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# Arctic Economic Security: Recommendations for Safeguarding Arctic Nations against China's Economic Statecraft

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**Abstract**

This report is part of a series of reports that CNA produced at the request of the Office of the Secretary of Defense to fulfill requirements outlined in the FY 2020 National Defense Authorization Act (NDAA, Sec. 1260E). The FY 2020 NDAA mandates that a federally funded research and development center "complete an independent study of Chinese foreign direct investment [FDI] in countries of the Arctic region, with a focus on the effects of such foreign direct investment on United States national security and near-peer competition in the Arctic region." This paper summarizes findings from across the project and provides policy and legislative recommendations regarding China's Arctic FDI. Recommendations span unilateral US options, such greater use of the Defense Production Act to facilitate access to key resources or locations, to multilateral arrangements, such as pursuing an Arctic Development Bank.



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**Cover image credit**: Composite image created by Sue Mercer, CNA.

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**Approved by:** **January 2022**

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# Executive Summary

This report is part of a series that CNA produced to fulfill requirements outlined in the fiscal year (FY) 2020 National Defense Authorization Act (NDAA), Sec. 1260E. The FY 2020 NDAA mandates that a federally funded research and development center "complete an independent study of PRC foreign direct investment [FDI] in countries of the Arctic region, with a focus on the effects of such foreign direct investment on United States national security and near-peer competition in the Arctic region."[1] The Department of Defense (DOD) selected CNA to execute this analysis, for which CNA produced four reports addressing the following research questions:

1. **What is the nature and scope of current FDI in the Arctic?[2]**

   The research paper answering this question addresses NDAA tasking related to quantifying Arctic FDI, including providing a survey of Arctic projects that are funded by People's Republic of China (PRC)-based investors in critical industries such as public infrastructure; minerals, oil, and gas; shipping; and telecommunications.

2. **What are the legal conditions that govern FDI in the Arctic?[3]**

   The research paper answering this question addresses NDAA tasking mandating an analysis of the regulatory environment for FDI in the United States, Russia, Canada, Greenland, Norway, and Iceland. That analysis includes discussion of the efficacy of mechanisms for screening FDI, transparency measures in FDI, and FDI evaluation criteria.

3. **How does PRC Arctic FDI relate to the PRC's strategic regional objectives?[4]**

   The research paper answering this question addresses NDAA tasking requiring a review of PRC Arctic policy documents. This analysis describes China's strategic objectives in the Arctic from military, economic, territorial, and political perspectives, as well as whether any active or planned infrastructure investments are likely to result in a regular PRC Arctic military presence.

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[1] *National Defense Authorization Act for Fiscal Year 2020*, 2019. § 1260E(b)(2).

[2] Rebecca Wolfson et al., *Arctic Prospecting: Measuring China's Arctic Economic Footprint*, CNA, 2021.

[3] Cornell Overfield et al., *Foreign Direct Investment Screening in the Arctic*, CNA, 2021.

[4] Heidi Holz et al., *Exploring the Relationship between China's Investment in the Arctic and Its National Strategy*, CNA, 2021. All reports are available at www.cna.org/ArcticFDI.

This document corresponds to the final question on solutions:

4. **How can the US mitigate negative implications of PRC Arctic FDI?**

   This research paper summarizes major findings from the prior analyses, and it addresses NDAA tasking requesting policy and legislative recommendations regarding Arctic FDI by PRC-based entities. Recommendations include, per the NDAA's direction, whether and how to pursue an Arctic Development Bank and the possibility of negotiating a regional arrangement to regulate Arctic FDI.

# Summary of project findings

**Low levels of FDI contrast with overall PRC economic activity in the Arctic, which remains robust.** A notable trend in FDI projects, which partially explains the relatively low FDI figures we see from PRC-based firms, is that many announced projects ultimately fail to be consummated. Deals have collapsed both due to state scrutiny and economic considerations. High levels of other PRC economic activity likely increases PRC influence in the Arctic, but present different concerns than the specific risks over asset control and ownership posed by FDI.

**FDI in the Arctic from PRC-based entities is largely concentrated in extractive industries (energy and mining), as well as sectors related to developing future Arctic shipping routes.** Broader economic activity, which does not necessarily qualify as FDI, also includes transactions in the telecommunications industry and service contracts for infrastructure construction. PRC FDI, strictly defined, is most evident in the Russian Arctic, and almost nonexistent in most other Arctic regions.

**Based on Beijing's stated policies, we expect PRC attempts to secure Arctic FDI projects to grow.** Economic tools are central to Beijing's broader political intentions to achieve greater regional influence. PRC-based investors have already shifted investment targets in response to state objectives, deprioritizing some sectors (e.g., entertainment) in favor of others (e.g., resources). China accomplishes this targeting in part through state-owned enterprises, which are important actors in PRC Arctic FDI and broader economic activity.

**The low level of Arctic FDI we detected from PRC-based firms suggests that FDI screening mechanisms are currently effective and afford policy-makers a window of opportunity to address future risks.** PRC FDI takes place within a relatively effective regulatory framework among Arctic nations. Nevertheless, economic statecraft will remain a centerpiece of PRC policy in the Arctic, and future PRC acquisitions or activities are sure to spark concerns. Policy-makers should use the breathing room afforded by current FDI screening policies to tackle challenges posed by China's broader, non-investment economic activity in the Arctic.

# Recommendations

Policies addressing risks posed by PRC economic activity should focus on preventing or modifying PRC investments and activities assessed to pose high risks to national security. These concerns can come from PRC investments in strategically important individual projects, such as rare earth elements in Greenland, but they can also arise from the steady accumulation of economic and political influence in Arctic states. Investments that may support future PRC military activities through infrastructure and dual-use ownership may also trigger national security concerns.

Recommendations for addressing those risks fall into three categories for US policy-makers: unilateral, multilateral, and institutional. As policy tools become more internationally collaborative, they will likely produce larger changes in Arctic FDI patterns. Yet implementing collaborative solutions is also more challenging than executing unilateral options. The effectiveness of a recommendation scales inversely to its ease of implementation.

## Leveraging the US government's unilateral buying power

The US government (USG) maintains a diverse collection of institutions and authorities that can deploy resources to compete with PRC activity in the Arctic. Recommendations that speak to these internal capabilities are as follows:

- **Increase USG Arctic commercial investments**

  If one of the driving strategic concerns for the US is PRC government control over critical industrial resources or strategic locations in the Arctic, the most direct solution is for the US to direct more USG regional investment. USG investment could occur through several preexisting institutions and authorities, including but not limited to the DOD.

- **Increase US foreign aid to select Arctic communities**

  Policy-makers could choose to direct small, targeted, but meaningful levels of foreign assistance to struggling communities within Arctic nations. Although Arctic nations are wealthy, they include economically underdeveloped areas, particularly among some historically disadvantaged Indigenous communities.

## Fostering multilateral Arctic investment ecosystems

At the multilateral level, the US can encourage certain forms of investment behavior through increased transparency and inducements. These tools focus on creating a more competitive ecosystem for Arctic financing, and they operate best in parallel with recommendations that promote more commercially reasonable forms of lending. Recommendations that promote this ecosystem include the following:

- **Launch an Arctic FDI transparency initiative**

  Fact-finding often remains the greatest shortcoming in Arctic state FDI review processes, particularly for small polities. Arctic nations generally possess regulations and authorities regarding FDI review, and increased technical expertise and information sharing (as provided by the Departments of State and Treasury) could bolster the efficacy of existing FDI review rules.

- **Encourage allied and partner state-affiliated policy banks to invest more in the Arctic**

  Another way to offer alternatives to PRC-based investors in the Arctic is to incentivize state-affiliated policy banks (including those outside of the US) to lend more in the region. This would include Arctic nations' policy banks, the non-Arctic banks to which they hold membership, and even policy banks from Asia.

## Pursuing institutional FDI frameworks

Most ambitiously, the US can lead Arctic states to develop entirely new frameworks and institutions for supplanting PRC Arctic FDI. These solutions would also provide the scale necessary to meet Arctic development needs and diversify the pool of lenders. US efforts to craft new international institutions include the following:

- **Pursue an intra-Arctic investment fast-track**

  A system that enables FDI from Arctic states to receive expedited screening would create administrative and financial incentives for such investments. This system could be achieved through a broad multilateral agreement or a series of bilateral agreements. In the US, excepted investor state status, as designated by the Committee on Foreign Investment in the US, offers an initial, limited option to help US policy-makers achieve the larger objective.

- **Establish an Arctic Development Bank**

  An Arctic Development Bank is a logical innovation if the US and other regional states aim to displace PRC investment in the region. Such an entity would not only pool and direct Arctic nations' funding back into the Arctic, but it could also raise projects' environmental and inclusivity standards. Such a bank would be the product of a multilateral agreement signed by all eight Arctic nations.

## Unity of effort

A high level of PRC FDI in the Arctic poses risks to US national security that can be addressed only by coordinated USG action. Our report identifies important roles for the following:

- Department of Defense
- Department of Commerce
- Department of State
- Department of Treasury
- US Trade Representative
- Committee on Foreign Investment in the US
- US Agency for International Development
- Export-Import Bank
- International Development Finance Corporation

This list is not comprehensive. Each agency will require support from across the USG, given the distributed nature of USG economic programs, in addition to needed contributions from other Arctic nations, state-affiliated policy banks, and local and Indigenous Arctic communities. All will need to cooperate to achieve a common purpose of facilitating Arctic populations' legitimate need for capital, while ensuring that US national security is not jeopardized by undue political, economic, or military influence from unfair PRC lending.

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# Contents

# 1. Introduction

The fiscal year (FY) 2020 National Defense Authorization Act (NDAA), Sec. 1260E, requires that a federally funded research and development center "complete an independent study of PRC foreign direct investment [FDI] in countries of the Arctic region, with a focus on the effects of such foreign direct investment on United States national security and near-peer competition in the Arctic region." Given prior CNA work examining People's Republic of China (PRC)-linked investments around the world, including the 2017 report *Unconstrained Foreign Direct Investment: An Emerging Challenge to Arctic Security*, the Office of the Secretary of Defense asked CNA to execute the analysis described in the NDAA.

## 1.1 Research statement

In response, CNA produced four reports, each tackling a different question:

1. **What is the nature and scope of current FDI in the Arctic?**[5]

   The research paper answering this research question addresses components of the NDAA tasking related to quantifying Arctic FDI, including providing a survey of Arctic projects that are funded by PRC-based investors in the realms of public infrastructure; finance; minerals, oil, and gas; shipping; undersea cables; and telecommunications. The paper also provides a comparison of PRC FDI in Arctic countries to other countries' Arctic investments, particularly those of India, Japan, South Korea, the Netherlands, and France.

