

## **MODULE 2:**

# **Changing Northern Economies and Globalization**

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### **Overview**

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This module will introduce you to the history of economies in northern regions, current changes in those economies, and the impact of globalization. It discusses traditional and new models of development, changing centre-periphery relations, fiscal transfers, transportation, infrastructure, information technology and resource markets.

The module starts by noting the different layers of economic activity that have influenced circumpolar society, starting with the hunting and gathering economies and moving to the pre-industrial, colonial economy and then to the modern, resource-based, industrial economy. The module discusses several problems associated with the resource-based industrial economy in the circumpolar region such as the north-south transportation infrastructure, external ownership of industries and centre-periphery relations.

The module then introduces the economic changes that are taking place in the world economy and the impact and potential impact of these changes on the North. The end of industrialism and the rise of the post-industrial knowledge economy means that information technologies can be used to overcome some of the barriers to growth in the North that existed under industrialism. Globalization exposes circumpolar communities to new forces that some argue will have a beneficial effect but which others argue will be devastating.

### **Learning Objectives**

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Upon completion of this module, you should be able to:

1. Achieve an awareness of the economic development of northern regions
2. Recognize the historical processes that formed these economies
3. Be aware of the new changes occurring in the economies of the circumpolar region
4. Have an understanding of how the new forces of globalization may be affecting the circumpolar region
5. Be aware of the potential for circumpolar regions to compete economically under globalization through the development of sustainable competitive advantages

## Required Readings (including web sites)

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Keskitalo, E. Carina H. and Southcott, C., (2014) *Globalization*. Larsen, Joan Nymand; and Fondahl, Gail (eds.) in the Arctic Human Development Report Regional Processes and Global Linkages, Akureyri: Stefansson Institute. <http://norden.diva-portal.org/smash/get/diva2:788965/FULLTEXT03.pdf>

Rasmussen, R. O. et al. (2011). *Fundamental changes in the nature of Arctic economies*. **Megatrends**, Rasmussen, R.O. et al. Copenhagen: Nordic Council of Ministers, pp. 58-79, [http://www.keepeek.com/Digital-Asset-Management/oecd/development/megatrends/fundamental-changes-in-the-nature-of-arctic-economies\\_9789289330718-6-en#page1](http://www.keepeek.com/Digital-Asset-Management/oecd/development/megatrends/fundamental-changes-in-the-nature-of-arctic-economies_9789289330718-6-en#page1)

## Key Terms and Concepts

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- Traditional hunting and gathering economy
- Pre-industrial colonialism
- Industrialism
- Law of Comparative Advantage
- Transfer dependency
- Centre-periphery relations
- Dependency theory
- Globalization
- Sustainable Competitive Advantages (SCA)

## Learning Material

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### 2.1 Introduction

Of the issues affecting the sustainable development of northern communities, most are related to what is happening in the world economy. For a long time now, the vast majority of Arctic communities have been under the influence of economic forces that are outside the regions. Local control of the northern economy has not existed for a long time. Many people argue that this lack of local control has intensified lately under the influence of a new economic system called globalization.

As you will see, globalization is not an easy concept to define. It means many different things to many people. In a very general sense, it means that national economic boundaries are being erased as international trade becomes more and more important. It also means that the demands of local communities with particular needs, such as those in the circumpolar regions, have increasingly become secondary to the demands of international trade forces.

### 2.2 The History of Economic Systems in the Circumpolar Region

One way to look at the current economies of communities in the circumpolar region is to see them as the accumulation of several layers of economic systems. The first layer is a system we can call a *traditional hunting and gathering economy*. The second layer is a system that we can refer to as *pre-industrial colonialism*. The third layer can be called *industrialism (or modernization)*. The fourth, and most recent layer, is that of *globalization*. The current economy in any one region of the circumpolar world is the product of a combination of these layers. Although the importance of each layer varies from region to region, most are influenced in one way or another by each of the other layers.

