

Dependency, Stability and Economic Sustainability in the West-Nordic: Now and the Future

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Challenges in the North

- Rapid changes
- Undergoing changes on several fronts
- Bio-physical and social changes
- Globalization
- Health and gender issues
- Education

Gender: New concerns

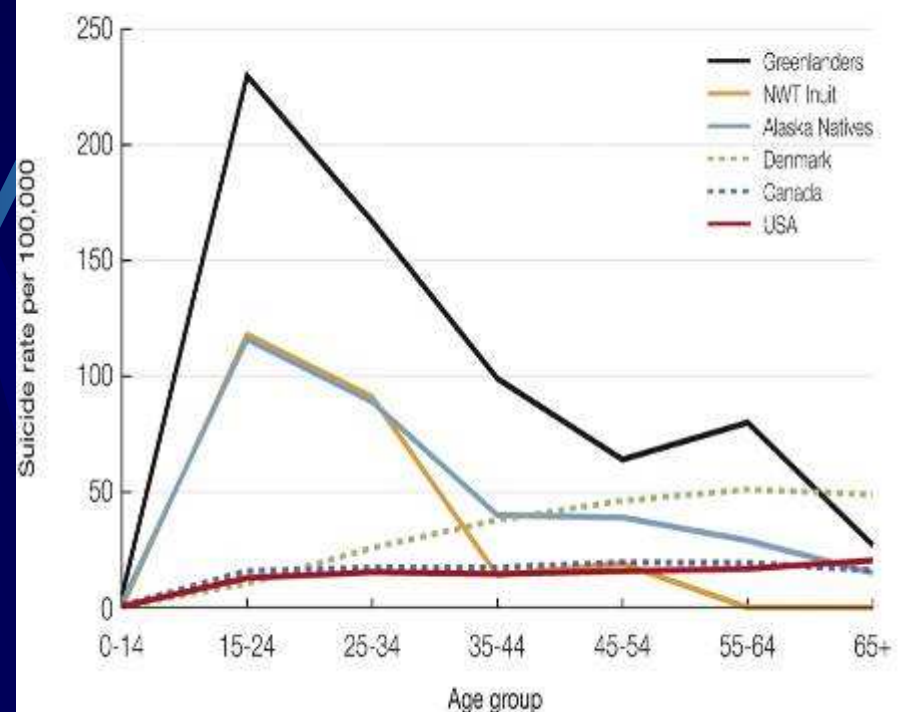
- A number of new concerns specific to the Arctic.
- For many, an erosion of important elements of human development.



Health

- Significant improvements in human health in the Arctic.
- Challenge remain: mental health, alcohol and substance abuse, violence and accidental death. Tied to rapid social change.
- High youth suicide rates in Greenland.
- Need to strengthen the viability of Arctic communities.

Suicides in Alaska, Greenland and Canada

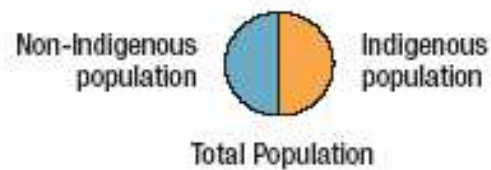


Viable Communities in the North

- Viable communities – economic opportunities and a meaningful cultural and social existence.
- Viability linked to access to natural resources, sustainable markets for resources, and the development of effective local governments.



The Arctic Region



The Question

- How does the narrow resource base and the level of dependency of Northern economies impact on the level of economic stability, and what is the consequence for growth and development?
- Solutions?

Structural Features

- Small size
- Scattered population
- Remoteness and lack of accessibility
- Narrow resource base
- Climate that presents special challenges

Dependent Economies

- Relationships between different sectors tend to be few and limited.
- Resource use less flexible.
- Economic growth dependent on external factors.
- Disparity between the structure of domestic demand and domestic resource-use.
- Domestic institutions tend to be directed/controlled to a significant degree by the external environment.

- Large-scale resource exploitation – narrow resource base.
- Limited manufacturing.
- Public sector in many cases supported by transfer payments/block grants. Block grant about 50% of GNP in Greenland; about 15% of GNP in Faroe Islands.



