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# The Effects of Regional Economic Integration and Foreign Direct Investment on Greenland's Economic Development

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## Abstract

Countries need Regional Economic Integration (REI) for their economic development. In particular, the Regional Economic Integration established between Greenland and the Eurozone and European Free Trade Association (EFTA) countries aims to increase the productivity of factors through competition. Greenland, which might seem unsuitable for investment due to its location, offers significant economic diversification. In an REI between the Eurozone and EFTA countries, Greenland will play a critical role in the economic development of both. However, while Greenland's participation in the REI is vital for its economic growth, additional obligations and high costs must also be considered, and its inability to participate could lead to lower economic performance. Therefore, Foreign Direct Investment (FDI) in Greenland will facilitate its participation in the REI and increase its competitiveness. This study will examine the impact of Regional Economic Integration (REI) between Greenland and the Eurozone and EFTA countries on the Greenlandic economy, and how Foreign Direct Investment (FDI) stemming from the REI will contribute to Greenland's economic development.

**JEL Classification:** F02, F15, F62, F63

**Keywords:** Regional Economic Integration, Foreign Direct Investment, Greenland, Eurozone, EFTA, economic development.

## 1. Introduction

Regional Economic Integration (REI) between countries has become crucial for international economic development in recent years. The establishment of REIs between countries further enhances the global economy. Therefore, the opportunities and intended uses offered by various economic integration practices will contribute to the economic development of countries. Thus, the REI established between Greenland, the Eurozone, and EFTA countries will play a significant role in Greenland's economic growth. While Greenland is considered to have numerous disadvantages in terms of REI and Foreign Direct Investment (FDI) due to its geographical location, FDI could contribute to its economic diversification. Mining companies and food companies from Eurozone and EFTA countries investing in Greenland through FDI will enable Greenland to become a globally competitive region.

Investments in Greenland under FDI could lead to rapid REI with the Eurozone and EFTA, paving the way for key agreements such as the Customs Union (CU), the Free Trade Agreement (FTA), the Common Customs Tariffs (CCT), and the Regional Trade Agreement (RTA) between regions. For example, a Swiss food company investing in the fishing sector in Greenland would foster economic integration between Greenland and Switzerland and foster commercial development of the Greenlandic and Swiss economies. Such investments in Greenland under FDI would quickly lead to Greenland becoming a Free Trade Zone (FTZ) and could help break down prejudices against investing in Greenland. Greenland could establish REI not only in the Eurozone and EFTA countries but also, through this may seem challenging, with the Kurdistan Region. Oil, gas, and agricultural products can be imported from the Kurdistan Region, and companies originating from the Kurdistan Region could invest in Greenland and export from Greenland to the US, Canada, the Eurozone, EFTA, and the UK. This could create a win-win relationship between the two regions.

This study will primarily examine the impact of REI and FDI investments between Greenland, the Eurozone, and EFTA countries on the Greenland economy. Due to its relatively cold geographical location, FDI investments in Greenland have been avoided until now. However, FDI investments in Greenland could enable Greenland to establish REI with the Eurozone and EFTA countries more quickly. However, analyses indicate that Greenland needs more investment to strengthen its macroeconomic and international economic standing. For this, the Greenland government must implement policies that further develop the Greenland economy.

REI has three fundamental variables. The first is the change in the exchange rate. The second is tariff and non-tariff barriers, and the third is FDI. The implementation of these variables is vital for Greenland, the Eurozone, and EFTA countries to express their REI demands. This may necessitate the establishment of a currency board and "monetary integration" in Greenland. Therefore, the Greenland economy must commit to a stable exchange rate to instill investor confidence and further develop the country's trade.

While some macroeconomists and international economists argue that the REI raises concerns about employment, the REI actually plays a significant role in increasing employment. Considering investments made under FDI, the employment of personnel is essential for production. The REI is established through international trade between countries. First and foremost, Greenland needs to attract FDI, particularly from the Eurozone and EFTA countries, and such investments will increase Greenland's GDP. Furthermore, employing qualified individuals in Greenland will make the Greenland economy more productive. Research shows that the elderly population in Greenland is increasing. However, the employment of skilled individuals in Greenland is increasing. However, the employment of qualified individuals from nearby countries such as Denmark, Finland, Norway, and Sweden in Greenland and the training of Greenlandic youth in the manufacturing sector will play a crucial role in Greenland's rapid establishment of REI with the EU and EFTA.