2. **What are the legal conditions that govern FDI in the Arctic?**[6]

   The research paper answering this research question addresses components of the NDAA tasking mandating an analysis of the regulatory environment for FDI in the United States, Russia, Canada, Greenland, Norway, and Iceland. That analysis includes discussion of (1) screening efficacy, (2) transparency measures, (3) screening criteria, (4) post-investment monitoring practices, (5) and public reporting processes. The paper also confirms that environmental and bankruptcy regulations apply to projects in the Arctic regardless of investor nationalities.

[5] Rebecca Wolfson et al., *Arctic Prospecting: Measuring China's Arctic Economic Footprint*, CNA, 2021.

[6] Cornell Overfield et al., *Foreign Direct Investment Screening in the Arctic*, CNA, 2021.

3. **How does PRC Arctic FDI relate to the PRC's strategic regional objectives?**[7]

   The research paper answering this research question addresses components of the NDAA tasking requiring a review of PRC Arctic policy documents. This review describes issues such as (1) China's strategic objectives in the Arctic from military, economic, territorial, and political perspectives; (2) whether any active or planned infrastructure investments are likely to result in a regular PRC Arctic military presence; (3) whether PRC-backed Arctic research is a front for economic activities, including economic and other espionage, and support for future military activities; (4) the degree to which Arctic littoral states or territories are susceptible to the political and economic risks of FDI; and (5) the implications of China's Arctic development model with respect to forecasting PRC military, economic, territorial, and political activities.

4. **How can the US mitigate negative implications of PRC Arctic FDI?**

   The present research paper addresses components of the NDAA tasking related to policy and legislative recommendations regarding PRC Arctic FDI. Recommendations could include, per the NDAA's direction, (1) how the US would best interact with nongovernmental organizations; (2) whether and how to pursue an Arctic Development Bank; (3) measures the US can take to promote regional governance and counteract PRC soft power, including opportunities for collaboration with Russia; and (4) the possibility of negotiating a regional arrangement to regulate Arctic FDI. It also summarizes findings from the other three reports.

Relying on the insights gleaned from answering the prior three questions, this paper proposes recommendations for the US government (USG), in collaboration with all Arctic nations, to pursue competitive alternatives to PRC Arctic FDI.

## 1.2 Summary of project findings

Readers can visit [www.cna.org/ArcticFDI](www.cna.org/ArcticFDI) to access the three other reports. What follows is a brief summary of the major findings from those analyses.

### 1.2.1 The PRC's Arctic agenda

**PRC leaders see the Arctic as important to achieving China's overarching strategic objectives.** These include sustaining economic growth and reforming the international system to better reflect PRC interests, but also include defending national sovereignty and security

[7] Heidi Holz et al., *Exploring the Relationship between China's Investment in the Arctic and Its National Strategy*, CNA, 2021. All reports are available at www.cna.org/ArcticFDI.

interests. Given Beijing's perception of its interests in the region, the PRC has undertaken a coordinated effort to advance an Arctic agenda that employs multiple elements of state power.

**To date, Beijing's Arctic efforts have relied primarily on diplomatic, economic, and informational levers.** Although the PRC's military is not yet significantly active in the region, the People's Liberation Army (PLA) is developing the capabilities and concepts that would allow it to operate in the Arctic in the near future. Some strategists affiliated with the PLA are already writing about Arctic activities, emphasizing the role of the PLA in scientific pursuits and in search and rescue, and the value of blending civilian and military assets.

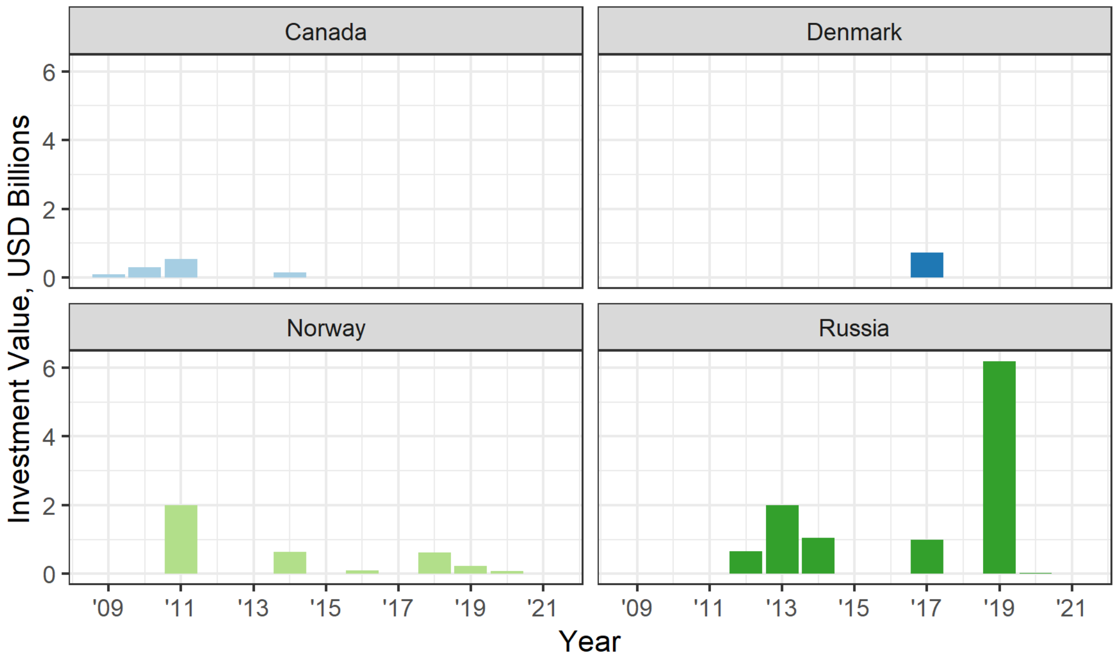
**Economic tools play a unique role in Beijing's current efforts to advance state interests in the Arctic.** As a non-Arctic state, China is dependent on others for regional access, and one means of securing such access is through economic engagement—whether investment or other economic activity. PRC-based firms, including state-owned enterprises, are often uniquely situated to incur large amounts of risk in pursuit of Arctic development projects, which is a comparative advantage for PRC interests.

### 1.2.2 Quantifying Arctic FDI

**FDI is qualitatively different from other forms of financial activity.** Our analysis of the PRC's activity in the Arctic assessed economic security from two perspectives—FDI in the Arctic (with FDI and Arctic both strictly defined) and broader large-scale economic activity with Arctic implications. FDI that takes a majority stake provides effective control over entities and resources, which is among the central concerns for US policy-makers and Arctic states broadly. A PRC-based firm building a port, for example, is qualitatively different from a PRC-based firm owning that port. The policy fixes to address FDI are distinct from fixes managing other forms of financial activity.

**PRC FDI in the Arctic does not appear to be increasing overall.** PRC direct investment is likely on the rise in the Russian Arctic, though a steep decline in 2020—perhaps related to COVID-19 and its effect on deal making or the oil market—after an all-time peak in 2019 muddies matters. In all other Arctic states, CNA's Chinese Arctic Investment Tracker recorded few investment counts (zero to four per year) and extremely low investment values. Figure 1 illustrates the value of identified FDI when transaction values are known.

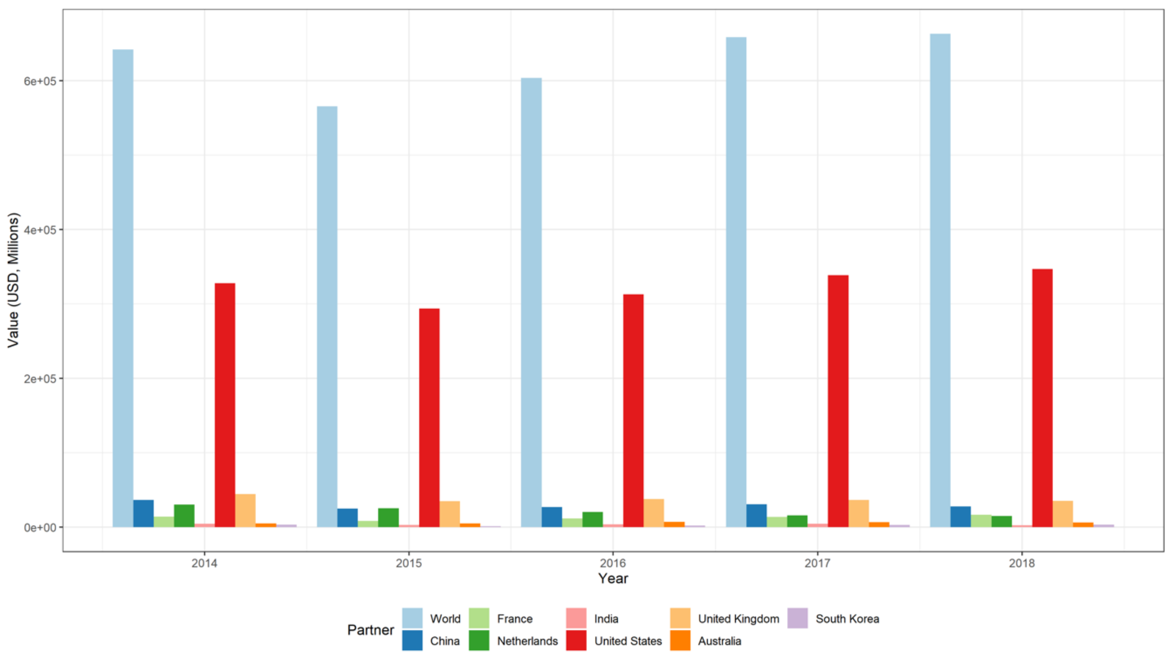
**Figure 1. Value of FDI recorded by CNA's Chinese Arctic Activity Tracker, 2011–2020**




Source: CNA.

**Relative to the FDI of other countries, PRC FDI in the Arctic also appears modest.** In 2019, the Netherlands' FDI stock in Denmark (including Greenland) was more than 13 times that of China's, the United Kingdom's (UK's) was 10 times China's position, and France and the United States were each at three times China's position. China is responsible for less than 1 percent of FDI in Denmark. PRC FDI is comparatively high in Canada (Figure 2), surpassing that of the Netherlands or France. However, the UK's FDI position in 2019 was still greater than China's. Furthermore, PRC-based firms remain relatively small players. China controlled only 1 percent of foreign investment in the overall Canadian economy as of 2019, compared to US control of over 50 percent of FDI in Canada.

**Figure 2. PRC investments in the Canadian Arctic and select country net FDI position, 2015–2018**




Source: CAAT, OECD.

