



PRC Economic Activity in the Arctic: Implications and Opportunities for the United States and Europe

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On March 14, 2022, CNA hosted a National Security Seminar on the People's Republic of China's (PRC) economic activity in the Arctic. The seminar featured Ambassador Michael Mann, the European Union's (EU) ambassador at large for the Arctic; Mr. Mark Rosen, senior vice president and general counsel at CNA; and Ms. Heidi Holz, senior research scientist in CNA's China Studies Program. The discussion was moderated by Mr. Cornell Overfield, research analyst in CNA's Strategy and Policy Analysis Program.

The PRC and Arctic opportunities

The conversation touched on a variety of issues related to China's growing economic interest in the Arctic and the potential for further investments in both natural resource extraction efforts and international trade flows through the region. Mr. Rosen and Ms. Holz discussed a recent CNA project on Arctic foreign direct investment (FDI) led by Dr. Joshua Tallis, which culminated in four reports on the nature, scope, strategic intentions, legal environment, and US mitigation strategies relative to China's growing interest in the region.¹ Ambassador Mann's comments focused on the EU's role in Arctic management and cooperation, especially given Russia's invasion of Ukraine and its implications for the EU's goals of phasing out hydrocarbons and moving to a carbon-neutral economy.

Mr. Rosen discussed how analysis of the PRC's Arctic ambitions has evolved over the last decade, with greater detail on the actual content of China's FDI strategies becoming clearer over time. He noted that China's interest was considerable, with over 800 total infrastructure transactions amounting to \$90 billion dollars of FDI in the broader region north of the 60th parallel, as identified in a 2017 CNA report.² However, follow-on research noted that many deals were never implemented or may have been withdrawn because of concerns about profitability. Also, the shock of the COVID-19 crisis may have shuttered many potential investment avenues—at least temporarily. Given the high-cost resource extraction efforts in the Arctic, the current increase in oil and gas prices is likely to improve the financial calculation by both private and state corporations deciding on whether—and how—to engage in the Arctic in the coming years.

Ms. Holz noted that Arctic investment remains a major strategic priority of the PRC leadership, with the party signaling “loud and clear” its considerable interest in securing Arctic natural resources—both oil and gas, as well as mineral resources—for its own economic autonomy. She pointed out that the reasons for this priority were evident. An Arctic investment strategy is understood to be critical for three major strategic goals: sustaining PRC economic development, defending national sovereignty, and reforming the global system to align with PRC interests. She noted that while military interests may factor in the medium to long term, for the time being, economic strategy remains the key driver of PRC Arctic policy.

Ambassador Mann emphasized that the EU position vis-à-vis the Arctic was broadly independent of Chinese efforts, although very cognizant of PRC interests. The EU is seeking a positive program for Arctic development among member states, the sustainability of and responsibility to indigenous communities in

¹ The four reports can be found at: <https://www.cna.org/centers/cna/sppp/arctic-fdi>.

² Mark E. Rosen and Cara B. Thuringer, *Unconstrained Foreign Direct Investment: An Emerging Challenge to Arctic Security*, CNA, Nov. 2017, https://www.cna.org/cna_files/pdf/COP-2017-U-015944-1Rev.pdf.

the region, and its potential as a means to help further the EU's green energy priorities. He described the PRC interest in Arctic investments to be undertaken so far in a "slightly more softly-softly way" than investment projects elsewhere in the world. He also noted that the EU is coming to terms with the need to decouple from hydrocarbon dependence "sooner rather than later" and that given the conflict in Ukraine, the opportunities provided by the Arctic (especially regarding mineral resources and cooperative governance) will require excluding Russia as much as possible. The EU would also like to open a discussion on a moratorium on new drilling in the region.

Further Q&A

The panelists took a number of questions beyond these issues. On the issue of potential private icebreaker fleets, Mr. Rosen suggested this might be the case in the Canadian Northwest Passage, but that for the Northern Sea Route, the current integrated coordination by the Northern Sea Route Authority is likely to be regarded as preferable to other constructs. Ambassador Mann noted that the EU's newly announced "Global Gateway" initiative was in its earliest stages but could certainly include Arctic infrastructure projects in time. Ms. Holz stated that the PRC did not seem unduly concerned with indigenous issues in its public documents, while Ambassador Mann reiterated the EU's clear commitment to keeping these issues in focus. He also noted that the agreement by the seven other Arctic states not to attend Russian-chaired Arctic Council meetings would potentially complicate coordination, although he underlined the continuing utility of most of the projects being run by Arctic Council working groups.

Both Ms. Holz and Mr. Rosen emphasized the challenges of avoiding Chinese capital in future Arctic infrastructure projects. While states are increasingly aware of the strings attached to PRC investment, there are limited options for alternative capital, given China's strategic willingness to take on risk relative to other financial institutions. Mr. Rosen brought up the possibility of an Arctic Development Bank as a means to mitigate this potential financial asymmetry. The role of natural gas as a "bridge fuel" for any green transition likely confirms the Arctic as a place of considerable energy development, and the US, in particular, will likely look to natural gas deposits in the Chukchi Sea as a place for infrastructural investment. Meanwhile, EU interest in minerals for green energy projects means that there will likely be incentives for a non-PRC approach to investment in the future.

References

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For more information on CNA analysis of Chinese economic statecraft, please see: <https://www.cna.org/centers/cna/cip/economic-statecraft>.

For video of this and other CNA events, please see: <https://www.youtube.com/user/VisionCNA>.