### 2.2.1 The Traditional Hunting and Gathering Economy

The **hunting and gathering economy** was the first economic system in most of the circumpolar region. It is still practiced to varying degrees by most circumpolar Aboriginal peoples. This economic system is generally regarded as the one that has the least negative environmental impact and that, in most cases, allows the greatest amount of local control. It is often seen as the most sustainable economic system for the circumpolar environment.

#### Learning Highlight 1: Layers of Economic Systems

The current economy of the Arctic can be seen as the end product of a series of layers of economic systems.

While sustainable, the hunting and gathering economic system does not produce a lot of wealth. It supports the smallest number of people, and living conditions supported by such an economic system are not seen to be desirable according to most Western standards.

### 2.2.2 Pre-industrial Colonialism

Europeans introduced what we call **pre-industrial colonialism** to the circumpolar regions. Under this system, much of the circumpolar region was “colonized” to meet the economic demands of primarily European peoples. Colonization meant that the Indigenous populations of the region became subjected to the demands of the colonizing peoples. Europe became the centre of economic decision-making while the circumpolar regions, along with other areas of the world, became the periphery, the subservient region.

The time frame for colonization varied from place to place. The princes of Novgorod came to dominate the Indigenous peoples of Northwest Russia as early as the tenth century AD. It was also at this time that the Finnish and Scandinavian peoples began their steady incursion into the lands of the Saami. However, it was especially in the sixteenth and seventeenth centuries that colonization of the circumpolar region occurred. At the beginning of the seventeenth century, the Russian Cossacks crossed the Urals into Siber and moved quickly across it in search of Indigenous peoples of the region from whom they could gather furs. At the same time, the Hudson’s Bay Company established itself on the shores of James Bay to start its fur-trading operations in North America while the French fur traders pushed north through the inland waterways.

Pre-industrial colonialism of the circumpolar region was not only based on the harvest of furs. Whaling, sealing and the cod fishery were important economic activities in the region starting in the seventeenth century. However, the impact of these activities on local populations was less severe than that of the fur trade. The fur trade meant the subordination of traditional hunting and gathering to a secondary activity. Gathering furs for the European market became the primary economic activity of these peoples.

Colonization also meant *homesteading*, the settlement of European people in the circumpolar region to engage in agriculture. The extent of homesteading differed

according to the region and the period. As already mentioned, Finns and Scandinavians had started to push progressively north starting as early as the tenth century. The colonization push into the provinces of Oulu and Lapland in Northern Finland occurred primarily in the seventeenth century. In Siberia, colonization followed the conquest of the region starting in the seventeenth century. In Alaska, and in some parts of Northern Canada, homesteading continued into the twentieth century.

Particular European states engaged in colonization to add lands to their empires and wealth to their economies, and to relieve the pressures of overpopulation at home. The process started in earnest in the seventeenth century and continued well into the twentieth century. This particular economic system proved to be extremely harmful to the Indigenous peoples and their traditional societies and ways of life. Their sustainable subsistence economy was made subservient to the interest of the European states; they were pushed out of areas that were suitable for agriculture; and traditional subsistence activities, such as reindeer herding, were progressively transformed into profit-oriented animal husbandry.

### Learning Activity 1:

**What are the economic systems that have impacted the history of your community?**  
Think about your community. Was it influenced by the various economic systems outlined in this module?

Still, some Indigenous communities escaped the worst aspects of pre-industrial colonialism. If they were located in areas that did not have a lot of the furs desired by the European markets, and if their land was not suitable for agriculture, they were able to adapt to their new political masters and continue on much as they had before.

### 2.2.3 Industrialism

**Industrialism** first developed in Great Britain at the end of the eighteenth century. During the next century, it spread throughout the European world and, by the end of the century, it had started to appear in the circumpolar regions. Industrialism was the first economic system to develop its own economic theories to support its development. Many of these theories used the term *capitalism* to describe the new system. The most prominent of these theories was that of *classical liberalism* as outlined by eighteenth-century economist Adam Smith and others. Classical liberalism has many forms and as such it is dangerous to oversimplify it. This being said, the basic idea is that wealth is produced by the increasing rationalization of the production process. This occurs through the increasing division of labour and the expansion of markets. Through the division of labour, more can be produced with less human resources. With the expansion of markets, more products can be sold, which in turn produces more capital, which can then be invested back into developing technologies that will then produce more with less human resources (e.g. at a lower cost).