**Non-FDI economic activity can pose concerns for Arctic states and their strategic autonomy.** PRC-based firms' participation in telecommunications offers an example. Such transactions are often not classically FDI but can raise concerns over intelligence collection. Examples often feature PRC-based telecommunications giant Huawei, which partnered with Tele Greenland from 2016 to 2017 to lay a 100G network subsea cable in the Arctic[8] to connect remote parts of the territory and upgrade existing telecommunication lines that link Greenland with Canada and Iceland.[9] PRC-based firms currently service significant amounts of the 5G

[8] "Huawei Marine Partners with Tele Greenland to Deploy 100G Submarine Network in the Arctic," *Huawei*, Dec. 21, 2016, https://www.huawei.com/us/news/2016/12/huaweimarine-100g-submarine-network-arctic.

[9] Paul Stronski and Nicole Ng, "Cooperation and Competition: Russia and China in Central Asia, the Russian Far East, and the Arctic," *Carnegie Endowment for International Peace*, Feb. 28, 2018, https://carnegieendowment.org/2018/02/28/cooperation-and-competition-russia-and-china-in-central-asia-russian-far-east-and-arctic-pub-75673.

capacity in Iceland as suppliers of 5G equipment to two of the three Iceland telecommunications companies (Syn and Nova).[10]

**Although FDI is only a subset of Beijing's overall Arctic economic activity, investment affords enhanced access to and control over local firms and resources.** Corporate and legal control over assets and resources can be attractive to PRC-based entities and serve PRC interests, and can pose risks to national security and US interests. Because of the high level of control that FDI can afford a controlling entity, PRC-based firms now face high levels of scrutiny. At least a dozen PRC projects face blocks or other obstacles due to target state FDI screening laws.

### 1.2.3 Arctic FDI control measures

**Canada, Iceland, Norway, Russia, and the US have formal FDI screening mechanisms, though the processes in Iceland and Norway are more decentralized and narrower in scope.** In all cases, FDI screening systems in the Arctic test investments against their threat to national security, broadly defined. Mitigation and monitoring measures are authorized across many Arctic states, though monitoring of post-investment activities can be particularly ad hoc. In all but one of the Arctic states studied in our project—the US—sectoral and industrial policies play a supplementary role in protecting sensitive sectors from foreign control (beyond FDI screenings). These sectors variously include energy, aviation, and cultural affairs. Four polities—Iceland, Greenland, Norway, and Russia—also have restrictions on foreign land purchases.

**No state has a specific "Arctic" FDI screening process, but Greenland lacks a screening process altogether.** No state in the Arctic applies special rules to screening investments in their Arctic territory. Instead, states have national FDI screening regimes that apply uniformly to Arctic and non-Arctic regions. Greenland represents a gap in FDI screening. Denmark's screening regime does not apply to Greenland, and investment in Greenland can be scrutinized or blocked only through indirect means, such as refusing land or mining permits. Some Arctic states, particularly Iceland, also face capacity barriers to FDI monitoring.

**A major point of concern for Arctic state regulators is the relationship between the PRC-government and the PRC's economy.** Party-state control over both state-owned and private PRC-based companies aims to ensure that their investments in Arctic countries further Beijing's interests. The PRC party-state has issued guidance aimed at tightening control over the overseas investments of PRC-based firms to ensure that their activities align with Beijing's

[10] "Two Telecom Companies in Iceland Use Huawei," AFP, Oct. 22, 2020, Productshttps://icelandmonitor.mbl.is/news/news/2020/10/22/two_telecom_companies_in_iceland_use_huawei_product/.

interests, including in the Arctic. Because of these rules, PRC-based firms are incentivized to focus on the extraction of natural resources and development of Arctic shipping routes, both of which are borne out in our data. Of note, PRC regulations also forbid PRC-based companies from pursuing investments that do not meet a target country's environmental, energy-efficiency, or safety standards, which are typically high in the Arctic.

## 1.3 Implications shaping our recommendations

Despite the PRC's wide-ranging efforts to achieve its objectives in the Arctic, its success to date has been limited due to a variety of constraints. Arctic states have begun to push back against PRC economic activity out of security concerns and for domestic political reasons. Beijing's counterproductive use of economic coercion tactics, seen in Norway, Sweden, and Canada, among others, has sparked some resistance to PRC investment. Some headwinds are also internal to PRC-based investors. Even if PRC-based firms are responsive to the state, they are also commercial enterprises and aim to turn a profit. Excessive levels of risk can jeopardize a firm's viability. As more large PRC-backed projects face resistance in Arctic countries, that risk calculus continues to change.

A significant number of failed PRC-backed projects, the relatively modest levels of formal PRC Arctic FDI, growing concerns among Arctic states, PRC coercive economic practices, and regulatory regimes in Arctic states all create space for effective policy intervention today. Such intervention would be beneficial because we expect PRC-based firms to continue seeking investment opportunities in the Arctic that serve PRC interests.

Policies addressing Arctic investments should focus specifically on the risks to national security posed by legal ownership control that FDI entails.[11] Any effort to mitigate risks from PRC FDI should focus on preventing ownership or controlling stakes from PRC investments in strategically important individual projects, such as rare earth elements in Greenland, as well as the steady accumulation of PRC economic and political influence in Arctic states. Investments that may support future military postures through infrastructure and dual-use ownership may also trigger national security concerns.

The recommendations in this paper aim to mitigate those national security risks, rather than block PRC economic activity or investment entirely. Because PRC activities in the Arctic are

[11] For more on how Arctic states define *control*, see Cornell Overfield et al., *Foreign Direct Investment Screening in the Arctic*.

thus far nonmilitary, the recommendations in this paper address agencies across the USG, particularly those in the Departments of State, Commerce, and the Treasury.

The recommendations below are offered in order of ease of implementation, with the assumption that unilateral USG implementation is easier than multilateral initiatives. Multilateral initiatives are further divided into two categories—the first aims to facilitate a more favorable investment ecosystem for Arctic investors broadly, while the latter looks to build new frameworks for channeling Arctic investments. Given that predatory FDI in the Arctic is a cross-regional problem, solutions that engage the broadest set of Arctic stakeholders are likely to be the most effective in the long term. Pan-Arctic solutions, however, are likely to be more challenging to implement. Each recommendation includes a nominated implementing agency and specific action items to begin pursuing the overarching objectives in this report.

# 2. Leveraging USG's Unilateral Buying Power

The USG houses several institutions and authorities that permit it to compete directly with PRC FDI in limited ways. USG programs and lending may not be able to achieve the same scale and role as the PRC's state-sanctioned investments in the Arctic. Still, USG actions can meaningfully counterbalance or displace PRC FDI in select locations and sectors.

## 2.1 Increase USG Arctic commercial investments

To defend certain sectors against PRC ownership, the USG could itself play a greater role in regional economic life through several preexisting institutions and authorities.

The most direct mechanism involving the Department of Defense (DOD) is to expand the US military's footprint through basing agreements. The April 2021 supplementary defense cooperation agreement with Norway offers a recent example for how the US could secure strategic installations in the Arctic and deny them to the PRC.[12]

Commercially, the USG could also compete with PRC-backed firms in circumstances that threaten national security. This would provide a constructive lever for US policy-makers, complementing any efforts to lobby Arctic nations to deny PRC-backed investments project by project. The mechanism for US investments could run through any of several institutions and authorities already in existence, including, but not limited to, authorities resident in DOD.

### 2.1.1 USG investment coordination

**At the direction of the White House, the US Trade Representative (USTR) should develop a coordination framework to ensure that key US institutional actors with roles in Arctic financing have a dedicated forum for interagency coordination.**

No single US trade support agency controls an integrated set of financing and investment tools to advance US economic policies, compared with the PRC's strategic advantage in coordinating

[12] Supplementary Defense Cooperation Agreement Between the Government of the Kingdom of Norway and the Government of the United States of America, https://www.regjeringen.no/contentassets/0a7035b6c001426daf41e6158e8f9b4c/sdca-english-version.pdf.

policy and economic decisions. Separation of business and policy remains an important safeguard in the US system.

Still, the White House should consider coordinating existing US Arctic trade policy levers under a more centralized process, spearheaded by the USTR (potentially through the interagency vehicle of the Trade Promotion Coordinating Committee (TPCC)).[13] Doing so would maximize the effect of disparate programs and authorities spread across the government and identify gaps in strategic locations such as the Arctic. The USTR is a cabinet-level office, meaning it provides a potentially effective executive-level coordinator. Simultaneously, the office is relatively small with no formal control over the various state-affiliated policy banks and lending programs, which could help incentivize USTR to serve broader policy objectives and not narrower bureaucratic ends.

### 2.1.2 Strategic defense investments

**The Defense Logistics Agency's Strategic Materials office should:**

- **Produce periodic reports to identify how political and economic developments in key regions, including the Arctic, might affect access to essential defense items; and**
- **Clarify its authority to conclude futures contracts on potentially essential lands, goods, or services.**

DOD is authorized to pursue direct commercial investments, including investments in companies that reach a certain strategic threshold. In February 2021, using authorities from Title III of the Defense Production Act (DPA),[14] DOD invested in Lynas, an Australian rare earth

[13] Trade Promotion Coordinating Committee webpage, https://www.trade.gov/tpcc.

[14] The DPA has been used to redirect industry to produce war material and, most recently, medical supplies to respond to national emergencies. The DPA provides foundational authority for the Committee on Foreign Investment in the United States and also provides authorities for the President to impose wage and price controls, settle labor disputes, and requisition private property for public use. The DPA provides the President the authority to take appropriate steps to "maintain and enhance" the defense industrial base, including programs for military and critical infrastructure construction, energy production, and stockpiling of critical materials used in national defense. In some cases, congressional approval is needed. However, Section 107(a) of the DPA (Title II) allows the President to provide "financial incentives," transfer government equipment, or "expand the production capacity." Similarly, DPA gives the President considerable flexibility to provide, usually via contract, the authority to incent companies to enter areas in which there are shortfalls in domestic capacity. Specifically, Section 303(a) gives the President authority to enter into advance purchase agreements for industrial resources or critical technology, and even provide subsidies to producers (Section 303(c)) to assure continued supply of critical materials and stable prices. Even though the DPA does not provide the President the authority to purchase real estate or build factories or processing plants, the government does have significant powers to act as a market maker to address domestic shortfalls. The US could therefore lease lands or obtain an option to purchase lands or mineral rights under the DPA or general leasing authorities, including the option to do so in the future.

element mining and processing company (the largest outside of China).[15] DOD executed three other DPA Title III awards to domestic rare earth element firms in 2020, demonstrating that the mechanism is readily accessible across administrations.[16]

DOD investment in critical resources also aligns with executive orders (EOs) across administrations, including EO 13817[17] (March 2017) on securing reliable access to critical minerals, and EO 14017[18] (February 2021) on supply chain integrity. In June 2021, the White House published the results of a 100-day review to strengthen critical supply chains calling for DOD to "recapitalize and restore the National Defense Stockpile of critical minerals and materials," which further justifies direct DOD commercial agreements in the Arctic.[19]

The Defense Logistics Agency (DLA) possesses much of this purchasing authority. The DLA Strategic Materials office should develop periodic reports to identify how political and economic developments in key regions, including the Arctic, could affect access to items in its annual materials plans.[20] DLA should also clarify its authority to execute futures contracts, leasing options, or other options on future rights to keep specific resources or lands off market for later use by the US government or an ally.[21]

[15] "DOD Announces Rare Earth Element Award to Strengthen Domestic Industrial Base," DOD Press Release, Feb. 1, 2021, https://www.defense.gov/Newsroom/Releases/Release/Article/2488672/dod-announces-rare-earth-element-award-to-strengthen-domestic-industrial-base/.

