to the Mexican presidency in its efforts to secure these results later this year in Cancun.

Another critical feature of the Copenhagen Accord was the joint commitment to generate fast start financing. Developed countries have committed to providing fast start financing as well as long term financing to the developed countries. The High Level Panel on long term finance set up by the UN Secretary General will set the tone for the long term finance. For the short term finance, many countries have already shown a high level of commitment to fulfilling the target set by the Copenhagen Accord.

The Danish contribution to fast start financing totals 220 million USD. As part of our contribution we will expand our funding to REDD+ by an additional 10 million USD.

Our task is to ensure that the significant commitments are turned into concrete actions in the developing countries for the benefit of the global climate. But also to pave the way for sustainable development and green growth in our future.

I think the Partnership launched today is an important step forward and a historical moment and I want personally to congratulate my colleague Jens Stoltenberg and the entire world with the result achieved here today.

Thank you.

## Development Cooperation with the EU

### Speech by the Danish Minister for Development Cooperation Søren Pind at a conference in the Danish Council for Development Cooperation, 4 June 2010

Commissioner Piebalgs, Deputy Minister Kwetey, Ladies and Gentlemen,

I am happy to welcome you all to this conference. It is a welcome opportunity to engage in discussions of the EU's development cooperation and how the EU can best work in partnerships with developing countries to deliver development results. I am therefore happy to welcome the European Commissioner for Development Cooperation, Mr. Piebalgs, and Mr. Kwetey, Deputy Minister for Finance of the Republic of Ghana, who will join us in these discussions.

This conference also provides me with a good opportunity to outline the Danish government's ambitions in relation to the EU in the new strategy for Denmark's development cooperation which I presented to parliament last week:

Firstly, we want to see the role of the EU as a global actor strengthened. Denmark wants to see the EU as an even more effective and relevant partner in development.

Secondly, we will put an increased emphasis on EU in Danish development cooperation. An active engagement in the EU will allow us to punch above our weight – to give Denmark more influence than we could otherwise expect.

I will go into more detail with these two ambitions. However, let us

first take a step back to ask why the EU is so interesting in a development perspective in the first place? The EU was created to safeguard freedom and democracy. In this sense, the EU is a role model for successful and peaceful development.

It is as simple as that! The world of today is characterized by rapid globalization. An increasing number of challenges on a global scale – poverty, economic crisis and climate change to name but a few – create an increasingly interdependent world. Global challenges call for global answers and make the EU even more important as a key pillar in Danish foreign and development policy. It is first and foremost through our membership of EU that Denmark can influence the global agenda and work to ensure that challenges are dealt with in a timely and efficient manner.

The EU is the world's largest actor in development cooperation with a global presence, but at present does not exercise a fully corresponding influence on the global scene. This is a mismatch we must correct.

The EU must be a more efficient and relevant development partner both at the international and country level with a strong focus on poverty eradication and sustainable development. But this requires the EU to lead the way in reaching the internationally agreed goals on more, better and more effective development assistance.

It is difficult times, but we need to follow through on our promises and all member states must live up to their commitments. Member states that have still not reached 0.7% in assistance (ODA) should establish national timetables to get there by 2015. The EU and its member states have the weight and potential to truly move the development agenda forward. We must capitalize from this potential.

As the world's largest actor in development cooperation, the EU is also in a unique position to promote key values of freedom, democracy and human rights. The new strategy for Denmark's development cooperation is based on the fundamental concept that all human beings are born free and equal with inalienable rights.

Without freedom people are kept in poverty. In my eyes, freedom is a precondition for development. Ensuring the humans rights of all people and enabling people to be masters of their own destiny must be at the forefront of efforts to lift people out of poverty.

But the question that needs to be answered is also how to obtain development results. It's not only a question of doing more, but doing it right. Denmark wants to promote a more efficient management of the EU's development assistance. The Commission and the Member States must

take a results based approach that builds on learning from past experience and continuously strive for the most efficient use of scarce resources. We need to create results and to document them. There continues to be room for improvement and lessons to be learned, including at country level. We know which steps to take – they are spelled out in the Paris declaration and the Accra Agenda for Action - and we must continue to walk that road.

To give you a sense of what there is to gain: The Commission has estimated that if the EU moves collectively on the aid effectiveness agenda, it amounts to 3-6 billion Euro in reduced transactions costs every year. It corresponds to between 1½ and 3 times Danish development assistance every year. This is why the commitments from Paris and Accra must be implemented by both member states and the EU.

There is considerable potential to enhance a more effective division of labor within the EU. But we also need to look more carefully at how we can combine forces in promoting alignment and the use of country systems and translating our joint commitments in this regard to action at the field level. Our experiences in the field are mixed as to how this is effectively translated into action on the ground.

We need to make sure that our development efforts are not undermined by the EU's policies in other areas. In other words, it is important to strengthen coherence and coordination between EU policies to support development efforts and avoid different competing policies undermining each other and having unintended negative consequences on development. At the same time, there can be synergies between different policy areas, we can take advantage of. The policies of the Commission and member states need to pull in the same direction to the benefit of development. There is already an ambitious agenda within the EU where a number of priority areas for strengthening policy coherence have been identified, including trade policy, food security, climate change, security and migration policies. The Lisbon Treaty also provides stronger coordination mechanisms. There is thus a large potential for improvement that we need to take advantage of.

The Lisbon Treaty brings an increased focus on coordination and coherence. A key element is the new structure with a high representative, Catherine Ashton, and the European External Action Service that will constitute the foreign service of the EU. As for development, the new EU structure entails a closer cooperation between the different actors in the EU. We now need to get the new structures up and running as soon as possible. On the basis of the Lisbon Treaty, Denmark will encourage a closer coop-

eration between the commissioner for development and the new external service as well as the other commissioners. If we want a larger impact on the global scene, we must ensure that the EU is well organized and able to act in a timely manner. Internal processes must be kept lean and efficient, enabling the Union to speak with one strong voice.

In the spring of 2012 Denmark will take over the Presidency of the Union; this will be a welcome occasion to focus on strengthening development cooperation within the EU, including addressing effective management of EU development assistance and ensuring results.

During the Danish presidency the EU will discuss the new financial perspectives – the budget. It will be vital to ensure the necessary flexibility in the use of external financial instruments. The EU would benefit from better possibilities to reprioritize resources to be on the forefront of developments, both at the global level and in response to the evolving situation in different countries.

As I stated in the beginning, the new Danish strategy also contain an increased emphasis on the EU in Danish development cooperation. Denmark is ready to reduce the number of partner countries and adjust our work in light of a more coordinated approach within the EU. We will also reduce the number of sectors we are engaged in, in each country. However, it is important that our partner countries guide the process. Any adjustments should be made in close cooperation with our partner countries and with other non-EU donors.

As a first step, we will phase out development cooperation with some countries and strengthen our cooperation with other existing partners, notably in Africa. At the same time, we will take a closer look at the comparative advantages of EU assistance. There is clear comparative advantage in working through the EU in some areas, for instance in fragile states, in support for regional integration and cooperation, and the list goes on. In these areas, EU benefits from its global presence and its capacity for coordination and ensuring policy coherence.

Denmark will continue our efforts to influence the development agenda of the EU. We will engage early on in the EU's policy development in cooperation with other member states, the external service and the Commission based on our key priorities as defined in the new strategy for Denmark's development cooperation.