This process used market forces to find the most efficient means of producing and selling products. As if controlled by *an invisible hand*, markets, if left unhindered, would find the best way of distributing products and wealth so as to maximize the benefits to everyone—according to the theory. *Classical liberalism* believed that if market forces were left unhindered everyone would benefit. David Ricardo, a nineteenth century British political economist, proposed his **Law of Comparative Advantage**. According to this theory, every region had a comparative advantage in the production of some good. The market would find out what this product was and, in so doing, each region would benefit from the production of wealth in the world.

Still, for those who introduced the industrial system to the circumpolar world, allowing this region to benefit in the wealth produced by industrialism was not one of the priorities. By the nineteenth century, the entire circumpolar region was divided by colonialism into northern peripheries of national states. Under colonialism, these northern peripheries were used to increase wealth in the national centres. Rather than change this mentality, industrialism served to intensify it. Still, under industrialism, the circumpolar world became increasingly important for those nations that controlled a piece of it. This region became the storehouse of the natural resources that were required by industrialism. For these nations, the future of the entire nation was linked to the ability of the North to supply the resources required by industrialism. In Sweden, Sverker Sorlin has pointed out the importance of Norrland during the development of industrialism there. By the beginning of the twentieth century, Norrland had become Sweden's "Framtidslandet" or Land of the Future (Sorlin 1988).

#### Learning Highlight 2:

Under industrialism the north was seen largely as a storehouse of resources.

In studying industrialism in the circumpolar region, it is important to point out that it was primarily natural resource-based industrialism. By the end of the nineteenth century, in the subarctic regions of North America and Fenno-Scandia, sawmills were established when timber reserves in more southern regions were depleted. The development of technology to produce paper products from wood fibre led to the establishment of pulp and paper mills in these same areas by the beginning of the twentieth century. Agriculture in these areas quickly became subservient to the demands of the forest industry. The subsistence production that had characterized fishing in the circumpolar region until the beginning of the twentieth century was slowly transformed into an industrial activity by 1950. The Yukon and Alaska gold rushes at the end of the nineteenth century showed the world the potential mineral wealth of the region for the first time. Much of this mineral wealth could not be exploited until the establishment of suitable transportation systems made it economically feasible.

#### **Industrialism and the Transportation Infrastructure of the Circumpolar World**

Industrialism brought with it new forms of transportation to the circumpolar world. The construction of railways in Canada, Siberia and Fenno-Scandia helped to integrate this region with the more central regions and allowed for the more intensive utilization of the resources of the North. It is important to understand that the transportation and

communication resources of the region were almost always constructed to link the North to their southern centres. They rarely facilitated interaction between the different areas of the circumpolar world. The transportation systems served to keep the compartmentalized North linked to the South.

### **Global Capital and Industrial Development in the Circumpolar World**

While the circumpolar world was considered by each colonizing nation as a storehouse of the potential wealth of that nation, it is important to understand that, from the beginning of the twentieth century, the circumpolar world was linked to the demands of global capital. In the early twentieth century, Canadian capitalists were building mines in what was then Northern Finland. From the turn of the century, the pulp and paper industry in the subarctic regions of Canada was built by American capital.

Yet, as we shall see below, globalization is the most recent economic system to impose itself on the circumpolar world. This globalization contains some of the earlier aspects of natural resource development in the North but presents them in a new national and international environment.