[16] "DOD Announces Rare Earth Element Awards to Strengthen Domestic Industrial Base," DOD Press Release, Nov. 17, 2020, https://www.defense.gov/Newsroom/Releases/Release/Article/2418542/dod-announces-rare-earth-element-awards-to-strengthen-domestic-industrial-base/.

[17] A Federal Strategy to Ensure Secure and Reliable Supplies of Critical Minerals, Dec. 26, 2017, https://www.federalregister.gov/documents/2017/12/26/2017-27899/a-federal-strategy-to-ensure-secure-and-reliable-supplies-of-critical-minerals.

[18] America's Supply Chains, Mar. 1, 2021, https://www.federalregister.gov/documents/2021/03/01/2021-04280/americas-supply-chains.

[19] "Fact Sheet: Biden-Harris Administration Announces Supply Chain Disruptions Task Force to Address Short-Term Supply Chain Discontinuities," White House Press Release, June 8, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/08/fact-sheet-biden-harris-administration-announces-supply-chain-disruptions-task-force-to-address-short-term-supply-chain-discontinuities/.

[20] "Annual Materials Plan for FY2021," DLA, https://www.dla.mil/Portals/104/Documents/Strategic%20Materials/Announcements/3182%20FY21%20AMP.pdf?ver=8es2CexNU2-8oJ6yaicyyg%3d%3d.

[21] Despite a recommendation from the Defense Business Board, it does not appear that DOD is currently engaging in the purchase of futures contracts (as is done in the commercial airline industry) to purchase contracts to supply fuel in the future at stated prices because of questions over its legal authorities. See, Anthony Andrews, "Department of Defense Fuel Spending, Supply, Acquisition, and Policy," CRS, Sept. 22, 2009, pp. 17–19, https://fas.org/sgp/crs/natsec/R40459.pdf.

### 2.1.3 Loans for Arctic businesses

**The US Export-Import Bank (EXIM) and Congress should:**

- **Grant the bank flexibility in financing terms and decisions in key regions, including the Arctic; and**
- **Expand the China and Transformational Exports program's sectoral scope to industries relevant in the Arctic.**

EXIM provides direct loans, performance bonds, and loan guarantees to US entities or foreign buyers of US products.[22] To qualify for EXIM financing, financed goods must have at least 51 percent US content, or the exporter must be legally domiciled in the US.[23] Loan conditions vary based on the type of financing product, but EXIM will finance only the US content of a deal. Loan amounts are not capped, but regulatory fees, interest rates, and other repayment terms follow market conditions.[24] In 2019, EXIM was statutorily reauthorized, and the bank's lending cap was set at $135 billion through FY 2027. The authorizing legislation also created the China and Transformational Exports program, which gives the bank flexibility to waive certain fees and authorities to match PRC funding in certain high-priority sectors.[25] An illustrative scenario in Appendix A compares EXIM and PRC policy bank lending terms.

To be relevant in the Arctic, the China and Transformational Exports program's scope should be expanded to cover industries named in the FY 2020 NDAA requirement for this study. EXIM should also consider establishing longer grace periods and longer overall terms for projects in select regions and industries to match PRC policy bank terms that may be skewing the financing market.

EXIM should also use these levers to encourage US commercial interest in the region. At least one research conversation we held with EXIM suggested that demand for Arctic-related financing from US businesses is not particularly high. If US policymakers expect US commercial interest to contribute to US objectives in the Arctic, policy and trade-promotion institutions must find additional economic incentives for US commercial investment and activity.

[22] US Export-Import Bank, https://www.exim.gov/.

[23] "Services Exports," EXIM website, https://www.exim.gov/what-we-do/services-exports.

[24] "Direct Loan," EXIM website, https://www.exim.gov/what-we-do/direct-loan.

[25] "Export-Import Bank of the US (Ex-Im Bank)," CRS, Feb. 4, 2021, https://fas.org/sgp/crs/misc/IF10017.pdf; "Overview: Program on China and Transformational Exports," EXIM website, https://www.exim.gov/who-we-serve/external-engagement/china-and-transformational-exports-program/fact-sheet. The seven-year reauthorization was signed into law (P.L. 116-94) on December 20, 2019. The priority industries, as outlined in the China and Transformational Exports program, include artificial intelligence, biotechnology, wireless communications, quantum computing, semiconductor manufacturing, high-speed computing, and a few other areas.

### 2.1.4 Visibility into Arctic investment needs

**The Department of Commerce's Foreign Commercial Service (FCS), in collaboration with the State Department, should ensure that FCS agents are resourced and networked to connect the US business community with investment needs and opportunities in the Arctic.**

The US government can also help to identify Arctic development needs and communicate those needs to the US business community to boost US private sector engagement in Arctic projects. Commerce's FCS is a natural lead agency given its status as a resource for identifying prospective strategic development opportunities both for the USG and for private US businesses across the region.

Commerce's FCS lead, in collaboration with the State Department, should augment and elevate the status of FCS positions in Arctic overseas postings. FCS personnel should be equipped and networked across the Arctic region to ensure that Arctic investment opportunities receive greater visibility inside the USG. A dedicated FCS program on Arctic investment would help focus US business attention on regional opportunities.

## 2.2 Increase US foreign aid to select Arctic communities

Policy-makers could direct targeted but meaningful levels of foreign assistance to struggling communities within Arctic nations. Although Arctic nations as a whole are wealthy, Arctic regions themselves often suffer higher levels of poverty due to historic discrimination against Indigenous populations, limited infrastructure, and distance from major population centers. In these areas, PRC investments may be particularly attractive as an impetus for growth, regardless of geopolitical consequences. For example, a recent survey found that Greenlanders heavily prioritize economic development over geopolitical concerns.[26]

Aid to the Arctic would not be unprecedented. Since 2020, the US has provided two aid packages to Greenland.[27] Aid should be continued in Greenland in light of its potential future independence, and expanded to other regions such as Northern Canada. However, aid must be coordinated with national and local leaders through US embassies to ensure that aid is well received, rather than seen as an unwanted intrusion in national and local life.

[26] Maria Ackrén and Rasmus Leander Nielsen, "The First Foreign- and Security Policy Opinion Poll in Greenland," University of Greenland, Feb. 2021, https://uni.gl/media/6762444/fp-survey-2021-ilisimatusarfik.pdf.

[27] The US has already considered aid to Greenland, as in April 2020. See, https://www.arctictoday.com/the-us-aid-package-to-greenland-is-a-new-chapter-in-a-long-complex-relationship/.

Targeted assistance in qualifying locations could have both short- and long-term benefits for US interests. In the short term, aid would provide a countervailing source of development funding and reduce reliance on the PRC's economic activity. In the long term, aid may improve trust in the US, which could produce more favorable politics towards the US, as well as ease matters when the US believes an investment poses security risks.[28] Improved public sentiment regarding the US may also ease resistance when the US seeks to block PRC investments that raise national security concerns. For instance, the US has asked the Danish government to block pending PRC investments in Greenlandic airports or other pending purchases.[29]

### 2.2.1 Direct US foreign aid

**The US Agency for International Development (USAID) should develop an outline for an Arctic program of limited scope targeting Arctic communities in greatest need in close coordination with local and national governments.**

The program should initially focus on communities in Greenland, Northern Canada, the Faroe Islands, and Svalbard, and should include an assessment of what, if any, additional authorities would be necessary to operate in higher income nations. The program outline should include a cost estimate to identify the level of funding that would yield strategic results at minimal impact to USAID's other efforts.[30] USAID must coordinate with local and national governments to ensure that aid is welcomed, rather than seen as an intrusion in national or local politics.

### 2.2.2 Development through facilitation

**At the direction of its CEO, the US Development Finance Corporation (DFC) should develop recommendations for infrastructure projects (limited to the sectors specified**

[28] For information on polling results in Arctic states comparing impressions of the US and PRC, see Maria Ackrén and Rasmus Leander Nielsen, "The First Foreign- and Security Policy Opinion Poll in Greenland," University of Greenland, Feb. 2021; Anthony H. Cordesman, "Making America Great? Global Perceptions of China, Russia, and the United States: The International Scorecard," CSIS, Jan. 7, 2021, https://www.csis.org/analysis/making-america-great-global-perceptions-china-russia-and-united-states-international; Laura Silver, "China's International Image Remains Broadly Negative as Views of the US Rebound," Pew, June 30, 2021, https://www.pewresearch.org/fact-tank/2021/06/30/chinas-international-image-remains-broadly-negative-as-views-of-the-u-s-rebound/.

[29] Drew Hinshaw and Jeremy Page, "How the Pentagon Countered China's Designs on Greenland," *Wall Street Journal*, Feb. 10, 2019, https://www.wsj.com/articles/how-the-pentagon-countered-chinas-designs-on-greenland-11549812296.

[30] A number of smaller USG lending programs are focused on small businesses and small-scale grant making. Since the purpose of this report is to identify programs that could provide an alternative to PRC financing for large-scale projects, they are generally excluded from the recommendations; however, the Small Business Administrations' Small Business Development Center and 8(a) loan programs and the Millennium Challenge Corporation could advance US interests in the Arctic.

**in the FY 2020 NDAA) suitable for DFC financing in Greenland, Northern Canada, the Faroe Islands, and Svalbard.**

The US DFC can encourage Arctic investments with an array of tools. Options include feasibility studies, insurance products, equity investments in emerging markets or development projects, and direct loans of up to $1 billion in critical infrastructure or energy projects. DFC requires that borrowers have a successful business track record, have equity in the project, and must have first sought private finance.[31] Borrowers must comply with DFC's investment policies and meet standards for having a favorable environmental and social impact.[32]

DFC recently acquired new authorities that may allow it to operate in the Arctic.[33] The 2018 BUILD Act authorized DFC to provide development assistance to counteract the PRC's Belt and Road Initiative, which Beijing has extended to the Arctic.[34] DFC assistance remains unavailable for projects in countries where there are sanctions restrictions, such as Russia.[35] DFC's overall loan exposure portfolio was also doubled, to $60 billion. Explicit presidential and congressional direction to operate in the Arctic would head off critiques that DFC is overstepping its remit.[36]

[31] "Eligibility Checklist," DFC website, https://www.dfc.gov/what-we-offer-eligibility/eligibility-checklist.