## 2. What is Regional Economic Integration (REI)?

Recently, many economists have been analyzing whether Regional Economic Integration (REI) occurs between different regions or between countries. This is crucial for the Eurozone and EFTA countries' commitment to and integration with the Maastricht Treaty for REI, the increased interest in economics from a geographical perspective, reductions in transportation and communication costs, and the availability of new analytical techniques. Based on REI analyses, it can be concluded that country or regional borders and climate affect REI positively or negatively.

Providing a single clear definition of Regional Economic Integration (REI) can be difficult. REI can be defined in two different ways. A convenient and straightforward example would be commodities such as wheat, grain, and barley, where a commodity is sold by auction in the international market, and the sales process is not significantly affected by the identity and characteristics of the producer. For commodities such as wheat, barley, and grain, easy access to similar commodities across regions and countries indicates market integration. More precisely, the export of fish raised in Greenland to the Swiss market, and the easy accessibility of Greenland's fish to the Swiss public, can be defined as REI. The most interesting characteristic of these commodities is their rapid integration without the need for widespread trade between regions. A producer selling fish from Greenland to Switzerland can, if necessary, expand their sales to other countries and territories.

The second definition of REI applies to producers whose exported goods are influenced by the company's marketing strategy and distribution chain, and whose sales are restricted between regions and countries. In this case, a second characteristic must influence regional integration. Therefore, rather than the uniformity of commodity prices, the accessibility of products produced in the region or country to other countries and regions is crucial. Since many products and prices may not be sufficient, these products must be traded between regions and countries.

## 3. Economy of Greenland

Greenland's economy is significantly dependent on the fishing sector. According to data compiled by Gabija (2025), it exported approximately kr. 3.84 billion (approximately €514.1 million) worth of seafood in 2024. These seafood exports account for approximately 98% of Greenland's total commodity exports. Therefore, Greenland's tourism sector has been growing in recent years, and there has been some activity in the mining sector. The public sector in Greenland accounts for approximately 50% of local employment, followed by fishing, hunting, and agriculture.

An analysis of Greenland's economy reveals a resilience in financial support. The Danish Government has provided approximately kr. 3.4 billion (approximately €455.1 million) in financial support to Greenland. This suggests that if the financial backing exceeds kr. 75,000,000 (approximately €10.04 million), it could decrease by approximately 50%. Denmark provided approximately kr414 billion (approximately €554,26 million) in financial support to Greenland in 2023. This represents approximately 20% of Greenland's revenue. Additional expenses for Greenland by the Danish government include public order and security, police services, military and defense support, prisons, courts, general public services, financial support, research, and environmental protection. They are estimated to have reached €204 million. Greenland also receives approximately €17.29 million in financial support from the Eurozone to develop its fishing sector within the Private Economic Zone (PEZ).

Greenland's low economic diversification, its reliance on international financial support, and the lack of a workforce are among the biggest obstacles to the development of the Greenland economy. According to a 2022 analysis by Danmarks Nationalbank, Greenland's fiscal policy is unsustainable, and public expenditures cannot be financed under tax rules. This results in even lower tax rates in Greenland due to macroeconomic imbalances. This situation necessitates reforms that will improve Greenland's economy. Consequently, the Danish National Bank has initiated reforms to develop Greenland's economy, and steps have been taken to revitalize the mining industry, attract foreign investment in the region through FDI, and promote economic integration, international trade, and tourism.

