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## Foreword

We are delighted to support the Riga Conference once again this year, although in circumstances more sombre than at any point since the collapse of the Soviet Union. The relevance and urgency of the debate here in Riga has never been greater, despite the competing demands on the attention of policymakers and the populations they serve.

These articles, drawn from the Oxford Analytica Daily Brief, reflect some of the themes of the conference – the war in Ukraine, the broader challenges for security in Europe, and the complexity of interactions between the members of NATO, China and Russia. If you would like to receive a complimentary 1-month trial to our Daily Brief subscription service, please fill out the form at [oxan.to/trial](https://oxan.to/trial).

Established in 1975, Oxford Analytica is an independent analysis and advisory firm specialising in political economy and geopolitics. We help our clients navigate complex markets where understanding the intersection of politics and economics, business and society is critical to success.

If you have any questions arising from any of the articles included here or would like to know more about our services, please get in touch with us at [oxan.to/contact](https://oxan.to/contact). Alternatively, please join my session, titled *What is a name of the game played by China-Russia-EU-US?* I will be delighted to meet after the talk.

Yours sincerely,

**Nick Redman,**  
Director of Analysis  
Oxford Analytica



**Nick Redman**  
Director of Analysis  
Oxford Analytica

## Foreword

The last decade has been challenging for states, societies and policy makers. One crisis was followed by another, but who could expect a war in the very heart of Europe? In the age of fragmentation, polarisation, geopolitical competition and even confrontation, there is nothing else more valuable than partnerships. Partnerships that have been tested by many years of cooperation, mutual support and trust in joint ventures lead to a better understanding of global affairs.

Today, the well rooted partnership between Oxford Analytica and the Rīga Conference manifests as an intellectual capability that can make a difference. Innovative ideas, diverse views, challenging debates, and competitive perspectives – these all serve the purpose of searching for the most efficient solutions to the most complicated problems dominating world affairs. The expertise and analysis provided by Oxford Analytica help power intellectual discussions at the Rīga Conference and inspire participants to focus on the immediate issues, while also encouraging to look beyond the horizon.

We are delighted to bring to your attention an excellent collection of ideas that are so urgently needed for our international community, as we strive for peace, stability and sustainability.

Yours sincerely,

**Žaneta Ozoliņa,**

Chair of the Latvian Transatlantic Organisation

## Russia's army mobilisation has unclear limits

Monday, October 3, 2022

A large mobilisation programme is intended to support Russia's annexation plans and stem reverses in Ukraine

Since President Vladimir Putin's hostile, anti-Western speech on September 30 marking the annexation of parts of Ukraine, his army has withdrawn from the strategic town of Lyman. Putin's 'partial mobilisation' order is intended to provide a substantial pool of additional troops to help end the stalemate and military reverses. It embodies Moscow's commitment to its military objectives and marks an escalation. The defence ministry has sought to clarify what 'partial' means, but many unknowns remain.



A billboard encouraging Russians to volunteer for the military, St. Petersburg, September 20 (Anatoly Maltsev/EPA-EFE/Shutterstock)

### What next

Mobilisation raises questions about whether administrative and military systems can deliver it and whether public opposition will grow. It is too early to say whether additional troop numbers will translate into increased, usable combat power in the near future to shift the battlefield balance in Russia's favour again. Moscow will present attacks on annexed territories as attacks on Russia, intensifying its rhetoric and possibly retaliatory action.

### Subsidiary Impacts

- Russian escalation is already evident in strikes on electricity and other infrastructure, which are likely to continue.
- Ukraine is likely to have a window of two to three months before Russia potentially begins to benefit from additional forces.
- Russia's autumn conscription round will raise 120,000 men on top of the mobilisation numbers.

### Analysis

Putin's announcement of a partial mobilisation hit the headlines on September 21, but it was only one of three interlinked moves.

A day earlier, the Russian parliament passed legislation amending the criminal code to add penalties for crimes against military service committed during mobilisation, wartime conditions, armed conflict and military hostilities or under martial law. The new law applies to those who hold military rank and have been deployed, including reservists and conscripts. It also includes articles on 'economic crimes' and 'crimes against state power', which appear to apply primarily to delivery of government defence orders.

The same day, Putin met defence industry chiefs to address organisational, financial and technical questions around the supply of weapons to the armed forces. He emphasised a need to increase production capacity in "the shortest possible time" and discussed additional resources to sustain the production of additional equipment and weapons, and import substitution in some areas.

In effect, the two meetings established the legal and defence industry provisions for moving the country onto a war footing.

Putin has sought to justify the moves by emphasising the threat posed to Russia by the military might of the 'collective West', and the scale of the fighting in Ukraine across a 1,000-kilometre front (see [RUSSIA: Cracks appear in victorious narrative - September 14, 2022](#)).



## Numbers and eligibility

Putin's mobilisation decree says military service contracts will remain valid throughout the mobilisation period -- in effect, indefinitely -- and pay and conditions for called-up reservists will be the same as for soldiers under contract (see [RUSSIA: Putin blames mobilisation on 'Western threat' - September 21, 2022](#)).

The law instructs the government to finance the partial mobilisation and do everything required to meet the needs of the armed forces and related units.

The defence ministry subsequently provided further specifics. Defence Minister Sergey Shoigu said the plan was to mobilise 300,000 reservists, about 1% of total reserves available for mobilisation.

Officially at least, the call-up applies to those who have served in the army, with combat experience and a specialism -- tank crews, artillerymen, drivers and mechanics, but also plain infantrymen -- according to Rear Admiral Vladimir Tsymlyansky of the general staff's organisational and mobilisation department.

### The call-up officially targets lower-rank former soldiers

It will mainly include privates and non-commissioned officers under the age of 35 and junior officers under 45. There is also provision for senior officers aged up to 55.

Defence industry employees have the right to defer. On September 24, Putin signed a further law granting deferment for full- or part-time students. The defence ministry has also said that workers in certain IT and other high-tech sectors, finance and state media will be exempt.

## Delivering the plan

Important questions remain about the nature of the mobilisation. One of the most obvious is its scale. Though Shoigu has named a target of 300,000 to be called up in a 'routine' manner, Russian media report that the unpublished Clause 7 in the mobilisation law refers to scope for a call-up of 1 million reservists.

### The call-up often seems indiscriminate despite rules that limit it

There are numerous cases of students and 40-year-olds, even 50-year-olds, receiving mobilisation papers outside the criteria set out in the law and the defence ministry's clarifications. It is possible that this is the first stage in a process increasing over time towards a more general mobilisation, depending on its success.

## Topping up front-line forces

The way the military intends to use the new troops remains to be seen. Preparations to handle the influx have been patchy and training may be limited in some cases. Although the armed forces' personnel 'commissariat' sought to modernise in the 2010s, and this year has gained some experience in building volunteer units, its ability to call up, feed, equip and train such large numbers remains open to question.

The additional troop numbers may offer the army substantial additional force to stabilise the lines and perhaps in due course to attempt a renewed offensive.

## Drafted troops may go into depleted battalions or newly formed units

It is unclear whether this will involve replenishing the ranks of already deployed units with reservists, creating all-new units or a mix of both.

Rebuilding the battalion-sized units at the heart of the army's structure will be no easy task. An injection of men pressed into service with little training and no combat experience may formally restore headcounts, but not in practice rejuvenate front-line forces that have suffered high casualties, equipment losses and damaged morale.

