



By Daniel Ortwerth, CFA

May 27, 2025

## Why Greenland Matters

Shortly after he became president again in January, [Donald Trump surprised the world with statements about buying or annexing Greenland](#), by force if necessary. [In early May, he reiterated this position](#), saying Greenland was needed for national security. Trump had [initially proposed acquiring Greenland in his first term](#), but even that was not the first time the United States expressed such an interest. In 1946, at the beginning of the Cold War, [President Truman secretly offered to buy Greenland from its owner, Denmark](#). On each occasion, Denmark has rejected the idea, but the repeated US overtures reveal that Greenland is important for reasons tied to the core interests of a global superpower.

This report explores the main reasons why Greenland is getting so much attention. It begins with a review of the military value of Greenland, continues with considerations of its evolving potential role in global trade, and further delves into the island's prospects as a natural-resources play. Ultimately, we show how Greenland serves as a lens through which to view strategic developments in the broader Arctic region. As always, we conclude with investment implications.

### Military Significance

Owing to its strategic geographic location, Greenland has kept a prominent place in the minds of national and military leaders for

the past 80 years and across changing geopolitical landscapes.

**Arctic Anchor.** When we look at a map of the world, we normally see a flat projection with the north at the top, the south at the bottom, and the equator running through the middle. This view works for most purposes, but, since this is a flat representation of a spherical reality, it obscures the true geographic relationships as we get closer to the poles. A map of the world with the north pole in the center reveals these relationships in a new perspective (see Figure 1).

Figure 1



(Source: Encyclopedia Britannica)

Among the key revelations of this perspective, we see that:

- Russia has by far the longest coastline along the Arctic Ocean;
- The only US territory in the region, Alaska, has a relatively short Arctic

coastline and is farther south of the North Pole;

- Greenland is the closest and most prominent landmass to the North Pole; and
- As the crow (or missile) flies, Greenland sits between eastern North America and Europe, to include European Russia.

These factors make Greenland a potentially advantageous shield or launch point, essentially a northern “high ground,” in a geopolitical confrontation between powers of the Eastern and Western Hemispheres. Both history and current events show how US leaders have recognized this key geographic reality.

**The Cold War.** Although Denmark declined the US’s offer to buy Greenland in 1946, the two countries secretly agreed to work together, giving Greenland a strategic role in the North Atlantic Treaty Organization (NATO). Greenland’s role in NATO would take a succession of forms throughout the Cold War. Many consisted of US-Danish collaborations [centered on Thule Air Base](#) (since renamed Pituffik), which was constructed in the early 1950s in complete secrecy on the far northwest coast of Greenland. The air base had several key missions:

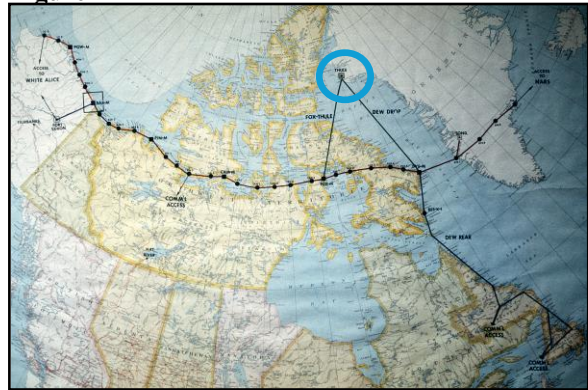
- [Thule became a key node in the “DEW Line”](#) (Distant Early Warning), a string of installations along the far north of the North American landmass, each of which hosted sensors comprising the Ballistic Missile Early Warning System, designed to detect Soviet missiles coming over the north pole.
- Because Thule was the closest installation to the Soviet missile fields, it was assumed that it would be the first North American installation to be hit in a

nuclear exchange. Hence, it was viewed as the tripwire. If Thule went offline, this indicated an impending attack on the homeland (see Figure 2).

- The Strategic Air Command built a 10,000-ft. runway at Thule and all necessary accompanying infrastructure to support regular rotations throughout the 1950s and 1960s of nuclear-armed strategic bombers.