[32] "Investment Policies," DFC website, https://www.dfc.gov/what-we-offer/eligibility/our-investment-policies.

[33] "Where We Work," DFC website, https://www.dfc.gov/what-we-offer/eligibility/where-we-work.

[34] Enacted on Oct. 5, 2018, as Division F of a law to reauthorize the (unrelated) Federal Aviation Administration (FAA) (H.R. 302/P.L. 115-254). This legislation resulted in the merger of three major development finance programs, including those from OPIC, USAID, and the Development Credit Authority.

[35] That legislation also relaxed the US content/citizenship nexus to enable US investors to enter into joint ventures with foreign partners. See, "BUILD Act: Frequently Asked Questions About the New US International Development Finance Corporation," CRS, Jan. 15, 2019, https://fas.org/sgp/crs/misc/R45461.pdf.

[36] "OPIC to Support World's Longest Subsea Telecommunications Cable," OPIC Press Release, Nov. 5, 2019, https://www.dfc.gov/media/opic-press-releases/opic-support-worlds-longest-subsea-telecommundications-cable. For criticism, see Celemence Landers et al., "Is DFC Going to Be a Development Finance Institution or a Foreign Policy Bank?" Center for Global Development, Mar. 25, 2021, https://www.cgdev.org/blog/dfc-going-be-development-finance-institution-or-foreign-policy-bank.

# 3. Fostering Multilateral Arctic Investment Ecosystems

US policy-makers should focus on building international institutions and arrangements that make FDI screening measures more effective, while also supplanting investment from PRC interests with financing from Arctic nations. This two-pronged approach would both reduce the risk of dangerous concentrations of PRC FDI, and expand alternatives capable of charging Arctic economic growth independent of PRC investment.

## 3.1 Launch an Arctic FDI transparency initiative

Fact-finding remains the greatest shortcoming in Arctic state FDI review processes, particularly for small polities with less robust national security sectors. Arctic states generally possess broadly defined authorities to scrutinize and reject inbound investments.[37] Although laws and regulations could be tweaked in some states, the greatest gains will come from making enforcement of these laws and regulations more effective.

Understanding the scope of PRC FDI, its potential concentrations in countries and sectors, and the relationship between investors based in the PRC and the PRC itself are all prerequisites for effectively mitigating any malign effects of PRC capital. Yet as our research underscored,[38] developing a comprehensive picture of PRC FDI across the Arctic region remains challenging. A collaborative initiative among Arctic nations to share data on FDI that supports evaluations of proposed projects would help translate expansive laws into effective practice. Such an initiative could also enable targeted mitigation measures that block investments that pose actual risks, rather than resorting to restricting PRC investment wholesale.

### 3.1.1 Diplomatic engagement on FDI

**The State Department senior Arctic official, at the direction of the secretary of state, should assess interest in an Arctic FDI transparency initiative through the Arctic Council.**

[37] Cornell Overfield et al., *Foreign Direct Investment Screening and Control Mechanisms in the Arctic*, CNA, 2021.

[38] Rebecca Wolfson et al., *Arctic Prospecting: Measuring China's Arctic Economic Footprint*, CNA, 2021.

Given sufficient interest, an Arctic Council working group or action program could develop the specific parameters for such an initiative and its implementation framework. The Arctic Economic Council (AEC) might be deputized with considering such an initiative.[39] Membership in the AEC is open to corporations, partnerships, and Indigenous groups that have an economic interest in the Arctic. Canada founded the council, and an executive committee led by an Icelandic national guides its day-to-day operations. Norway, the United States, Finland, and Russia provide vice chairs. The organization also includes non-Arctic entities. Nonregional parties include corporations and trade associations based in Greece, South Korea, and Germany. Incorporating the AEC could provide a means to include the private sector and non-Arctic business interests as stakeholders in a transparency initiative, especially if one were to be seen as broadly beneficial to non-PRC investors.

### 3.1.2 Technical assistance on FDI investigations

**Components of the Treasury Department should:**

- **Provide technical assistance to authorities charged with FDI screening in Iceland, Denmark (including Greenland), and Norway;**
- **Complete periodic reports on Arctic regional economic activities; and**
- **Share more information on investors collected through the Corporate Transparency Act or US FDI screening procedures.**

The Treasury Department should, in consultation with State Department economic officers at Arctic embassies, develop an action plan for providing targeted assistance to the administrative bodies responsible for financial review in Iceland, Denmark, and Norway. Treasury, perhaps through the Office of Intelligence and Analysis, should also explore the feasibility of periodic reports to Congress and the White House on Arctic regional economic activities connected to critical sectors.

The chair of the Committee on Foreign Investment in the US (CFIUS) is authorized to share information collected from firms in the course of CFIUS reviews in certain circumstances. Such information is generally confidential. However, disclosure is permitted to certain government entities affiliated with US allies. Disclosure of information to allies and partners must be authorized by the CFIUS chair, and must be necessary for "national security purposes" (an

[39] One discussant in CNA's outreach regarded the AEC as a better institutional home to sponsor development activity (Field Interview 20210302 1630 No. 5). The AEC has issued publications on best practices, an Arctic Investment Protocol, and guidelines on responsible resource development. See, Arctic Economic Council website, https://arcticeconomiccouncil.com/publications/.

undefined term).[40] Treasury should make greater use of these authorities with specific application to enhancing FDI screening processes in the Arctic.

The Financial Crimes Enforcement Network (FinCEN) could also contribute to transparency in the medium and long term. The Corporate Transparency Act passed in 2021 imposes regulations that will require most corporations in the United States to disclose their beneficial owners to the USG. FinCEN is charged with collecting and managing this information. Although the resulting database will be private, FinCEN may disclose beneficial ownership information to federal agencies requesting it on behalf of law enforcement agencies or judges in a trusted country conducting an investigation.[41] In developing implementing regulations, FinCEN should ensure that FDI screening investigations are covered.

## 3.2 Encourage ally and partner state-affiliated policy banks to invest more in the Arctic

The US can encourage policy banks affiliated with states other than the PRC to lend more in the region to crowd out PRC-backed investment. In addition to private and USG funding, Arctic states could push the myriad policy banks and state lenders with overlapping jurisdiction or potential interest in the Arctic to lend more in the region. These would include state-affiliated policy banks and aid lenders of Arctic nations, multilateral banks with Arctic members, and multilateral banks without Arctic members.

A more competitive state lending environment in the Arctic would diversify options for local projects that benefit Arctic development. Doing so would limit the risk of PRC capital establishing a strategically dangerous stake in individual countries or sectors. Multilateral or state-funded lenders may also be more capable than private lenders of seeking exemptions from some current sanctions levied on Russia. The list of institutions in Appendix B is not exhaustive, but it provides a first look at the entities with the greatest potential interest in increased Arctic lending.

### 3.2.1 Diversity in institutional lenders

**USTR, as the lead entity on trade deliberations, and the Treasury Department's International Affairs office, as the US interlocutor for multilateral development banks,**

[40] Defense Production Act of 1950, Sept. 8, 1950., §4565(c)(1)-(2).

[41] Title 31 US Code, Chapter 53, §5336 (c)(2)(B)(ii).

**should jointly coordinate US engagements with select state-affiliated policy banks to incentivize greater Arctic lending.**

As shown in Appendix B, the US can promote greater diversity in Arctic financing through a number of institutions. USTR's engagements should begin with institutions that have the most direct connections to Arctic nations, including the policy banks of those states. A second set of targets should be state-affiliated policy banks, such as several European institutions, that include Arctic states as participants. A final tranche of targets for USTR and Treasury should be non-Arctic institutions that can meaningfully augment financing in the region, without negative strategic repercussions. Facilitating growth between Arctic businesses and nonregional state-affiliated policy banks, including those related to Germany, France, South Korea, Japan, and India, would help diversify capital sources in the region. USTR and Treasury should consider how targeted incentives for these state-affiliated institutions to engage in Arctic financing may be incorporated into other ongoing deliberations with those states. Options include incorporating relevant incentives into trade and investment framework agreements (TIFAs) and memorandums of understanding (MOUs) on economic cooperation, which could promote the engagement of outside policy banks. Trade frameworks and MOUs do not set legally binding levels of trade but can demonstrate US commitments to certain policy preferences, making it safer for policy banks to expand their lending.

# 4. Creating Arctic FDI Institutions

In addition to USG unilateral options and the development of a more favorable lending ecosystem, Arctic nations can also pool resources to compete directly with PRC-backed lending in regions and sectors that are highest priority. Doing so would create new frameworks and institutions that favor local funding over external sources of capital. These policy tools require more substantive coordination with all Arctic nations to achieve scale, but would most clearly address the region's investment needs in a comprehensive and sustainable manner.

## 4.1 Build an intra-Arctic investment fast-track

Whether via a broad multilateral agreement or a series of bilateral agreements, a system that enables Arctic nations' FDI-funded proposals to receive expedited reviews by other Arctic nations would provide an administrative, and thus financial, advantage to intra-Arctic financing. Incentives could include accelerated loan approval from public sources or expedited or waived CFIUS review. This approach, like other initiatives above, provides alternatives to PRC investment, rather than blocking PRC investments wholesale. Furthermore, intra-Arctic investment builds financial knowledge, experience, resilience, and resources in the region, providing benefits beyond national security.

### 4.1.1 Investment frameworks

**USTR should explore the feasibility and logic of institutional arrangements that facilitate investment and trade in the Arctic, whether on a bilateral or multilateral basis.**

Investment frameworks could be as complex as an Arctic free trade agreement or a pan-Arctic free trade zone, ideas that have been broached by the AEC.[42] Alternatively, an investment ecosystem favoring regional financiers could be as limited as a series of bilateral MOUs, perhaps focused on strategic sectors like those outlined in the FY 2020 NDAA and listed in the introduction.

[42] "Freedom of Trade and Arctic on the Agenda as President of the Federal Republic of Germany visits Finland," Arctic Economic Council, accessed July 1, 2021, https://arcticeconomiccouncil.com/news/freedom-of-trade-and-arctic-on-the-agenda-as-president-of-the-federal-republic-of-germany-visits-finland/; Mehek Sethi, "Could an Arctic Agreement Revolutionize Global Trade?" Belfer Center, https://www.belfercenter.org/publication/could-arctic-agreement-revolutionize-global-trade.

### 4.1.2 Excepted investor state status

**CFIUS should consider helping Iceland and Norway achieve excepted investor state status.**

CFIUS may narrowly contribute to fast-tracked investments with its power to designate excepted investor states in the US. This status is attractive to foreign states and investors by reducing barriers to investment. CFIUS may designate states with robust FDI screening measures as “excepted investor states.” Most investors from such states do not need to report to CFIUS (a) noncontrolling investments in the infrastructure, advanced technology, or personal data sectors, or (b) controlling real estate investments in or near certain locations. As of 2021, only Australia, Canada, and the UK have been granted excepted investor state status.