### Inter-agency coordination

State institutions face multiple challenges in delivering the mobilisation, both through engagement with the public and coordination of the call-up.

Following poor performance during military exercises in the 2010s, the Russian leadership attempted to rehearse mobilisation procedures to enhance coordination among state agencies and regional governors. The current mobilisation will test what these efforts achieved, especially in the defence ministry's organisational and mobilisation department and the presidential directorate for 'special programmes' which oversees inter-agency coordination of mobilisation preparations.

Senior politicians in Russia, including the heads of both chambers of parliament, have criticised regional-level officials for excessive and heavy-handed implementation of the order, including numerous instances of violations of drafting criteria.

The criticism acknowledges the political risks inherent in mobilisation, the most obvious of which are declining support for the war and increased potential for civil unrest. Both are evident in the large exodus of men from Russia -- 200,000 to Kazakhstan, Georgia and the EU by last week, according to Bloomberg -- in public protests against mobilisation and in arson attacks on multiple enlistment offices (see [RUSSIA: Arson attacks pose new mobilisation risks - September 28, 2022](#)).

There are also questions about the economic disruption such a large-scale mobilisation will cause. Although the defence sector is protected by deferment rights, the call-up is likely to remove essential personnel from important sectors, while others flee abroad to escape it.



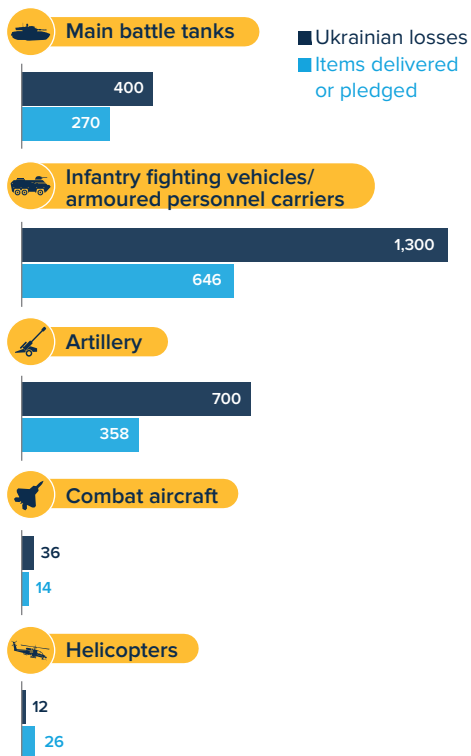
June 29, 2022

## Western arms can help Ukraine slow Russian advance

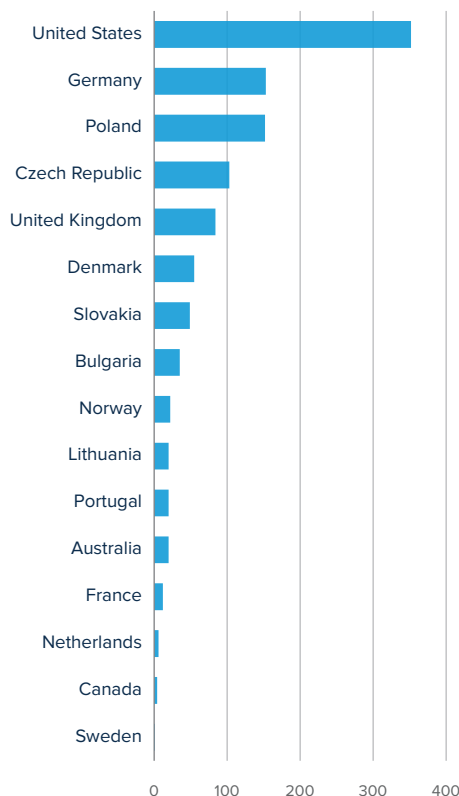
The pace of arms deliveries has picked up but Ukraine complains the numbers and speed are inadequate

### Losses of key weapons are only partially covered by new supply, some of it yet to come

#### Selected heavy weapons: losses versus new supply

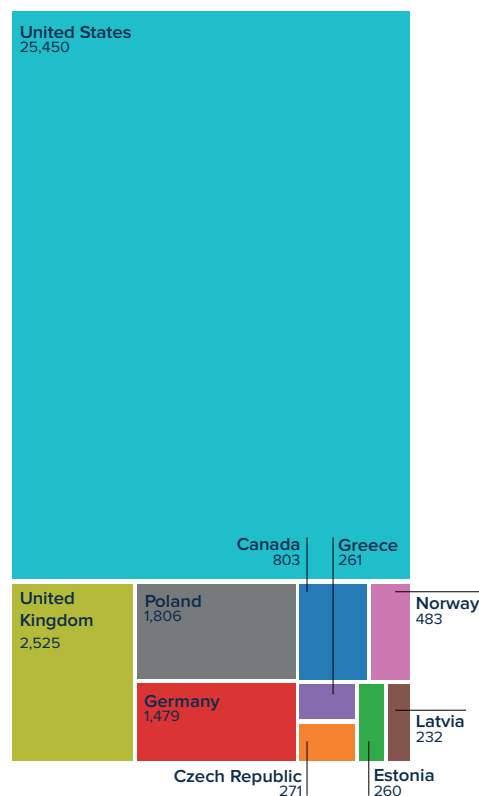


#### Sources of heavy weapons delivered or pledged (no. of items)



### The United States accounts for 73% of military funding pledged

#### Military aid committed Jan 24-Jun 7, top ten countries (USDmn)



The range of weapons supplied to Ukraine falls short as regards the fighter aircraft it has requested but includes significant numbers of heavy artillery guns, multiple rocket-launchers and anti-aircraft systems, and some tanks -- all important to slowing the Russian ground offensive. Western suppliers are sending ammunition for NATO-standard artillery and, with some difficulty, sourcing shells for Russian-calibre big guns.

Hundreds of armed unmanned aerial vehicles and thousands of hand-held anti-tank and anti-aircraft missiles have been more immediately accessible and offer Ukrainian forces asymmetric advantages over better-armed Russian adversaries. The pace and scale of deliveries will help decide whether Ukraine can prevent Russia from winning.

— Estimated military fatalities of 100-200 per day may be the greatest constraint on the Ukrainian army's capacity to fight a long war.

— Russia is counting on having the numerical superiority in men and weapons to pursue a long offensive, but usable troop numbers are finite.

— Although morale is an unknown on both sides, it is probably crumbling faster in parts of the Russian military.

— The military push out of the south-east has slowed to a pace that must delay or even rule out imminent offensives elsewhere in Ukraine.

See also: [Russia's slimmed-down war aims still rule out peace](#) -- June 1, 2022

## Washington will increase security efforts in Balkans

Thursday, September 15, 2022

The Biden administration is ramping up its assertiveness in the region, aiming to counter Russian and Chinese influence

On September 8, US Secretary of State Antony Blinken announced USD2.8bn in military aid for countries finding themselves under threat from Russia, including in South-eastern Europe. This follows the introduction of the Western Balkans Democracy and Prosperity Act by a bipartisan group of US senators in early August. Washington is thus planning to increase its engagement and develop new tools to counter Russian and Chinese influence in the region.



