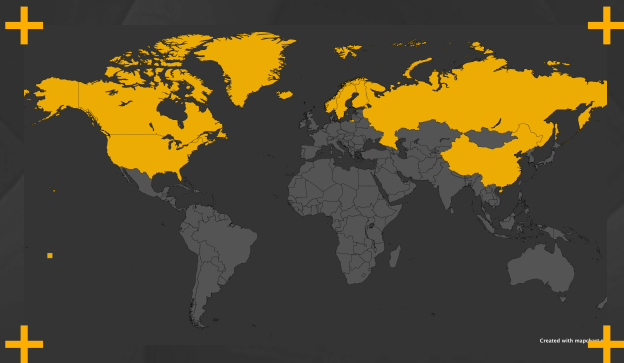


SPS Global Insights

The Arctic



This SPS Global Insights report examines the increasing geopolitical significance of the Arctic amid growing competition among global powers. It highlights the strategic interests of Russia, China, and the United States in the region, emphasising the risks and opportunities posed by climate change, resource exploitation, and military tensions.

Executive Summary



In recent years, the Arctic has experienced accelerated melting due to global warming. As economic globalisation and regional integration progress, the Arctic is gaining increasing global importance for its strategic and economic value, as well as its significance for scientific research, environmental preservation, sea routes, and natural resource exploration.

As a result, the Arctic has emerged as a key arena for power projection as global dynamics have grown more complex. Its abundant resources and strategic maritime routes have garnered significant attention from nations in the region. The United States, Russia, Canada, Denmark, and Norway have all asserted their claims over the Arctic shelf by submitting proposals to the United Nations.

The ongoing geopolitical standoff between Russia and the West has escalated further amid the ongoing conflict in Ukraine. The decision of Sweden and Finland to join NATO underscores not only their apprehensions about potential Russian aggression but also bolsters NATO's position in the Arctic region. Already, joint NATO military drills have taken place in the Arctic, and with the inclusion of Finland and Sweden into the organisation, it is anticipated that such exercises will persist.

Russia has also regarded the Arctic as a key area of focus, this being evident in its possession of around 50 bases and control of 53% of the Arctic coastline. This dominance positions Russia ahead of other regional players. In its 2022 Maritime Doctrine, Russia underscored the Arctic's significance, designating it as a foreign policy priority. The document highlights a shift towards prioritising domestic objectives over fostering constructive international cooperation in the region. It is anticipated that Russia will assert its claim over the Arctic in the coming years, seeking to exploit the region's abundant gas and oil reserves. Therefore, tensions are to be expected to arise between NATO and Russia regarding the Arctic.

Even more distant major powers like China have recognised the strategic importance of the Arctic and its evolving role in global geopolitics. Beijing has positioned itself as a "Near-Arctic State", underscoring its geo-economic ambitions. This is evident in part of China's Belt and Road Initiative, through which it aims to establish a "Polar Silk Road" to capitalise on emerging opportunities in the Arctic region. Through investments and infrastructure projects, China seeks to enhance its presence and influence in the Arctic, leveraging its economic prowess to secure access to the region's abundant resources and strategic maritime routes.

In this SPS Global Insights report, we delve into the Arctic and its escalating geopolitical importance amid the swiftly evolving landscape of international politics today. We also evaluate how these developments might affect businesses in the future, considering how climate change has spurred the opening of new shipping and trade routes. Additionally, we explore the potential for environmental vulnerabilities and geopolitical tensions, which pose challenges to cooperation and governance, thereby giving rise to new and emerging risks.

The Arctic's Geopolitical Significance

As climate change intensifies, the Arctic region has experienced profound effects, with scientists forecasting an ice-free Arctic by 2045. Ice cover has been steadily diminishing, posing environmental threats to the approximately 4 million inhabitants of the region and disrupting animal migrations due to thinning ice. However, amidst these challenges, the melting ice cap has also presented opportunities for navigation, allowing companies and countries to capitalise on shortened shipping routes and reduced transit times between Asia and Europe. In addition to these changes, the vast reservoirs of oil and gas along with iron ore, copper, nickel, zinc phosphates and uranium that have been discovered in the Arctic present significant opportunities for exploitation. These environmental resources are not limited to mineral extraction, but also include fishing grounds and even the potential for agricultural cultivation in the region.

As a result, the Arctic has become a point of contention in the current geopolitical landscape. The conflict in Ukraine has fuelled tensions between the West and Russia, directly affecting cooperation in the Arctic region. Although officials of the Arctic Council have not met at a political or diplomatic level since Russia invaded Ukraine, in May 2023, leaders from the eight member states, along with six indigenous organisations, witnessed Russia hand over its chairmanship to Norway after serving from 2021 to 2023. Established in 1996, the Arctic Council aimed to promote peace, stability, and sustainable development in the region in the aftermath of the Cold War. However, the volatile geopolitical environment has led to Russia's isolation from diplomatic engagements with the West. Nikolay Korchunov, Russia's Arctic Ambassador, has indicated that Russia is considering the possibility of withdrawing from the Arctic Council. Russia's substantial 24,000km border with the Arctic region means that its absence would effectively dismantle the council, as it plays a pivotal role in its operations. Therefore, without Russia's participation, the Arctic Council would lose its significance and effectiveness.

