GLOBALIZATION AND THE ARCTIC

Over the course of the last several years, problems related to the Arctic region have attracted significant attention from politicians, academics, the media, corporations, and various nongovernmental organizations (NGOs). In the Arctic, issues of globalization and its impact are of substantial importance and great interest.

Since the early 1960s, the economic performance of almost every country has been strongly influenced by, if not determined by, the process of internationalization, which essentially refers to the gradual expansion of standard reproduction cycles of businesses beyond national borders. For more and more companies, their international operations, including sales, investment, and production, have played a significant, even crucial, role as a determinant of overall commercial success.

More recently—at least as late as the early 1990s—various writers and observers in several countries argued that internationalization had entered a new, qualitative phase in its development, called globalization. Globalization is, in a way, similar to traditional internationalization, since it also assumes a trans-border expansion of industry. Some analysts even claim that the first wave of globalization had occurred at the end of the 19th, and the beginning of the 20th centuries.

Within the framework of globalization, the leading manufacturers in developed countries significantly changed their approach with respect to marketing and management strategies. Typical international companies of the 1970s or even 1980s tried to adjust their products toward the distinctive and unique national/regional characteristics of each separate target market. Global companies, however, tend to operate quite differently. They are ultimately driven by a "one size fits all" policy. Accordingly, there is no need to cater to national or regional particularities. On the contrary, potential consumers around the globe should be "educated" with respect to their need of the product in question.

In order to gain an adequate understanding of globalization, one should consider the fact that the main driving forces behind the process, as well as its major performing agents, are large firms. Transnational corporations today more frequently behave according to the global patterns described above. At the same time, one should probably bear in mind that even from the point of view of normative theory (to say nothing about positive approach), each individual global company can hardly be blamed for the way it operates. To a very substantial extent, these firms are essentially forced to do what they do by the logic of international competitive cooperation (or, as some scientists prefer to call it, cooperative competition).

Global patterns in the performance of large corporations might be seen as a clear challenge or even threat to the Arctic, since the overwhelming majority of advocates and investigators of the region emphasize its uniqueness in comparison with other parts of the globe. More than that, from the perspective of multinationals (global companies), the Arctic region constitutes a huge source of various natural resources rather than a significant target market with substantial consumption capacities.

The Russian North presents one of the clearest relevant examples. The Timan Pechora region in the Komi Republic in the Russian Arctic has one of the world's largest known reserves of oil, estimated at about 126 billion barrels. The Shtokmanovskoye field in the Barents Sea is one of the world's largest natural gas deposits. Shtokmanovskoye field, which was discovered in 1988, has total natural gas reserves of about 3.2 trillion cubic meters. All in all, the Russian North currently accounts for 70% of national territory, 47% of timber production, as well as 80% of natural gas and 50% of oil extraction. In sharp contrast to these figures, only 8.1% of the Russian population lives in the area.

At the same time, the environment of the host country sometimes requires global companies to engage in different forms of strategic alliance with local companies in order to overcome governmental regulations, or economic or cultural barriers. In addition, globalization might create similar consumer stereotypes across the countries. Under the circumstances, mutual cultural openness and tolerance is not only just useful but also crucial to successful economic
performance.

Besides Russia, such Arctic countries as Canada, the United States, and Norway (all three are among the world's largest oil and gas producers) face similar challenges. The Canadian province of Alberta, by far the country's leading oil producer, accounting for almost 60% of national oil production in 1999, now faces rapidly decreasing reserves. Under the circumstances, new projects are shifting the oil industry focus to the northern part of the country. The same is true for the Canadian gas industry. Here, future prospects are largely connected with the Arctic Northwest Territories and the Yukon. In the United States (the world's largest energy producer, consumer, and net importer), Alaska currently accounts for 17% of national crude oil production, while it holds 24% of proven oil reserves. In addition, Alaska's North Slope fields represent a large potential gas source, with an estimated 30-35 trillion cubic feet (tcf) of gas (or 18-21% of total US estimated gas reserves). The main Norwegian oil and gas production is currently concentrated in the North Sea, which is considered to be a "mature" area. In its turn, future development of national energy resources heavily depends upon deposits in the seas of the Arctic Ocean (Norwegian and Barents seas). Offshore energy reserves of the latter could become a site of either intensive fruitful cooperation or serious dispute between Norway and the Russian Federation.

Many subregions of the Arctic currently face several problems, some of them typical for all Polar areas of the globe, others unique to the Arctic. The most significant of these problems are: excessive pollution and the resulting environment issues; labor migration and the resulting demographic tensions; threats to the interests of indigenous peoples; a deterioration of living standards; and an insufficient supply of foodstuffs and other basic products. These clearly serious threats and challenges are often and legitimately enough associated with globalization. For example, extensive oil and gas drilling in US and Canadian Arctic areas previously exempted from industrial exploitation (so-called 1002 Area, Alaskan North Slope, etc.) might result in serious damage to fish, sea mammals, caribou, polar bears, Arctic foxes, tundra swans, and other migratory waterfowls. Ultimately, this would negatively impact indigenous people in their way of life as hunters, fishermen, and reindeer herders.