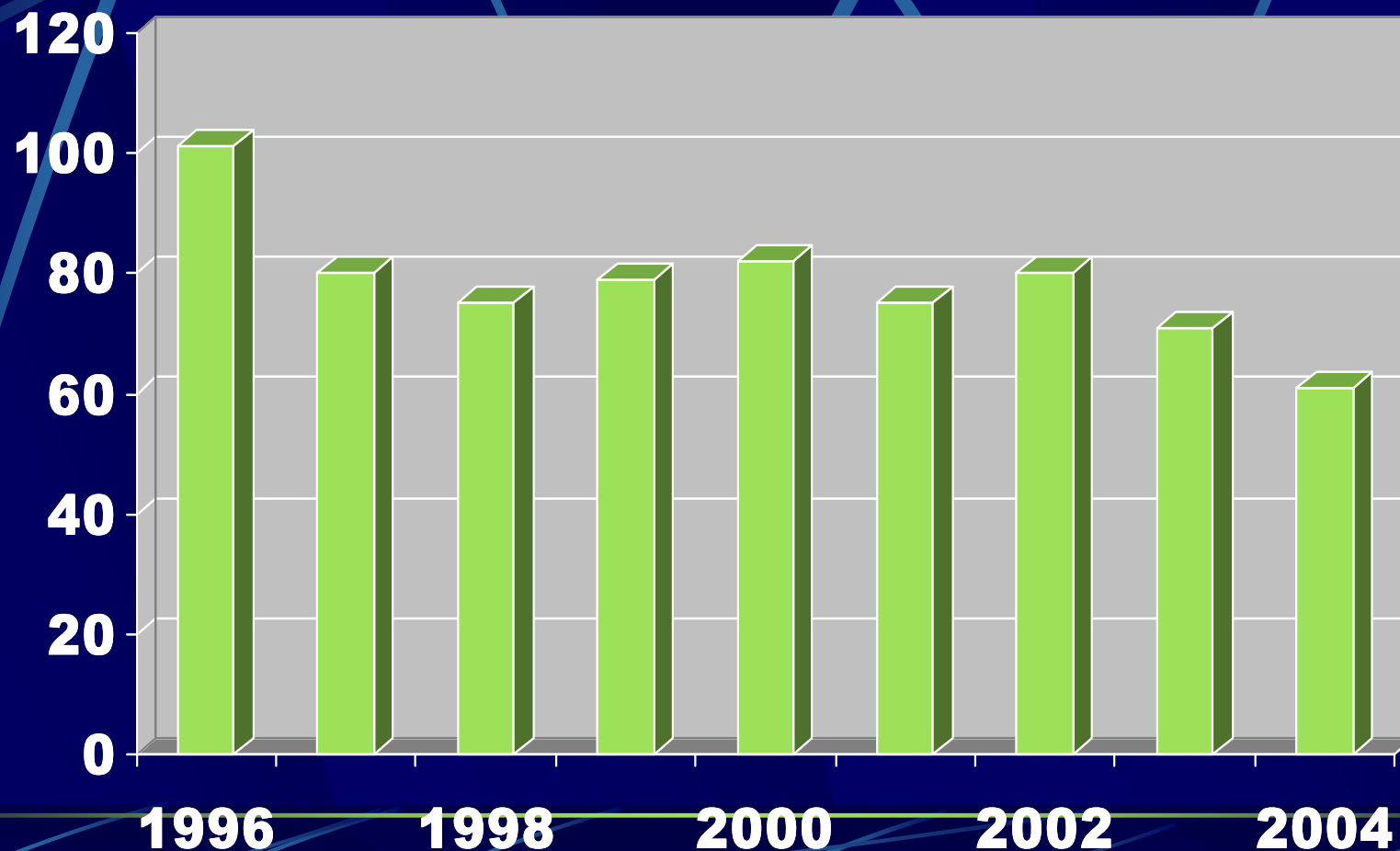
- The importance of fisheries to the economies of the Arctic is significant.
- West-Nordic economies are heavily resource based with significant export trade in primary exports.
- Primary export is highly concentrated in fish and fish products.
- In Greenland and the Faroe Islands fish exports are highly concentrated.
- Fish exports: Iceland 2/3 of export. Greenland and the Faroe Islands about 95%.



Selected	1960	1970	1980	1990	1998	2003
Exports¹ (DKK 1,000)	58,340	104,960	1,199,301	2,794,691	1,701,930	2,267,000
Primary Exports. Per cent of total.	92.0	86.0	95.0	96.0	93.0	95.0
Of which fish	42.0	92.0	67.0	86.0	98.0	99.0
Of which minerals	58.0	8.0	33.0	14.0	0.0	0.0
Key fish exports.² Per cent of total primary exports:						
Shrimp	18.0	49.0	52.0	78.0	72.0	59.0
Cod	63.0	8.0	7.0	17.0	1.2	3.8
Greenland Halibut	0.0	0.0	3.0	0.6	12.0	21.1