We need to closely asses, where and when acting through EU adds value and where we continue to have a strong national role in terms of expertise, know-how and well established partnerships. This should allow



doing what each of us do best even better and ensure even stronger capacity to deliver on priority areas. This is an analysis we need to carry out. We already know that in areas such as health and education, there are synergies and efficiencies of scale in working multilaterally, while other areas such as women's rights also benefit from front runners to push the agenda forward, as we have done with the Danish campaign in support of MDG3 to empower women.

The question of how we actually reach a better division of labor is, however, easier posed than answered. It creates a number of dilemmas - including how to ensure that we do not paint ourselves into a corner and remove all room for manoeuvre for political priorities and new initiatives? How to avoid that some countries and sectors lack behind, depending on who is engaged? We already know this problem from the so-called aid orphans that have difficulties attracting development partners and finance. And how to make sure that partner countries continue to be in the driver's seat? These are all significant questions that we must address together to move forward.

In conclusion, the EU does a lot but can and should do more. Our task is to help make the EU succeed. This entails that everybody - including Denmark - make some hard decisions and at times painful choices. We are ready to do so, when necessary.

We will do so, because we need to make sure that we get as good development results as possible for the available resources. We owe that much to our partners and to our taxpayers.

Thank you.

## Statement by the Danish Prime Minister Lars Løkke Ramussen at the opening of the Global Green Growth Conference, Glyptoteket, 8 November 2010

Ladies and Gentlemen, Your Royal Highness,

I would like to thank the Climate Consortium for organizing this event and all of you for attending. I am pleased to have this opportunity to share with you some thoughts on green growth.

Moving the green growth agenda forward is becoming one of the defining political, commercial and intellectual projects of our time. From national governments to the United Nations; from global corporations to individual entrepreneurs; from grass roots to advanced innovation institutions; we are all seeking to engage.

Some are driven by the urgency of the challenges facing our societies today. Those include

- creating a sustainable basis for long-term recovery
- fuelling long-term growth and employment
- addressing climate change through concerted global action
- and ensuring our long-term energy supply and reducing our dependency on fossil fuels.

Others are moving to take advantage of the enormous business opportunities that the transition to a green economy present. And yet others see the green transformation as an environmental and moral imperative.

Whatever the motivations, the mounting level of activity in the green sector is a reflection of the structural changes that are rapidly shaping a new world economy.

As we look into an unknown future and towards a global transition to a low carbon economy, we face a fundamental dilemma between what you might term a political as opposed to a commercial logic:

On the one hand, as politicians we want to maintain as much flexibility in policy choices as possible. We know that things will change in unexpected ways and we want to maintain our ability to adjust the course as we move ahead. When we establish the energy policy of the years ahead, we need to take into account that we do not know about the technology of the future.

On the other hand, business and investors favour long term predictability and a stable and transparent long term investment environment. Also, they want higher profits for more insecure investments. To put it short, investors require less flexibility and more stability and predictability in policy choices and incentive structures.

Our challenge is to make this political and commercial logic work together in order to open for investments in the green transition on larger scale than today. This may well be the only viable avenue towards the goal of a global green economy. A goal that is vital in regard to addressing climate change, to securing sufficient provisions of energy, and to maintaining the competitive edge of our economies.

Without any doubt the potential is there. To realise it, however, we must accelerate and renew our international cooperation, engaging the true drivers of the green economy. Especially the regulators, the producers, the investors and the innovators – not forgetting the thinkers and those who are finding the solutions of tomorrow. Denmark stands ready to do its part in this effort.

Historically, Denmark has been among the leading countries pushing the green transition, based on a determined and forward-looking national energy policy.

The first generation of this policy – version 1.0 – was born out of the oil crisis of the 70'ies. During this period, we realized the importance of reducing our dependency on imported oil and our vulnerability to rising energy prices.

Since then, the Danish economy has grown by almost 80 percent – until the crisis hit us – while energy consumption has remained more or less constant. And CO<sub>2</sub> emissions have been reduced as renewables have been phased in to our main energy production.

These results were achieved through increases in our energy and CO<sub>2</sub> efficiency, which ranks among the highest in the OECD. And we changed the composition of our energy consumption so that renewable energy today makes up almost 20 percent.

Through a determined effort, we have increased the efficiency of consumers' and enterprises' energy consumption. For example through

- high energy standards for buildings and energy labelling schemes for electrical appliances,
- public campaigns to promote energy savings in households
- energy saving agreements with industry
- and taxes on consumption of fossil fuels

We have also prioritized research, development and demonstration of new technologies and systems. We have developed a strong Danish commercial engagement in energy efficiency and green solutions. A number of Danish companies have become world leading within their fields. Today, almost 12 percent of our exports come from clean tech, the largest share among the EU countries.

With a growing global demand for green solutions, there is considerable potential for the Danish economy. But competition is also increasing. Danish businesses will have to adapt to the new realities. We cannot take for granted that the green transition will automatically create new jobs in Denmark.

In order to meet these challenges, we need to develop a new and ambitious energy strategy version 2.0. That is why the Danish Government, in 2008, established the independent Commission on Climate Change Policy. We asked the Commission to present a blue print for a complete phasing out of fossil fuel from the Danish economy by 2050.

The Commission's report shows that turning this ambitious goal into reality will be extremely complicated. We need to balance a number of considerations, including economic growth, employment, sound public finances and competitiveness. And it will take time, careful planning, smart policies and – not least – political will. But the Commission report also demonstrates that it is possible and that it is indeed compatible with our future economic growth perspectives.

This is a national goal that Denmark must work for over the coming decades. The Danish Government is now examining the Commission's report. Later this month at a meeting of our national Growth Forum,

we will discuss possible solutions to move Denmark towards a fossil free economy. And in early 2011, the complete strategy for freeing ourselves from fossil fuels by 2050 will be presented. I believe it will be among the first roadmaps in the world on how to become fully independent on fossil fuels.

As we address today's challenges of growth, climate change and energy dependency, it is clear that our efforts cannot stand alone. We need stronger and deeper international cooperation to move forward the green transition.

Global action through the UN has to be the overarching framework for this effort. The Copenhagen Accord was an important step forward in creating such a framework. COP16 in Cancun will be an opportunity to make further progress in the UN track.

At the same time, we must push forward with the green transition based on the engagement of actors such as you who are present here today. In this room, you clearly sense the will to act and to take advantage of the opportunities that the transition presents.

We need to foster practical solutions, new business ventures and investments. We need to develop regulatory models that can create incentives for businesses and investors to engage in green projects. And we need to match those who develop ideas for new green solutions with those who can fund and produce them.

In short, we need a new type of international cooperation that can bring these different players together. We also need a version 2.0 of our international cooperation on green growth.

The Danish Government's vision is to create a global forum to identify the main challenges and find practical solutions. So we can further the green transition on a truly global scale. So we can bring on board all relevant stakeholders. Our goal is to convene such a forum next year.

This will not be a purely government-run initiative. Nor will it be a purely Danish initiative. We see this as a partnership among businesses, investors, regulators and knowledge institutions involved in green growth from all over the world. And we see this as a venue for making the political perspectives meet with the business and investment outlook.

We must jointly translate ambitious words in to ambitious action.

Let me conclude by noting that this is an extremely appropriate venue to have this conference. This impressive building was founded by one of the great Danish industrialists, Carl Jacobsen. He was a very visionary man and a leading force in Denmark's transition to what was then a 'new economy'.

Let us be inspired by his foresight and willingness to take bold steps as we embark on the transition to the new green economy.