During the 1990s, vast areas of Northern Siberia were open to intensive drilling by several large Russian oil companies. Some rivers became polluted and many fish died because of activities under review. This made the life of Khanty, Nenets, and other local peoples even more difficult under the conditions of a general deterioration of the economic situation in the country.

Another notorious case of oil pollution is connected with forests and wetlands being flooded by oil from broken pipelines. In 1994, one of the major oil seepages occurred in the Republic of Komi, with a large amount of oil being spilled on the Russian Arctic tundra. According to some NGOs, the spill had largely resulted from the lax operations of the Komi Arctic Oil Company (a joint venture established by Komineft, UhtaNeftGasGeologia in cooperation with Gulf Canada and British Gas). Russian antiglobalists claimed this as a typical example of the so-called double standards practice. Indeed, the experience of many countries (both in the Arctic and outside of the region) clearly indicates that foreign oil companies can be responsible and environmentally friendly within their own national borders. At the same time, these companies often behave in a completely different way when trying to take advantage of less strict environmental standards abroad. This problem highlights the importance of environmental standards harmonization and international control.

In addition to oil and gas, the Arctic region has significant timber resources. Both aboriginal peoples as well as environmental groups constantly express their deep concern with respect to mass logging in the area. In the mid-1990s, the German branch of Greenpeace initiated a campaign against logging in old-growth temperate rainforests in coastal British Columbia. Protests against German publishing companies that used paper imported from Canada were the highlights of the campaign.

In certain cases, large food and beverage corporations placed excessive pressure on fishing resources of the Arctic seas. In particular, some experts claim that critical shortage is now apparent in coastal fisheries of the region as a result of an almost predatory exploitation of
regional fishing resources.

In terms of cultural dimensions, globalization so far has largely manifested itself via what is known as "Americanization" of media, movies, music, etc. Indigenous people of the Arctic, due to their traditional isolation and unique lifestyle, may be considered, among several social groups, most sensitive to globalized development. Various Canadian cultural programs and policies aimed at promoting the development of national culture might become one of the first victims of global management executed by such international economic organization.

The bulk of environmental, social, and other costs directly and indirectly associated with integration of the Arctic into the global economy tends to be predominantly borne by economically and socially marginalized native populations of the North (both indigenous people and representatives of nationalities in respective countries). At the same time, the benefits resulting from inclusion of the Arctic in the global economy are reaped by those living outside of the area.

The Arctic community and its advocates have the following options regarding the negative impact of globalization on the Arctic: they may oppose it; bring an end to it; simply ignore it; or adapt and adjust to it. In order to provide a more comprehensive background for an assessment of these options, one should take into consideration certain peculiar features of the Arctic within the context of globalization: less space for market forces; a high propensity toward international cooperation; and substantial spin-offs of international cooperation.

The sooner the Arctic region in general, and its individual subregions in particular, start actively and deliberately participating in the process of globalization, the greater the chance it has to neutralize the negative implications of the process. More than that, under the circumstances globalization might provide new additional opportunities to solve at least some of the problems the Arctic currently faces.

Among these opportunities, one may mention better access to new technologies provided by leading global manufacturers in various branches of the economy. In particular, new transportation and communication technologies should result in faster, cheaper, safer, and more reliable procurement and distribution of larger quantities of goods and services for the population of the Arctic. In particular, this is an issue of extreme significance for large territories of the Russian North. New international technologies in drilling and logging currently must adapt to stricter ecological standards. Also, new information technologies bring better educational opportunities (e.g., in terms of various programs being offered by leading universities and colleges all around the globe) for local populations, including indigenous people. In addition, the Internet tremendously enhances the possibility of making many key problems of the Arctic well known around the globe. It also promotes "horizontal" connections among similar cultural and social groups in different countries of the region.

From a purely economic point of view, there are other certain significant advantages. In particular, traditional arguments in favor of liberalized trade and other international transactions as multibeneficial activities should be at least partly accepted. Here, opportunities to attract foreign direct investments (FDIs) appear appealing for many subregions of the Arctic. If FDI and joint international investment projects are implemented in the area, it may lead to additional employment opportunities for local populations via additional orders to locally based companies. Yet another promising field is that of international tourism. Of course, one could hardly expect real mass inflow of conventional tourists to the Arctic. However, so-called ecotourism (ecological-tourism) and guided tours may expand throughout the region and not only be commercially profitable, but also help to protect the unique cultural and social characteristics of indigenous people.

