

Cover Story

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# The New Arctic

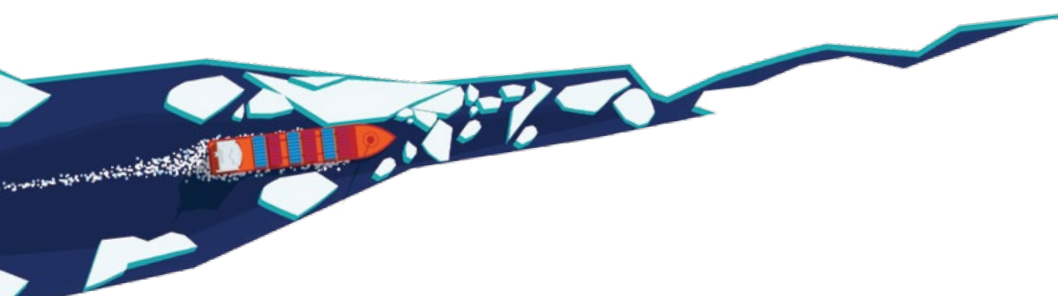
Climate Change and the Latest Arena for Great-Power Competition

The Arctic is fast emerging as a region of the world that is attracting greater attention on issues as varied as international shipping, resource extraction and even geopolitical ambitions. It remains, of course, at the center of discussion about the threat of climate change.

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# China's Economic Initiatives in the Arctic

By Yang Jian



**While China is not an Arctic country, it has taken numerous steps to stake out its interests and demonstrate its ability to play a constructive and environmentally sustainable role in the future development of the region.**

**By further integrating its policies in line with the rapid economic changes in the Arctic, China is expected to be a major player in the years ahead, writes Yang Jian.**

2013 WAS A remarkable year for China's participation in Arctic affairs. Beijing's Belt and Road Initiative (BRI) was first proposed by the government that year. Chinese shipping company Cosco's vessel *Yong Sheng* conducted the country's first commercial trial voyage to the Arctic Ocean in the same year. And it was in 2013 that China, along with several other Asian states, was granted formal observer status by the Arctic Council.

China is said to have taken a decade to transform from a non-Arctic state into an important Arctic partner and a stakeholder in Arctic affairs. In fact, China has gained great attention in Arctic economic development, Arctic climate and environmental governance because it is the world's second-largest economy and one of the largest emitters of carbon dioxide in the world. Its participation in the Arctic has also raised concerns about environmental protection and geopolitics.

Overall, China's BRI, including the so-called Polar Silk Road proposed by Beijing in a white paper in 2018, is a response to the global economic slump triggered by the financial crisis of 2008. After the crisis, Chinese policymakers felt that global economic flows had become stagnant. The US government's response was to pull manufacturing investment back to the US and regain trade advantages through strong bilateral trade negotiations. Based on its own development phase, China found that joining and facilitating regional and world economic flows and consumption was the best way to deal with the economic downturn. Facilitating regional economic

flows and consumption can transfer China's excess manufacturing capacity abroad, on the one hand, and prepare new markets for future prosperity, on the other hand.

China's approach to facilitating regional economic flows is inspired by the Asia-Pacific Economic Co-operation (APEC) forum, which was created by the US. Around 1990, when the boom in the ICT industry began to take off, the US facilitated and utilized economic flows around the Pacific Rim by forging APEC to achieve lasting prosperity. The experience of joining APEC's economic flows, especially China's co-operation with Japan, South Korea, the US and ASEAN, convinced the Chinese government that participating in the most intensive economic flows in the world was the best way to maintain China's economic development and to make up for China's relative economic weakness. For China, these economic flows entail goods (port construction, port equipment, shipbuilding and the shipping industry), capital (investment and financial markets), technology (technical standards, intellectual property transactions and data flows) and construction capacity (export of infrastructure equipment and construction workers).

China's BRI is designed to participate in and facilitate economic flows around and on the Eurasian continent, while maintaining the economic interrelations between China and countries in the Pacific region. Moreover, there are many important "engine countries" that promote regional economic flows around and on the Eurasian continent, including ASEAN, India, Russia, Turkey and Kazakhstan. China hopes to integrate this growing market by providing capital, technology, production capacity and infrastructure construction expertise. The joint efforts to build a blue economic passage linking East Asia and Europe via the Arctic Ocean are generally in line with the spirit of facilitating global economic flows.

## ARCTIC FOCUS

China's economic co-operation projects in the Arctic are concentrated in two regions: Russia and Northern Europe. Building a global infrastructure network in the Arctic region, including coastal infrastructure and port facilities as well as economic development projects, contributes to economic flows. China did not propose the Polar Silk Road until 2018. The main reasons were: 1) Russia's determination to develop the Northern Sea Route (NSR) was not obvious before 2014; 2) Western countries and their companies were Russia's first choice for economic co-operation, while China was only Russia's secondary partner; and 3) Chinese enterprises lacked experience in developing projects in cold regions and lacked experience in making accurate assessments of the economic benefits and costs of environmental protection.