I thank you for your attention and wish you a productive conference.

## Regional Cooperation Needed for Economic Growth

Comment by the Danish Minister for Foreign Affairs  
Lene Espersen in the European Voice, 10 November 2010

The Baltic Sea Strategy has the potential to generate smart, green economic growth.

For many years, the Baltic Sea region enjoyed sustainable growth. It is now being hit disproportionately hard by the global economic and financial crisis.

This is particularly the case in the three Baltic states, where unemployment has soared to very high levels. Although the economic outlook remains quite gloomy, there are bright spots in the region's economy. Thanks to the exemplary fiscal discipline shown by the Estonian government, Estonia has qualified for admission to the eurozone on 1 January. In Latvia, a tough austerity programme has brought its economy back from the brink.

The economies of the Baltic Sea region account for one-sixth of the economy of the EU. They are therefore important not only to the region, but also to the whole of Europe. Growth in the Baltic Sea region means growth in the rest of Europe.

The region is facing many challenges that require action at a regional level, since responses at the national or local level may be inadequate. Clearly, the region also has significant potential that can be better used. This applies particularly to areas based on research and innovation.

It was against this background that EU leaders agreed in October 2009 to launch Europe's first macro-regional strategy, the EU Baltic Sea Strategy. The aim of the strategy is to provide an integrated framework

within which the Baltic Sea states and their neighbouring non-EU countries can strengthen co-operation.

The strategy addresses common challenges and opportunities across a broad range of policy areas, including environmental sustainability, economic growth and security. The Baltic Sea Strategy is seen as a model for other macro-regional strategies in the EU. EU leaders have already decided to ask the European Commission to present a similar strategy for the Danube region.

### **Closer Co-operation**

On several occasions, including at the summit of the Council of Baltic Sea States in June, I have called for closer and enhanced co-operation in the Baltic Sea region in order to exploit the large potential for the kind of smart, green economic growth called for in the EU's Europe 2020 growth strategy. In this context, I underlined the need for closer regional co-operation to create world-leading educational, research and innovation environments.

The strategy builds on the principles that no new institutions, budget funds or legislation are required for the implementation of the strategy. Instead, concrete results should be achieved through deeper co-operation with existing institutions and resources.

The participation and involvement of Russia in the strategy is particularly important. Many of the challenges in the Baltic Sea region are directly related to Russia. This is especially the case in areas such as environment, transport and energy networks, and maritime safety. A positive dialogue has already been established with Russia designed to make it a partner in the strategy.

As co-ordinator of six of the strategy's 15 priority areas, with a leading role in many of the strategy's approximately 80 flagship projects, Denmark has assumed considerable responsibility for ensuring that the strategy is implemented. It is a commitment to close co-operation with its regional neighbours to deliver a greener, cleaner, smarter Baltic Sea region.

A year since the strategy was implemented, positive results can already be seen, including efforts to clean up the Baltic Sea by reducing pollution from agriculture and shipping.

This message was underlined at the first annual forum for the EU Strategy for the Baltic Sea Region in mid-October. The meeting was called to discuss the next steps in the rollout of the strategy; the participation of more than 500 stakeholders, including national and regional govern-



ments, business and NGOs, was an indication that the strategy has already generated great, and broad, interest. This is very important if the strategy is to be developed to benefit the approximately 100 million people who live in the region.

The EU Baltic Sea Strategy represents a unique opportunity to create momentum in regional co-operation and exploit the region's economic potential. Denmark, which I represent in the strategy, will do its best to keep a political focus on the strategy within the EU, regional forums and bilaterally across the region. The opportunities are there, and it would be a major failure not to take the chance.

## Speech by the Danish Minister for Foreign Affairs Lene Espersen at a public debate on the EU's foreign policy challenges, Copenhagen, 16 November 2010

Thank you Nanna Hvidt for the introduction. And thank you for the invitation to come here today together with my good colleague from Finland, Alexander Stubb, and open this seminar of what is a very interesting series of public debates under the heading – Lighthouse Europe. I am extremely pleased to see that so many managed to find the time to come here and join me and Alexander for this debate. The concept ‘Lighthouse Europe’ is very ambitious as it requires us to come up with some effective guidance on how we deal with the challenges facing Europe.

As you know, the purpose of a lighthouse is to provide guidance to captains and sailors at sea about dangerous coastlines or hidden reefs and thereby help a ship enjoy a safe entry into harbour. And in much the same way, ‘Lighthouse Europe’ requires us to provide guidance to Europe’s leaders on how best to navigate in difficult international waters and how best to respond to the foreign policy challenges confronting us. This is our task here today, and I hope that our discussion will prove so productive that we can arrive at some useful guidance, which might help our European ship enjoy a safe entry into harbour.

For let me be perfectly clear with you. It is by no means a foregone conclusion that our European ship will be able to reach harbour safely without the passengers first having to go through a painful ordeal. There is a real risk of a rocky voyage, if we do not urgently attend to the task of

improving the ship's engine, the ship's manoeuvrability and its ability to compete vis-à-vis other oceangoing ships. The theme for today – EU foreign policy in a new world order – begs the question: What is keeping the EU from having a truly coherent and effective foreign policy? Why does EU foreign policy count for less than the sum of its parts when viewed from Washington, Beijing or Moscow? And how come public opinion in EU Member States continues to be 'underwhelmed' by the performance of Brussels on the global stage?

Well, the short answer is this: We have not been able to get our act together. We, the governments of the 27 Member States, have not been able to muster enough unity of purpose, enough political will and enough flexibility to make Europe capable of setting the agenda in the new world order that is under construction. Despite the fact that a common European foreign policy has been a declared objective ever since the Maastricht Treaty in 1993, we are still struggling to become an effective partner, when solutions are being devised to global issues like climate change, financial reform, human rights or international terrorism.

The EU remains the world's biggest exporter of goods and services. We are the world's biggest donor of development assistance, and we are the largest recipient as well as the largest provider of foreign direct investments. The total population of EU Member States comprises around 500 million people, which is 200 million more than the US. Jointly, the Member States and the EU Commission employ more than 25.000 diplomats and run 2297 embassies worldwide compared to a total of just 170 US embassies around the world. In short, Ladies and Gentlemen, the human resources, the economic leverage and the political foot soldiers are in place to serve our interests internationally and to ensure that Europe's voice is heard.

Yet, at the COP15 climate summit last year, which took place at the Bella Center not far from here, the EU came up short, when the final accord was hammered out. We all remember that it was the US, China, India and a few others, who decided the final wording of the accord, which as a result fell far short of the EU's ambitions. On a more regular basis, we also come up short at the UN in New York. At the UN headquarter, the EU organises no less than one thousand internal EU co-ordination meetings every year, which are aimed solely at achieving a consensus among ourselves. On some issues like the Middle East conflict, it is now deemed a relative success, if Member States only split up in two different positions instead of three. And at the UN in Geneva, the amount of times that the

EU manages to build a majority with other countries in support of important human rights resolutions is decreasing each year. Previously, we were able to get a majority behind our human rights agenda roughly 75% of the times, when it came to a vote in what was then called the UN Human Rights Committee. Today that number has gone down below 50% in the UN Human Rights Council.