### 4.1.3 Policy changes among US Arctic allies

**USTR should investigate the suitability of both tools as initial steps for enhancing intra-Arctic investment with, at a minimum, Canada and Norway.**

As seen in the previous recommendation on state-affiliated policy banks, USTR maintains several tools that can signal US policy preferences and encourage policy changes among partner states. Two central mechanisms, TIFAs and MOUs, have wide room for expansion in the Arctic. So far, among Arctic nations, the US has executed a TIFA only with Iceland.[43] The US also signed an economic MOU with Iceland in 2020.

## 4.2 Establish an Arctic Development Bank

Other regions possess development banks. An Arctic Development Bank dedicated to the unique needs of the region is therefore a logical innovation. The concept of a regional development bank, broached in CNA’s 2017 analysis of PRC FDI, has received endorsements by some of the communities it would serve. Julie Kitka, president of the Alaska Federation of Natives, has proposed a North American Arctic Infrastructure Bank (NAAIB), citing CNA’s prior recommendation.[44]

In addition to providing alternative financing, an Arctic Development Bank could raise the bar for Arctic projects’ environmental standards. Although Arctic states already subject FDI-

[43] “Trade and Investment Framework Agreements,” USTR website, https://ustr.gov/trade-agreements/trade-investment-framework-agreements.

[44] Kitka’s proposal included a collaboration with PRC-based investors (https://www.nativefederation.org/wp-content/uploads/2018/12/AFN-AKDayInfrastructureBriefing-ONLINE.pdf), which we would discourage based on the bank’s intent in our analysis. Kitka’s proposal also included a focus on small-business opportunities (such as those offered by the Millennium Challenge Corporation and the Small Business Administration), which are important but are excluded from the focus of this assessment of large-scale enterprises.

funded projects to standard national regulations on environmental impact, an Arctic Development Bank could require industry-leading standards for environmental protection. Doing so, alongside competitive financing rates, would provide an added political attraction for some Arctic nations to organize such an enterprise and would benefit all Arctic stakeholders in protecting a vulnerable ecosystem. Loan conditions should ideally be perceived by the borrowers and local inhabitants as striking the right balance between economic development and the protection community welfare. If the regulatory burden is too high, it will push borrowers away from the institution.

### 4.2.1 Bank location, structure, and operating conditions

**The Treasury Department's Office of International Affairs (OIA), which oversees the US relationship with multilateral development banks, should study both a suitable location for the institution and ideal structures for an Arctic Development Bank.**

Regarding location, we recommend that the development bank be headquartered in a country other than the US to ensure its political success among all Arctic nations. Norway is one possible host, given the country's experience in Arctic development, a large technically trained base among its population, and its national experience in banking and insurance. Norway's financial stability and energy independence also help support the perception that the country is an independent broker on financial issues. Alternatively, Finland could be a competitive option. Finland's status as a non-North Atlantic Trade Organization (NATO) member may facilitate Russian participation in the bank. Treasury should engage directly with prospective host nations to gauge interest and capacity.

Regarding structure, in the most basic terms, an Arctic Development Bank would require an overarching international agreement to which countries would sign on. Leading the working group discussions in development of such a multilateral agreement would be the primary responsibility of OIA (in coordination with the USTR). Substantively, an agreement could look to any number of existing institutions as templates. Bank operations are generally guided by an operating agreement and bylaws. As for other investment and development banks, countries would have control based on their stock holdings, though most of the day-to-day operations would generally be vested in a professional staff that is organized along the lines of a modern corporation with standard loan conditions and lending policies. Capital would be paid in some form when the bank was formed. Stock holding would determine the ability of member countries to name individuals to serve on the board of directors and fill the ranks of senior management. Since much of the US, Russian, and Canadian economies are outside of the geographic Arctic region, we recommend that each country receive shares in the bank based on a formula that takes into account the Arctic-specific gross domestic product of each participating country, its Arctic population, and the land mass that falls within the Arctic region.[45]

At a more targeted level, one potential model for Treasury to consider in multilateral deliberations is the potential role of an Arctic Development Bank to serve as an incubator in enterprises that would uniquely benefit Arctic nations' needs. The US Small Business Administration's (SBA) Small Business Investment Company (SBIC)[46] program offers a potential template. SBICs form when the government funds a partnership with private investors to develop a joint venture corporation in which the lender (SBA) has an equity stake in the venture. As the enterprise matures, the government investor backs out (ideally with its investment repaid). SBA claims that FedEx, Tesla, Intel, Apple, Costco, and Whole Foods are examples of companies that received early funding via the SBIC concept.[47] Such a model, guided through an Arctic Development Bank, could be suitable for Arctic developers who need an institutional partner to achieve the needed financial leverage and technical support to initiate a complex undertaking. This feature could be particularly effective in regions that require nonresident technical assistance. A combination of traditional direct lending, loan guarantees, and an SBIC-like product could be a good initial suite of Arctic Development Bank products.

Finally, as noted in our 2017 report, we recommend that membership in the Arctic Development Bank—and control over bank assets—be limited to Arctic countries. As noted in a prior recommendation, any number of other state-affiliated policy banks exist that already blend Arctic and non-Arctic members. We do, however, recommend that the bank retain the authority to make direct loans, issue loan guarantees, and provide other financial services to outside parties wishing to invest in a project that is physically based in the Arctic.

[45] The Arctic Council seems to rely on "The Economy of the North—ECONOR 2020," a work compiled by Statistics Norway (SSB), the CICERO Center for International Climate Research, and Laval University in Quebec City, QC.

[46] "Investment Capital," SBA website, https://www.sba.gov/funding-programs/investment-capital.

[47] "Cardin, Risch: Direct More Investment Capital to Innovative, High-Growth Small Businesses," Small Business Committee Press Release, Mar. 8, 2018, https://www.sbc.senate.gov/public/index.cfm/2018/3/cardin-risch-direct-more-investment-capital-to-innovative-high-growth-small-businesses.

# 5. Conclusion

The US government can employ a diverse set of unilateral tools and embark on multilateral and institutional initiatives to mitigate and block potentially malign PRC FDI in the Arctic. As policy tools become more collaborative, they likely will generate larger shifts in Arctic FDI patterns, though implementing those solutions is more challenging than the unilateral options immediately available to US policy-makers.

From a unilateral standpoint, the US government maintains a diverse collection of institutions and authorities that can readily deploy resources to narrowly compete as sources of capital in the Arctic. Recommendations that speak to these internal capabilities are as follows:

- **Increase USG Arctic commercial investments**

  If one of the driving strategic concerns for the US is PRC control over or access to critical industrial resources or strategic locations in the Arctic, the most direct solution is for the US to direct more USG regional investment. USG investment could occur through several preexisting institutions and authorities, including but not limited to the DOD.

- **Increase US foreign aid to select Arctic communities**

  Policy-makers could choose to direct small, targeted, but meaningful levels of foreign assistance to struggling communities within Arctic nations. Although Arctic nations are wealthy, they include pockets of poverty, including among some historically disadvantaged Indigenous communities, which may be appropriate for attention by select aid programs.

At the multilateral level, the US can encourage certain forms of investment behavior through increased transparency and inducements. These tools focus on creating a more competitive ecosystem for Arctic financing and operate best in parallel with recommendations that promote more direct forms of lending. To promote this ecosystem, the US should take the following actions:

- **Launch an Arctic FDI transparency initiative**

  Fact-finding often remains the greatest shortcoming in Arctic state FDI review processes, particularly for small states. Increased technical expertise and information sharing from the Departments of State and Treasury could make existing rules more effective.

- **Encourage allied and partner state-affiliated policy banks to invest more in the Arctic**

USTR and related actors should incentivize state-affiliated policy banks to lend more in the region as competitors to financing by PRC-backed policy banks. Targets would include Arctic nations' policy banks, the non-Arctic banks to which they hold membership, and even policy banks from Asia.

Finally, to achieve the necessary scale to meet Arctic development needs, diversify the pool of lenders, and avoid individual nations achieving unwanted control in individual countries or sectors, the US can coordinate the development of entirely new frameworks and institutions for Arctic FDI. To these ends, USG actors should do the following:

- **Pursue an intra-Arctic investment fast-track**

  Whether via a broad multilateral agreement or a series of bilateral agreements, a system that enables Arctic nations' FDI-funded proposals to receive expedited confidential reviews by other Arctic nations would provide an administrative, and thus financial, advantage to intra-Arctic financing. Excepted investor state status, as designated by the Committee on Foreign Investment in the US, offers an initial option to help US policy-makers achieve the larger objective.

- **Establish an Arctic Development Bank**

  An Arctic Development Bank is a logical innovation if the US and other regional states aim to displace PRC investment in the region. Such an entity would not only pool and direct Arctic nations' funding back into the Arctic, but it could also raise the floor for Arctic projects' environmental standards. Such a bank should be the product of a multilateral agreement signed by all eight Arctic nations.

Many US government institutions must pull together to address the political and economic challenges of concentrated PRC FDI in the Arctic. Our report identifies important roles for the Departments of Commerce, State, Defense, and Treasury; the Export-Import Bank; USTR; USAID; and the International Development Finance Corporation. Each of these agencies would doubtless also require support from a wide swath of the US government, in addition to the needed buy-in from the seven other Arctic nations, their state-affiliated policy banks, the state-affiliated policy banks of other allies and partners, and the local and Indigenous Arctic communities that require and deserve access to capital.

FDI in the Arctic is vital to the region's continued development. Yet when high levels of FDI come from a single source such as Beijing, financing risks becoming a threat, rather than an opportunity. Not only can these investments harm US security interest, but they also may reinforce exploitative extractive economies. The time is now to preempt these risks, and the recommendations in this report provide a road map for doing so.

# Appendix A: Comparing PRC and US State-Affiliated Lenders

The illustrative scenario in this appendix demonstrates how the US Export-Import Bank (US EXIM) compares with PRC policy bank lending. The scenario was instructive in refining the recommendations related to US EXIM in this report, and it provides a more detailed illustration of how PRC-based firms pursue advantages rooted in financial institutions. To compare the Export-Import Bank of China (China Exim Bank) with US EXIM, we used real companies and real financing terms for illustrative purposes. Actual terms would likely differ based on market conditions.

## Scenario

Iceland's XYZ Corporation wishes to buy or lease facilities, hire personnel, and purchase equipment and technology to build and operate a rare earth minerals processing plant to separate and refine rare earth minerals from ore that is imported by ship from Greenland. XYZ believes it can turn a profit because of Iceland's abundant and cheap geothermal energy and access to an Icelandic workforce (Greenland's workforce is small, and power is more expensive, offering comparative advantages to Iceland). XYZ needs both technical expertise and access to large amounts of capital to finance such a project, so it turns to large companies in the PRC and the United States for both.