### **Industrialism and Regional Inequalities**

The problem of differing patterns of development in separately defined regions within industrialized nations, such as northern regions, did not seem to occupy the thoughts of social scientists until the 1930s. *Unequal regional development* between industrialized and non-industrialized areas were looked upon as temporary phenomena caused by the lack of exposure to capitalist-industrial forces. David Ricardo's *Law of Comparative Advantage* would ensure that all geographical areas would benefit from the free-market system. This optimism in the theories of classical liberalism was best expressed by Karl Marx who wrote in *Das Kapital* that the former colonies would eventually develop their own autonomous forms of capitalism, "The industrially more developed country shows the less developed one merely an image of its own future"(Marx, cf Blomstrom and Hettne 1984,10). Other than V. I. Lenin, few writers challenged the belief that all regions would benefit equally from capitalist development.

In Canada, as early as the 1920s, some economists had started to suggest that nations and regions that depended on the production of *staples* for their economic growth could experience problems in that growth. Political economist Harold Innis differed with his contemporary W. L. Mackintosh's notion that staples production would serve as the base for healthy, diversified economic growth in Canada. Innis believed that Canada's colonial development, combined with the tendencies of staples production towards *external leakages* would promote *regional imbalances* (Brodie 1990, 39). Profits made from staples production would not be re-invested back into the region. Capital would *leak out* of these regions to the benefit of more central regions. These notions were important for the development in Canada of *hinterlander* analyses of economic development wherein Western and Northern Canada was seen to be a hinterland of a more industrialized central Canada. This phenomena was (and is) not only prevalent in Canada, but affected much of the circumpolar north.

The period immediately following the Second World War was characterized by a recognition among social scientists that not all regions of the world were developing as

the central regions of Europe and North America had. The general reaction to this was to suggest that certain regions were not following the correct path because they did not have an adequate map. The *Modernization Paradigm* emerged in the late 1950s and early 1960s as a means of mapping out how the West had developed so that *underdeveloped* regions could find out where they had gone wrong, and, in so doing, resume their normal evolution towards development. All the social sciences participated in this paradigm, each stressing the importance of different aspects of development (Blomstrom and Hettne 1984). All those involved in this tradition shared the notion that regional underdevelopment was linked to some deficiency in the underdeveloped region and was not due to its relationship to other regions.

### Centre-Periphery Relations

This notion started to be challenged in the 1960s. **Dependency theory**, originally developed in Latin America, pointed out that the roots of regional underdevelopment lay in the relationship of that region to other regions. In particular, central, developed regions tended to control development in underdeveloped, or peripheral, regions by making these regions dependent on them. These theories helped explain regional inequality in the circumpolar regions of Canada (Brym 1989). These theories could be combined with staples theory and the hinterlander tradition to provide a uniquely new form of dependency theory. Whereas theories of the 1960s stressed cultural and other internal problems as the source of regional inequality, by the 1970s many were pointing to structures of dependency created by the industrialized centre/metropolis in the under-industrialized or de-industrialized periphery/hinterland as the cause of this disparity (Southcott 1999).

#### Learning Activity 2: The Impacts of Post Industrialism?

Think about economic changes in your community. Are these the result of post industrialism? preservation of traditional economic base activities.

### 2.2.4 Post Industrialism

The above theories of regional development have been characterized by the belief that we are now in an industrialized society. Industrialism, through the factory system and other associated factors, causes *urbanization*. Industrialism, through structures of centralized control, allows some regions to exploit other regions. Since the 1970s, social scientists have begun to talk about a fundamental transformation occurring in contemporary society. Industrialism is decreasing in importance. The forces of industrialism are being superseded by new post-industrial–post-modern forces. Does this mean that the geographical, or spatial, patterns of industrialism will be affected? If industrialism led to urbanization, will post-industrialism lead to de-urbanization? Will the control of the industrial regions over peripheral regions be lessened? Will the spatially-based patterns of regional development characterized by industrialism be replaced by new patterns? Will there be a convergence of the social and economic characteristics of the northern and so-called central regions of the world?

While new trends in regional patterns have not been the most discussed issue of these theories, many of them do have something to say about the changing importance of geography in our society. While it is not our intention to produce an exhaustive list of theories, it is worthwhile to discuss a few of the most popular. The first widely discussed theory was introduced by Daniel Bell in 1973 in his book *The Coming of Post-Industrial Society*. According to Bell, advanced capitalist societies were moving from economies dominated by the transformative processes of industrialism to a new type of society emphasizing “the centrality of theoretical knowledge as the axis around which new technology, economic growth and the stratification of society will be organized (Bell 1973, 112).