Ladies and Gentlemen, I mention these examples not because I want to engage in EU-bashing – as a firm supporter of the European project, I never do that – but I mention them because I want to underline that all is not well with the EU’s foreign policy. In a nutshell, Member States must become far better at pulling together around a common European position, when such a position has been established. They must refrain from launching un-coordinated and merely attention-seeking foreign policy initiatives that run counter to what they themselves have agreed to at the European level. The EU’s foreign policy will always build on the initiatives and legitimacy of Member States, but we must all pull in the same direction. Otherwise we stand to lose. We might find it amusing to watch the Eurovision Song Contest each year, where 34 European countries present their own songs, but in foreign policy we cannot have 27 Member States singing 27 different tunes at the same time. Our aim is not to have all 27 Member States singing the same song. That would be an unacceptable straitjacket, which is unnecessary as well as unrealistic. Rather, our aim must be to make sure that our different voices play out in harmony. If we want to achieve results on the big global issues, we have to make use of the differences among us and build on the various historic and cultural ties that exist between European countries on the one hand and virtually every part of the world on the other hand. We all know this, and now we need to do something serious about it.

The good news is that we are in fact doing something serious about it now. Three weeks ago, Alexander and I together with the rest of our EU colleagues endorsed the final pieces of legislation required to launch the EU’s new foreign service under the leadership of Cathy Ashton. The legal basis and the budget for Europe’s new External Action Service are now in place, and Cathy Ashton has begun assembling her team in order to get this new European institution up and running quickly. Yes, the process of establishing the service has been long and complicated at times, but now we are almost there and more than anything else, the time has come for Member States to make room for Cathy Ashton and her efforts to forge a more dynamic and robust EU foreign policy.

Our age-old habit in Europe of petty quarrels and national rivalry must give way to a more coherent and more effective European voice on the big, strategic issues on the international agenda. Of course, this will not happen overnight, because old habits die hard as we all know. But the Member States must become better team players. Just as the best football teams are composed of hard-working players, who each use their skills towards a common goal, so must all Member States contribute with their analysis, proposals and comparative strengths. It is an advantage that the EU has 27 voices as long as we have a common message. And with the appointment of Cathy Ashton, we have an extra player on the team who can help coordinate our efforts like a football coach and hopefully energize the European team to score some goals.

Therefore, the guidance that I would like to transmit from our 'Lighthouse Europe' today would be that Member States use the EU External Action Service to turn the page and adopt a new, more constructive and more consensus-seeking approach to the EU's foreign policy. The External Action Service must be allowed to do its job of converting Europe's economic leverage and democratic pre-eminence into political influence on the global stage.

The Member States must allow this to happen not just for our own sake in order to avoid Europe getting squeezed by the US and China in the new world order, but also for the sake of the billions of people around the world, who struggle daily to survive conflict and poverty. People, who look with understandable envy on what we as Europeans have accomplished during the past 50 years. People, who are calling for a stronger European presence to help them towards a better and more worthy human existence. Fortunately, the EU has been able to heed their call on several occasions in the past, including in Georgia, in Aceh and in Southern Sudan, but we can do more, and we should do more in the future to bring security, democracy and economic progress to people in need. The External Action Service is a means to this end.

As you probably can hear, I am quite optimistic with regard to what Cathy Ashton will be able to accomplish in co-operation with us, the 27 Member States. Sadly, however, doing the right thing is no guarantee against misfortune. At this particular moment in time, when the EU is about to apply its new foreign policy toolbox, the capacity of many Member States to play their part in strengthening Europe's international position, is severely diminished by ballooning public deficits. Our national budgets for peacekeeping operations, development aid and monitoring

missions are under huge pressure from finance ministries that are desperately trying to balance the books.

Greece and Ireland are feeling the pinch from the international bond market most dramatically at this point, but many other EU countries are also in a vulnerable situation. Many of them have to confront rising unemployment, low economic growth, mounting deficits and a declining ability to compete on world markets, before they undertake any new international obligations. It is unfortunate that the launch of the EU's External Action Service and the attempt to bolster Europe's position in a new world order has to take place in such extraordinary economic headwind. But that is the situation, and it is the responsibility of Cathy Ashton and her 27 colleagues from the Member States to make the most of it, and I am confident we can do it.

Ladies and Gentlemen, the political and economic challenges facing Europe today are many and they are real. And for us to deal with them in an effective and ultimately successful manner, political leadership is required. We need bold leadership from European governments that will pave the way for key reforms to be implemented in order for our continent to prosper in a new world order, where non-European giants like China, India and Brazil will gain more influence and will be striving to set the agenda. In short, we will have to do our homework in Europe in a changing and in some respects adverse global environment. An environment, where formal and rule-based institutions like the UN and the IMF are being tested and sometimes pushed aside by more dynamic, but less inclusive organisations like the G20.

It is no secret that the global financial crisis has revealed the strengths and the weaknesses within the current international system. And it is equally clear that the G20 has been the single most important global forum with regard to crisis management and future guidance. It has served the world economy well in this time of crisis, but it is not founded on any international treaty. It has no administrative body, and it has no formal powers. In the long run, the international community should not depend on such informal ad hoc groupings alone. I firmly believe that not just Europe, but the world as a whole will be better off with formal – but still flexible – multilateral institutions, which are considered relevant, effective and legitimate. Just like their American and European counterparts, Chinese and Indian exporters are relying on liberal trade policies and an internationally agreed set of rules, which can be mobilized, if they encounter illegal trade barriers or unfair competition from local producers. They

have as much stake in a well-functioning and transparent world order as we do. Therefore, countries like China and India must now begin to face up to their responsibilities as global economic heavyweights and not continue to use an anachronistic UN-classification as 'developing countries' in order to get a free ride.

There is no doubt in my mind that the G20 will continue to evolve and constitute a forum, where big, strategic decisions are shaped. At G20 summits, Europe is represented by the President of the EU Council, Herman van Rompuy, the President of the EU Commission, Jose Manuel Barroso and the five biggest Member States – Germany, the UK, France, Italy and Spain. In order for small EU countries like Denmark and Finland to feel comfortable with the growing influence of G20, we need better and more thorough co-ordination in the EU before key summits like the one last week in Seoul. It goes without saying that it is not easy to communicate a clear and united European position, when the common European voice is supplemented or at times even disrupted by one or more of the five European countries sitting at the G20-table. Since the agenda of the G20 meetings in the last couple of years has expanded significantly beyond financial and economic issues and now includes a whole range of global issues like trade, development and climate change, we must ensure a much more thorough coordination of the EU position in advance of G20 meetings.

As a consequence, I would like to take this opportunity today to suggest that we consider establishing a new EU mechanism with the task of achieving a better coordination of the European position towards the G20 agenda. Such a mechanism is necessary to ensure a stronger and more united European voice at G20 meetings and more generally, it can help inspire confidence in the G20 among those EU countries like Denmark and Finland that do not belong to the twenty biggest economies. In this way, such a mechanism can help balance the principles of legitimacy and efficiency, which so often seem to be at odds, when we discuss reform of international institutions.

Ladies and Gentlemen, the question for today's debate is, whether EU foreign policy could bounce back in a new world order. My answer to that question is a qualified yes. Yes, it is possible, if we get our act together, reform our economies and renew our commitment to the European project, which has served our people so remarkably well for the past 50 years. It is possible if we – the 27 Member States – rise to the occasion and refrain from the temptation to cry foul, because we are faced with challenges that require us to become more competitive, more efficient and more united.

Therefore, let me conclude by quoting an African-American songwriter, Mrs. Bernice Johnson, who had this to say about challenges: 'Life's challenges are not supposed to paralyze you, they are supposed to help you discover who you are.' Let's move forward and discover who we are.