Value of Greenlandic shrimp export, 1995-2004

Constant prices



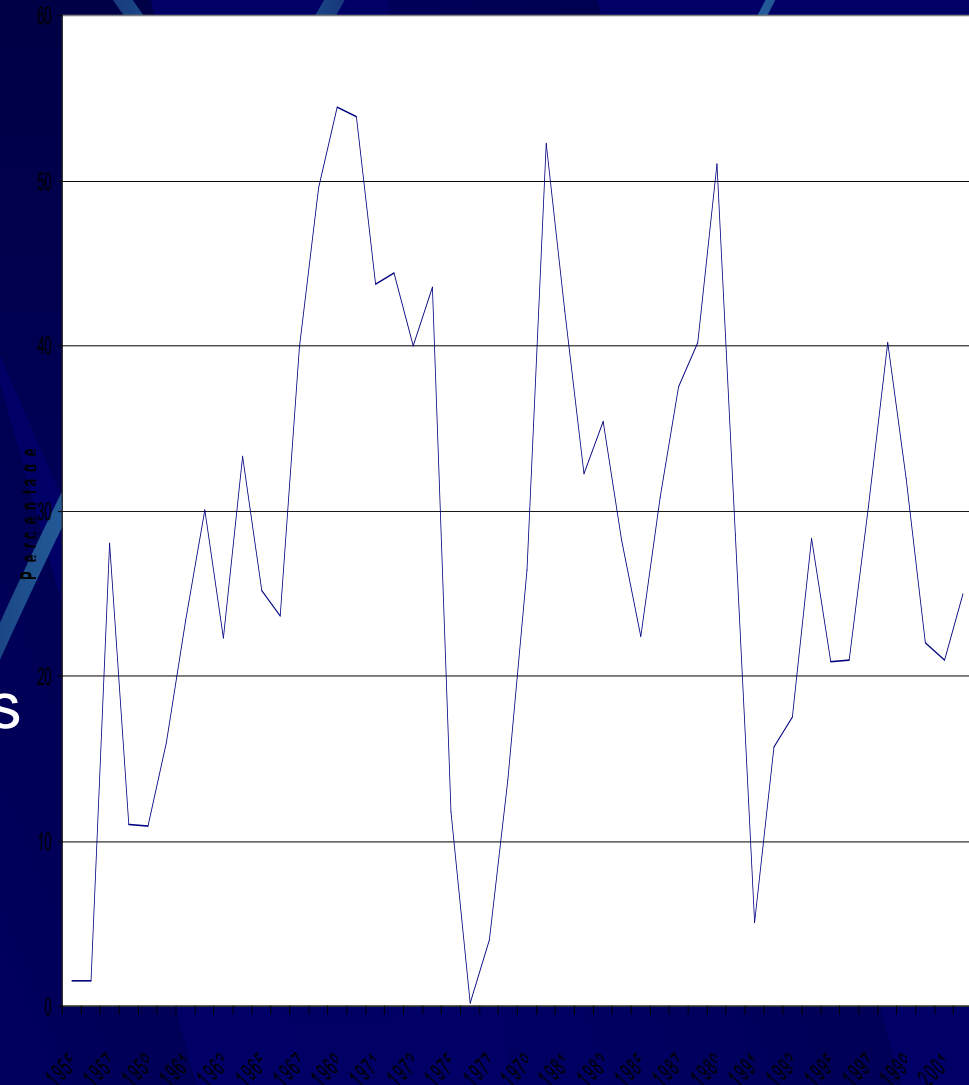
Does primary export trade fuel growth?

- Association between primary export trade and economic growth.
- Positive association in case of Greenland.
- Trickle down effects.
- But does primary export trade cause economic instability – and if so, does it act as a dampening force on growth?



- In Greenland – high degree of instability and vulnerability.
- Instability measured as deviations from trend values.
- Economic dependency, including dependency on primary export trade, is associated with economic instability.
- Economic instability acts as a dampening force on economic growth.
- Arctic economies must find more effective ways of responding to unexpected and sporadic instability.

Export Instability in Greenland, 1955-2002.



Other sources of instability: Resource supply shocks in Greenland

- Econometric test for presence of pulse shocks and level shifts:
- Greenland experienced one-time pulse shock to real export series in 1973 (opening of Black Angel mine). Permanent effect without tendency to return to pre-break level.
- Econometric test for structural change in 1990: Negative level shift in economy in year of shock to natural resource supply. 1990 shock lead to economic instability.
- Shocks have permanent effects.

- The Greenland economy is dependent and lacks flexibility.
- Weak in terms of resource mobility and the ability to develop economic substitutes.
- Minimizing the adverse consequences of shocks and disturbances is difficult.



Education: Greenland

- Greenland: 2/3 of labour force has no formal education.
- High drop-out rates. In 2002/03 43.2% discontinued their education.
- Barriers:
- Lack of geographic mobility among the 15-62 year olds.
- Bottlenecks in housing market.
- Social problems.
- Rejected applications.

Labour Market: Greenland

- Only 1/3 of labour force has a formal education.
- About 26.000 without formal education.
- Need to raise level of educational attainment.
- Settlements to be targeted also.
- Goal: to have a labour force in Greenland with 2/3 having a formal education – by 2020.

Economic growth and reductions to the level of dependency and instability

- Need to raise the level of productivity.
- Raise the level of educational attainment.
- Diversification – away from fisheries.
- Increase mobility of human resources.
- Improving the investment climate.

Dependency, Instability and Sustainability

- If the narrow resource base leads to economic instability then it may impact negatively on sustainability.
- Instability can retard growth and complicate development planning, thereby further complicating or slowing production of resources.
- Possible impact of dependency and lack of political and economic autonomy.

Challenges

- Endogenous and exogenous forces impact on development, stability, and the ability to achieve sustainability.
- Endogenous forces (within the region) often linked to outside forces.

Challenges

- Economic growth and human development – a link?
- Options for diversification in the North.
- Enhancing mobility and flexibility of resources.



- Narrow resource base leads to instabilities in many parts of the Arctic.
- Scope for corrective action often limited.
- Need for research that is designed to answer the bigger questions related to the growing trend of Arctic economies increasingly feeling the stresses resulting from globalization and increased openness.

Export Instability in Greenland, 1955-2002.

