

## **Institutional mechanisms for the development of the Arctic, modernization of the economy of the Northern Sea Route**

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**Abstract.** The relevance of the article is due to the high significance of the Arctic region for Russia and the growing interest in its development among other countries-world leaders. The transformation processes taking place in Russia in recent decades, the implementation of socio-economic and constitutional-legal reforms aimed at creating favorable conditions for the effective implementation of the Arctic potential, do not currently allow the country to fully receive all possible benefits. The methodological basis of the research is the systematization of theoretical approaches to the role of the institutional environment in the economic development of the Arctic. The purpose of the article is to analyze the institutional mechanisms of the Arctic development, and to study the influence of other countries on the modernization of the economy of the Northern sea route. The scientific results of the study include a theoretical justification of the need for institutional mechanisms for the development of the Arctic, taking into account all stakeholders. The article reveals the features of the political confrontation between Russia and NATO in the Arctic, as well as the patterns of interaction between Russia and non-regional players when considering the further strategic development of the Arctic. This allowed us to determine the Russian principles of relations with other players in the Arctic. On the basis of the research, the directions in which Russia and Western countries continue to develop cooperation are formulated, among the most priority ones that require institutional interaction at the inter-country and global levels: nature protection and pollution control, issues of safety of navigation and control of water

area pollution from ships, prospects of investment processes for the modernization of marine infrastructure; development and implementation of the potential of the Northern sea route. The article pays special attention to the direction of penetration into the Arctic by the PRC.

**Keywords:** Arctic strategy, China, institutional environment, infrastructure, modernization, Northern sea route, White paper, oil production, resources, investment.

## **Introduction**

Recently, the Arctic region has been attracting more and more attention from the leading countries of the world due to its important strategic and geopolitical position. However, in recent years, there have been significant changes in the activities of the leading players in international relations, including China. In order to expand the spheres of influence both at the global and regional levels, including the Arctic region, Russia is making a lot of efforts to effectively adapt to the new international realities in order to fully realize its own potential and strengthen its international position. We can agree with the researchers who believe that effective institutional mechanisms play a special role in this process[4, 5, 8, 12, 19, 25].

For a long time, focusing on institutions in the field of growth and development theory has been a hallmark of the unorthodox approach. Today, a new generation of economists trained in economic modeling and econometrics has emerged who share the idea that institutions play a fundamental role in explaining the causes of economic growth, which puts forward new coordination mechanisms and evolutionary economic processes that contrast with conventional market mechanisms and the established equilibrium of traditional growth theory [7].

Modern theories of economic growth, such as the so-called "endogenous economic growth theories", try to show that economic growth mainly depends on the ability of different countries to produce technological innovations, the availability of infrastructure and the level of training. However, these factors provide only immediate, but not fundamental, reasons for growth; in addition to these systemic

elements, the main explanation for the differences in growth trajectories and rhythms between countries lies in the differences in their institutional architecture [22].

Institutions are robust and self-sufficient (trajectory-dependent) and, therefore, institutions also contribute to explaining long-term divergences in international growth trajectories. Institutions create, first of all, security and reduce the uncertainty associated with all types of economic transactions. In addition, they create certain incentives for economic actions, such as capital accumulation or educational efforts, since they determine the return on actions and investments [23]. Insufficiently formed institutional mechanisms limit Russia's capabilities in the process of modernization of the Arctic economy [14].

Despite the serious deterioration of Russia's relations with the West in general, the Arctic is a platform where the level of tension between NATO and Russia is significantly lower than in other regions. But at the same time, there are processes due to global changes in the geopolitical balance of power and the general warming of the climate. Under these conditions, the Arctic is becoming an increasingly attractive place for those subjects of international politics who previously paid little attention to the far North and are geographically quite far away. Over the past 5 years, most non-Arctic countries have updated their strategic plans and developed documents related to the penetration of the Arctic and consolidation in this region, which was not previously observed. The most active in this field is the PRC. In 2018, for the first time in the thousand-year history of China, the country approved a "White Paper" entirely devoted to the Arctic policy and strategy of the People's Republic of China [16].

## **Results**

The sea route through the Arctic waters is the shortest water route from the north of Europe to the Far East. This route is called the Northern Sea Route (NSR) and is actively developed by Russia, as an alternative to longer sea communications that go around Africa or through the Suez Canal. It is with the aim of developing the

NSR that Russia has adopted and is implementing a program for the construction of an icebreaker fleet and ice-class cargo ships [1].

With a total length of the Arctic coastline of 38,700 km, 22,600 km of them fall on the territory of Russia. Approximately 70% of domestic hydrocarbon reserves are located in the Arctic continental shelf. In addition, the NSR can serve as a transport artery connecting Western Europe with the Pacific coast of Asia through Russian territory and ports. Since 2004, Russia has shared borders with NATO member countries not only on the mainland, but also in Arctic waters. This was the result of the expansion to the NATO east with the admission of Poland and the Baltic states to the alliance.

