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## China's Belt and Road Enters the Arctic

The Arctic states could find much-needed funding for infrastructure improvements through China's Belt and Road.

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By [Heidar Gudjonsson](#) and [Egill Thor Nielsson](#)

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The MV Nordic Barents moves from the Norwegian town of Kirkenes, lugging 40,000 tonnes of iron ore from Norway to China on an Arctic Ocean shortcut (September 4, 2010).

Credit: REUTERS/Helge Sterk/Scanpix

It may not be clear to those who live outside the area but people in the Arctic are thriving. Economic growth is trending upward, led by new technologies and investment in infrastructure.

Infrastructure is the foundation for economic development. The Arctic is extremely rich in natural resources, accounting for up to 20 percent of Earth's reserves, while the area is sparsely populated, with only 4 million inhabitants, and with underdeveloped infrastructure.

The Arctic Ocean, by far the smallest and shallowest of the world's major oceans, connects Asia, Europe, and North America. Around 90 percent of international trade takes place in the Northern Hemisphere within these three continents. By utilizing transport over the Arctic, the world will get a more efficient transport system and the

locals will benefit from a big increase in economic opportunities. The mutual benefits are huge.

Iceland is an example of these developments. The small Atlantic Arctic island is [thriving](#), with 7.2 percent GDP growth in 2016, especially due to an influx in [tourism](#). Yet the capital needed for a further build out of [Iceland's infrastructure](#) over the next decade surpasses \$5 billion. For the Arctic as a whole, the amount is much higher; Guggenheim Partners has estimated [Arctic infrastructure](#) investment needs at \$1 trillion over the next 15 years. Guidelines for responsible developments in the area, the [Arctic Investment Protocol](#), have been published by a broad range of stakeholders.

With the moratorium set by the United States and Canada on offshore developments in the North American Arctic, infrastructure developments are likely to [lag behind](#), while the Eurasian Arctic, composed of the Nordic countries and Russia, which account for 80 percent of all Arctic inhabitants, is growing at steady pace and even booming in some parts.

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### **The Belt and Road Enters the Arctic**

Russia is seeing the biggest growth in infrastructure investments in the Arctic region, thanks in part to the Chinese-lead [Belt and Road Initiative \(BRI\)](#). The BRI is a [\\$5 trillion plan](#) to upgrade infrastructure between Asia and Europe — dwarfing the

Marshall Plan, which spent roughly \$120 billion to rebuild European infrastructure after World War II.

The president of China, Xi Jinping, first introduced the plan in September 2013 during a visit to Kazakhstan. Four years later, there are 65 partner countries with a combined population of 4.4 billion and accounting for around [29 percent of global GDP](#). The global consulting firm PWC estimates the value of BRI capital projects and merger and acquisition (M&A) deals in seven core infrastructure sectors at just shy of [\\$500 billion](#) for 2016.

The [first Arctic BRI project](#) was an investment by the \$40 billion Silk Road Fund for a 9.9 percent stake in the \$27 billion Yamal LNG project, which is a landmark project in terms of transportation, infrastructure, and resource development in the Eurasian Arctic. Chinese companies have a combined stake of 29.9 percent in Yamal LNG, with 20 percent held by the state-owned China National Petroleum Corporation (CNPC). Remaining Yamal LNG shares are held by Russia's Novatek (50.1 percent) and French Total (20 percent), while the project's financing will partly come from [loan agreements worth over \\$12 billion](#) with Export-Import Bank of China and the China Development Bank.

The Yamal LNG project represents the largest on-going Arctic commercial investment and is a large reason for why the [Northern Sea Route saw record activity](#) in transported cargo in 2016. It has also driven local

infrastructure investments. The proposed \$3.22 billion railway connecting Sabetta Port to the Eurasian railway network was recently awarded [Russia's infrastructure project of the year](#).

### **BRI in the Nordic Arctic**

Currently, the only BRI partner of the eight Arctic nation states is Russia, which last year was ranked as the [top BRI collaborator with China](#). China and Russia have committed to further [cooperate on Arctic BRI projects](#). In his speech at the World Economic Forum in Davos, Xi announced that Beijing is hosting a [Belt and Road Forum](#) for International Cooperation in May, opening an opportunity for Nordic BRI stakeholders.

The BRI has moved increasingly into Europe with cooperation between China and Central and Eastern Europe (CEE), especially on railroad transport. To finance such developments an [\\$11.15 billion investment fund](#) (with future aim of expanding to \$55.75 billion) was set up by the Industrial and Commercial Bank of China (ICBC) last November, focusing on sectors such as infrastructure, high-tech manufacturing, and consumer goods in the 16 CEE countries. The chairman of the China-CEE Investment Cooperation Fund is Jiang Jianqing, who recently stepped down as chairman of ICBC, the world's largest banks by both [assets](#) and [brand equity](#). His appointment, following a distinguished 16-year career at the helm of ICBC, showcases the great importance attached to BRI in Europe.

This raises the question whether China and

the BRI plan could be the perfect partner for the Nordic Arctic.

The Nordic countries (Denmark, Finland, Iceland, Norway, and Sweden) are not participants in the BRI to date, although all five are founding members of the BRI-related Asian Infrastructure Investment Bank. Iceland has been at the forefront in Arctic cooperation with China, having negotiated a bilateral [Framework Agreement on Arctic Cooperation](#) in April 2012 with scientific and business cooperation for energy and logistics leading the way.

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BRI was on the agenda during a [visit to China by the Finnish foreign minister](#) last February. Finland, which will hold the Arctic Council chairmanship in 2019-2021, has ambitious plans to connect the Nordic Arctic to mainland Europe via the [Arctic Corridor railway project](#). A reported [\\$1.1 billion investment by China's Kaidi](#) into a biodiesel plant in Kemi, Finland is significant. More agreements may be on the horizon when Xi visits Finland next week.

Bilateral relations between [China and Norway where normalized](#) last December after a six year freeze. New capital intensive offshore discoveries in the Barents Sea and opportunities in industries such as seafood and tourism will mean stronger economic ties with China again. Greenland is also actively seeking investment to develop its infrastructure.

The Nordic Arctic has great opportunities for growth. Its position between the world's greatest economies means it can look south to Europe, west to North America, and east to Asia for partners in building its infrastructure. It is logical that the BRI is included in its expansion.

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