In Bell’s view, the production of knowledge is becoming more important than the production of goods. New information technologies are the infrastructure that drives this new knowledge-based economy. The internet, wireless telecommunications and other forms of communications mean that knowledge can be produced anywhere. Under industrialism, circumpolar regions were at a disadvantage because it was cheaper to produce goods close to the markets that bought those goods. Apart from resource industries that had to be in the North, such as mines, oil and gas extraction and pulp mills, most industries were located in the central regions because that was where the markets were.

In a post-industrial knowledge economy, production no longer has to take place close to the main markets. The new information technologies mean that geographical space becomes less important for the economy. Products, in the form of information, can travel as quickly and cheaply from one region to another as they can from one room in a building to the next. Vast distances and inhospitable terrain cease to be a factor in getting products to market. To a certain extent, people can choose to live and work where they want to instead of where the market wants them to. The potential exists for northern areas to benefit from this new situation. The fact that we are so far from central markets is no longer as important as it once was.

Is the North benefiting from this? There are some successful examples of northern, university-based economic activities. The University of Oulu in Finland, for example, has been the incubator for several information technology success stories. Yet, as many of the modules in this course will show, most circumpolar regions do not seem to be benefiting from the potential of information technology.

Since Bell, other ways of describing the changes occurring in contemporary society have emerged. Some of the more popular see these changes as part of a growing service economy, a knowledge society, and an information age. In terms of more academic models, we have bipolar theories wherein these changes are seen as a shift from organized capitalism to disorganized capitalism, modernism to post-modernism, and fordism to post-fordism.

### 2.2.5 Globalization

Much of the research into changing centre-periphery relations in the circumpolar world refers to these changes as being linked to the new forces of globalization. **Globalization** is a term meaning many things to different people. As a result, it is not an easy term to define. As Lise Lyck points out below, globalization is different from



internationalization. In a very general sense, globalization is the de-nationalization of the world system. National economic, political and cultural systems are replaced by international market (and, to some extent, international cultural and political) mechanisms.

There are many authors who have tried to explain what globalization entails (Sassen 1998; Friedmann 2000). One of the best attempts to explain globalization in a manner that is meaningful to circumpolar regions is found in an article by the American sociologist Philip McMichael. McMichael has tried to determine the effect of globalization on spatial patterns, especially the urban-rural distinction (1996). For McMichael, globalization is linked to the dissolution of what he calls “the development project.” This project characterized the regime established after the Second World War. According to McMichael,

The completed nation-state system combined the principles of mercantilist and liberal organization into a new international regime of “embedded liberalism” ... This regime subordinated trade to systems of national economic management, anchored in strategic economic sectors like steel and farming. Together, international and national institutions regulated monetary and wage relations to stabilize national capitalisms within a liberal trade regime. (1996, 29)

From the perspective of the circumpolar regions, there was some benefit to this pre-globalization, nationally managed economic system. Circumpolar regions could be insulated somewhat from the boom and bust nature of resource development. The fishing, forestry, agricultural, and mining sectors were subject to the demands of the national interest. Often the national interest was to protect these regions from international market fluctuations. For example, in the interests of national regional equality, industries in the circumpolar regions could receive subsidies to stabilize production.

Another aspect of this pre-globalization system was *transfer payments*. The managed nature of the development project allowed for many people to remain in communities despite a lack of economic activity through the transfer of funds from the central government to people and communities in the northern regions of the nation. These fiscal transfers came in many forms: welfare payments, treaty payments, educational subsidies, economic grants, and social services. These transfer payments also produced what some consider to be another problem in circumpolar regions—that of transfer dependency. Some believe that barriers to economic development in the North exist due the over-dependency of local populations on transfer payments.