Thank you.



# Chapter 3

## Danish Foreign Policy in Figures

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Danish ODA

Danish ODA (by category, net disbursement)

Danish Bilateral ODA (by country category)

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Danish Official Development Assistance under the Neighbourhood Programme (by country)

### Defence · 211

Defence Expenditures to International Missions

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Financing of the EU budget

# Danish Official Development Assistance

## Danish Official Development Assistance (ODA) 2007-2010

(Current prices – million DKK)	2007	2008	2009	2010
ODA net disbursement	13,945.22	14,489.95	15,021.90	16,151.00

## Danish ODA – by category (net disbursement) 2010

	Million DKK	Percentage
Bilateral assistance	11,440.00	71%
Multilateral assistance	4,711.00	29%
<b>Total</b>	<b>16,151.00</b>	<b>100.0%</b>

## Danish Bilateral ODA (by country category) 2007-2010

		2007	2008	2009	2010
Least developed countries	Million DKK	3,898.3	3,863.1	4,255.8	4,580.90
	Per cent	43.4%	40.9%	41.8%	40%
Low income countries	Million DKK	2,868.4	2,883.8	2,671.3	1,748.90
	Per cent	31.9%	30.5%	26.2%	15.3%
Other developing countries	Million DKK	30.2	225.4	173.0	1,329.70
	Per cent	0.3%	2.4%	1.7%	11.6%
Other	Million DKK	2,186.2	2,475.6	3,087.4	3,780.40
	Per cent	24.4%	26.2%	30.3%	33%
<b>Total</b>	<b>Million DKK</b>	<b>8,983.1</b>	<b>9,447.9</b>	<b>10,187.5</b>	<b>11,439.90</b>
	<b>Per cent</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>99.9%</b>

Source: *Danish Ministry of Foreign Affairs*

## Assistance under the Neighbourhood Programme

Danish Official Development Assistance under the Neighbourhood Programme (by country)

### Disbursements 2010

Recipient Country	DKK	Percentage
Albania	8.200.000	4.4
Belarus	11.900.000	6.4
Bosnia-Herzegovina	7.400.000	4.0
Caucasus, the (Armenia, Azerbaidian, Georgia)	17.400.000	9.4
Cental Asia	11.700.000	6.3
Croatia	2.900.000	1.6
Kosovo	26.600.000	14.3
Moldova	13.600.000	7.3
Montenegro	4.000.000	2.2
Neighbourhood countries, regional contributions	22.600.000	12.2
Russia	20.800.000	11.2
Serbia	16.000.000	8.6
Turkey	5.600.000	3.0
Ukraine	17.300.000	9.3
<b>Total</b>	<b>186.000.000</b>	<b>100</b>

Source: *Danish Ministry of Foreign Affairs*

## Defence Expenditures to International Missions

(This years prices – million DKK)	2007	2008	2009	2010	2011
Participation in UN, OSCE, <sup>7</sup> NATO and other multilateral missions <sup>1</sup>	977.5	979.4	1,362.1	1,393	1,46
NATO <sup>2</sup>	666.2	635.4	659	674.5	695
International Security Cooperation <sup>3</sup>	54.4	62.5	92.9	68.7	66.1
<b>International expenditures in total</b>	<b>1,698.1</b>	<b>1,677.3</b>	<b>2,114.0</b>	<b>2,136.2</b>	<b>2,228.1</b>

Source: *Danish Ministry of Defence*

### Notes:

1. Only additional expenditures are included in the figures, excluding notably basic salaries. From 2010 all expenditures concerning participation in multilateral missions are included in Defence Command Denmark budget.
2. Includes contributions regarding NATO plus expenditures for NATO staff (net). For 2007-2010 account numbers have been used. For 2011 budget numbers have been used.
3. From 2010 Global stabilisation efforts. An additional annual amount of DKK 10 million is earmarked for Global stabilization efforts under Ministry of Foreign Affairs.

## EU

## Financing of the EU Budget 2011 (official exchange rate)

	Billion Euro	Percentage
Austria	2.587	2.31 %
Belgium	3.445	3.08 %
Bulgaria	0.339	0.30 %
Cyprus	0.170	0.15 %
Czech Republic	1.358	1.21 %
<b>Denmark</b>	<b>2.317</b>	<b>2.07 %</b>
Estonia	0.134	0.12 %
Finland	1.759	1.57 %
France	19.655	17.57 %
Germany	21.912	19.59 %
Greece	2.249	2.01 %
Hungary	0.951	0.85 %
Ireland	1.302	1.16 %
Italy	14.965	13.38 %
Latvia	0.162	0.14 %
Lithuania	0.267	0.24 %
Luxembourg	0.286	0.26 %
Malta	0.056	0.05 %
Netherlands	4.434	3.96 %
Poland	3.606	3.22 %
Portugal	1.599	1.43 %
Romania	1.207	1.08 %
Slovakia	0.650	0.58 %
Slovenia	0.349	0.31 %
Spain	9.924	8.87 %
Sweden	2.779	2.48 %
United Kingdom	13.418	11.99 %
<b>Total</b>	<b>111.878</b>	<b>100.00 %</b>

Source: *EU-Tidende*

# Chapter 4

## Opinion Polls

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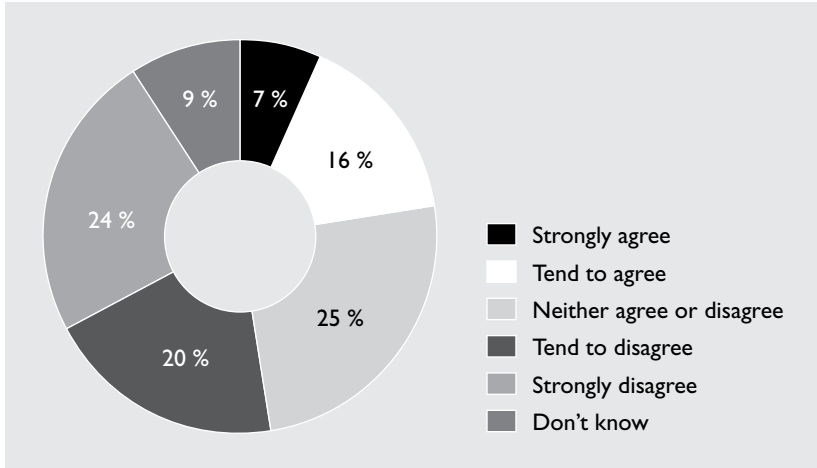
Northern Europe Trusts the UN More than the South · 223

## Afghanistan

In December 2010, YouGov, in cooperation with the Danish newspaper *MetroXpress* polled a representative sample of the Danish population (1,010 people aged 18 or older) concerning their attitudes towards Afghanistan.