Since the end of the Cold War, additional areas of US-Denmark cooperation have come to light. For instance, in deep secrecy in 1959, the US constructed an underground facility called [Camp Century](#), designed to store 600 medium-range ballistic missiles. This was done in accordance with a 1951 treaty between the two countries that gave the US the right to establish military bases in Greenland. As Denmark has recently reminded the US, this treaty is still in force.

**Figure 2**



(Source: Wikimedia Commons)

**Russian Arctic Ambitions.** Returning to the map in Figure 1, we see that nearly half of the longitude lines extending from the North Pole touch land on the Russian coastline. This provides a truly dominating array of geographic opportunities, and Russia has been heavily investing in them. Russia’s military presence in the Arctic, which has been dubbed the [“Ice Curtain”](#) (reminiscent of the Iron Curtain stretching across Europe

during the Cold War), seeks to achieve three objectives:

- Enhance homeland defense, specifically a forward line of defense against foreign incursion as the Arctic attracts increased international investment;
- Secure Russia's economic future; and
- Establish a staging ground to project power, primarily in the North Atlantic.

To this end, [Russia now has 475 military bases along its northern border, including 32 continuously manned sites within the Arctic region itself](#) (see Figure 3). To complement this expansion of military infrastructure, [Russia has dramatically increased its pace of Arctic military exercises](#), and last year it conducted the [single biggest such exercise in the region's history](#), involving 400 warships, submarines, and support vessels as well as 120 planes and helicopters — an unprecedented show of force. As part of the exercise, strategic bombers capable of carrying nuclear missiles flew over the Barents and Norwegian Seas.

Figure 3



(Source: The Arctic Institute)

**Chinese Arctic Aspirations.** Despite being situated some 900 miles south of the Arctic circle, [China has styled itself as a “near-Arctic state” and declared its ambitions to become a “polar great power” by 2030](#). A

2018 Arctic policy white paper asserts that developments in the region have “a vital bearing” on China and lays out Beijing’s vision for utilizing the region’s natural resources and shaping Arctic governance. Although China’s Arctic efforts have mostly taken the forms of scientific research thus far, the organization conducting these activities, the Ministry of Natural Resources, has also directed the research that [provided critical technical support for China’s controversial construction and militarization of artificial islands in the South China Sea](#). Its work in the Arctic mirrors these activities in the South China Sea. As a next step, [China has sought to invest in projects in Arctic countries wherever possible](#).

While countries targeted for investment had previously been receptive to these investments, in more recent years, Finland, Sweden, Norway, and Greenland have all rejected Chinese investment offers. Only Russia has continued to proceed with Sino-Russian investment projects. This corresponds with an [increased tempo of joint military exercises between the two countries in the Arctic region](#). This has included naval exercises in the Bering Sea, joint bomber patrols off the coast of Alaska (see Figure 4), and increasingly regular combined coast guard operations.

Figure 4



Chinese and Russian bombers on joint patrol.  
(Source: Defense Blog)

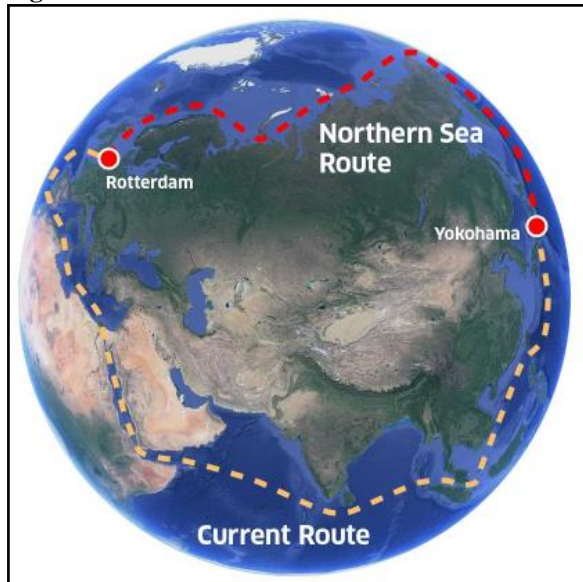


### Global Trade

The Arctic region has grown beyond the defense realm in its significance. Receding polar ice and increasingly problematic traditional sea routes have drawn attention to the Arctic as a potential alternative for seaborne commercial traffic. Greenland sits alongside one of the most prominent of these routes.