US Special Envoy for the Western Balkans Gabriel Escobar speaks via video link at the Open Balkan Summit in Ohrid, North Macedonia, June 8 (Betaphoto/SIPA/Shutterstock)

### What next

Congress is expected to pass the Western Balkans Democracy and Prosperity Act by the end of the year. The United States will take an active part in the EU-led Serbia-Kosovo dialogue, while also increasing pressure on Serbia to introduce sanctions against Russia. After the October 2 general election in Bosnia-Herzegovina, Washington will engage in a new round of dialogue on electoral reform.

### Subsidiary Impacts

- Announced US military aid to some states (but not to Serbia) might accelerate the regional arms race that has picked up since 2015.
- Green transition plans in the region will benefit from US support for energy diversification and reduced reliance on fossil fuels.
- The private sector -- and especially female entrepreneurs -- will benefit from new US-funded development grants and schemes.

### Analysis

US policy towards the Western Balkans fits within Washington's broader aim to strengthen transatlantic relations and counter Russia's influence, especially after its invasion of Ukraine in February. In addition, the United States aims to balance and prevent the further expansion of China's influence in the Western Balkans.

### Western Balkans as proxy

One of the main sources of Russia's influence in the region is its soft power among states with an Orthodox Christian majority (see [BALKANS: New Orthodox church will shake up politics - June 7, 2022](#)). This influence is enhanced by the Kremlin's willingness, thus far, to support Serbia's position regarding the status of Kosovo, including through the use of its veto at the UN Security Council. Russia has also been traditionally supportive of the position of Republika Srpska -- the Serb-majority entity in Bosnia-Herzegovina -- regarding Bosnia's constitutional design.

Washington has increased its efforts to help solve these issues. In 2021, for instance, the Department of State (DoS) named experienced diplomat Matthew Palmer as special envoy for electoral reform in Bosnia-Herzegovina, to support a difficult negotiating process aimed at balancing competing claims between the three main ethnicities (see [BOSNIA-HERZEGOVINA: Western pressure to unblock polls - August 17, 2022](#)).

China's position in the region is predominantly built on its investments and infrastructure projects, which include the highway in Montenegro and the high-speed rail link between Belgrade and Budapest (see [BALKANS/CHINA: BRI projects will rouse West's concerns - September 11, 2019](#)). According to research by the Balkan Investigative Reporting Network, Chinese-led projects in the region from 2009 to 2021 amounted to over EUR32bn (USD31.9bn).

## Washington has increased investment in the Balkans to counter Chinese influence

In response, the United States has put greater focus on infrastructure and development cooperation. For instance, US company Bechtel has completed Kosovo's first two highways and is currently building the Morava-Corridor highway in Serbia. The US International Development Finance Corporation opened its office in Belgrade in 2020.

### Serbia-Kosovo dialogue

The level of US engagement in the EU-led dialogue between Serbia and Kosovo is on the rise. The recent appointment of Christopher Hill -- a senior diplomat with significant experience in this matter -- as US ambassador to Belgrade signals that the United States aims to increase its role.

This is reinforced by the activity of Deputy Assistant Secretary of State Gabriel Escobar. DoS spokesperson Ned Price said in August that Secretary Antony Blinken was "personally invested" to help the process.

Such increased US involvement has already resulted in the progress made in the recent agreement on the mutual recognition of ID documents between Serbia and Kosovo (see [KOSOVO/SERBIA: Serbs may reject Kosovo licence plates - August 30, 2022](#)).

### Bosnia-Herzegovina's constitutional crisis

Bosnia-Herzegovina has long been in a political stalemate, having been a 'potential candidate' for EU membership since 2003.

Particularly important is the electoral reform (see [BOSNIA-HERZEGOVINA: Destabilisation prospects - May 24, 2022](#)), required under the 'Sejdic-Finci' decision of the European Court of Human Rights. After the Bosnian general election scheduled for October 2, the US will likely push for a new round of negotiations on electoral reform.

### Energy dependency

Serbia, Bosnia-Herzegovina and North Macedonia are almost wholly dependent on the import of natural gas from Russia. Russian firms also own important refineries in Serbia and Bosnia-Herzegovina (see [BALKANS/EU: Reliance on Russian oil will endure - July 22, 2022](#)).

## Energy diversification is high on the agenda

The United States has been supporting the diversification of energy sources, encouraging regional infrastructure projects, such as the liquefied natural gas terminal in Alexandroupolis, Greece, launched in May 2022 (see [BALKANS: Russian gas cut-off spurs diversification - May 16, 2022](#)). It also supports the construction of pipelines that would enable importing gas from Azerbaijan.

### Security cooperation

On September 8, Blinken announced in Kyiv that the US would allocate USD2.8bn in military aid for Ukraine and European allies perceived to be under threat from Russia.

While USD1bn will go to Ukraine, the rest will be divided among 18 countries. This includes all the countries of the Western Balkans and wider South-eastern Europe -- Albania, Bosnia-Herzegovina,

Bulgaria, Croatia, Greece, Kosovo, Montenegro, North Macedonia, Romania and Slovenia -- but not Serbia.

Belgrade is the only administration in the region not to have aligned with EU sanctions against Russia. It is also the only militarily neutral state, despite its intensive cooperation with NATO through Partnership for Peace.

This decision signals that Serbia should not count on US financial support if it does not distance itself from Moscow.

## Corruption

Widespread corruption in the Western Balkans is perceived as fertile ground for Russian and Chinese activity.

In June 2021, the Biden administration issued an executive order that allows the sanctioning of political actors suspected of involvement in corruption and organised crime in the region.

So far, measures were introduced against one company and eleven individuals, including the current Serb member of the Bosnia-Herzegovina presidency, Milorad Dodik; the former prime minister of North Macedonia, Nikola Gruevski; and the former president of Serbia-Montenegro, Svetozar Marovic.

## New tools

The Western Balkans Democracy and Prosperity Act aims to establish new tools to support the economic development of the Western Balkans and to codify sanctions against actors threatening the region's stability. The act should pass even in a Republican-controlled Congress, as it is supported by two senior senators, one from each party.

The Anti-Corruption Initiative, aimed at supporting the fight against corruption and organised crime in the region, stands out as the most potent legal-political tool.

The act also envisages new economic tools, including the Regional Trade and Development Initiative. It aims to increase US exports to and investments in the region, help the growth and strengthen the competitiveness of the private sector, while supporting regional infrastructure projects. It also foresees additional support for projects of regional economic integration, such as Open Balkan.

## The United States wants the EU and NATO to up their presence in Bosnia-Herzegovina

In terms of security, the act explicitly calls for NATO and the EU to play a proactive role in Bosnia-Herzegovina and to plan an international military force that would maintain a secure and safe environment. This is relevant because Russia may decide to use its UN veto against the extension of the EUFOR military mission, whose mandate expires in November.

Finally, it envisages a public diplomacy strategy to promote US investments and establishes new instruments for cross-cultural engagement between the United States and the region.