After the Crimean crisis in 2014, Western sanctions imposed on Russia turned China into a major source of inbound investment and a significant partner in Russia's Arctic development. Russia's determination to develop the Northern Sea Route and its Arctic energy strategy is becoming more and more obvious. Moreover, the LNG project in the Yamal Peninsula meets China's domestic demand for cleaner energy. China's participation in Arctic LNG projects is a part of its effort to replace coal and oil with natural gas, a less environmentally harmful fossil fuel. China's Silk Road Fund and the China Development Bank have also begun to invest in port construction projects in Russia. The launch of the Polar Silk Road means that China has the willingness to tap the economic flows frozen by the Cold War and cold weather. It signals that China will support Russia to build jointly the infrastructure in the Russian Arctic region needed for peaceful utilization of the sea routes in the future. The principle of co-operation is a win-win formulation in terms of the economy and sustainable development.



In September 2017, numerous Chinese companies announced that they were keen to invest in a new project near Arkhangel, which includes the Belkomur railway project and a deep-water port in the Northern Dvina River. A new port will be built near Mudyug Island in the Dvina River delta, close to the existing port facilities for larger vessels. In November 2017, Novatek, one of the largest independent natural gas producers in Russia, signed a strategic co-operation agreement with the Chinese National Petroleum Company (CNPC), which already owns 20 percent of Yamal LNG, a US\$27 billion production project. As part of the Saint Petersburg International Economic Forum in 2019, Novatek also signed a share purchase agreement with China National Offshore Oil Corporation (CNOOC). Under these agreements, Chinese companies will acquire a 20 percent share in Novatek's Yamal LNG 2 project under development, recently renamed Arctic LNG 2. With its construction, the demand for construction and transportation of LNG projects in the Arctic is expected to increase. It is foreseeable that Chinese shipping companies will continue to be important investors in Arctic LNG projects including provisions for ship leasing, logistic infrastructure, shipbuilding and so forth.

As for the Northeast Passage linking Asia and Europe, Russia has an important geographical advantage. It plays a key role in facilitating economic flows in the Arctic, but it also needs to improve the kinetic energy of the flows between the Far East region of Russia and the important economies in East Asia, and between Russia and Europe, especially the Nordic countries.

As a Nordic country, Iceland has the potential to be an Atlantic Arctic shipping hub, especially for traffic through the central Arctic shipping route that China has been led in exploring. Iceland hopes to enhance this hub role by facilitating co-operation with the important global economies,



Novatek's Yamal LNG plant at Sabetta on Russia's Yamal Peninsula. China's CNPC owns 20 percent; Chinese companies also have stakes totaling 20 percent in Novatek's second Arctic LNG project under development. Photo courtesy of Novatek

including the US and China. The successful co-operation between China and Iceland in polar science and education, geothermal energy and port cities has existed for many years. In 2012, China signed a framework agreement with Iceland to support greater co-operation on geothermal energy, along with marine and polar science. The Chinese company Sinopec and Iceland's AGEF have developed joint geothermal projects in 23 cities in China making use of Icelandic technology.

As a country on the easternmost side of Fennoscandia, Finland has long experience in dealing with Russia. Now it intends to play a key role

in economic relations among Nordic and Baltic countries, and Russia and East Asian countries. Helsinki provides the air hub between the Nordic countries and East Asia. It serves six destinations in Greater China with direct scheduled flights, more than any other Scandinavian airport. Passengers traveling on scheduled flights from Helsinki to China account for 5 percent of all international passengers, with China the eighth most popular destination country. China is one of the main markets for the export of Finnish Arctic shipping technology. In 2012, the Finnish shipbuilder Aker-Arctic provided the con-

cept and basic design for *Xuelong 2*, considered the world's most advanced polar research vessel. This 122m-long Polar Class 3 icebreaker entered service in 2019.

International co-operation with Arctic nations on digital infrastructure including sub-sea cable projects is also on the Polar Silk Road agenda. China Telecom (one of the biggest telecommunication operators in China) is co-operating with Finnish counterparts on a planned 10,500-kilometer fiber-optic submarine cable across the Arctic Circle.