An examination of Greenland's foreign trade volume reveals its vital importance. In 2024, Greenland's foreign trade balance is projected to reach approximately -€0.15 million, with imports of approximately €0.676 million and exports of €0.527 million. Denmark monopolized Greenland's trade until 1950 and is now one of Greenland's most important trading partners. Denmark accounts for approximately 62% of Greenland's imports and approximately 86% of its exports. FDI investments in Greenland, particularly in the mining and fishing sectors, will play a significant role in Greenland's economic development and facilitate REI with the Eurozone and EFTA countries. Among the most important economic reforms for Greenland are attracting FDI and employing more young people in the manufacturing sector to increase production efficiency. This will enable Greenland to become a self-sufficient region and eliminate the need for financial assistance from Denmark or the Eurozone.

#### **4. Economic Integration and Foreign Direct Investment (FDI) Among Greenland-Eurozone-EFTA**

Economic integration among countries and regions is constantly evolving. The rapid growth of economic integration stems from agreements such as the USMCA, NAFTA, EFTA, the Eurozone, and ASEAN, including the Customs Union (CU), the Free Trade Agreement (FTA), and the Regional Trade Agreement (RTA). These economic integration agreements between trade unions, along with the Customs Union theory proposed by Viner (2014), have undergone rapid development and evolution since the present day. Since international trade and Foreign Direct Investment (FDI) are generally the two primary sources of economic integration, the most frequently discussed issues in Regional Economic Integration Agreements (REIAs) include trade diversion, the redirection of FDI to Regional Economic Integration (REI), and the potential use of FDI as a substitute for international trade. Therefore, economic integration appears to have spread most rapidly among Eurozone countries, leading to the Eurozone's designation as a "Single Market". To analyze the growth effects of economic integration on the Eurozone and EFTA economies, it is crucial to examine the analyses of Baldwin (1989), Neven and Röller (1991), Brenton and Winters (1992), Baldwin et al. (1995), Sapir (1996), and Brenton (1996). Economic integration between the Eurozone and EFTA countries aimed to develop international trade, increase productivity and international commercial competition, increase employment, and achieve significant economic growth in the member countries.

#### **4.1. Goods Market Integration of Greenland**

The economic impact biases regarding Greenland's domestic market are a matter of great concern for smaller countries and regions compared to the Eurozone and EFTA countries. This is because smaller countries and regions tend to have fewer domestic producers and therefore earn less from domestic trade. According to Helliwell (1995), the volume of foreign trade should be higher for smaller countries or regions than for larger ones, and statistics have confirmed this. For example, agricultural products exported from the Kurdistan Region exceed those exported from other Middle Eastern countries. This is because, due to the Kurdistan Region's intensive economic integration with the USA, the Eurozone, and the GCC, agricultural products produced in Duhok and Halabja have entered the markets of the USA, the Eurozone, and the GCC. Unfortunately, when examining Greenland's international trade statistics, it isn't easy to find data on how many goods produced are exported. Therefore, it is generally observed that the gross exports of smaller Eurozone and EFTA countries constitute a larger portion of the GDP than those of larger countries. By the standards of small and developed countries, Greenland's merchandise exports are pretty low, and for Greenland's merchandise exports are relatively low, and for Greenland to increase its export volume compared to Eurozone and EFTA countries, investments should be made in the fishing and mining sectors under the FDI program. Indeed, if Greenland adopts an export-oriented policy, similar to that of the Kurdistan Region, and is included in international statistics on its exports, this will play a significant role in the development of Greenland's global trade volume. However, currently, the trade volumes of small Eurozone and EFTA countries are approximately 60% higher than Greenland's.

Greenland's low trade volume may be due to its geographical location and climate. However, with investments under the FDI and the operation of international food and mining companies in Greenland, along with export-oriented policies, exports from Greenland to the Eurozone and EFTA countries will increase, resulting in a rise in Greenland's exports. The low volume of international trade in Greenland suggests that it may benefit less from specialization in commodity production and its share of global trade. Denmark is Greenland's most essential and largest trading partner. It is not possible to determine whether Greenland has established economic integration with Denmark or whether the Danish provinces have established economic integration among themselves, as inter-provincial trade data are unavailable. In this case, pricing in Greenland may differ between cities. While product prices vary from province to province, the correlation between prices in Greenland and Denmark may be pretty small for many retail products. However, this also applies to products produced only in Denmark and sold in Greenland markets. The reason for the price difference is that changes in exchange rates are reflected in prices slowly. While this does not indicate that trade between Greenland and Denmark is less than trade within Denmark, it is consistent with international product prices, which show that national pricing decisions have a significant impact on product pricing.

