ECONOMIC DEVELOPMENT OF GREENLAND
IN THE CONTEXT OF ITS WAY TO INDEPENDENCE

Introduction

In the Inuit language Greenland means Kalaallit Nunaat, that is the Land of Greenlanders. Although the indigenous people have inhabited the island for at least 4 thousand years, they still have not managed to achieve independence from Denmark. Since the late eighteenth century their territory has been part of the Kingdom of Denmark, which makes it an autonomous country within the Kingdom, whose head is the Danish Queen Margrethe II. Greenland has enjoyed autonomy since 1979. Also its way to independence is quite long. Most local politicians call for full independence. It is generally known, however, that in the near future Greenland will not proclaim full independence, especially taking into account the period of 30 years that it took to move from Home Rule to Self Rule. Although before the referendum held in 2009 the then Prime Minister of Greenland Hans Enoksen said that the aim of his government was achieving full independence by 2021, the foreign minister of the government Kuupik Kleist - Per Berthelsen was not so optimistic about the issue, determining the period of at least 20-30 years. Also Greenland’s deputy, Palle Christstensen from the Democrats (a group, which is skeptical of the idea of the independence of the island) claimed that “we will not do without Danish subsidies, so we can not give them up now. Only if our resources have been managed, should we think about loosening the bonds of Copenhagen”. Thus, it is possible to formulate a hypothesis, whether Greenland will be successful in winning its independence depends on its economic

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2 “Pierwsze złoża ropy i gazu odkryte na Grenlandii podpisy w tym kraju. Nastroje separatystyczne w tym kraju. „Forsal” 04.03.2014.
development in the coming years. There are two main factors, which play a key role in the process of establishing sovereignty by Greenland. First, the barriers and limitations, typical of small states and territories should be pointed out. Secondly, global warming, the emerging opportunity for exploiting the new source of deposits offers Greenland the potential for earning considerable revenues.

The purpose of this article is to draw attention to the current economic development in Greenland, taking into account the emerging opportunities in its environment, at the same time pointing to the weaknesses typical of this type of economy.

1. Characteristics of small states and territories, using the example of Greenland.

From a geographical point of view, an island is “a small piece of land, surrounded by sea water”. This definition focuses on two important aspects. The first is isolation, which etymologically coincides with the term of the island and in European languages is - insula, island, ile, isola, isla. The other feature is “small”, which means that above a certain land mass, the area is not an island any longer and takes on the characteristics of the mainland. In this context, the status of Greenland is quite interesting. How to define its territory, which takes a surface up to 2 175 600 km²? Is Greenland an island or a continent? In Polish literature of international relations Greenland is defined as an island, yet it does not meet the criterion of being “small”. M. Rosenberg explains, however, that here two factors are of key significance. First is that Greenland sits on the American tectonic plate and the other is its lack of unique culture, flora and fauna and approving by the community of Greenlanders their identity of being islanders. Also geographers define Greenland as the largest island in the world.

Equally problematic issue in the case of Greenland is the term - small or large. The geographical literature does not specify clearly what parameters are to decide what the island ceases to be small, and begins to resemble mainland. Admittedly, Greenland is referred to - as the largest island in the world, but it should be noted that the size of the territory can not be clearly associated only with the size in terms of geography. Despite the large surface area of 1 833 900 km², the land is covered with eternal ice and only 150 000 km² is considered as an inhabited area.

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4 Ibidem, p. 16.
The island is defined as a small territory - and even microterritory\(^8\). This classification is based on the use of fairly common population criterion. Unfavourable climatic conditions on the Island make Greenlandic population, which is around 57 thousand, one of the smallest communities on Earth\(^9\).