Norway, meanwhile, is a global maritime



power and the Arctic is Norway's most important foreign policy priority. Economic growth is higher and unemployment lower in the Arctic part of Norway than in the rest of the country, ensuring a good balance between conservation and sustainable use. Norway has engaged in active co-operation with China in the protection and effective utilization of the ocean. Chinese equipment manufacturing companies help Norway build the world's largest intelligent deep-sea aquaculture cages to meet the increasing need for aquaculture in northern Norway and help Norwegian oil companies build large offshore oil drilling platforms. Kirkenes, Norway is the northernmost ice free port located on the Barents Sea and the closest western port to Asia via the Northern Sea Route. Political representatives of Kirkenes, including the mayor of the Sor-Varanger municipality, Rune Gjertin Rafaelsen, visited China as a member of a delegation led by the Norwegian Minister of Research and Higher Education in 2018 to discuss the future demand of China's shipping industry for Arctic ports. He said that Kirkenes is well prepared to open the Northern Sea Route and co-operate with Chinese shipping companies.

While attracting China to participate in Arctic economic flows, some Arctic countries also have been expanding markets in China for their products, such as seafood from Greenland, Iceland, the Faroe Islands and Norway, and energy products from Russia and other countries.

China's infrastructure construction capacity and speed are world-class and it has engaged in co-operation on infrastructure construction, marine engineering and port construction in Iceland, Norway, Finland and Greenland. In 2019, the Trump administration in the US put forward a boycott on China's Polar Silk Road co-operation but Nordic countries, being independent from the US, recognize the opportunity

**China encourages its enterprises to engage in international co-operation on the exploration and utilization of Arctic resources by making the best use of their advantages in capital, technology and domestic markets. Sino-Russian Arctic co-operation in this context has a realistic basis.**

and necessity of co-operation with China. They also hope that the Arctic issue can remain as an imperative agenda item under the framework of addressing climate change and that the Arctic should not become an arena of competition among the great powers.

#### **BUILDING REGIONAL CO-OPERATION**

In addition to the two key co-operation regions in the Nordic countries and Russia, China attaches importance to strengthening Arctic economic co-operation with its neighbors, Japan and South Korea. This reflects the "North Pacific lens" in Arctic affairs. They are all important economies with similar views and interests concerning the economic elements of the Arctic. Japan, South Korea and China are all important LNG markets, manufacturers of LNG production equipment and investors. They are all partners in the construction of port infrastructure in northern Russia. Japan has become an investor in the

Yamal LNG 2 project, and Japanese enterprises have realized economic benefits from the Arctic through joint ventures with Chinese shipping enterprises. Japan's Mitsui OSK and China's Cosco jointly own six vessels for charter to Sinopec and three of the 15 icebreaking LNG carriers that load Yamal LNG cargoes at the Port of Sabetta in the Russian Arctic. The shipbuilding industry of South Korea has built several icebreaking LNG carriers for Russia to transport LNG to East Asia via the NSR.

There are some differences in assessments about the pace of development and utilization of Arctic economic opportunities among the three countries. Chinese shipping companies are more optimistic about Arctic shipping in the future. They increasingly believe in the commercial value of the Northeast Passage. In Cosco's view, the value of the NSR is an important supplement to the traditional maritime routes, so the company is determined to carry on its commercial and regularized operations in the NSR each year. The biggest difference among the three countries is that China is not an ally of the US, while both Japan and South Korea are. In their co-operation with Russia on Arctic economic projects, Japan and South Korea have to take into account the strategic considerations and sanction decisions of the US.

China encourages its enterprises to engage in international co-operation on exploring and utilizing Arctic resources by making best use of their advantages in capital, technology and domestic markets. Sino-Russian Arctic co-operation in this context has a realistic basis. It is part of the cooperative construction of the Silk Road Economic Belt and the construction of the Eurasian Economic Union. China also hopes the Nordic countries, Japan and South Korea will be responsive to the BRI and jointly facilitate economic flows along the Northeast Passage in the Arctic.

In investing and joining economic projects in the Arctic, Chinese companies should pay attention to two issues: geopolitical concerns and environmental concerns. It is difficult for Chinese enterprises to cope with geopolitical interference caused by non-market factors. For example, a Chinese construction company was forced to quit the bidding for an airport expansion project in Greenland due to the direct intervention of the US. However, Chinese enterprises can meet Arctic countries' requirements in legal, technological and environmental protection by enhancing their technological solutions and learning capabilities in a short period of time. It is the responsibility of Chinese enterprises participating in Arctic economic activities to abide by local environmental protection laws and assessment procedures. In its 2018 white paper on Arctic Policy, Beijing made a commitment to utilize Arctic resources in a lawful and rational manner. The phrase "in a lawful and rational manner" means a careful balance between conservation and sustainable use.

As a non-Arctic state and the world's second largest economy, China and its enterprises should attach more attention to strengthening publicity and education on addressing climate change. The Chinese government has also made efforts to make the BRI initiative "greener" by issuing *Guidance on Promoting a Green Belt and Road* in 2017. The International Coalition for Green Development on Belt and Road was launched in 2019. Chinese companies can be expected to slow down their investment in the Arctic in the near future to increase the awareness of the requirements of responsible and reliable business activities.

**Yang Jian is vice president of the Shanghai Institutes for International Studies.**