#### **4.2. Financial Market Integration of Greenland**

Financial markets operate with greater integration within countries rather than internationally. While the reasons for the difference in the degree of financial market integration are not fully understood, the problems arising from currency issues are pretty significant. Given the high costs for initiatives operating in regions and countries with low financial market integration, such as Greenland, international economists believe that establishing advanced financial market integration between Greenland and the Eurozone and EFTA countries will play a crucial role in achieving monetary union. According to international economists, the advantages of establishing financial market integration are:

- If financial markets are fully integrated between Greenland, the Eurozone, and EFTA countries, the prices of similar assets will be the same.
- If financial markets are fully integrated between Greenland, the Eurozone, and EFTA countries, opportunities for saving, borrowing, investing, and insurance will be available.
- When Greenland integrates with the Eurozone and EFTA in both financial and goods markets, savings and investment decisions must be independent, and the capital account must be adjusted to balance the current account position.

The key here is that Greenland's integration with the Eurozone and EFTA countries involves the integration of both goods and financial markets. In this case, current accounts traded in financial institutions require the simultaneous exchange of financial assets. Therefore, if the people of Greenland decide to exchange financial instruments domestically rather than with the Eurozone and EFTA countries, there is a risk of disrupting the flow of goods market activity.

#### **4.2.1. The Macroeconomic Effects of Financial Market Integration**

Feldstein and Horioka (1980) analyzed the macroeconomic effects of financial market integration. They found that savings rates are related to investment rates and that international financial market integration is largely absent. If financial integration were present, for example, savings decisions in the Eurozone or EFTA countries would be independent of investment decisions in Greenland. However, the results of this analysis were interesting because many international capital markets are significantly integrated. Although the correlation between savings and investment decreases over time, the findings remain valid. According to Bayoumi's (1997) analysis, countries do not utilize financial markets to separate savings and investment decisions. In this case, countries need to diversify their portfolios and avoid relying on international financial markets to mitigate consumption shocks. Another finding is the potential problems related to the capital account and the imposition of certain restrictions on the current accounts that countries can manage.

When examining Helliwell and McKittrick's (1998) analysis, it is evident that there are two pieces of evidence demonstrating international financial integration across geographic boundaries and among countries with different currencies. The first piece of evidence is that, for example, the Eurozone is unrelated. This indicates a high degree of capital market integration within countries and regions, rather than a high degree of correlation between countries and territories. The first piece of evidence is possible through the analysis of international savings and investment flows in countries and regions where the "Gold Standard" prevailed before 1914. Bayoumi's (1990) analyses show that during the Gold Standard era, exchange rates were fixed and capital was highly mobile. Consequently, the correlation between savings and investments across different countries and regions was smaller than it is today. The first piece of evidence may be interesting because it shows that financial integration is related not only to international factors but also to exchange rate regimes. The low international capital mobility stems from imbalances in international current accounts. Domestic current account positions are not given sufficient attention. In this case, countries and regions maintained large current account deficits or surpluses during periods when the Gold Standard prevailed.

The second piece of evidence, when examined, concerns international and domestic financial risks. In this case, individuals must use capital markets to borrow and lend when facing income shocks and to create a hedge against income fluctuations. Therefore, according to international financial data, international financial risk sharing does not appear excessive. In Greenland, consumption is significantly correlated with GDP, and the consumption rate is lower than in the Eurozone and EFTA countries. According to Van Wincoop (1994), a market is considered abnormal mainly if there are risk-averse (hedging) individuals. In this case, welfare can increase by taking significant market risks and sharing them. Bayoumi and Klein (1997), in analyzing Canada's economic integration, provide evidence that international financial risk sharing is low. This shows that international trade and financial borders affect income, depending on the extent of risk-sharing in employment income. In this case, the low risk to employment income arises, or, when these analyses are examined, it is seen that the relationship between savings and domestic investment is clearly consistent with overwhelming evidence, suggesting a weaker relationship with international financial integration.