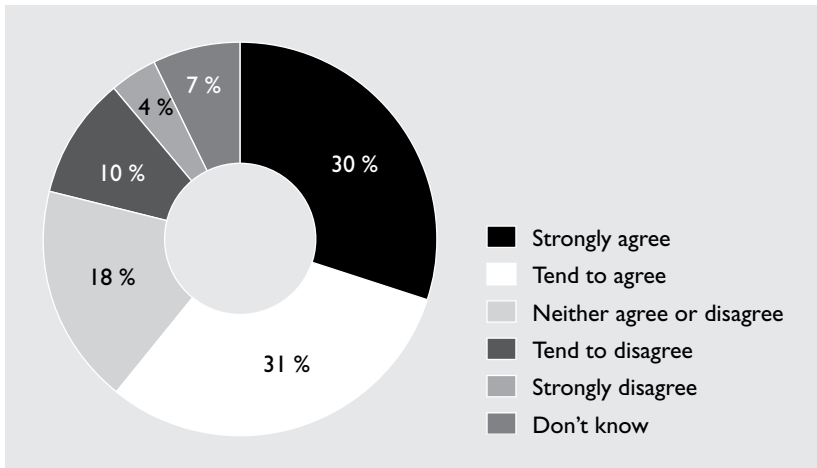
Statement 1:

*Danish troops should remain in Afghanistan until democracy has been implemented*



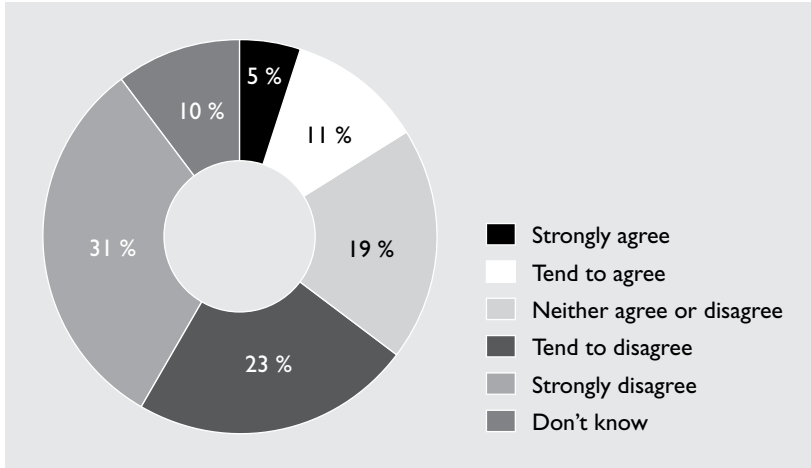
Statement 2:

*Danish troops should be withdrawn from Afghanistan when others are*



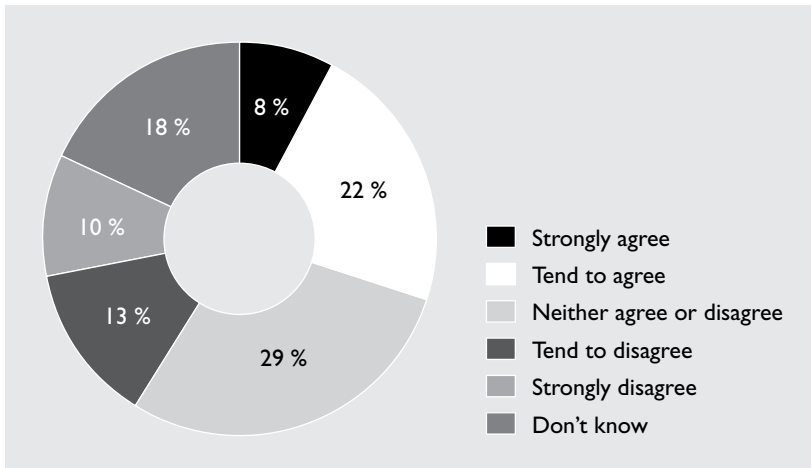
Statement 3:

*The war in Afghanistan has been worth the human costs*



Statement 4:

*Our presence in Afghanistan has made the local communities a better place to be*



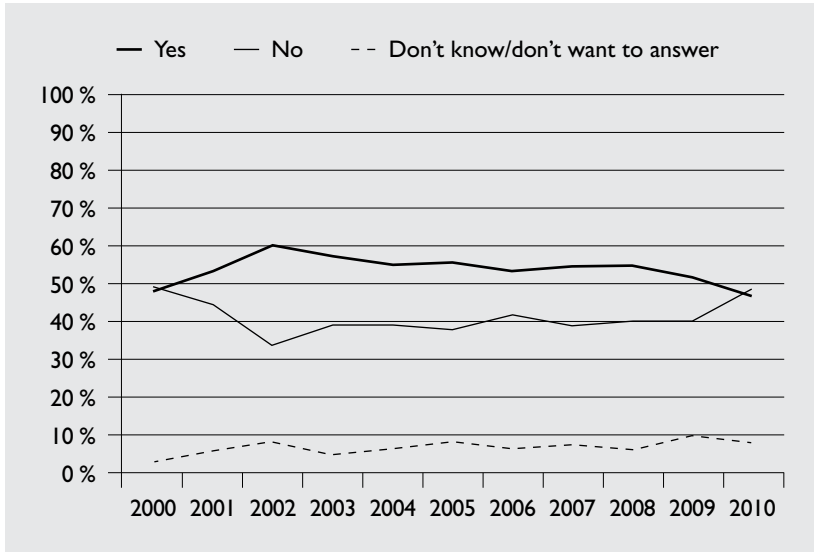


## The Danish EU Opt-outs

From 2000-2010, the research institutes Greens Analyseinstitut and Gallup have polled a representative sample of the Danish population concerning their attitudes towards the Danish EU opt-outs.

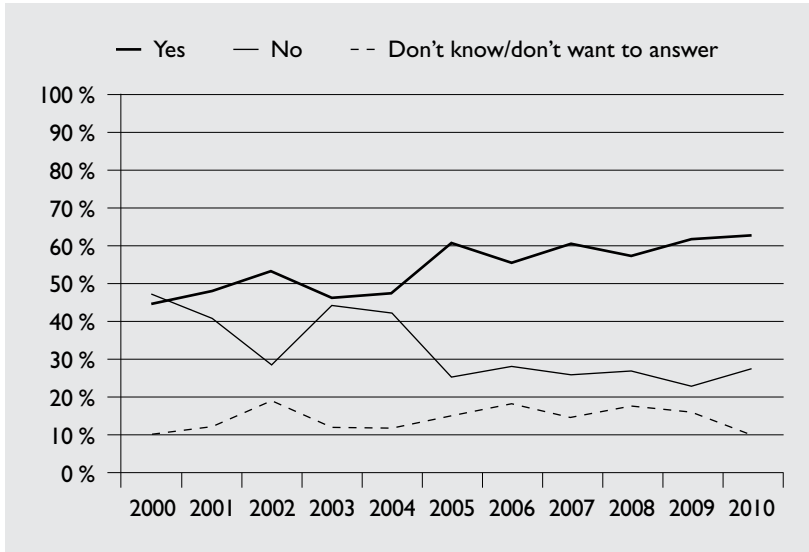
Question 1:

*How would you vote in a referendum on Danish participation in the Single European Currency?*



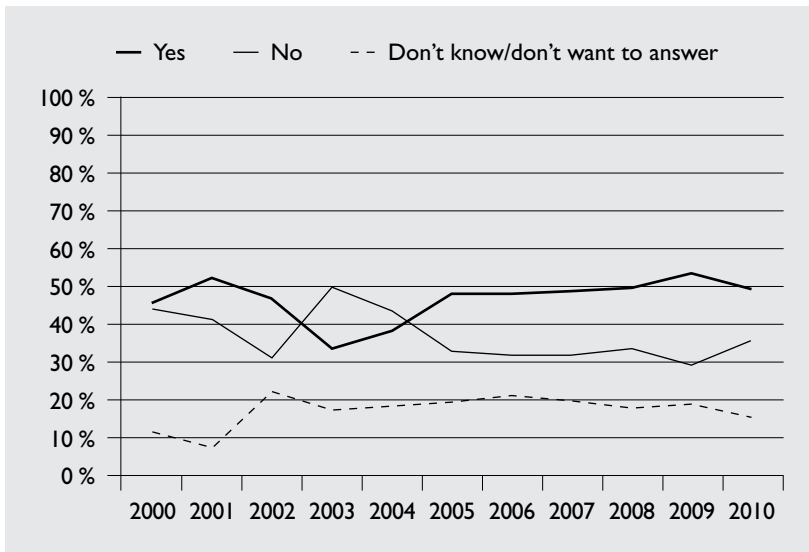
## Question 2:

*How would you vote in a referendum on Danish participation in the Common Defence?*



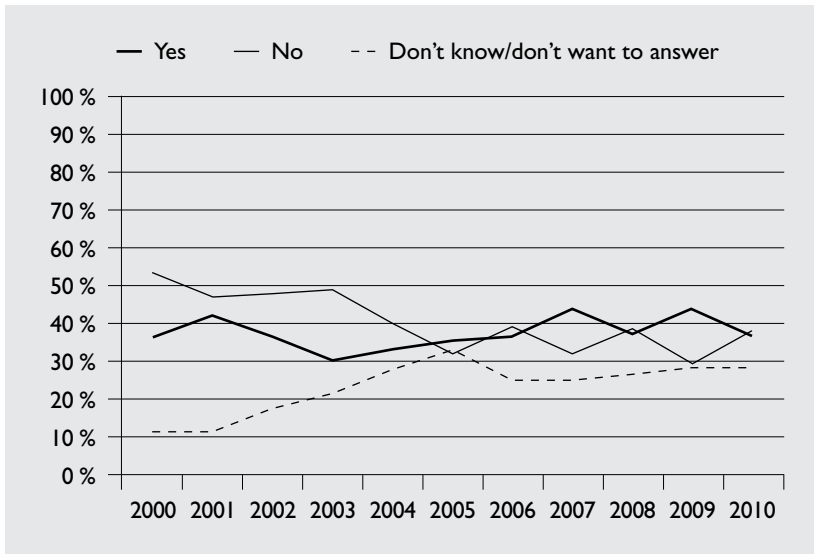
## Question 3:

*How would you vote in a referendum on Danish participation in the area of Justice and Home Affairs?*



## Question 4:

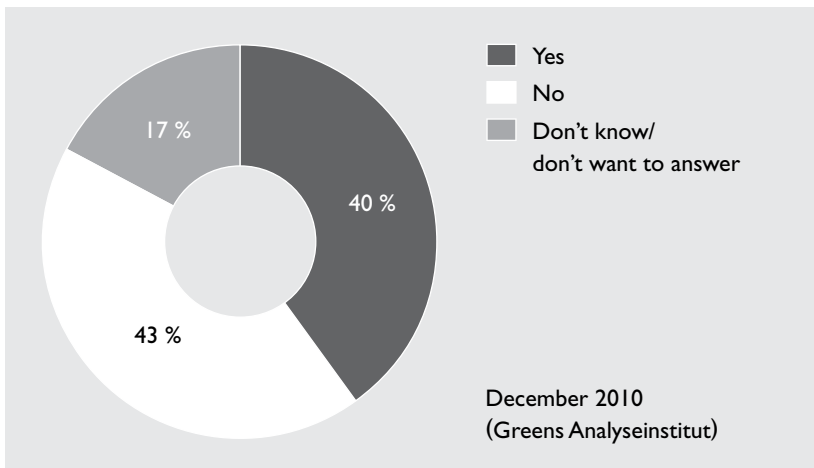
*How would you vote in a referendum on Danish participation in the Union Citizenship?\**



\* Polls on the Union Citizenship for 2002 and 2004 could not be found. Therefore, the figures for 2002 and 2004 are an average of 2001-2003 and 2003-2005.

## Question 5:

*How would you vote in a referendum on all four opt-outs together so that yes would mean that all four opt-outs would be abolished and no would mean that all four opt-outs would be maintained?*



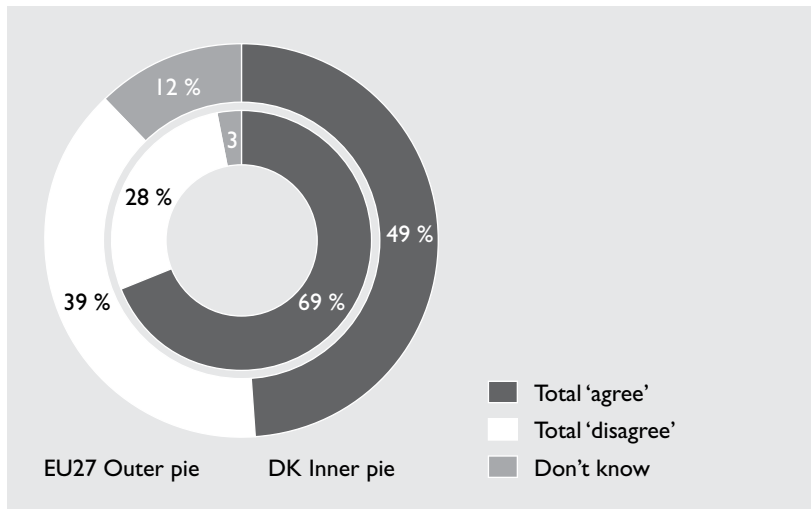
## The Financial Crisis and Solidarity

In August and September 2010, Eurobarometer polled a representative sample of the Danish population (1,021 people aged 18 or older) and a representative sample of the EU27 population (26,635 people aged 18 or older) concerning their attitudes towards the financial crisis.

Question 1:

*To what extent do you agree or disagree with the following statement:*

*In times of crisis, it is desirable for your country to give financial help to another EU member state facing severe economic and financial difficulties.*

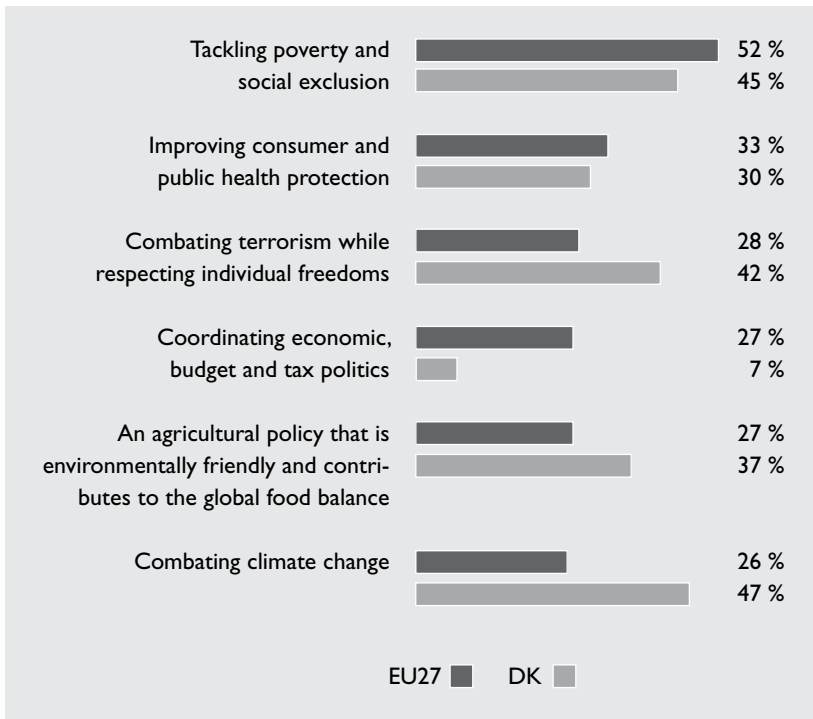


## Policy Priorities at the EU Level

In August and September 2010, Eurobarometer polled a representative sample of the Danish population (1,021 people aged 18 or older) and a representative sample of the EU27 population (26,635 people aged 18 or older) concerning their attitudes towards coordination of policies within the EU.