In response, Russia has taken measures to strengthen its western borders, including the Arctic. In addition to the NATO member countries, Finland and Sweden play an important role in the Arctic region, which are not formally part of the alliance, although they share a common policy with it. After the unconstitutional change of power in Ukraine, inspired by the Western special services and the beginning of the civil war in this country, as well as the entry of Crimea into Russia, Russia's relations with the West deteriorated significantly, and the activities of the NRC (NATO-Russia Council) were practically frozen [6].

It has already been noted that, although Finland and Sweden are not formally part of NATO, these countries actively cooperate with the bloc in the military sphere, participating in joint programs, exercises and military operations. The deterioration of relations between Russia and the West in 2014-2015 to the level when the threat of a military conflict between NATO and Russia ceased to be considered hypothetical again put on the domestic agenda of Sweden and Finland the question of whether it is appropriate to officially join the North Atlantic Alliance. Society in these countries has become increasingly inclined towards joining NATO. Russia can only call on these countries to maintain their neutral status.

The only military-political union and, at the same time, the organization for ensuring regional security, in which Russia is a member, is the CSTO. Russia has

long attempted to establish a bilateral dialogue on security issues at the NATO-CSTO level, but has met with understanding in the West.

According to the NATO leadership, the creation of an additional negotiating channel in the form of a NATO-CSTO dialogue will practically change nothing in terms of ensuring security, and the presence of another platform for discussions is simply impractical.

In addition, according to Western experts, the real activities of the CSTO are more aimed at creating a counterweight to the PLA in Central Asia, and the struggle for influence within the bloc is paid more attention by its participants than to achieving any operational or foreign policy goals [20, 21, 24].

The Russian approach to the Arctic is greatly influenced by the geographical factor. Part of the land territory of Russia is located in the polar latitudes, the entire Eurasian coast of the Arctic Ocean from the western borders of Russia belongs to it, and in addition, Russia has managed to stake out all the islands in the Arctic Ocean located between its mainland coast and the North Pole. Accordingly, a significant part of the water area of the Arctic Ocean is Russian territorial waters, through which the route of the NSR mainly passes. At the same time, almost untouched Arctic natural resources are an important component of the Russian resource base. And now Russia has adopted and is implementing a program for the accelerated development of the Arctic region [13].

Russia agrees that many Arctic problems also concern non-Arctic countries and even agrees to cooperate with them, especially since such cooperation opens up additional prospects for the economic development of the region. For example, the development of the NSR and the creation of a full-fledged coastal infrastructure along the entire route is an extremely costly and complex task, which is very difficult to solve alone [3]. Therefore, Russia shows its interest in foreign investment and cooperation with other states and corporations, even if geographically unrelated to the Arctic, but ready to provide technological and financial resources.

Almost all major projects in the Arctic, including exploration and subsequent development of various fields, both on the shelf and on land, the construction of port

infrastructure, the implementation of the icebreaker fleet development program are implemented with the participation of foreign companies [9]. This process is quite strongly hindered by anti-Russian sanctions, in particular, prohibiting the supply of entire groups of equipment to Russia, the provision of technologies, cooperation with Gazprom and Rosneft in the development of oil fields on the Arctic shelf [10].

In addition, the opportunities for domestic oil and gas companies to obtain foreign loans are significantly limited (although this had its positive side, allowing them to avoid over-crediting and, as a result, dependence on foreign banks in the domestic oil and gas sector). However, the sanctions have forced a number of foreign firms to withdraw from joint projects with Russia to develop the Arctic shelf. However, the domestic oil and gas sector needs equipment and technologies from companies from countries that supported the introduction of sanctions. However, the same equipment and technology can be obtained from Southeast Asian countries that did not impose sanctions against Russia. This explains Russia's interest in developing cooperation with companies from Southeast Asia, despite the existing risks. For example, a serious risk is the probability of an increase in accidents, since Asian equipment is usually inferior in reliability to European and American equipment [15].

For a very long time, it was science that was the basis for international cooperation in the Arctic, which developed even during the Cold War. The crisis in relations in 2014-2015 hardly touched this area. Since 2018, the international agreement on the development of scientific cooperation in the Arctic, concluded a year earlier, has been in force, which can be cited as an example of the success of scientific diplomacy achieved during the increasing political confrontation between the West and Russia. [17]

The issues of nature conservation and combating pollution have long been given priority attention by the political leadership of various countries, regardless of the current political situation. In addition, civil society is also concerned about this issue. Cooperation in this direction is almost depoliticized and therefore has good prospects for development even in the conditions of continuing political confrontation [18].

Energy projects are the most attractive for foreign investment. Russia intends to maintain its policy of attracting foreign investors, but due to the introduction of sanctions, it has begun to reorient itself to Asian investors, although so far it has managed to attract not so much money from there. The adopted law on benefits in the Arctic should provide incentives for exploration and production of hydrocarbons in the region. It should be noted that the share of domestic investments in the modernization of the Arctic zone in the total investment volume does not exceed 20% (Figure 1).