**The Northern Passages.** For centuries, nations and companies have sought ways to navigate between East and West via the Arctic. Over time, the two most distinct routes have come to be known as the [Northeast Passage \(also known as the Northern Sea Route\)](#) and the [Northwest Passage](#). The Northeast Passage runs along the Arctic coast of Russia between the Atlantic and Pacific oceans and is generally considered to be under Russian ownership (see Figure 5). The Russians have been using the route for decades, with the help of icebreaker ships. It has until recently been closed to foreign ships, but now the Russians want to open it and are hoping that it will eventually compete with the Suez Canal as one of the most popular routes.

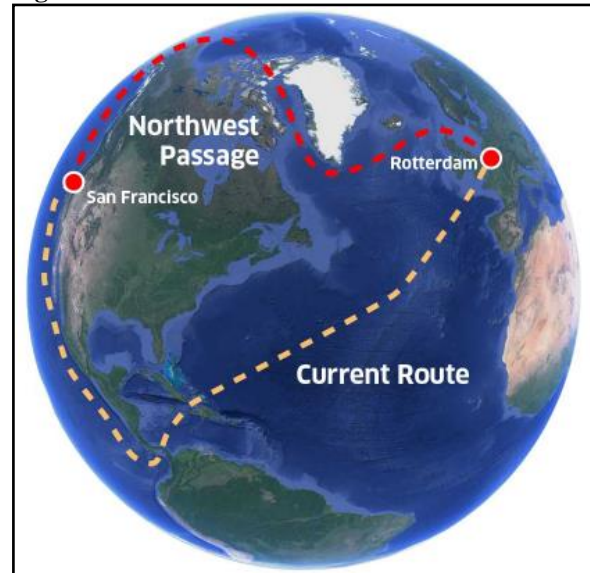
Figure 5



(Source: Discovering the Arctic)

The Northwest Passage is a series of possible shipping routes running through the Canadian Arctic Archipelago, also connecting the Atlantic and Pacific oceans but claimed by Canada (see Figure 6). Depending on specific destinations, [the Northeast Passage is 30-40% shorter than the traditional route going through the Suez Canal](#), and the Northwest Passage cuts over 40% off most routes using the Panama Canal. Shorter distances mean less transit time (10-15 days) and lower shipping costs, especially for fuel.

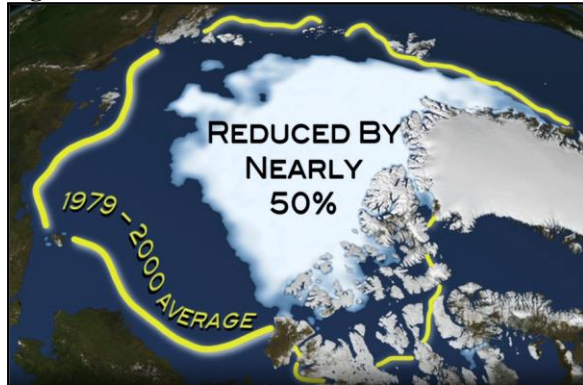
Figure 6



(Source: Discovering the Arctic)

**Receding Ice.** Historically, very little freight traffic flowed through the northern passages due to ice coverage for most, if not all, of the year; however, climate change is gradually expanding the area that is ice-free during the summer and lengthening the period that it remains so. [Sea ice coverage was relatively stable from 1979 to 2000 but has since receded by nearly 50%](#), making the Northwest and Northeast Passages increasingly viable as shipping routes (see Figure 7). This change is drawing strong interest across the range of countries that have a potential stake in using these routes.