July 28, 2022

## EU enlargement faces public trust battle in Balkans

After repeated delays, Western Balkan publics are less inclined to think that EU enlargement will bring them benefits

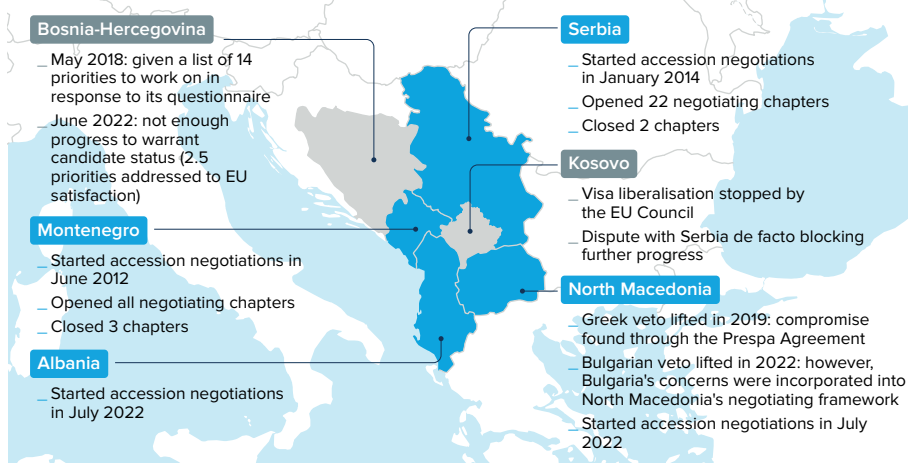
### North Macedonia and Albania have finally opened accession talks, while Ukraine and Moldova have obtained candidate status

#### EU accession candidates: current status

A new EU enlargement methodology came into effect in February 2021: chapters are grouped into six clusters; the closure of each gives access to additional pre-accession funds.

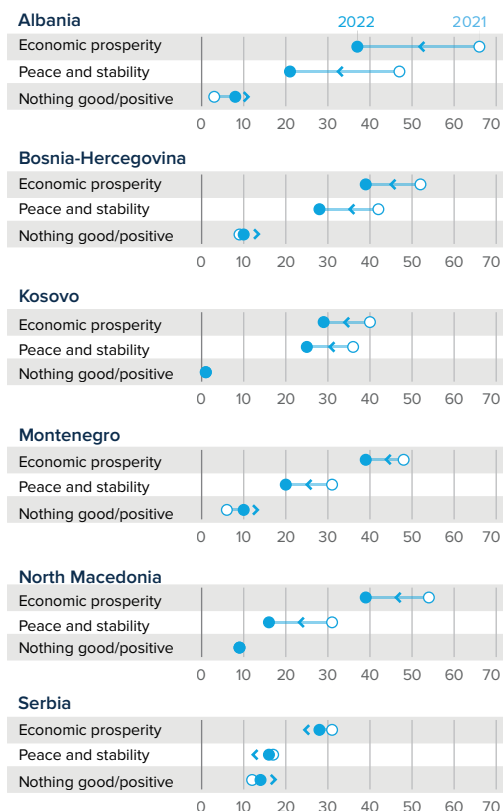


#### Western Balkans: EU accession status



### Expectations of accession gains have declined

#### Potential benefits of EU membership, 2021-22 (% of respondents agreeing with each category)



In the wake of the war in Ukraine, attempts to revitalise a faltering EU accession process have increased, but such efforts will struggle to make an impact on disillusioned societies.

The opinion of Western Balkan publics on the EU's transformative power has worsened overall, including in the key areas of 'economic prosperity' and 'peace and stability'.

The new EU enlargement methodology, which promised to front-load the strengthening of the rule of law and to link progress to increased financial benefits, has yet to yield any outcomes.

– North Macedonia opening accession talks might not be the end of the country's struggles with EU vetoes and rising nationalism.

– Having also opened EU accession talks in July, Albania will proceed unhindered and progress relatively quickly.

– Serbia will remain the candidate most distrustful of the EU and positive to Russia and China.

– Bosnia-Herzegovina's lack of meaningful progress and continued ethnic bickering will deepen citizens' disillusionment.

**See also:** [Albania and North Macedonia start overdue EU talks](#) -- July 20, 2022

[Prospects for Central Europe and Balkans to end-2022](#) -- June 15, 2022

[EU officials hint at pragmatism on Balkans enlargement](#) -- May 20, 2022

## China's role as trading hub for Russia will grow

Monday, September 26, 2022

Western sanctions against Russia are changing international trade flows; China has become an economic bridge

Western sanctions against Russia and fragmentation of the global economic space are drastically changing international trade flows of natural resources and manufactured goods. China has become an economic bridge, reselling Russian resources to the West and Western manufactured goods to Russia. This is primarily economic opportunism rather than solidarity with Russia.



Russian and Chinese flags (Shutterstock)

### What next

China's intermediary trade will increase, covering a widening range of products. It cannot solve grave problems caused by the collapse of normal economic ties between Russia and the West, but will provide some relief for both sides and the global economy more broadly. Russia's dependence on Chinese suppliers will increase, as will Europe's, potentially giving Beijing a new source of political leverage.

### Subsidiary Impacts

- To avoid accusations of undermining Western sanctions, Beijing will maintain a cautious official stance on China-Russia economic ties.
- Leading Chinese companies will mostly avoid direct involvement in transactions with Russia.
- Private companies, including small and medium-sized enterprises, and dummy firms created under government agencies will play a key role.
- The Chinese companies involved will gain valuable international contacts, channels, experience and know-how.
- Chinese intermediaries set high margins, so intermediated trade will push up costs, amplifying inflationary pressures.

### Analysis

In the first half of 2022, Chinese imports of liquefied natural gas (LNG) from Russia surged 28% year-on-year in volume and 182% in value, reaching 2.35 billion tonnes and USD2.16bn respectively. In August they reached a new high. Imports from other sources declined. Demand in China itself has been falling due to economic slowdown amid repeated lockdowns. Russia became China's fourth-largest supplier of LNG, surpassing the United States and Indonesia.

The LNG comes from Sakhalin and Yamal.

**China is rapidly increasing re-exports of Russian LNG**

Imports of Russian LNG are soaring because China has embarked on large-scale re-export, mainly to European economies hit by a plunge in direct natural gas deliveries from Russia. China imports Russian LNG at deep discounts and sells it at high margins. For LNG coming via China, Europeans pay two to three times the price they would have to pay if it were delivered from Russia directly.

In the first half of the year, China's re-exports of Russian LNG to the EU exceeded 4 million tonnes, or 7% of the total amount of the EU's LNG imports (53 million tonnes), according to Nikkei.

Jovo Group, China's main LNG trader, has reportedly re-exported LNG worth about USD100mn. The petrochemical giant Sinopec Group has acknowledged re-export of 3.15 million tonnes in 45 cargoes. Russian oil and coal are re-exported in a similar fashion.

## Oil

To boost resales, Sinopec subsidiary Unipec, China's largest oil trader, chartered ten tankers to transport oil from the port of Kozmino in the Russian Far East, five times as many as in the previous month.

Russian fuels are re-exported not only by large Chinese firms, but also by numerous small-scale private traders courting high-ranking officials of Rosneft and other major Russian companies.

The oil and LNG are bought mainly by Europe. This does not violate sanctions for the time being: LNG is not sanctioned; oil sanctions will take effect in December.

## Coal

China is using more Russian coal domestically and also beginning to re-export it.

In July, China's imports of Russian coal increased 14% year-on-year, hitting a record high of 7.42 million tonnes, while the total amount of China's coal imports declined. At the end of the month, prices for Russian thermal coal were around USD150 per tonne, compared with USD210 for coal of a similar quality from the Australian port of Newcastle.