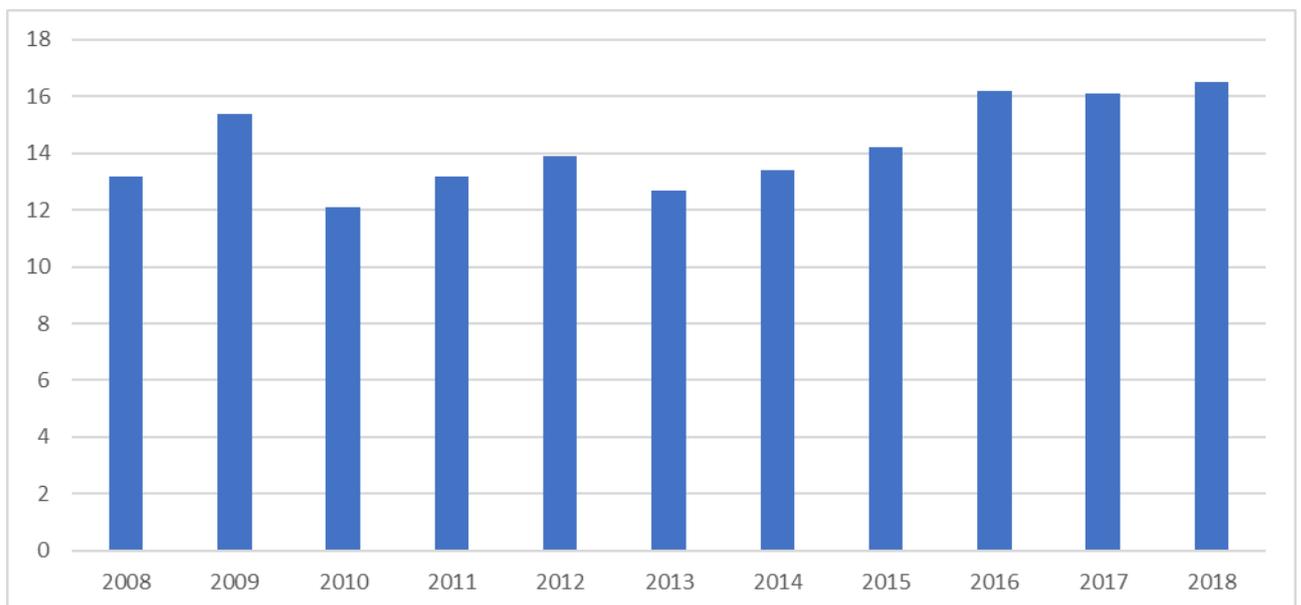


Figure 1-The share of domestic investments in the modernization of the Arctic zone of Russia in the total investment volume, % [11]

The development and development of the NSR is a very ambitious and large-scale project, which, according to the expert community, Russia will not be able to implement on its own. Therefore, Russia is negotiating with possible investors and participants in this project, including China.

Chinese activity in the Arctic region is of serious concern to all Arctic countries, including Russia, even despite the political rapprochement with China, which has occurred in recent years against the backdrop of deteriorating relations with the West.

So among the Russian delegation, opinions on how to treat the Chinese penetration into the Arctic were divided. Some of the Russian representatives are inclined to demand that the PRC provide extremely clear wording about China's plans for the use of the NSR and participation in the development of Arctic natural resources. Against the background of the fact that the PRC openly proclaims itself "almost an Arctic country", all the delegates agreed that the Chinese view of the Arctic from a military and strategic position should be taken into account.

Although the PRC does not currently have any capabilities to deploy its military presence in the Arctic, Russia is still concerned about the prospect of China's military penetration into the region. It is noteworthy that the United Kingdom supports the Russian position on this issue. The participants of the meeting were also concerned about the program launched by the PRC to build its own icebreaking fleet. There was also an increase in the share of the PRC in the scientific study of the Arctic region. Previously, the leading role in this area belonged to the USSR, but now the PRC began to claim it [2].

## **Conclusion**

In order to maintain a strategic position in the Arctic, Russia must proactively outline the regulatory and institutional contours where it can, in cooperation with other players, extract maximum benefits. It should not be forgotten that the sphere of interests of the People's Republic of China is constantly expanding and is already gaining global coverage. The discursive force 2.0 is supposed to create mechanisms for effective influence on decisions taken at the international level on the widest range of international agenda from control over cyberspace to space exploration, from promoting the interests of the People's Republic of China in the planetary financial and economic configuration to the organization of technological platforms with a focus on the standards of the People's Republic of China and the products of Chinese manufacturers.

But the institutional discursive force 2.0 is primarily aimed not at promoting the Chinese model externally (although some Chinese researchers emphasize this

point), but at systematically integrating it into supranational structures to gain opportunities to influence their decisions, standards, norms and protocols, while promoting Chinese approaches to various basic concepts and ideas (for example, the Chinese vision of cybersecurity, or, again, the Chinese approach to the concept of human rights, where collective rights take precedence over individual rights).

The task of Russia at the present stage is not so much to harmonize Russia's integration into the global world, but to transform institutional interaction with other states in the direction of forming a modernized Arctic economy.

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