In the literature, there are many definitions of small states or territories. In the 1960s and 70s, the problem of weaknesses and chances of survival of small territories was already recognized\(^10\). Small country or territory is defined as an area inhabited by at least one million people\(^11\), whereas the land inhabited by the community of less than 100 thousand people is considered as a microstate. The distinction between small countries / territories and microstates is quite important in the context of the pursuit of such entities to independence. There are minimum thresholds, that such entities have to cross in order to become an independent and effective actor in the international arena. G. Baldacchino suggests that small states and territories often experience similar economic problems stemming from isolation. These lands face challenges associated with the weak export market, high cost of transport (by road, air or sea, the lack of know-how and the focus on one-branch production\(^12\).

2. Weaknesses of small economies of dependent territories using the example of Greenland

Why does the small size of Greenland matter? The difficulties, which Greenland has to face, are related to its functioning in isolation from the metropolis, island location and very scarce population. The above mentioned factors cause financial and economic dependence typical of a dependent territory.

Despite separatist sentiment among the citizens after World War II, Greenland, by virtue of the decision of the local parliament, remained dependent on the metropolis. It did not make efforts to gain independence and since 1953 the Island has been considered an overseas territory of Denmark. Such a decision made by

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9 In 1980 it was estimated, that among the 224 known and inhabited regions in the world there are 77 microstates with a population of less than half a million residents. see: J. C. Caldwell, G. E. Harrison, P. Quiggin, *The demography of Micro-States. “World Development” Vol. 8, 1980, p. 953.


11 In the literature, the population of million people is the most common (but not the only) indicator to determine the size (small) of a country or territory. This indicator was adopted by the United Nations (UN) - as a boundary value. This means that about 40 independent entities around the world fall into the discussed category (small) by this criterion. See: B. Thorhallsson, *Small States in the UN Security Council. Means of Influence?*, “The Hague Journal of Diplomacy” No 7 (2012), p. 136.

the community could raise some doubts, if it was not for the fact, that the Greenlanders were dependent on financial aid from Denmark and they were not able to manage the island independently.

At that time, the official objective of the Danish government’s policy was providing the population of Greenland with opportunities for development, similar to that of the Metropolis. The way of redistributing the aid, which in the opinion of the politicians of Greenland made the Island even more dependent on the Kingdom of Denmark, may seem questionable. R. Gessain shows examples of anomalies in this field, occurring after World War II, which made the economy of Greenland dependent on the Kingdom - thereby not allowing it to become more competitive in the international arena. Among many examples, the issue of employment in Greenland should be pointed out. Theoretically, Danes thought that Greenlanders should be given jobs. However, the implementation of this official policy was far from ideal. Still in 1966 Danes not only manufactured and delivered prefabricated houses to the Island, but also employed their workers to carry out the construction and installation work. This was explained by the lack of professional training of the Inuit people. The answer to the question “why were they not given the training?” was: “according to the standards of trade unions they would have to undergo four-year technical training in Denmark.”

Another example of the controversial Danish approach is the housing policy introduced on the Island after World War II. It aimed at setting up less dispersed and more populous settlements, thanks to which Greenlanders could benefit from education, medical services, etc. However, it was connected with resettlement, lifestyle change and a departure from the tradition of hunting. Despite the benefits of education and healthcare, the islanders have not managed to adapt to such a drastic cultural change, imposed in advance by Danes. Today, the above mentioned approach of the Danish government is believed to be the source of social problems in Greenland. They have serious difficulties in tackling the high rates of suicide, domestic violence, abortion, or alcohol and tobacco addiction (see. fig.1).

It is interesting, that the figures on smoking, drinking alcohol or abortion are much higher in Greenland than in the other Nordic countries. It should be admitted, however, that in recent years consumption of stimulants tends to decrease, whereas the abortion issue remains a serious problem.

In assessing the effectiveness of the Danish aid not only social but also economic consequences of the implemented policy should be considered. Greenlanders consume approximately DKK 14.7 billion yearly, while their own production is only 5 billion DKK (see. Fig.4).