## Other commodities

European companies are arranging parallel imports via China of Russian timber and timber products, according to Russian state forest management company Roslesinform. The EU has banned direct imports. The company expects a steep rise of exports via China of such products as cedar, birch plywood and chipboard.

## Manufactured products

In the other direction, China has become a conduit for supplies to Russia of various manufactured goods -- especially industrial machinery, electronics, motor vehicles and chemicals made in developed countries, mostly Europe and Japan. Their direct deliveries to Russia have been terminated either because of sanctions or the curtailment of Russia business by their producers.

Though manufacturers from China and other emerging economies have filled some of the vacant niches, many Russian customers still demand original products produced in developed countries. This creates opportunities for Chinese intermediaries.

Russia's legalisation this March of parallel imports (imports without the permission of the owner of intellectual property rights) provided additional strong impetus. In September, the Russian government announced that the parallel import permission would be extended at least until the end of 2023, leaving the door open for further extensions (see [RUSSIA: Government will see positives in weaker ruble - September 20, 2022](#)).

The value of parallel imports is expected to reach about USD20bn this year, which is close to 7% of last year's merchandise imports.

**USD20bn**

Expected value of parallel imports this year



In this area, Chinese intermediaries compete with those from Turkey, Central Asia and the United Arab Emirates. However, their ability to arrange large-scale transactions make China increasingly important. In the first half of 2022, China's Russia-bound exports of chemicals (including pharmaceuticals), motor vehicles and parts, machine tools and electronic products (including smartphones) increased much faster than its Russia-bound exports overall, largely due to the rise of Russia's parallel imports of those products. The share of parallel imports in Russia's total imports from China hit an estimated 16.5%. Chinese companies' margins were as high as 25-40%.

Parallel imports of auto parts are an example. With the withdrawal of European, Japanese and other automakers, Russia faces an acute deficit of original auto parts. For most parts, Chinese companies can provide high-quality substitutes as they already manufacture them for leading foreign companies operating in the country. Such substitutes are significantly cheaper than the originals. Nevertheless, many Russian customers still want the originals, so Chinese manufacturers and traders use various means and channels to obtain them for resale.

In a particular transaction arranged by a Chinese trading firm, original auto parts for a popular Japanese brand were purchased from Japan by the Japanese maker's distributor in Taiwan, and then exported from Taiwan to China. The Chinese trader then sold them to a Russian counterpart.

Russian auto dealers say that if and when original parts are required, they will be obtained by all means, and that Chinese companies are playing a leading role as suppliers. Japanese and Western automakers normally do not intervene to block exports of their products by third parties.

Another popular model for delivery of made-in-Europe goods to Russia by Chinese firms is a contract for export of those goods from Europe to China through Russia. Sanctions do not cover transit through Russian territory. In reality, the product never reaches China, remaining in Russia where a Chinese firm resells it. That sale is then documented as a Chinese export to Russia. Such schemes are often used to re-export various kinds of European machinery and parts.

## Obstacles

China's intermediary trade will be impeded by mounting logistical problems for Russia, the reluctance of many Chinese banks to finance Russia-related transactions, difficulties with providing insurance services, low levels of mutual trust between Chinese firms and Russian and European ones, and substantial differences in business cultures. China's tough COVID-19-related restrictions add to uncertainties and undermine the reliability of Chinese intermediators (see [CHINA: Zero-COVID policy will hold economy back - June 10, 2022](#)).

## EU views of China are slowly converging

Monday, August 22, 2022

There is more alignment than before regarding the views member state governments hold towards China

China's handling of COVID-19, its response to the war in Ukraine and its recent escalation over Taiwan are challenging the EU's position that China is a partner. There has been growing convergence between EU member states over the perceived China threat, especially related to economic matters. However, at the same time, EU countries are divided over issues such as sanctions against China and the extent to which the EU should pursue cooperation with other partners to counter China.



European Commission President Ursula von der Leyen (Olivier Hoslet/EPA-EFE/Shutterstock)

### What next

Germany's China paper, which is currently being drafted, will have an important impact on the EU's strategic approach towards relations with Beijing. While Germany's politicians have become more hawkish towards China, the country's economic dependence on Chinese trade ties will make Berlin slow to adopt a more aggressive stance. In general, more EU governments are taking relations with China more seriously, and so support more action against China at the EU level.

### Subsidiary Impacts

- The prospect of Donald Trump winning the next US election is making the EU wary over strengthening cooperation with Washington on China.
- The EU faces more economic risks should China invade Taiwan, if Brussels responds with similar sanctions to those imposed on Russia.
- Given rising tensions between China and the West, Beijing may have fewer inhibitions about using coercive trade measures.

### Analysis

The COVID-19 pandemic and the Ukraine war have brought shocks to the EU's framework for managing relations with China, and its wider China strategy (see [EUROPE/CHINA: Public opinion is turning against China - July 28, 2020](#)).

The broad principles underpinning the 2019 EU China Strategic Outlook continue to hold. The careful consensus reached that the EU treats China as a partner, competitor and systemic rival -- 'the holy trinity' -- still roughly works, even if the relative balance has tilted towards rivalry.

However, the framework faces both practical and conceptual pressures as a result of subsequent developments. Much of the cooperative agenda has broken down: the EU-China Comprehensive Agreement on Investment, which was the centre-piece of these efforts, is in effect dead. The last EU-China summit was entirely subsumed by European concerns about Beijing's positioning as regards Russia and the war in Ukraine, denuding of content most other elements of the bilateral agenda.

While trade continues at the usual high volumes, confidence levels among European businesses operating in China have dropped sharply, and perceptions of risk have spiked. Reactions range from firms who have faced years of supply-chain disruption to politicians concerned about a repeat of the 'Russia experience', in terms of the economic shock that excessive dependence on China might bring about in the event of a conflict (see [TAIWAN: Chinese drills escalate tension permanently - August 9, 2022](#)).

As a result, there is also a broader, conceptual debate about whether the trinity framework is now best seen as a transitional phase -- a means of holding together a consensus pending a broader shift from partnership to rivalry -- or something can be done to retrieve the cooperative dimension of bilateral ties.

However, as the inclusion of China in NATO's new strategic concept illustrates, Beijing's handling of the pandemic and its political alignment with Russia have virtually obliterated the notion that China is a broadly sympathetic, status-quo interlocutor during the crises that face Europe; China is now seen as an explicit threat, at least in part (see [RUSSIA/CHINA: Despite NATO worries, new axis unlikely - August 9, 2022](#)).

If the period from 2019 to 2022 was characterised by debates primarily over the specifics of the EU's approach, the coming period is one in which some of the fundamentals are being revisited.

### Major consensus areas

Many of the key elements of the so-called defensive side of the EU's approach have a broad consensus behind them.

A few years ago, the notion that Europe should have a serious battery of instruments in place the better to be able to defend its economic interests was still contentious. This is no longer the case. The investment screening mechanism, the 5G toolbox, the International Procurement Instrument and the anti-subsidies instrument have either moved or are moving ahead with widespread support.