## **5. Economic Integration and Economic Activities Between Greenland, Eurozone-EFTA Countries**

The increasing intensity of economic integration in recent years has had a positive impact on the international distribution of employment and production. Economic integration plays a significant role in establishing international economic integration by reducing a country's dependence solely on its domestic market, increasing global trade, and enhancing specialization. However, concerns about the widespread use of commodities across countries and regions, and the resulting increase in international trade competition, can negatively impact companies operating in that country or region, potentially leading to a decline in integration with another country or region therefore, while policymakers in Greenland are beginning to characterize measures taken to increase economic integration with the Eurozone and EFTA countries as "necessary measures", certain caveats regarding economic integration must also be considered.

Greenland's economic integration relies on sectoral models operating under conditions of imperfect competition and possessing increasing economies of scale. An examination of these sectoral models reveals that, due to economies of scale, sectors may limit commodity production to a few countries and regions, and these countries and regions may be economically developed and have high market access. Therefore, with Greenland establishing economic integration with the Eurozone and EFTA countries, the prices of goods produced in Greenland may become a net exporter of goods, due to increasing economies of scale. In this case, when the cost of commodities produced in Greenland decreases, new and existing enterprises may operate in other countries. If production costs fall from high to medium levels, the advantages of economies of scale will become even more widespread across the Eurozone and EFTA countries. As a result of a sharp decrease in the cost of products produced in Greenland, the products will no longer be important to the buyer. In this case, high product costs in Greenland help balance economies of scale. In short, a decrease in production costs in Greenland leads Eurozone and EFTA countries to shift high-cost production towards Greenland.

Krugman (2001) states that production costs are lower in the US than in Europe, and that labor mobility, the concentration of production facilities in Europe, and specialization in product manufacturing are necessary. In Greenland, this theory is supported by the fishing and mining sectors. Labor mobility plays a significant role in economic integration. Migration from Greenland to the Eurozone and EFTA countries, where employment and production are low in enterprises based in the Eurozone and EFTA, is higher. This can lead young Greenlandic people to migrate to developed countries such as the Eurozone and EFTA to secure their livelihoods.

When examining Greenland's economy, it is observed to have the most excellent economic integration with Denmark. In this case, as an indicator of international financial integration, Copenhagen is a more productive city than Nuuk. More clearly, larger cities are more productive than smaller cities. Therefore, Denmark's cities are more productive than smaller cities. Thus, Denmark's towns of Copenhagen, Aarhus, Aalborg, and Hørsholm can be considered the "center", while Greenland's cities of Nuuk, Sisimiut, Illulissat, and Qaqortoq can be regarded as the periphery. Low production costs could lead to the re-establishment of economic integration within Greenland and between Greenland and the Eurozone and EFTA, thereby intensifying economic integration with the Eurozone and EFTA countries. Consequently, for example, fisheries products could operate in Greenland, while industries such as pharmaceuticals, food, and clothing could operate in Greenland, similar to those in Eurozone and EFTA countries. Overall, policymakers in Greenland believe that lower production costs and reduced trade barriers could be positive for the Greenland economy. As a result of Greenland's integration with the Eurozone and EFTA countries, FDI will play a significant role in Greenland's economic development.

## **6. Export-Oriented Economic Integration of Greenland**

The export of commodities produced through investment in Greenland under the FDI program to the Eurozone and EFTA countries will play a significant role in Greenland's economic integration with these regions. Therefore, by implementing an export-oriented policy and exporting commodities to the Eurozone and EFTA countries, the Regional Economic Integration (REI) process will begin. However, as with import substitution, excessive export incentives may be provided in Greenland. In this case, among the objectives of Greenland's economic development strategies, maintaining export stability, implementing import substitution policies, participating in the international division of labor, and avoiding excessive protectionism in Greenland's manufacturing industries can play a significant role in achieving economic development goals.