In order to properly assess the prospects that globalization might provide for the Arctic, one has to take into consideration certain macroeconomic aspects of globalization. In macroeconomic terms, globalization manifests itself first and foremost through an accelerated development of international trade and trans-border capital movements. Over the course of the last few decades, these transactions tended to grow substantially faster than the industrial output or gross domestic product (GDP) of the majority of nations, including those partly (or
completely, in the case of Iceland) located in the Arctic region. As a result, basic macro-
economic indicators, which normally evaluate the level of integration of individual national economies into the global one, increased significantly.

At present, all Arctic countries (with the exception of Iceland) are among the top 30 world traders in terms of their gross foreign trade turnover. Their combined share in world exports is about 21%. The US share of world merchandise exports amounts to 12.4%, Canada is 4.2%, while Sweden, Russia, Norway, and Finland account for about 1% each. In the case of world merchandise imports, the US share amounts to 18%, Canada 3.7%, Sweden 1.2%, Russia 0.7%, Norway 0.6%, and Finland 0.5% (in 1999). In absolute terms, estimated merchandise exports were $814.0 billion in the US, $266.1 billion in Canada, $105 billion in Russia (in 2000). These countries were followed by Sweden with 84.9 billion, Norway with $44.9 billion, Finland with $41.7 billion (in 1999), and Iceland with $2 billion (in 2000 est.).

Economies of such Arctic countries as Canada, Finland, Sweden, Norway, and Iceland became significantly more outwardly oriented during the last decades of the 20th century. A growing number of firms and sectors were prepared to compete internationally by exporting to foreign markets. An even larger number of firms, however, were finding that they had to compete with foreign competitors in domestic markets.

The United States has always been one of the world's largest markets. It has also been mostly a self-contained market during large periods of time. Although the US's level of interdependence with the world markets is currently still less than that of other Arctic nations, its levels are increasing. Imports made up a small percentage of the US GNP in the 1950s, 9.4% in 1991, and 12.4% in 2000. For some decades after World War II, there was little foreign competition in the United States, but currently foreign firms from all over the world intensively compete for their possible share of American market.

Different industries of national economies of the Arctic vary substantially in their level of internationalization. Thus, Russian exports are traditionally strongly focused on natural resources. While Canada and Norway are also among the main world exporters of oil and gas, the countries have gradually become less dependent on exports of these products. At the same time, knowledge-based sectors have grown significantly. For example, the share of raw materials has contracted in Canadian export from 60% in the 1980s to 35% in the late 1990s. Accordingly, industrial and agricultural machinery, aircraft, and other transportation products now total 22.4% of Canadian merchandise export sales. Sales of business services, software, and other knowledge-intensive products are also growing.

The level of a country's integration into the world economy is also illustrated by its activity in the field of international capital movement. Here, the United States has traditionally played the leading role, being the world's largest capital exporting country for decades. More recently, the United States also became the top capital-importing economy. Firms from other countries have also carried out large-scale foreign investment activities. Thus, already in the early 1990s, Canadian FDI abroad amounted to 14% of the GDP, while inward FDI equaled 20% of the GDP. FDI flows, according to UNCTAD data, showed growth in Finland, Sweden, and Norway in the late 1990s. Interestingly, outward FDI exceeds inward FDI in all these countries. In the 1990s, the Russian Federation became seriously involved in the globalization process, both in terms of its inward and outward components.

At the same time, in terms of their propensity to globalize, countries in the Arctic region vary substantially. From this perspective, the Arctic is a heterogeneous area. This is primarily due to objective differences between the United States, Canada, the Russian Federation, Finland, Sweden, etc. as large and small, rich and substantially less wealthy states. There is a tremendous disparity in the sizes of the Arctic nations. Russia has the largest territory on the globe equal to 17 million square kilometers, and the United States and Canada have more than 9 million square kilometers each. On the other hand, Sweden, Denmark, Finland, Norway, and Iceland comprise less than 0.5 million square kilometers each.

The United States and Russia are among those dozens of countries in the world that have a population of more than 100 million. The total population of Canada is about 30 million people.
As for the other Arctic countries, they are small countries in terms of population, ranging from 8.8 million in Sweden to 0.3 million in Iceland.

If one looks at the level of economic development, here again the difference is significant. In terms of GDP (on purchasing power parity basis) per capita, the United States is the wealthiest country among Arctic ones ($36,200). Norway, Iceland, Sweden, Denmark, Finland, and Canada have their per capita GDP within the range of $22,000-$28,000. In its turn, the Russian Federation lags behind, at $7700.