According to McMichael, the development project was one of ensuring that the forces of industrialism, and their regional patterns, were protected within the nation-state. The *globalization project* seeks to stabilize capitalism through global economic management and, in particular, through specialization rather than national replication. Under globalization, local communities are no longer dependent on (or restricted by) national boundaries. They are able to reach beyond them. National economic regulation is slowly eliminated and replaced by increased exposure to international market relations. Many transfer payments are being eliminated under globalization because such subsidies are seen as giving unfair advantage to some regions over others. The welfare state itself starts to disintegrate as nation states try to cut down on the services offered to their citizens so

that international investors, driven by neo-liberal economic beliefs, find the country more attractive to invest in.

### 2.3 The Impact of Globalization on the Circumpolar World

McMicheal sees globalization as having some potentially positive impacts on rural areas. According to McMicheal, the “post-developmentalism” that accompanys globalization presents the possibility of changes in regional patterns. With the extension of globalization and the decreasing importance of the nation-state, the *local* becomes more important. State decentralization presents *an opportunity for local political renewal*. *Rurality* becomes important as a particular lifestyle option rather than an economic factor. Looking at the circumpolar region, northern areas are now, to a certain extent, liberated from national colonialism.

Yet, is globalization having a positive impact on your community? Is globalization a good thing or a bad thing for the North. Globalization could mean that developments in circumpolar regions are now liberated from the constraints imposed upon them by national economic systems. But is it better or worse to be controlled by international market mechanisms? Many, if not all, of the modules in this course address these question. It is up to you to decide for yourself the answer to this question. This, indeed, is one of the objectives of the course.

#### Learning Highlight 3:

It is difficult to identify any sustainable competitive advantages that would help the Arctic benefit from globalization.

We can start the search for the answer in the last part of this module. As far as the economies of our communities are concerned, can we compete on the world markets? Do we have certain assets that make us potentially successful economic players? In the section below, Lise Lyck starts us thinking about answers to these questions.

### 2.4 Globalization and The Economies of the Circumpolar Region

For circumpolar regions to compete and be economically successful in the era of globalization they have to develop **sustainable competitive advantages** (SCA). They have to be able to produce products that can compete internationally with products from other regions of the world. At the same time this production must be sustainable – it must be done in a way that communities can support over a long period of time with few negative environmental, social, economic, and cultural implications. What are the prospects for Northern regions developing sustainable competitive advantages in an increasingly global world?

To understand what globalization entails, what is at the core of the concept, it can be useful to look at the difference between globalization and internationalization, although it should be stressed that, in our time, they are generally going on simultaneously. As the word indicates, internationalization stresses the concept of the nation or the state. Politicians set up international agreements, setting the rules for the behavior of corporations and individuals and it is then up to the corporations and individuals to

implement these rules in actions such as communication, trade and investment. These international rules are intended both as guidelines and as controls on individual and corporate rights and actions rooted in local political systems.

Globalization, however, is rooted in production and economic rationales. It implies that treaties and agreements that do not include all states, offer differing, negative or positive, potentials for impact on profit and the development of SCA. This potential has been part of the strategy for multinational and trans-national corporations. The development from multinational corporations to trans-national corporations mirrors the ongoing change in global decision making in relation to products, manufacture and markets.

Globalization is a complex concept, and different writers stress different elements when concluding that it is multifaceted. These include: intra-product specialization, vertical specialization, the changing role of the entrepreneur and the nature of the enterprise, a higher ratio of tradeables to non-tradeables, communication and technological developments, the concentration of the population in increasingly larger towns, and, most importantly, the dynamics of globalization making changes in the normal and expected outcome of daily life.

Theodore Levitt, one of the best known authors on globalization, points to technology, saying: “A powerful force drives the world toward a converging commonality, and that force is technology.” The impact is the emergence of global markets for standardized consumer products on a previously unimagined and enormous scale of magnitude. According to Levitt, “ancient differences in national tastes or modes of doing business disappear.” The result is a large selection of high quality, low priced goods and services to fulfill all the common consumer preferences.