### Pursing PRC funding and technology

XYZ would likely approach a firm like China Northern Rare Earth Group High-Tech Co. Ltd. (CNREG) in Baotou, China,[48] which has a market capitalization of nearly $37 billion.[49] After XYZ makes its approach, CNREG negotiates a deal that it will give XYZ 51 percent of the enterprise[50] and arrange for the financing for working capital to contract for the supply of ore, funds to purchase the refining equipment (which it will then sell to XYZ), and funds to lease the lands

[48] China Northern Rare Earth Group High-Tech Co. Ltd. is a rare earth mineral refiner and seller; however, the terms of the notional deal are fictitious.

[49] "China Northern Rare Earth (Group) High-Tech Co. Ltd. A," MarketWatch, accessed July 1, 2021, https://www.marketwatch.com/investing/stock/600111?countrycode=cn.

[50] This is done for regulatory and public relations purposes so that XYZ can claim it is a majority-Icelandic enterprise.

and buildings for the plant. CNREG also requires that all of the offtake from the enterprise be sold to its corporate parent in the PRC.

Because CNREG has extensive experience with rare earth mineral refining, it insists that it import most of its own high-end metallurgical workers and chemists to help ensure technical success and protection of its intellectual property and know-how. XYZ agrees to sponsor the workers, who will comprise in excess of 20 percent of the total workforce, with Icelandic immigration officials and help them find housing as well as apply for all of the local operating permits and licenses (the company's 51 percent Icelandic ownership will benefit it here). CNREG agrees that the remaining workforce will be Icelandic and that these workers will work alongside their PRC-based counterparts. The operating agreement stipulates that slightly over half of the corporate officers will be Icelandic; they will be well paid by Icelandic standards from the 49 percent paid in capital provided by CNREG.

A variety of financing options are available; however, because the equipment is of PRC origin, most of it will be funded as preferential export buyer's credits in which XYZ will be the buyer and China Exim Bank—or perhaps the China Export and Credit Insurance Corporation (Sinosure[51])—will fund some or all of the purchases. Because China receives many benefits from the deal, concessional rates (as per an EU analysis of China's trade finance products[52]) would be around 3 to 6 percent, and the loan would have a grace period[53] of six years on any repayment obligations. The loan would likely have an overall 8- to 12-year term. CNREG could finance its purchase of XYZ stock with China Exim Bank, which can make concessional loans to foreign entity purchasers.[54] This type of project also entitles CNREG to subsidized export sellers' credits from China Exim Bank.[55] Terms vary, but they often include 20-year repayment terms, 5- to 7-year grace periods, and an interest rate as low as 1 percent.[56]

[51] Sinosure would provide loan guarantees to any other funding source besides a PRC policy bank.

[52] "Export Finance Activities by the Chinese Government," Overseas Development Institute, https://www.europarl.europa.eu/RegData/etudes/note/join/2011/433862/EXPO-INTA_NT(2011)433862_EN.pdf.

[53] A *grace period* is a period in which no debt service payments are required; however, interest continues to accrue.

[54] "Export Finance Activities by the Chinese Government," Overseas Development Institute, https://www.europarl.europa.eu/RegData/etudes/note/join/2011/433862/EXPO-INTA_NT(2011)433862_EN.pdf. China Exim has multiple lines of business, including financing PRC-based companies' investments in FDI transactions in infrastructure, oil and gas, mining, and overseas telecommunications projects.

[55] Junda Jin et al., "China's Global Development Finance: A Guidance Note for Global Development Policy Center Databases," Global Development Policy Center, https://www.bu.edu/gdp/files/2018/07/Coding-Manual-.pdf.

[56] Felix Thompson, "US vs China: The Battle of the ECAs," *Global Trade Review*, Oct. 19, 2020, https://www.gtreview.com/magazine/volume-18-issue-4/us-vs-china-battle-ecas/.

## Pursuing US funding and technology

Even though political figures in Iceland have signaled their preference that XYZ work with a US company to develop the refining enterprise, XYZ has far fewer options of US companies to approach because the US rare earth mineral mining and refining industry has suffered several setbacks and is just getting off the ground.[57] Impressed that Las Vegas–based MP Materials has received substantial support from the US government, XYZ decides to partner with the company. Like its PRC-based competitors, MP does not require more than 49 percent of the ownership, but it is interested in the entire offtake for US and European consumers because refining in the US is difficult as a result of high energy and regulatory costs. MP is also interested in fully developing the refining capacity of XYZ, which could be a venue for processing its ore.

MP offers to act as the conduit for purchasing the equipment, mostly Caterpillar and Sandvik, that will be needed to mine and handle the ore, as well as the import equipment, from Canadian-based NEO Performance Materials,[58] to do the refining in Iceland. MP turns to US EXIM and learns that US EXIM can finance only foreign purchases of US capital goods and services[59] and up to 30 percent (of export value) of the local costs of the equipment to install and use the Caterpillar equipment and the MP refining equipment, technology, and services. US EXIM can offer up to 10-year terms at 2.27 percent[60] because commercial interest reference rates (which it follows) are quite low. US EXIM is able, consistent with Organization for Economic Cooperation and Development guidelines, to provide flexible loan repayment[61] terms that match revenue streams, but grace periods are permitted only if justified by the industrial sector economics, with two years being the cap in the examples listed on US EXIM's website for similar projects. US EXIM will usually mark up the loan's interest rate if a grace period is extended, and it charges commitment and exposure fees to cover the administrative costs of processing the loan and other risk factors.[62]

[57] Samantha Subin, "The new US plan to rival China and end cornering of market in rare earth metals," *CNBC*, Apr. 19, 2021, https://www.cnbc.com/2021/04/17/the-new-us-plan-to-rival-chinas-dominance-in-rare-earth-metals.html.

[58] "Consolidated Financial Statements for the Year Ended December 31, 2020," https://www.neomaterials.com/wp-content/uploads/2021/03/NPM_12-31-2020_FS.pdf.

[59] EXIM can only finance the US content of a foreign purchase. See, https://www.exim.gov/policies.

[60] "Commercial Interest," EXIM website, accessed July 1, 2021, https://www.exim.gov/tools-for-exporters/commercial-interest-reference-rates.

[61] "Flexibility for Project Finance Transactions," EXIM website, accessed July 1, 2021, https://www.exim.gov/what-we-do/loan-guarantee/project-structured-finance/flexibility-for-project-finance-transactions.

[62] "Fees for Project Finance," EXIM website, accessed July 1, 2021, https://www.exim.gov/what-we-do/project-structured-finance/fees-for-project-finance.

Because of the US source requirements (subject to the aforementioned 30 percent local expense cap), neither XYZ nor MP can finance the cost of the Sandvik mining equipment, the cost of the refining equipment, or the expenses of leasing or purchasing land and factory buildings and associated infrastructure. These costs will likely have to be financed by the European Investment Bank or the Swedish Export Credit Agency, both of which would likely offer similar lending terms to those of US EXIM.

## Implications

This particular scenario was chosen because the deal framework could make commercial sense and because some of the parties involved could be the same, including the financing arms from the United States and the PRC. The scenario was intended to show how a joint venture could be structured to take advantage of the laws of the various jurisdictions and avoid CFIUS-like reviews in Iceland and political scrutiny. Of course, the actual terms could vary, but a comparison of the core terms does disclose the following key differences:

1. Rates charged by PRC policy banks are about the same or perhaps even a little higher than the commercial rates currently charged by US EXIM. However, US EXIM has a schedule of risk and commitment fees that could result in effective rates that are about the same as, or even higher than, those of a PRC-backed lender.
2. PRC policy banks can consider nonmonetary, strategic factors and can assume risk if it advances a strategic advantage. US EXIM may not enter into a transaction in which it anticipates default or loan money on a risky proposition to advance the policy objectives of the United States. Clearly, some US EXIM loans are nonperforming, but the bank uses its best legal efforts to recoup funds that were advanced. PRC-backed lenders have historically not been aggressive in collecting from defaulting parties; the major exception is the PRC-backed credit insurance agency Sinosure.
3. China Exim Bank's loans have extensive grace periods and longer overall terms because of nonmonetary considerations. If US EXIM were to offer a 20-year loan with a six-year grace period, it is highly likely that the rate would be much higher than advertised to compensate for related impaired economics—especially if the lending occurs from a US bank and is supported by a US EXIM loan guarantee.
4. US EXIM lending, on the whole, must meet certain standards in terms of sustainability (including carbon footprint) and advance the social welfare condition of the local inhabitants in the area where the loan proceeds will be spent. No evidence could be found that the PRC imposes these sort of loan conditions.
5. The "US content" component of US EXIM lending creates a problem for firms such as XYZ because they have to knit together a portfolio of loans from US lenders to meet the financing needs of a project. This inevitably creates more cost and difficulty for the

borrowers because they have to pay multiple loan origination fees and hire twice the number of lawyers to review and prepare the financing paperwork. To the extent that a borrower like XYZ has to venture outside of the US EXIM umbrella, it would likely pay higher borrowing fees and higher interest rates.

6. The lending capacity of US EXIM, both alone and in combination with the capacity of other regional countries, is dwarfed by that of PRC-backed policy banks. The $135 billion US EXIM lending authorization amount is significantly below estimates of the lending activity by the PRC's two state-run banks (China Development Bank (CBD) and China Exim Bank) and PRC-based commercial banks that have loaned money on Belt and Road Initiative projects.[63] One news report put the available credit of CBD alone at $250 billion.[64] In addition, EXIM's direct lending export credit volume was $5.3 billion in 2019 as compared with $33.5 billion from PRC-backed export finance organizations.[65]

[63] Jennifer Hillman and David Sacks, "China's Belt and Road: Implications for the United States," Council on Foreign Relations, Mar. 2021, https://www.cfr.org/report/chinas-belt-and-road-implications-for-the-united-states/findings.

[64] *Nikkei Asian Review,* Jan. 15, 2018, https://asia.nikkei.com/Economy/China-Development-Bank-commits-250bn-to-Belt-and-Road.

[65] "Global Export Credit Competition," EXIM Bank, June 2020, pp. 38–39, https://www.exim.gov/sites/default/files/reports/competitiveness_reports/2019/EXIM_2019_CompetitivenessReport_FINAL.pdf.

# Appendix B: Policy Banks with Potential Arctic Investment Roles

Policy banks endowed by Arctic nations, with Arctic nations as stakeholders, or with potential interest in Arctic investments are all potential sources of greater capital for Arctic investments. This appendix's three tables includes an overview of prospective institutions across each of those categories.