Figure 7



(Source: NOAA)

**Greenland in Context.** In keeping with the old adage that “possession is nine-tenths of the law,” geographic positioning could prove key to controlling and seizing the opportunity presented by these opening shipping lanes. As such, the countries known as the [Arctic Five](#) (Canada, Denmark, Norway, Russia, and the US) have a strong natural advantage as the only countries with territory and shoreline in the Arctic region. Among these five, Denmark has the most tenuous position via Greenland. As a far-flung possession that is already largely self-governing and thinly defended, the island is potentially a prime target for any global power that might seek to exert influence or even try to pry it loose from Danish rule.

### Natural Resources

The Arctic, as a whole, and Greenland, in particular, offer the promise of untapped natural resources that would give their prospective possessors an added edge in global competition.

**Arctic Petroleum.** [The Arctic holds an estimated 13% \(90 billion barrels\) of the world's undiscovered conventional oil resources and 30% of its undiscovered conventional natural gas resources, according to an assessment conducted by the US Geological Survey.](#) Commercial

viability of these resources is a relatively new idea given the costs and technical challenges associated with the historically harsh climate. As the warming trend continues, these challenges are expected to moderate, generating increased interest in their development and potentially inspiring a race for Arctic oil. A map of the chief known deposits shows that two of the five largest fields sit alongside Greenland (see Figure 8).

Figure 8



(Source: Energy Information Agency)

**Greenland's Critical Minerals.** Critical minerals such as [rare earth elements](#) and [others used to manufacture electric vehicles](#) have gained considerable attention, partially due to [China's commanding share of the market](#) for processing these critical minerals. This has spurred a global search for these minerals in places such as Greenland. US interest in Greenland's minerals, however, may have more to do with an effort to counter China than the actual promise of mineral extraction on the island. Although Greenland does possess notable deposits, [difficulties in their extraction have presented longstanding barriers to meaningful efforts:](#)

- The climate incurs high operating costs;
- Mineral concentrations tend to be low; and

- The local government imposes high environmental restrictions on mining activity.

In an apparent response to the Trump administration, Greenland's foreign minister, Vivian Motzfeldt, [reportedly identified closer cooperation with China as a priority](#) and even touted the possibility of a free trade agreement between Greenland and China. Even if the prospect of mining the island's critical minerals and rare earths remains unrealistic, it continues to underscore Greenland's significance as a key piece on the global chessboard.

### Investment Implications

Although Greenland itself matters, the island principally serves as a means to understand the emerging geopolitical competition in the Arctic region. We are closely watching the pace of militarization in the Arctic, primarily from Russia but also the extent to which China attempts to gain a foothold. We are also monitoring the increasing viability and use of the northern seaborne trade routes and Canadian and Russian attempts to control them. We are less intrigued by the prospects for Arctic petroleum. Low oil prices and high extraction costs could restrain enthusiasm in this sector.

If geopolitical competition and militarization in the Arctic continue apace, it would likely contribute to the ongoing process of global fracturing that we have been emphasizing in our reports. Besides stimulating further

gains in global defense spending, global fracturing will likely put long-term upward pressure on inflation and interest rates, with consequent negative effects on long-term bond returns. Since Russia seems best positioned to gain militarily in the Arctic, European defense spending may see the strongest response, potentially providing an additional boost to European defense stocks.

Perhaps more importantly for the global economy and financial markets, the northern sea routes could act as a partial counterweight to some of the negative effects of global fracturing. The traditional routes, already much longer and more costly, have recently suffered disruptions such as droughts that are constricting the Panama Canal and Houthi attacks on shipping in the southern approach to the Suez Canal. Meanwhile, both the [Northern Sea Route](#) and the [Northwest Passage](#) are reporting steadily increasing volumes. If this becomes a sustained trend, it will reduce transportation costs for a range of customers, buoy global trade volumes, and add to global economic growth. In this scenario, we would expect the shipping companies serving the traditional routes to suffer lower revenues, while the largest customers using the longest routes, especially companies in the manufacturing and consumer discretionary sectors, could benefit from reduced input costs.

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May 27, 2025

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