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13 Denmark has developed a very liberal system of loans, which was to enable the purchase of new houses and boats. The budget of Greenland earmarked for this purpose DKK 37 million in 1966. Greenlanders signed up on a list and their applications were handled according to order. Each year about 10 such buildings, worth about 40 thousand krones were built by the State. The loan was repaid in installments, which depended on the number of children. A Greenlander paid for a fourth of the house value, the remaining amount was paid by the State, see: R. Gessain, op. cit., p. 245.
Fig. 1. Consumption of Alcoholic Beverages.

Fig. 2. Cigarette Consumption (in millions).
Fig. 3. Legal Abortions.

Fig. 4. Greenlandic consumption (Disposable GNI), production (GDP) and the block grant including Danish state expenditure in billion.
As Figure 4 shows, the consumption in this area is three times greater than the production. This imbalance has a negative impact on the economy of Greenland, strongly dependent on the Metropolis. Without the help of the Danish Crown Greenland today would not be able to cope with keeping to the local budget.

Thus, the opinion, that most of the support provided to Greenland over the years in fact did not leave Denmark, is not surprising. Moreover, this support has been creating numerous opportunities for maintaining control of many sensitive areas, such as managing natural resources. It was only in 2008, that Greenland won the right to decide about their future, including their own resources. On November 25, a referendum on the extension of autonomy was held. The voter turnout amounted to 71.96%, i.e. 39 thousand people from 80 settlements took part in the polls.

The society of Greenland voted for increasing their sovereign rights in thirty areas, including courts, and maritime policy. As the then head of the local government Hans Enoksen said, referring to their desire for independence: “Greenland has a mandate to go further”\(^\text{15}\). In the referendum 75% of the Greenlanders supported the increased autonomy. The most important outcome of the referendum was gaining the right to keep control of its natural resources, including oil, gas, diamonds, uranium, zinc and lead. Denmark is still in charge of issues related to foreign and defense policy.

The referendum has resulted not only in gaining more power by the authorities of the island, but also in imposing important limitations relating to the profits from the exploitation of natural resources. Thanks to the accepted compromise, since 2009 Denmark has been providing Greenland with subsidies of approximately 3.2 billion Danish kroner. Moreover, the parties decided upon the distribution of profits from the extraction of raw materials and under this agreement local authorities keep 75 thousand kroner, and the remaining profits are shared equally, until Denmark will have been compensated for the subsidies. It should be noted, that the extension of the powers in as many areas results in the increase in the cost of autonomy. This means the expenditure of 300 million kroner as well as the estimated costs associated with establishing autonomous police, courts and prisons amount to 200 million kroner\(^\text{16}\).

3. Extraction of natural resources as Greenland’s chance for independence

The increase in activity of autonomists could be again observed only after the report on significant oil deposits in the north-east coast had been published\(^\text{17}\). As indicated by R.M. Czarny\(^\text{18}\), on the basis of the American Geological Survey “amount of crude oil is so large [...] that there are 31.4 billion barrels of this

\(^{18}\) Czarny R., Dylematy energetyczne państw regionu nordyckiego, Kielce 2009, pp. 136-137.
valuable deposit to the northeast of the island”. These deposits are the driving force behind the efforts to independence. Paradoxically, Greenlanders’ hope for independence is global warming and increasing GDP without Danish support (see. Fig.5). Since the end of World War II, Greenland has been quite cautious in comments on its independence due to the weak economic growth.

As the above graph shows, in recent years, the growth of GDP in Greenland has been slow. According to The World Factbook, which ranks countries and territories based on the measure of GDP in purchasing power parity, Greenland occupies a distant 192 position. Because of its scarce population it is better then to use the indicator of GDP per capita, which, as for 2008, was USD 38 400 per person. According to this classification, Greenland ranked 30th. It should be stressed, however, that the economy based on fishing definitely is not competitive in the international arena, and the main problem is the negative balance of foreign trade (see. Fig.6).