#### **2.4.1 Circumpolar Economies and Their Ability to Benefit from Globalization**

Arctic economies considered in this section include Alaska, Northern Canada, Iceland, the northern counties of the Nordic countries Finland, Norway and Sweden, Greenland as part of the Danish Realm, and the northern territories of Russia. Although territories of eight Arctic states are included, only one state, Iceland, can claim to be both totally sovereign and Arctic. This has profound consequences for the Arctic considered as a region of loyalties. Functional and political relations in most of the Arctic are divided between identities rooted locally and identities rooted outside the Arctic. Technically, the Arctic can be considered a quasi region, a territory that includes at least one sovereign state plus territories of other sovereign states. These facts influence the context for Arctic development and also the conditions for achieving SCA. They imply that political geography as well as constitutional conditions set the framework for Arctic development. As a consequence, Arctic development is shaped by not only climate and other external natural factors but also by external man-made factors. The man-made factors unfold in economic and political power relations established and decided, for the most part, outside the Arctic.

People living in the Arctic have only limited economic and political global power, but the Arctic region itself has a high economic and political global strategic importance. The political realms encompassing the Arctic region, the U.S., Canada, Russia and the EU, have the main power.

The development and changes in the Arctic context are mainly due to the character of the Arctic region as explained above and rooted in changes taking place outside the Arctic. For instance, the break up of the Soviet Union and the end of the Cold War have resulted in more political space in the Arctic, and in a weakening of the eastern Arctic which mirrors the weaker Russian position. Also the stronger market orientation has a heavy impact on the Arctic, giving the Arctic less potential to achieve transfer income, and changes the economic situation by giving the Arctic less subsidy potential. This change causes increased competitive pressure in the Arctic and the need to create new services to be bought from agents living outside the Arctic. These can, for example, be “laboratory services” or other services of a territorial character. This will increase market development in the Arctic and thus, in the long run, contribute to a stronger power position inside the Arctic.

A core problem concerns whether it is possible to develop SCA in the Arctic such that the Arctic can have a role as a player in a global regime. There are many sources of SCA, such as differentiation, low costs, niche production, technology, quality, service, vertical integration, synergy, culture, organization and leadership. However, it is generally the case that competence to develop SCA in the Arctic has been weak, except in Iceland.

The reason for this lack of competence is closely connected to the structure of international trade and foreign direct investments, as well as state-market relations in the Arctic. Concerning international trade, most Arctic trade can be characterised as inter trade, while intra trade is extremely limited. As a consequence, trade can be explained mainly by the old Ricardo theory on the comparative advantages of trade, and not by other theories. In other words, the structure of Arctic trade excludes many sources that have the potential to develop into SCA. The structure of foreign direct investment leans in the same direction. The investments are mainly the result of decision making outside the Arctic. Examples of industrial complexes are few, and are mostly found in Iceland. The structures hindering development of SCA are also seen in state-market relations in the Arctic including an overly large public sector, too little private ownership and what is called “the tragedy of the commons”. Also, development towards the information society is problematic, as the general level of education in the Arctic is low, and much of the specific knowledge in the Arctic is not in demand outside the Arctic. This means that the Arctic has difficulties in coping with the ongoing dynamic knowledge development thus facing difficulties in developing SCA and in being competitive.

To sum up, the Arctic, with the exception of Iceland, faces serious difficulties in developing SCA. Integration within the Arctic is difficult due to market size, duplication of production, insufficient division of labor, infrastructure and allocation. Iceland has managed to escape this situation by a long tradition of expertise and education and by having access – as a sovereign state – to more economic and political instruments. If the Arctic is to be able to compete, its infrastructure must be reconsidered and Arctic hubs must be developed. Reykjavik and Anchorage have the potential for such development but it will require hard work to realize this in a satisfactory manner.

Most of the characteristics of globalization on the input side are different from those of Arctic life and production, but on the demand side the commonality in the Arctic

preferences for consumer goods is easily seen. This pattern of wanting to have (demand for imported goods) together with not being able to produce in a competitive way and not having the competence to develop SCA make up the core Arctic economic problem.