Russia holds a strategically advantageous position in the Arctic, endowed with abundant resources and claiming jurisdiction over 1.2 million square kilometres of the region. Its maritime doctrine designates the Arctic as a paramount focus of its maritime strategy, emphasising Russian interests beyond its exclusive economic zone to encompass the continental shelf and delineation of maritime boundaries under international law. Russia's 2023 Foreign Policy Concept underscores its goals to intensify the demarcation of these borders in the Arctic, recognising it as the second most crucial region after countries in Central Asia and Eastern Europe, and what it terms the "near abroad". Russia maintains its identity as an Eurasian power, viewing the Arctic as a means to solidify its status as a coastal Eurasian force. Along its European Arctic coastline, notably the Kola Peninsula, Russia hosts its Northern Fleet, along with numerous nuclear arsenals, missile installations, and airfields. Russia also boasts the world's only fleet of nuclear-powered icebreakers, positioning itself to navigate newly accessible Arctic maritime routes.

These developments raise significant concerns for the United States and the West as a whole. The accession of Finland and Sweden into NATO has bolstered the Arctic dimension of the alliance, potentially strengthening NATO's presence in the region. Nevertheless, escalating hybrid threats and Russia's unconventional military buildup are expected to heighten tensions in the Arctic even further. NATO is poised to intensify its efforts in coordinating political and military deterrence, particularly in light of Russia's existing influence and the anticipated future influence of China. A report titled "NATO 2030" underscores the importance of this strategy, highlighting the growing intensity of geopolitical interests, the imperative of preserving freedom of navigation in the High North, and the challenges posed by migration streams, all of which directly affect vital allied interests. The United States maintains a keen interest in the Arctic, particularly with regard to Russian influence in the region. The 2022 US National Security Strategy for the Arctic Region identified not only Russia

The Arctic's Geopolitical Significance

but China as a threat and underscored the importance of cooperation among NATO allies. However, while the US recognises the strategic significance of the Arctic, its level of commitment to the region has been somewhat limited compared to the extensive involvement demonstrated by China and Russia. Instead, Washington has utilised the resource rich state of Alaska but not beyond.

The potential for an increased American presence in the Arctic in the future is significant. The recent accession of Finland and Sweden to NATO is a clear indication of this trend, as it will undoubtedly enhance the geopolitical dynamics within the alliance and strengthen the position of the United States in the region.

This is also the case for China, which has shown a strong interest in establishing a notable presence in the region. For example, China has set up permanent research bases like the Yellow River Station in Svalbard, Norway, where it conducts extensive scientific research activities. Moreover, China goes beyond mere scientific endeavours by positioning itself as a "Near-Arctic State" and seeking cooperation with members of the Arctic Council. Like other nations with interests in the Arctic, China is particularly focused on the region's hydrocarbon resources, including oil and natural gas. Chinese investments in the Arctic are notably concentrated in the Russian Arctic, where relations between the two countries have reached

unprecedented levels of cooperation. Some of the most prominent projects include the Yamal LNG and the Arctic LNG 2 projects. Apart from the Russian Arctic, China has also initiated mining projects and investments in Greenland, such as the Citronen Fjord and the Kvanefjeld Rare Earth Element-uranium project. Additionally, Beijing acquired one of Canada's two lithium mines in Manitoba and expanded its stake in First Quantum Minerals, a Canadian company, through Jiangxi Copper, a Chinese state-owned mining company, in 2019.

China is also interested in leveraging the emerging sea routes resulting from climate change and developing infrastructure such as ports and railways. Specifically, China aims to extend its ambitious Belt and Road Initiative into the Arctic region through the Polar Silk Road. Economic strategies within China have identified the Arctic as a significant "blue economic corridor" for the development of satellite trade, production, and research opportunities along the potential transport routes.

However, without sovereign jurisdiction in the Arctic, China relies on partnerships with other states to advance its interests. Moving forward, China looks poised to expand its presence in the Arctic by leveraging its robust relationship with Russia, positioning itself as a strategic partner of choice in the region.



Conclusion



The Arctic is poised to become a geopolitical flashpoint as its abundant untapped natural resources, make the region a prime target for great powers seeking to secure access. Additionally, the risks associated with climate change will further impact the Arctic, presenting both challenges and opportunities for states to exploit its resources. Western powers are expected to leverage the NATO alliance to bolster their defences from the Baltic to the Barents Seas and Arctic Ocean, given the escalating threat of great power competition. A sustained NATO presence in the Arctic is anticipated, featuring joint allied operations. Member nations such as Norway, Canada, and the United States are poised to strengthen their influence in the region accordingly.

Russia is expected to exert significant dominance in the Arctic region, surpassing other nations in several key aspects. It boasts the world's largest fleet of icebreakers, numerous military bases and installations strategically positioned across the region, and shares an extensive 24,000-kilometre border with the Arctic. Moreover, with over 50% of the Arctic population being Russian, Moscow possesses a formidable edge for asserting control and dominance in this critical geopolitical arena. Its invasion of Ukraine has put the West on high alert of Russian aggression, while Moscow will witness NATO presence in the region as a threat. The expanding footprint of China underscores the growing allure of the Arctic region, as evidenced by its substantial investments in research and business endeavours. China's collaborative ventures with Russia in the Arctic have not only bolstered their alliance but also pose significant challenges for Western nations in the foreseeable future.

Furthermore, the swift impact of climate change on the Arctic presents inherent risks, yet it also creates opportunities for expanded shipping and trade routes. As these routes become more accessible, companies will increasingly leverage them to shorten travel times and facilitate the transportation of goods between Asia and Europe. Certainly, risks abound in the Arctic, including the lack of cooperation among Arctic states, which could result in regulatory and legal uncertainties, as well as the potential for military conflicts. However, the likelihood of direct military conflict in the Arctic remains relatively low, the key geopolitical flashpoints in Europe and East Asia being more probable arenas for deterring Russian and Chinese aggression from the perspective of the West.

Nevertheless, competition in the Arctic reflects deeper tensions and rivalries that transcend regional boundaries, and underscores a fundamental challenge to global security: the persistent rivalry among global powers that has become a defining feature of international politics.

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