One clear exception to this is the anti-coercion instrument, which emerged from a set of French-German consultations. In its proposed form, the instrument has drawn pushback from Sweden and the Czech Republic over its potential incompatibility with WTO rules and the risks of retaliation from China (see [EU: Anti-coercion instrument carries trade risks - March 25, 2022](#)). Nonetheless, the perceived need to have the capacity to respond to economic coercion is not in question, and it is likely that some adapted version of the instrument will still ultimately be adopted.

**The anti-coercion instrument will likely be ratified, although in a revised form**

A second area of agreement is the diversification agenda, which is about ensuring that Europe does not face problematic levels of dependence on China, as it had with Russia, a goal that has been far more prominent since the war in Ukraine.

The advantage of this is that much of it can be pursued without explicit reference to China at all: simply channelling more political energies towards other partners in the Indo-Pacific ('friend-shoring'), as well as supporting various forms of near-shoring, re-shoring and industrial policy initiatives.

There is no consensus behind the sorts of measures being explored in the United States around outbound investments, nor the incentivising measures that Japan has undertaken, providing financing for firms to move production out of China.

However, debates in this area are still in their relatively early stages -- what measures European governments should pursue to support these goals, what sort of pace of change is desirable, how to assess dependency risks -- so that there are as yet no clear 'sides' on the issue, beyond the notion that substantial decoupling would be risky, but so too would excessive dependence.

### Areas of contention

Sensitive areas of the bilateral relationship with China elicit a wider spectrum of views. A small group of countries, notably Hungary and Cyprus, continues to make it difficult, for instance, to impose credible sanctions in areas that have included Hong Kong, domestic human rights or -- to a lesser extent -- Xinjiang. There is still caution among a wider group when it comes to taking any robust political positions on these questions too; being able to blame 'spoilers' such as Hungary is at times a matter of convenience, as it allows governments to conceal their positions.

On Taiwan, there is now a greater appreciation of the risks, the need for contingency planning and the need to signal some additional levels of support. While progress in these areas has been slow, the joint statements that the EU has signed on to are indicative of the heightened willingness to signal European concerns.

The Lithuania model -- making moves on Taiwan that lead to overt confrontation with Beijing (see [EU/CHINA: Legal action reflects EU's lack of options - January 27, 2022](#)) -- is still seen as too bold by most countries, though the Ukraine war has changed the balance here too: Vilnius is no longer under the same pressure to change its approach, even if other countries do not wish to see relations with China deteriorate to a comparable level.

One area in which differences persist is the relative level of cooperation with other partners -- particularly the United States -- that the China challenge should induce. The Atlanticist group in Europe has been strengthened by the war in Ukraine, as a result of the quality of transatlantic cooperation, and the perceived need to keep the United States engaged (which means cooperating on Washington's greatest area of strategic concern: China).

### France is sceptical over deepening transatlantic cooperation to counter China

Yet there is still resistance, particularly from France, as evidenced in the EU-US Trade and Technology Council, when it comes to deepening strategic economic cooperation in areas such as supply chains, industrial policy and other areas.

This is less a product of differences over China policy as such, though there remains a spectrum of views in Europe about the closeness of transatlantic alignment on the overall European positioning towards China.

Perhaps the most important unresolved element of this is how far to see Russia and China as conjoined threats. Beijing's behaviour through the war in Ukraine has enhanced willingness to see the two powers in such terms, but for now this is still an area that remains 'on watch' to see how China handles ties in the months ahead.

### Germany's China paper

There are latent debates about the wider conceptual framework around the EU's China policy. This will be a particular focus of the German China strategy, currently being drafted, which is likely to set the terms for much of the EU's agenda.

The debate is whether the German strategy should seek to send a different signal to China, particularly about the extent to which 'partnership' is still an appropriate framing, or if -- as the German coalition agreement itself affirmed -- systemic rivalry is now the fundamental, conditioning factor in the relationship (see [GERMANY: Ukraine war will shift policy on China - May 18, 2022](#)).

A clear consensus has been established across the political system, from left-leaning Social Democrats like Rolf Mützenich through Christian Democratic Union leader Friedrich Merz, to the Free Democrat Finance Minister Christian Lindner, that rebalancing away from dependence on China is now a priority, in a way that was not so before the war in Ukraine.

An area of contention is how far Europe -- and Germany -- should still be proposing major areas of cooperation between the two sides, which would (if it ends up being a major focus of the strategy paper) be a contentious framing of the relationship's future trajectory in its own right.

## Research shows that Germany's dependence on China has increased since the war in Ukraine

While Germany's politicians are becoming more hawkish over China, the country is likely to remain wary in how it frames the future relationship. Indeed, research by the German Economic Institute, seen by Reuters on August 19, stated that Germany's dependence on China is growing "at a tremendous pace". In the short term, Germany is becoming more dependent on China as a result of disruption to economic ties with Russia. In this context, Chancellor Olaf Scholz has ignored questions whether Germany would support EU sanctions against China in the event of a crisis.

### Italy's new government

Italians will elect a new government on September 25. Rome adopted a much more hard-line position towards Beijing under the outgoing government led by Mario Draghi. In particular, the Draghi government blocked several Chinese acquisitions of Italian firms and said that Italy needed to reassess its future participation in the Belt and Road Initiative, which it signed up to in 2019.

The next government will likely be a Eurosceptic one led by the Brothers of Italy. While such a government may be less hawkish towards China, it will be wary of alienating Western allies.

In addition, the material gains of the 2019 Memorandum of Understanding (MoU) agreed between the then populist government, which included the anti-establishment Five Star Movement (M5S) and the right-wing League party, and the Chinese government have been largely disappointing. Most of the progress concerning Chinese projects in Italy relates to agreements which predate the 2019 MoU, while there has been very little progress on most new projects.

Without M5S participation, there will be little support in the next Italian government for a significant shift in favour of closer relations with China (see [ITALY/CHINA: BRI cooperation faces political obstacles - April 1, 2019](#)).

### Outlook

Over the coming years, a two-track approach to relations with China will likely develop. Bilaterally, China's increased salience means that there is far more political interest among heads of government in Europe, who are taking greater ownership of China policy than they did in the past.

Simultaneously, the shift in the balance of power between Europe and China, and the punitive measures that Beijing has been inflicting on individual EU members, means that there is even more reason to 'kick up' the difficult China issues to the EU level, and ensure as much safety in numbers as possible. European leaders will be more engaged, and have even more need for cover at the EU level than ever before.

## NATO Strategic Concept underlines China concerns

Friday, July 29, 2022

NATO's recently adopted Strategic Concept underlines that it sees the Indo-China region as strategically significant

NATO's 2022 Strategic Concept, adopted at NATO's annual summit in June, included for the first time two paragraphs dedicated to China. This text declares that China's "stated ambitions and coercive policies challenge our interests, security and values", and that China "strives to subvert the rules-based international order, including in the space, cyber and maritime domains". It identified the "deepening strategic partnership" between China and Russia as "counter to our values and interests".



US President Joe Biden and French President Emmanuel Macron arrive together for a NATO Summit in March (Oliver Hoslet/EPA-EFE/Shutterstock)

### What next

The statement that NATO "remains open to constructive engagement with the PRC" shows continuity with previous European positioning towards Beijing. NATO will pursue security cooperation with New Zealand, Australia, South Korea, Japan and possibly other Indo-Pacific states, but its European members cannot contribute much to the military balance in the Indo-Pacific. Discussions within the NATO framework are also unlikely to influence the international economic and technological balance of power significantly.