Such disparities result in significant differences activities. One might expect the United States and Russia to be less internationally oriented in comparison with the rest of the group. Small and developed economies of Nordic countries are largely forced to participate in the process of globalization. The available statistical data mostly confirm this. The simplest indicator of economic openness, the export quota (the share of merchandized exports in the GNP), varies as follows: 41% in Canada, 38% in Sweden, 35% in Finland, 29% in Norway, 28% in Denmark, 22% in Russia, and 20% in Iceland. As for the United States, which in absolute terms is the world's largest exporter (as well as importer), its export quota equals only 9%. The surprisingly high level of this indicator in the case of Russia mainly results from a severe contraction of internal economic activities (and hence GNP) during the social-economic transformation of the 1990s. In that case, export per capita statistics present a more adequate picture. Respective data varied in 1999 from $10,600 for Norway, $9600 for Sweden, $9300 for Denmark, $8200 for Finland, $7900 for Canada, $5500 for Iceland, to $2600 for the United States and $500 for the Russian Federation.

The level of activity in relation to the international movement of capital also shows significant differences for the countries of the region. During the last several years of the 20th century, FDI inflows toward Russia in per capita terms equaled less than $30, in comparison with $2200 for Sweden or $1500 for Norway.

Another significant limitation to economic homogeneity of the region is directly connected with the participation of Arctic countries in various trade and economic alliances. The United States and Canada are members of the North American Free Trade Agreement (NAFTA), and Finland and Sweden are members of the European Union (EU). Iceland and Norway are members of the European Free Trade Association (EFTA), which is far less active than the aforementioned associations. The Russian Federation is a member of the Commonwealth of Independent States (CIS). Memberships in these disparate bodies create some obstacles to Arctic cooperation, hampering the mobility of goods, services, capital, and people in the area.

Some leading economists and experts in international business argue that the economic regionalization trend in a way contradicts and counterbalances that of globalization. In particular, participants of leading trade and economic alliances gradually focus a growing share of their international transactions toward other co-members at the expense of outsiders. In the 1990s, intra-NAFTA exports increased from 42.6% to 54.1% of the total exports of the United States, Canada, and Mexico. In this alliance, the United States has tended to strengthen its role as the major trading partner of Canada. By the end of the 1990s, about 80% of all export and import transactions executed by Canadian companies were with their American counterparts. In the case of the EU, intra-alliance trade currently accounts for more than 60% of the total foreign trade of its members. The Russian Federation is currently shaping its international economic strategy. Today, the EC accounts for more than one-third of total Russian merchandized exports.

In general, regionalization, taken as it is, might result in a situation where, according to the patterns of their economic development, countries under review would rather disintegrate than move in opposite directions. Under the circumstances, the main Arctic stakeholders should deliberately, actively, and constantly facilitate their multilateral cooperation. In addition to direct economic gains, this cooperation might have several positive results, such as a better chance of achieving a sustainable development pattern, and the generation and promotion of greater social responsibility among multinational corporations operating in the area.

Many experts argue that one of the most promising dimensions of trans-Arctic cooperation relates to the development of a transportation network in the region. In particular, several major
Air routes across the Arctic could provide safer, smoother, and more rapid delivery of passengers, mail, and cargo between the countries (both in the area and outside of it). For example, Russia has opened its territory for trans-continental flights from North America to Southeast Asia along four cross-polar air routes. Under the circumstances, the flight from New York to Hong Kong via the North Pole might take between 15.5 and 16.5 h instead of the 21.5 h it takes otherwise. It would also be a direct flight, thus further decreasing costs. Due to these developments, the city of Krasnoyarsk in Siberia could increase its role as an international airport. Ultimately, American, Japanese, Russian, and other foreign companies would benefit from the implementation of these flights.

Air traffic is far from being the only subject of cooperation under review. International transit along the Northern Sea Route could significantly decrease the amount of time needed to make deliveries. For example, it would take 15-20 days only to travel by sea from the Pacific Ocean to Northern Europe. New substantial opportunities are connected with the development of transit transportation via trans-Siberian (Transsib) and Baikal-Amur (BAM) railway routes. As a result of these and other similar projects, the Russian Arctic can become a link between Northern America, Europe, and Asia.

New developments in Arctic cooperation should be in keeping with, and in coordination with, the activities of already existing international institutions, which already regulate economic, political, and social life both in the region and globally. The Arctic dimension of globalization is far from insignificant. The challenge is to manage the process in a way that will allow a maximizing of possible benefits for the Arctic and the international community as a whole, while minimizing the potentially negative consequences and repercussions of globalization.

SERGEI F. SUTYRIN AND IRINA V. VOROBIIEVA

See also Aboriginal Identities; Fisheries (Commercial); Gas Exploration; Hunting, subsistence; Independence Culture; Indigenous Peoples' Organizations and Arctic Environment Politics; Indigenous Rights; Information Technology; Oil Exploration; Reindeer Pastoralism; Telecommunications; Tourism; Transport

Further Reading
Barker, Mary L. & Dietrich Souyez, "Think locally act globally?" Environment, 36(5) (1994): 12-23