**Table 1. Select list of Arctic state policy banks**

| Arctic state policy banks |
|---|
| **Canada Infrastructure Bank.** This is a crown corporation. Unlike a public company, a crown corporation provides loans in infrastructure sectors, including projects in Indigenous communities. The bank is currently financing two green energy northern latitude projects. Funding appears exclusive to Canadian citizens for projects in Canada, although the Canada Infrastructure Bank advertises that it has received $35 billion in infrastructure lending authority, with $10 billion in the next three years.[66] |
| **Nordic Development Fund.** This is a joint Nordic international finance institution that focuses on climate change impacts on low-income countries. The fund can engage in lending, grant-making, and strategic partnerships with other development banks.[67] It is conceivable that the fund could be available for projects on Arctic tribal lands, though to date the fund has been used only in Africa, Asia, and Latin America. The fund should explore its regulatory and charter capabilities to lend to low-income regions inside the Arctic region, to include Russia. |
| **North Norwegian Capital Fund.** This is a newly proposed fund in which Norway would match investments provided by private investors to develop projects in Northern Norway.[68] Norway is committing NOK 400 million ($48 million) to the effort. In many respects, this is similar to SBA's SBIC concept. |

[66] "CIB's Growth Plan to Invest in New Infrastructure: Corporate Plan Summary 2020-21 to 2020-24," *Canada Infrastructure Bank*, pp. 20-21, https://cib-bic.ca/wp-content/uploads/2020/11/CIB-corporate-plan-summary-2020-21-to-2024-25-.pdf.

[67] "What We Finance," Nordic Development Fund, accessed Aug. 4, 2021, https://www.ndf.int/what-we-finance/our-financing/strategic-partnerships.html.

[68] "Norwegian Government Proposes Allocation for New North Norwegian Capital Fund," *High North News*, May 12, 2021, https://www.highnorthnews.com/en/norwegian-government-proposes-allocation-new-north-norwegian-capital-fund.

| Arctic state policy banks |
|---|
| **The Algu Fund.** The Algu Fund is a Swedish incorporated charitable foundation that was sponsored by the Arctic Council as a mechanism to assist permanent participants (Indigenous groups) to gain financial assistance.[69] According to the fund's website, the objective was for the fund to be aligned with the needs of local Indigenous populations and their economic development needs and aspirations. The plan was for the fund to be launched with a $30 million endowment, which would serve as the corpus for loans and subsidies to participating organizations. Although well intentioned, none of the permanent members and observers to the Arctic Council have contributed to the fund,[70] and this is frustrating the fund's purpose. Even if the fund had succeeded as an SBA-like microlending facility, the scale is minuscule when compared with other development banks, such as a $96 billion market cap in the case of the Asian Infrastructure Investment Bank, which is headquartered in Beijing.[71] |

Source: CNA.

[69] https://gwichincouncil.com/%C3%A1lgu-fund. The fund appears to be administered by the Gwich'in Council based out of Yellowknife, Northwest Territories.

[70] Interview 02210302 1630 No. 5. The original concept was that the fund would be funded by direct contributions as well as a surcharge on each project in each development area.

[71] https://www.aiib.org/en/about-aiib/financial-statements/.content/index/pdf/Auditors-report-and-AIIB-Annual-Financial-Statements-20191231-signed.pdf. The $90 billion fund represents the value of all outstanding shares in the bank. Even though that figure may overstate the bank's economic heft, since its inception in 2017, the bank has approved $12.04B in project investments and disbursed nearly $3B as of the end of 2019.

Table 2. Select list of multilateral policy banks with Arctic members

| Multilateral policy banks with Arctic members |
|---|
| **Russia-Eurasia Development Bank.**[72] This bank is organized along the lines of other economic development banks, although its stated purpose is to promote development and economic integration between Moscow and bank members.[73] The bank's market capitalization is $1.5 billion of paid in capital and another $5.5 billion of callable capital. Its lending priorities include infrastructure, energy generation, machine engineering, chemical, mining, and oil and gas.[74] For 2021, the bank is planning on borrowing from member states or via "green bond" issuances to finance its lending activities. A few Arctic-related projects have been financed, including the construction of LNG tankers, energy generation on Sakhalin Island, improvements to the Port of Magadan, and modernization of Siberian coal mines.[75] Overall, the bank's bonds are rated at BBB+, its liquidity at "aa," and its outlook as "stable."[76] These ratings suggest that this bank has competent management and a respectable loan portfolio. |

72 "Eurasian Development Bank: EDB Investment Portfolio," accessed Aug. 4, 2021, https://eabr.org/en/about/states-participants/rossiya/.

73 Kazakhstan, Armenia, Belarus, Kyrgyztan, Tajikistan

74 "Activities," Eurasian Development Bank, accessed Aug. 4, 2021, https://eabr.org/en/about/line-of-activity/.

75 "EDP Projects," Eurasian Development Bank (accessed Aug. 4, 2021), zhttps://eabr.org/en/projects/eabr/?STATE=rossiya&BRANCH=all&http_system_query=Y.

76 "Fitch Affirms Eurasian Development Bank at 'BBB+'; Outlook Stable," *Fitch Ratings*, Nov. 25, 2020, https://www.fitchratings.com/research/sovereigns/fitch-affirms-eurasian-development-bank-at-bbb-outlook-stable-25-11-2020.

| Multilateral policy banks with Arctic members |
|---|
| **European Investment Bank (EIB).** Established in 1958 to facilitate European integration, this bank counts EU members as shareholders, including Denmark, Sweden, and Finland.[77] The EIB finances projects using loans and guarantees around the world, including 52 (from 2012 to present) in Finland, Sweden, and Denmark, for public transit, electrification and power generation, wind farms, hospitals, and battery plants.[78] Its current priorities are climate and environmental sustainability, poverty reduction, infrastructure development, and support for small and medium-size enterprises.[79] The EIB is directly funded by the EU; it also sells bonds to support its lending and other operations.[80] The bank is capitalized well in excess of 500 billion euros. The EIB has made loans in the Nordic region, and several of its objectives are relevant to the Arctic. EIB lending is not ordinarily available for projects in the US, Canada, and Russia. |
| **International Investment Bank.** This is a multilateral development institution that seeks integration between the economies of the bank's member states to ensure sustainable and inclusive growth. The bank is headquartered in Budapest; the member states are Bulgaria, Cuba, the Czech Republic, Hungary, Mongolia, Romania, the Russian Federation, the Slovak Republic, and Vietnam. Even though the International Investment Bank is a potential source of capital for Russia, loans for Arctic-related projects are difficult to justify based on its charter, which is to promote economic integration among members. The 2019 annual report shows only one syndicated Arctic loan project, in Russia's Karelia Republic. None of the other projects financed by the bank had an Arctic orientation either in geography or type of lending.[81] |

Source: CNA.

[77] Greenland left the EU in 1985 but remains an overseas country and territory that is associated with the EU (OCT status). Greenland has received EU funding for sustainable development.

[78] "Projects to be Finalized," European Investment Bank, accessed Aug. 4, 2021, https://www.eib.org/en/projects/pipelines/index.htm?q=&sortColumn=projectStatusDate&sortDir=desc&pageNumber=0&itemPerPage=25&pageable=true&language=EN&defaultLanguage=EN&yearFrom=2000&yearTo=2021&orCountries.region=true&countries=FI&countries=GL&countries=IS&countries=NO&orCountries=true&orSectors=true&orStatus=true.

[79] "Our Priorities," European Investment Bank, accessed Aug. 4, 2021, https://www.eib.org/en/about/priorities/index.htm.

[80] "The European Investment Bank," European Parliament fact sheets, https://www.europarl.europa.eu/factsheets/en/sheet/17/the-european-investment-bank.

[81] "Annual Report of Investment Bank 2019," International Investment Bank, https://iib.int/attachments/annual_report_2019.pdf. Some lending has taken place in the area of power generation, mining, and infrastructure, but the vast majority of the portfolio is in areas of less importance to Arctic development, including financial services, insurance, manufacturing, and wholesale and retail trade.

**Table 3. Select list of policy banks with no Arctic affiliation**

| Policy banks with no Arctic affiliation |
|---|
| **Korea Development Bank (KDB).** This state-owned bank was established in 1954 to develop the South Korean economy. Its mission is to foster the national economy, industries, and infrastructure, and the bank is the primary supporter of public finances and the corporate sector.[82] The KDB has expanded its policy focus to include climate change and socially responsible investment in its annual planning.[83] The bank engages with international associations, including the Green Climate Fund, Equator Principles Association, and the International Development Finance Club, to reinforce its sustainability activities. In 2016, KDB launched a venture finance initiative, NextRound, which has attracted KRW 2.2 trillion ($1.94 billion) from both domestic and overseas investors for startups.[84] As the largest shipping and aviation finance house in Korea, KDB provides funds to both Korean and non-Korean shipping firms and airliners. Its large international presence and emphasis on climate change could make the KDB an attractive investor for Arctic lending, although it has not yet financially supported Arctic projects. |
| **Development Bank of Japan Inc (DBJ).** Founded in 1951 and restructured in 2008, with $164 billion in assets, DBJ provides integrated investment and loan services to domestic and international clients. The bank's three priority areas are rebuilding and reinforcement of infrastructure; creation, conversion, and growth in industry; and self-reliance and revitalization of local economies. DBJ recently announced its plans to commit approximately 40 percent of its total investment and lending to environmental, social, and corporate governance pursuits over the next five years.[85] |

Source: CNA.

82 "KDB Bank Seoul," Korea Development Bank, accessed Aug. 4, 2021, https://www.kdbbank.eu/kdb-bank-seoul.

83 "KDB," DEVEX, accessed Aug. 4, 2021, https://www.devex.com/organizations/korea-development-bank-kdb-105078.

84 KDB 2020 Annual Report.

85 Kyohei Suga, "Development Bank of Japan to Boost ESG Funding up to 80% to $50bn,"*Nikkei Asia*, May 20, 2021, https://asia.nikkei.com/Business/Finance/Development-Bank-of-Japan-to-boost-ESG-funding-up-to-80-to-50bn.

# Abbreviations

| | |
|---|---|
| AEC | Arctic Economic Council |
| CFIUS | Committee on Foreign Investment in the US |
| DFC | US Development Finance Corporation |
| DLA | Defense Logistics Agency |
| DOD | Department of Defense |
| DPA | Defense Production Act |
| FCS | Department of Commerce Foreign Commercial Service |
| EXIM | US Export-Import Bank |
| FDI | Foreign direct investment |
| FinCEN | Financial Crimes Enforcement Network |
| PLA | People's Liberation Army |
| PRC | People's Republic of China |
| SBA | US Small Business Administration |
| TIFA | Trade and investment framework agreement |
| USAID | US Agency for International Development |
| USG | US government |
| USTR | US Trade Representative |

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SP3 provides strategic and political-military analysis informed by regional expertise to support operational and policy-level decision-makers across the Department of the Navy, the Office of the Secretary of Defense, the unified combatant commands, the intelligence community, and domestic agencies. The division leverages social science research methods, field research, regional expertise, primary language skills, Track 1.5 partnerships, and policy and operational experience to support senior decision-makers.

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