### Subsidiary Impacts

- Indo-Pacific states other than the core US allies will be cautious of NATO-aligned positioning with respect to China.
- Some European governments will maintain independent policy agendas towards China, which may be inconsistent with stated NATO priorities.
- European capitals will continue efforts to engage China, but will increasingly focus on security challenges too.
- Washington will pursue coordination with allies on economic and technology policy vis-a-vis China through separate channels outside NATO.

### Analysis

China's refusal to take a stronger stance against Russia after the February 2022 invasion of Ukraine is driving new concern on the part of NATO's European members.

However, the Strategic Concept's language remains in line with the EU's existing formulation describing China as simultaneously a partner, economic competitor and systemic rival.

This is reflected in the language of NATO's secretary-general, who has emphasised that China is a strategic challenge but not an adversary. Media reports indicate that France and Germany objected to describing China as a 'threat' in the Strategic Concept, given European interests in trade and technology exchanges with China.

Chinese officials have responded negatively with established language about a "Cold War mentality" and "ideological bias", while continuing to advocate China-Europe cooperation.

### Regional partners

The Strategic Concept also states that developments in the Indo-Pacific region "can directly affect Euro-Atlantic security", and that NATO will strengthen cooperation with new and existing partners in this region.

The June summit was attended by the leaders of Australia, New Zealand, South Korea and Japan. Japanese Prime Minister Fumio Kishida said that the precedent set by Russia's invasion of Ukraine raises concerns about a similar scenario in East Asia, by implication involving China and Taiwan (see [TAIWAN: Europe will find ways to work with Taipei - December 14, 2021](#) and see [JAPAN: Abe's death gives Kishida more leeway - July 11, 2022](#) and see [AUSTRALIA: Canberra seeks to restart EU trade talks - July 12, 2022](#)).

A US official was quoted as saying that Washington pushed for these four countries to attend the summit as part of a strategy to expand "like-minded" coalitions to counter China.

However, although these four states may engage in cooperative security activities with NATO, the prospects for extending NATO membership to them or other Western Pacific countries are dubious.

### There is little prospect of any Asian country joining NATO

The obstacles presented to NATO membership for Finland and Sweden by member-state Turkey do not bode well for expansion of the alliance beyond Europe, particularly if this is seen as directed against China, a country with which most states outside NATO still prioritise maintaining cooperative relations.

It is questionable whether NATO can add to the existing US security alliance system in the Western Pacific, which already includes the four states mentioned above.

The significant increases in China's military potential within its near-abroad are disproportionate to any capabilities that European NATO members can deploy to this region.

Despite the Strategic Concept's reference to the importance of the 'Indo-Pacific', India's leader was not invited to the summit, presumably reflecting US and European dissatisfaction with Delhi's positioning vis-a-vis Russia.

### Other domains

In other domains where the Strategic Concept identified concerns about Chinese behaviour -- key technological and industrial sectors, critical infrastructure, strategic materials and supply chains -- NATO is ill-equipped to coordinate action, although some improvements are being made on cybersecurity (see [INTERNATIONAL: NATO boosts collective cyber defence - July 27, 2022](#))

### NATO as an institution is ill-equipped to deal with 'economic security' issues

Washington has developed separate channels for discussions with allies over coordinating technology policy, including the US-EU Trade and Technology Council, the AUKUS agreement and bilateral discussions with Japan and South Korea.

Many related issues are influenced by multiple international forums: for example, cross-border data transfers involve free trade agreements, US-EU conflicts over privacy protections and the regulatory regimes of individual US states.

Incoherence in US policy, reflected in the unconfirmed content of export controls for emerging and foundational technologies, further fragments US diplomacy vis-a-vis China on these issues.



For example, Washington is in bilateral discussions with the Netherlands over restrictions on semiconductor manufacturing equipment exports to China, even while domestic US policy for this industry remains undetermined.

US export and investment controls for strategic technologies in general are still contested among federal agencies, notably regarding draft legislation that would introduce controls on outbound investment.

Varying interests among the United States and its allies with respect to China in these fields are more directly in mutual conflict than in the case of 'hard' security cooperation and are unlikely to be resolved within the NATO framework.

Meanwhile, many US allies in NATO and the Western Pacific continue expanding economic exchanges with China, including in 'key technological and industrial sectors'. As one example, the German multinational Merck -- among the leading chemicals suppliers for the semiconductor industry -- recently announced a new production complex in China, stating that they believe "a golden era for China's semiconductor industry has just begun".

Such choices by individual corporations will cumulatively have more impact on the international balance of economic and technological power than decisions made within NATO's institutional frameworks.

## Outlook

In practical terms, NATO can offer little in tangible measures to counteract Chinese behaviour. However, recognition by European capitals that China presents security challenges global in scale may reinforce the impetus from Russia's invasion of Ukraine to increase their self-defence capacity, freeing up US military capacity to address contingencies involving China.

This would reflect the Russia-China strategic cooperation referenced in the new NATO Strategic Concept, which bolsters Moscow's and Beijing's independent positions with respect to the United States and its allies.

## US attention will shift to the Arctic

Wednesday, July 22, 2020

Washington is increasingly concerned over threats and opportunities in the Arctic

In June, the White House issued a memorandum to several US government agencies instructing them to launch a new phase in US policy in the Arctic. The Arctic memorandum signals greater concern in the US defence community and Congress over rising great-power competition in the region. Russia has become more assertive militarily, while China is seeking greater presence, including in 2018 expressing interest in building airfields in Greenland.



An oil drilling rig in Prudhoe Bay, Alaska, March 17, 2011 (Reuters/Lucas Jackson)

### What next

The US government intends to be more active in the Arctic, but the resources to do so might be constrained by COVID-19's fallout and domestic funding priorities. Much will also depend on who wins the November election: Democrats would emphasise environmental priorities in the Arctic, while a re-elected Trump administration would focus on business opportunities and traditional security considerations.

### Subsidiary Impacts

- Trump's scepticism about NATO will make coordinating with allies over the Arctic more difficult.
- China and the United States will both seek access to Arctic natural resources.
- Greater US focus on the Arctic could cause tensions with Canada over the Northwest Passage.

### Analysis

Central to the June 9 memorandum's instructions is the acquisition by the US Coast Guard (USCG) of three new polar icebreaker vessels, to supplement the existing two, and the identification of locations for multipurpose US and international bases to support the fleet.

The [memorandum](#) orders that the enlarged USCG fleet be operationally tested and fully deployable by Fiscal Year 2029, using USD655mn in funds appropriated by Congress in 2019. The new icebreakers are envisioned to be acquired by 2024.

**USD655mn**

Money appropriated to expand the US Coast Guard's Arctic fleet

This move is buttressed by the June 2019 Department of Defense Arctic Strategy, released to Congress under the Fiscal Year 2019 National Defense Authorization Act, which places US Arctic policy in the new geostrategic context of a strong Russia in the Arctic and growing Chinese influence.

Although the chance of serious conflict in the Arctic is still considered low, the region is a major US line of defence, particularly against conflicts which may originate in Asia or Europe. Moreover, the Arctic has growing energy and commercial interests for the United States and other powers, which mandates a whole-of-government approach.