As the graph shows, even though Greenland export of goods has been increasing slowly in recent years, the growth in import has been faster. This results in the increase in the deficit in the trade balance. The situation is exacerbated by the fact that the prices of exported goods and services are at a similar level, while the prices of imported goods are higher and higher.

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Looking at the economic development in Greenland, one can easily notice, that it has not been impeded by the global crisis (Greenland’s economy recorded a decline in GDP only in 2009). It is estimated, that in 2010 its economic growth pointed to 2% and in 2011, it was 3%. The relative ease with which Greenland has survived the economic crisis is the result of increased exploitation of natural resources and the profits from the concessions for the exploration and mining operations.

Table 1. Exploration and mining concessions in Greenland.

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What is most valuable in Greenland is hidden under a layer of ice covering more than 80% of the country’s territory. Here by “valuable” such resources as oil, natural gas, iron ore, aluminum, nickel, copper, as well as precious metals: gold, platinum, and rare titanium, tungsten, tantalum, niobium, and even uranium\textsuperscript{21} are meant. This is a real “Mendeleev table.” This treasure attracts the attention of the whole world, including not only countries, like China, EU countries, Denmark, the USA, Canada or even Australia, but also large corporations worldwide. As the Foreign Minister of Greenland said for the “China Daily” – “We are not a potentate in the matter of natural resources today. However, we will be in the future”\textsuperscript{22}.

Besides, not only the rare earth elements receive international attention. London Mining, a company associated with Chinese steel plant, is planning to develop here an iron-ore mine, already mentioned. The estimated value of the project is 2.35 billion dollars. An American group Alcoa is considering the construction of an aluminum smelting plant in Greenland. The raw materials would be delivered from Brazil and Australia\textsuperscript{23}. In the years 2010-2011, British Cairn Energy assigned USD 1.2 billion to oil exploration in the waters off the Island’s coast. It is worth noting, that the so far incurred costs have not produced the expected results. Nevertheless, a competitive company Seadrill (the largest offshore exploration company), has not been discouraged by the results of the competition, and has recently signed a contract for USD 1.18 billion\textsuperscript{24}. Powerful and risky investments in Greenland made by multinational corporations result from the potential of the island. Experts from Wood Mackenzie estimate the reserves in Greenland at about 20 billion barrels, which would make them the largest untapped deposits of oil in the world today. Their estimated value would be USD 2 trillion.

The number of exploration concessions in Greenland, which increased from 33 in 2005 to 75 in 2011 is another evidence, that in the future Greenland may become a natural resource base for the world’s economies. It is estimated, that geological survey and exploration companies assigned a total of 100 million dollars to mineral exploration and even more to oil exploration. Therefore, Greenland expects to benefit from the exploitation of the raw materials, which is ensured with its underground natural resources. It is looking for the ways to develop the sector of raw materials and attract foreign investors - so far without significant success in this area.

\textsuperscript{23} M. Nuttall, Self-Rule in Greenland towards the World's first independent Inuit State? "Indigenous Affairs" 3-4/08, p. 68.
Bearing in mind the fact, that the Inuit land is not competitive in the international arena, its potential of natural resources attracts a lot of attention. In the near future it may become the subject of attention of world powers. Will Greenland be able to withstand external influences of such countries as China, Russia, or the United States in the face of emerging opportunities for exploitation of natural resources? The emerging opportunity for Greenland at the same time becomes a threat due to its economic weakness and dependency of Denmark. Natural resources of Greenland may be the potential cause of territorial expansionism, which poses a serious threat to the process of gaining its full independence.

Therefore, there is a need to develop proper foreign policy in Greenland, which will allow it to balance between the world powers. Today, the European Union plans to strengthen mutually beneficial cooperation with Greenland, which allows to combine infrastructure and investment capacity as well as developing exploration and mining potential. In June 2012, in Nuuk, a letter of intent on cooperation in this field was signed on behalf of the European Commission. Unfortunately, the EU’s proceedings are at the same time slow and bureaucratic and thus cannot compete with the Chinese regime, which makes decisions quickly - does not need consultation on the most important issues. The EU Commissioner for Industry, Antonio Tajani, visited Greenland in June 2013 to seek business opportunities for the EU companies in the raw materials sector.