Question 1:

*The European Parliament promotes the development of certain policies at a European Union level. In your opinion, which of the following policies should be given priority?*

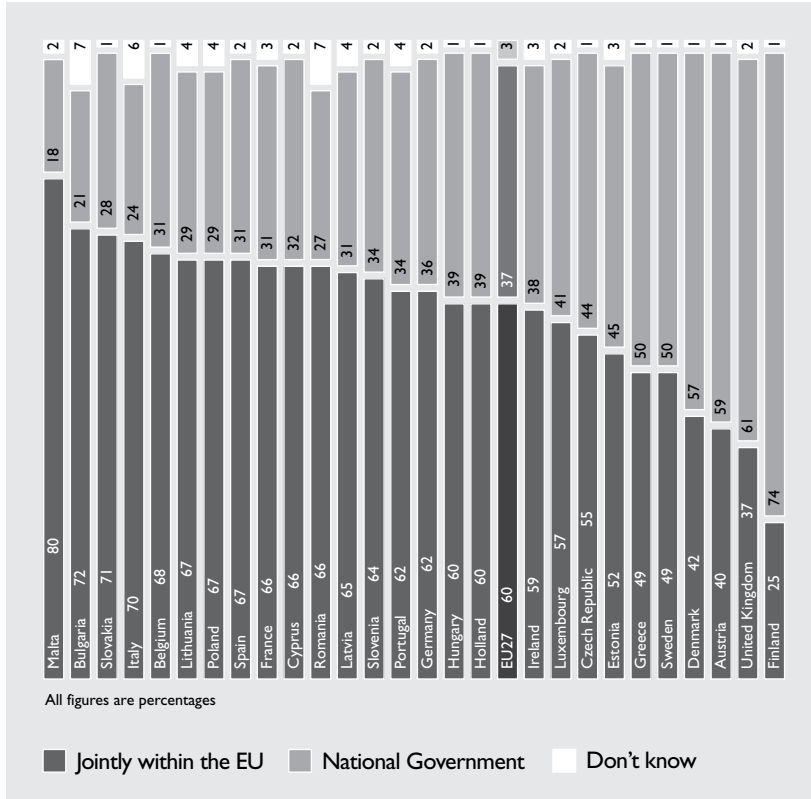


# Immigration and the EU

In May 2010, Eurobarometer polled a representative sample of the EU27 population concerning their attitudes towards immigration.

Question 1:

*Do you think that decisions on immigration should be made by your national government or made jointly within the European Union?*

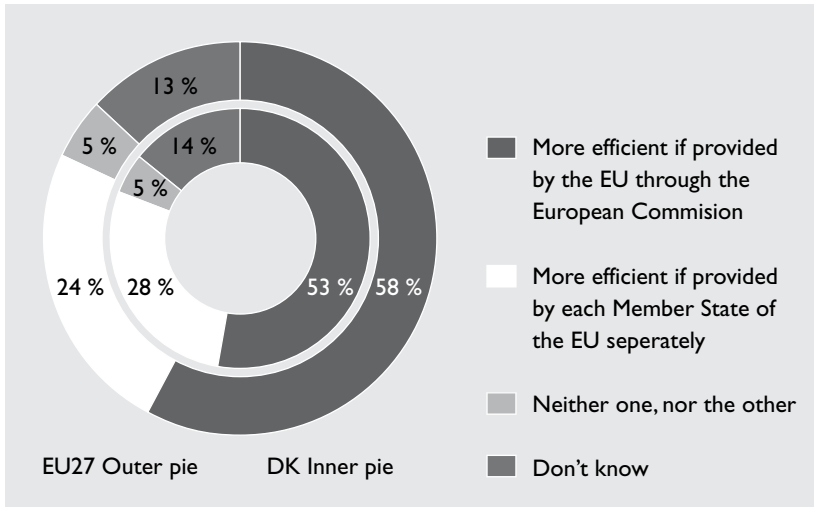


## Humanitarian Aid and the EU

In February and March 2010, Eurobarometer polled a representative sample of the Danish population (1,004 people aged 18 or older) and a representative sample of the EU27 population (26,800 people aged 18 or older) concerning their attitudes towards humanitarian aid.

Question 1:

*Would you say that humanitarian aid is more efficient if provided by each member state of the European Union separately or if it is provided by the European Union through the European Commission?*



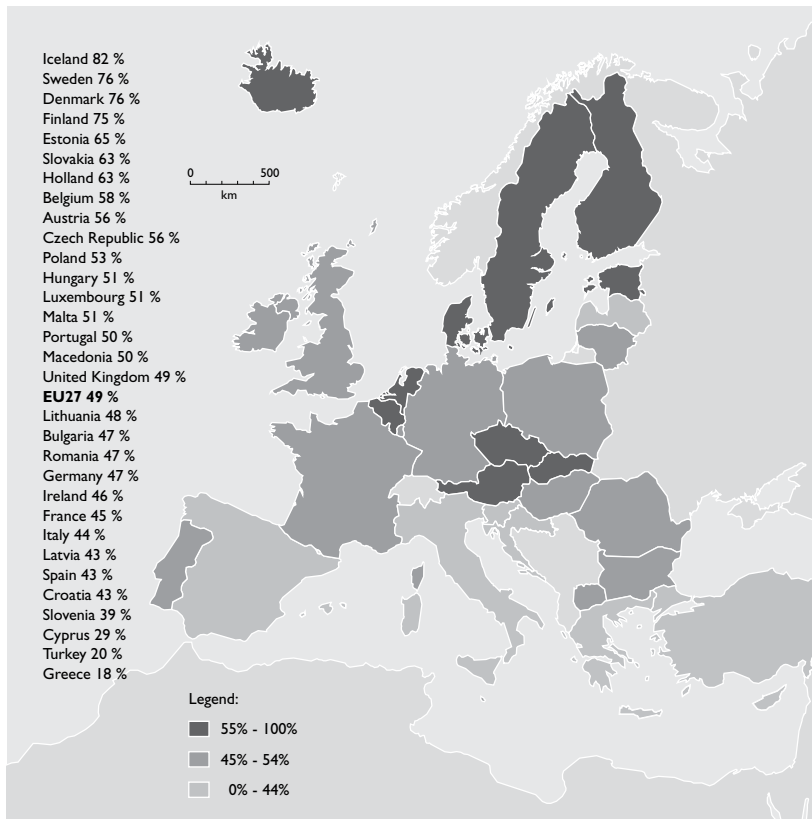
# Northern Europe Trusts the UN More than the South

In May 2010, Eurobarometer polled a representative sample of the EU27 population on whether they tend to trust or distrust several different European and international institutions.

Question 1:

*Do you tend to trust or distrust the United Nations?*

Answer: *Tend to trust*





# Chapter 5

## Selected Documents

The following bibliography is a limited selection of scholarly books, articles and chapters published in 2010 dealing with various themes in relation to Danish foreign policy.

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