Hence the US Department of Interior plans to increase the number of oil lease sales in the Arctic National Wildlife Refuge in Alaska, while the US State Department is strengthening relations with Greenland, in part to promote energy and mineral development (see [UNITED STATES: Engagement in Greenland will intensify](#) - July 15, 2020).

## International concerns

International concern over the Arctic is at new levels too because of environmental changes, including sea ice and permafrost melting, increasingly affecting not only countries in the region but also the global climate.

The National Snow and Ice Data Center at the University of Colorado reports that Arctic temperatures have now risen to levels that had not been expected for another 70 years.

Apart from global warming, the Arctic environment is degraded by pollution, industrial fishing, nuclear waste and greater petroleum exploration and extraction. Environmentalists worry about the long-term impact of this on the region's biodiversity.

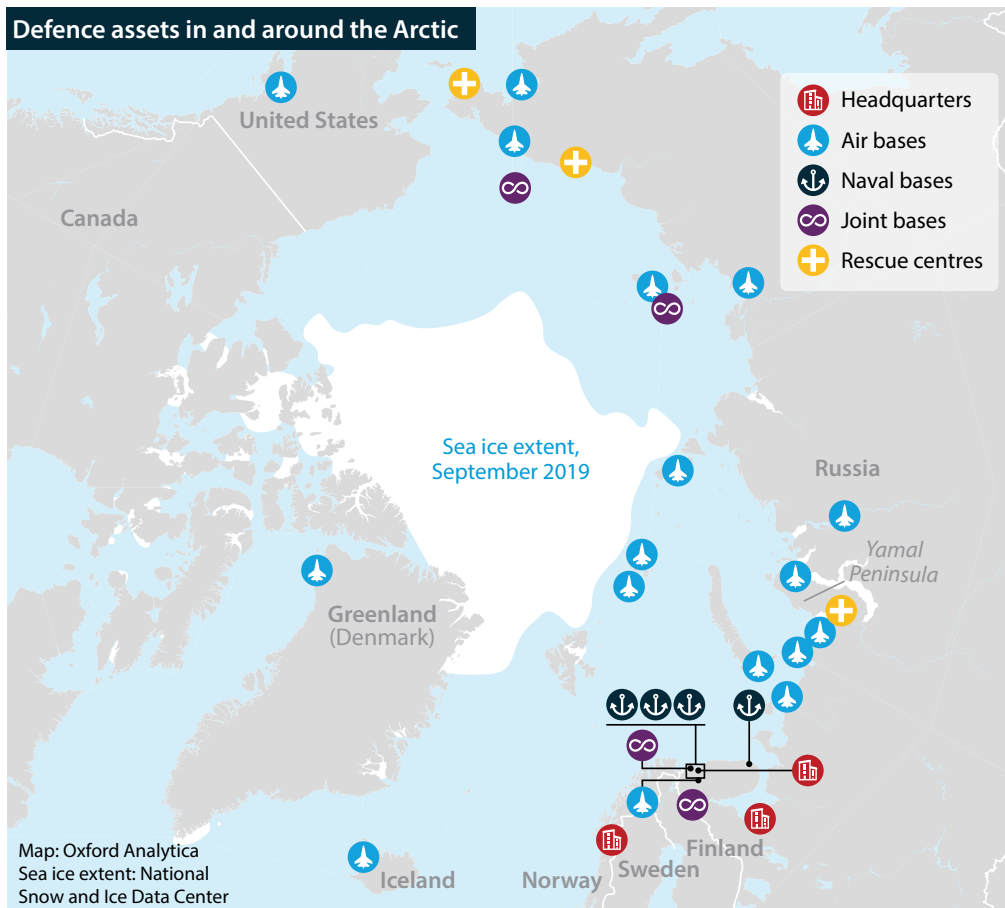
## Challenges to policymaking

Although there is strong bipartisan support for an enhanced US policy in the Arctic, pursuing that will be challenging:

### Defence budget strains

The most immediate obstacle is COVID-19: long-term projects such as enlarging the USCG's polar fleet are particularly attractive targets for budget-cuts in economic downturns. Moreover, President Donald Trump has demonstrated willingness to redirect Defense Department funds to other projects, and so potentially could do so for the Arctic.

Increasing US focus on the Arctic comes with various policy challenges



### Potential political changes

November's US election could bring policy and personnel changes, such as if the Democrats win the Senate or the White House. Such changes could present obstacles to cooperation in the Arctic with allies, or available funds for the Arctic policy push.

For example, Trump's distaste for multilateral institutions has affected the eight-member, intergovernmental Arctic Council, the primary seat of multinational cooperation in the region. The Council is a coordinating forum, with no enforcement powers. Decision-making is by consensus and the Council avoids military issues.

Council chairmanship rotates among the members in two-year terms. Washington chaired in 2015-17, which bridged the Obama and Trump administrations. During those last months of US chairmanship, Trump officials made clear their disinterest in such issues as environmental protection and indigenous people's rights.

Since then, the Council, chaired by Iceland, has strived to maintain a low profile, to avoid confrontation with Washington. The Trump administration's new interest in the Arctic has met with mixed reactions from other Council members.

### Domain awareness

Although US Defense Department officials have declared the Arctic a "new South China Sea" -- in the sense that China is extending its economic reach in ways that have security overtones -- the greater fear is of Russia as a rapidly expanding threat.

Russia is attempting to increase its influence over the Arctic and local shipping routes (see [RUSSIA: Sea route and energy are key to Arctic plans - October 9, 2019](#)).

This has brought calls, mostly from former defence officials and defence analysts, for the US Navy to conduct Freedom of Navigation Operations (FONOPS) in the Arctic Sea, as it does occasionally in the South China Sea.



However, surface ice limitations make such operations more difficult. FONOPS have not been conducted frequently in the Northern Sea Route or the Northwest Passage, and the US Navy has less influence in the Arctic than in the Pacific.

Successive US administrations have cited the UN Convention for the Law of the Sea (UNCLOS) as a foundation for rule of law in the Arctic, as it does in the South China Sea. The fact that Washington has not acceded to UNCLOS, and is unlikely to, will become a disadvantage as great power competition in the Arctic intensifies.

If Trump is re-elected, broader strains within NATO will hamper cooperation in the Arctic too. More narrowly, tensions with Denmark over Greenland (which Trump offered to purchase in 2019) and with Canada over the Northwest Passage, which includes both Alaska and the Canadian archipelago, could flare again.

#### Climate change concerns

Concern over global warming has brought a sense of urgency to environmental issues in the Arctic that the Trump administration has downplayed, meaning the United States is losing political influence in the Arctic.

Capitalising on this opening, Beijing has called for urgent action on climate change in the Arctic, while Moscow champions a more multilateral approach to the region more generally.

This issue will probably run along party political lines in the United States: if Trump is re-elected, he will emphasise security and business in the Arctic over environmental protection, and the US diplomatic position will deteriorate further.

If former Vice President Joe Biden wins the White House, a reversal of this dynamic is likely, with climate change returning as a principle of US Arctic policy, particularly if Washington returns to the Paris Agreement on climate change.

Meanwhile, warming temperatures will allow for more exploration for oil, gas and minerals in the Arctic, which will heighten tensions between Washington and environmental groups. Commercial competition in the Arctic will strengthen as the melting of ice increases shipping on two trans-Arctic sea routes, the Northern Sea Route close to Russia and the Northwest Passage.



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