Also, Denmark is not indifferent to the independence aspirations of its territory dependent. Although it is a bit contrary to its self-interest, Denmark understands and accepts Greenland’s self-rule government’s policy concerning the control of raw materials, which will hopefully bring the expected results. In its policy towards Greenland, Denmark does not only follow the guidelines of the EU, but is also actively involved in cooperation with China. The joint meeting of Greenland’s Foreign Minister and the Ambassador of Denmark, held in China, may serve as an example of this cooperation. On 17 February 2014 Danish Ambassador Erik Vilstrup Lorenzen and Greenland foreign minister Kai Holst Andersen said for the “China Daily”, that they began talks on mining cooperation in Greenland with two Chinese corporations (Jiangxi province-based copper company). Kai Holst Andersen emphasized that if this cooperation is successful, it will be a good start for extending cooperation with other Chinese companies in Greenland. In return, China promises access to its market for Denmark and Greenland, and cooperation in science and research with the Kingdom of Denmark and Greenland\textsuperscript{25}.

Conclusion:

In conclusion, it should be noted that at present it is too early to speak of the profits from the exploitation of the deposits in Greenland and the rapid economic

development of the Inuit land. If eventually numerous attempts are successful, Greenland will change beyond recognition both in terms of economy, politics, but above all it will change its role in the international arena. The following factors contributing to this situation should be pointed out:

1) Harsh climate of Greenland does not fuel its economic development. Therefore, the foundation of the Greenlandic economy, and at the same time Greenlanders’ way of life has for centuries been fishing and hunting. The basis for their existence has been hunting, mainly marine mammals such as seals, narwhals, walrus, whales and polar bears.

2) Today's economy is based on fishing, which has replaced traditional hunting. The main product (including export) are shrimp, harvested in the amount of around 60 thousand tonnes per year, and further crabs, halibut and cod. This highlights a typical feature of micro-economy, which is based on one branch of industry. Although the additional state revenue is the sale of fishing concessions and export of luxury goods, such as sealskin clothing, however the government of Greenland has to fight for the abolition of the ban on imports of these products from other countries. Therefore, Greenland’s economy remains heavily dependent on Danish subsidies.

3) There are hopes for profits resulting from granting mining concessions to foreign investors. Due to global warming Greenland is becoming an important player in the international arena. Its potential of raw materials should be seen as an opportunity as well as a threat to its aspirations for independence. Today about 58 percent of the companies involved in mineral exploration in Greenland come from Canada and Australia. EU companies (from i.a. Denmark, Germany, the Czech Republic and the United Kingdom) constitute only 15 percent. Although European companies are the owners of three-quarters of all of the mining concessions in Greenland, they have only a few exploration concessions and get engaged in this kind of activity to a limited extent (most of the concessions are owned by Great Britain, Germany and Denmark). Asian countries are increasingly involved in raw materials policy in Greenland, becoming Europe’s a competitors.

Bibliography


Abstract

The paper deals with issues connected with the development of Greenland in the context of its desire for independence. The purpose of the paper is to draw attention to the current economic development in Greenland, taking into account its chances resulting from global warming and opportunities for extracting natural resources, as well as highlighting the weaknesses typical of this type of economy.

Rozwój gospodarczy Grenlandii w kontekście jej drogi do niepodległości

Artykuł omawia kwestie rozwoju Grenlandii w perspektywie jej drogi do niepodległości. Celem niniejszego artykułu jest zwrócenie uwagi na aktualny rozwój gospodarczy Grenlandii, uwzględniający pojawiające się w jej otoczeniu szanse wynikające z ocieplenia klimatu i możliwości wydobywania surowców naturalnych, równocześnie wskazujący na słabości typowe dla mikrogospodarki.

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