Iceland has overcome this problem by allocation (most of the population live in Reykjavik), by human capital (high education), by establishment of efficient transportation and communication systems (Eimskip, Icelandair etc.) and by applying political and economic instruments derived from its status as a sovereign state.

The question is: Will it also be possible for the rest of the Arctic to find a strategic political and economic route for overcoming Arctic underdevelopment and inability to cope with globalization? To circumvent such inability, it will be necessary to develop SCA, focusing on some of the sources of SCA, especially leadership, the ability to transform production from nontradables to tradables demanded by the outside world, and the development of Arctic hubs and Arctic co-operation.

My studies of economic and political development in Greenland since the introduction of home rule in 1979 demonstrate the difficulties. Although development in Greenland has been quite rapid, and although a lot of improvements have taken place and Greenland has spent a lot of effort on developing SCA, Greenland has not developed sufficient SCA within the economy to deal efficiently with globalization. Greenland is still dependent on income transfer from the Danish state, an annual amount of 3 billion DDK, about 400 million US dollars.

Greenland has been most successful in the development of political statesmanship. It will therefore be especially interesting to follow the negotiations on the new American defence system proposal in Thule, and to see whether Greenland will be able to move from the production of non-tradeables to tradeables and achieve SCA. If Greenland does manage to realize SCA during this process, it is likely that it be a milestone in future Arctic development.

## 2.5 Conclusion

This module had tried to introduce students to the economic history of the Arctic and highlight important economic changes that circumpolar regions face. We have tried to point out how the past economic systems that affected your communities were formed, what some of the unique characteristics of these economies are, and what future changes the communities face.

We started out by noting the different layers of economic activity that have influenced circumpolar society starting with the hunting and gathering economy, moving to the pre-industrial colonial economy, and the resource-based industrial economy. We noted several problems associated with the resource-based industrial economy in the circumpolar region such as the North-South transportation infrastructure, external ownership of industries, and centre-periphery relations.

We introduced you to some of the economic changes that are taking place in the world economy and the potential impact of these changes on the North. Will the new post-industrial knowledge economy mean that information technologies can be used to overcome some of the barriers to growth in the North that existed under industrialism?

What are the impacts of globalization? Is it having a positive or negative effect on your community?

This module has introduced you to the background information that can help you answer these questions. It is up to you now to apply this background information to your situation in order to answer them.

### Discussion Questions

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1. What new changes are occurring in the world economy that are having an impact on the economies of the circumpolar region?
2. Did your region experience colonialism? What were its impacts?
3. What are the different economic systems that have contributed to the development of the economy of your community?
4. Will your region be able to compete for sustainable economic advantages under globalization?

### Study Questions

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1. What main historical processes formed the economies of the circumpolar region?
2. Describe the history of colonialism in the circumpolar North.
3. Illustrate What were the major impacts of industrialism in the circumpolar North?
4. What is the potential for circumpolar regions to compete economically under globalization through the development of sustainable competitive advantages?

### Glossary of Terms

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**Traditional hunting and gathering economy:** first economic system in most of the circumpolar region and practiced to varying degrees by most circumpolar Aboriginal peoples. Often seen as the most sustainable economic system for the circumpolar environment.

**Pre-industrial colonialism:** System in which much of the circumpolar region was *colonized* to meet the economic demands of primarily European peoples. Colonization meant that the Indigenous populations of the region became subjected to the demands of the colonizing peoples

**Industrialism:** First economic system to develop its own economic theories to support development. Developed in Great Britain at the end of the eighteenth century and spread throughout Europe during the next century. By the end of the century, it had started to appear in the circumpolar regions.

**Law of Comparative Advantage:** Theory in which every region has a comparative advantage in the production of some good by way of the market determining what this product was and, in so doing, each region would benefit from the production of wealth in the world.

**Transfer dependency:** Reliance of transfer payments in an economy.

**Dependency theory:** Idea that the roots of regional underdevelopment lay in the relationship of that region to other regions. Specifically, central, developed regions tended to control development in underdeveloped, or peripheral, regions by making these regions dependent on them

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## Supplementary Resources

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