The implementation and adoption of export and import substitution policies can affect Greenland's overall international trade. Therefore, Greenland's commodities exports to the Eurozone and EFTA countries will contribute to the development of Regional Economic Integration (REI). There are many reasons for this, and such practices apply to Greenland as well. First of all, thanks to the Regional Economic Integration (REI), Greenland will establish relations with the Eurozone and EFTA countries, and export restrictions and barriers will be eliminated. This will enable Greenland to increase its GDP and international trade volume. This is quite important not only for increasing Greenland's trade volume but also for growing global trade volume.

Greenland's establishment of REI with the Eurozone and EFTA countries will remove some obstacles to international trade. This will play a significant role in enabling Greenland-produced goods to enter the markets of the Eurozone and EFTA. Customs duties in Eurozone and EFTA countries will increase depending on production levels, providing flexibility in importing processed food and raw materials. Therefore, customs duties are generally higher on simpler commodities. Currently, uncertainties and risks in Greenland could negatively impact the REI. More information could be obtained on commodity prices and costs in neighboring countries such as Denmark. This could significantly reduce or eliminate uncertainty in Greenland's economic integration with the Eurozone and EFTA countries.

REI has both advantages and disadvantages. It entails higher commodity prices imported from the Eurozone and EFTA. Therefore, the establishment of new industries under the REI could lead to monopolies, inefficiencies, and increased production costs. This situation would result in excessive regional protection of sectors, preventing the provision of sufficient incentives for high-cost operations and technological advancement. Consequently, while companies from the Eurozone and

EFTA could better utilize capital and entrepreneurship in Greenland, they would be prevented from exporting globally, and high-value investments might be required to expand regional trade. This situation limits Greenland's decision-making power regarding economic integration, as negotiations with the Eurozone and EFTA countries, and the weakening of national authorities, depend on agreements made to ensure the success of the planned REI. Balancing the benefits and costs of the REI will depend on market size, resource abundance, geographical location, access to developed markets, and the international economic policies in place.

## **7. Benefit and Cost of Regional Economic Integration**


In Greenland's REI with the Eurozone and EFTA countries, the benefits and costs must be carefully considered. The uneven distribution of benefits and costs is one of the most significant obstacles to Greenland establishing an REI with the Eurozone and EFTA countries. Efforts are being made to address the imbalances in international trade and the uneven distribution of manufacturing industries that would arise from the establishment of an REI. However, imbalances in global trade, including differing trends in macroeconomic growth and employment, could be a consequence of the REI. Economic integration with the Eurozone and EFTA countries will play a crucial role in Greenland's economic development. However, if the REI is considered a disadvantage for Greenland, not only international trade with the Eurozone and EFTA countries, but also global trade must be considered. In this case, adverse developments in global trade could be offset by currency devaluation and revaluation. Trade imbalances caused by REI should not be seen as an indicator of an unequal distribution of benefits. Concerns arise when the imbalance is concentrated in the trade of manufactured goods, reflecting advantages gained in production and negatively affecting industries across countries. Therefore, the early industrialization drive in Greenland will enable rapid economic development and, as a result of the REI, it will establish relations with the Eurozone and EFTA countries, which may lead to a balance in international trade.

## **8. Regional Economic Integration Agreement Among Greenland, the Eurozone, and EFTA Countries: The Effects of FDI**

Regional Economic Integration (REI) generally eliminates trade barriers and investment restrictions. Through REI, investments will be made in Greenland by Eurozone and EFTA countries under the FDI. Therefore, the REI that Greenland will establish with the Eurozone and EFTA countries will play a critical role in the creation of a Free Trade Agreement (FTA).

### **8.1. The Macroeconomic Effects of Free Trade Agreement (FTA) Under the FDI**

Greenland's establishment of FTAs under REI with the Eurozone and EFTA countries will eliminate existing or potential trade barriers. However, FTAs are directly related to trade and commodity mobility. Therefore, it is argued that import substitution through tariff barriers, investment in Greenland via FDI, and ongoing tariff reductions may lead to a decrease in FDI flows, or that the foreign capital assets of international companies may be "recycled" and incentivized. According to Caves' (1996) method, if tariffs are eliminated, investments in Greenland by Eurozone and EFTA countries via FDI can clearly be seen as a primary source of foreign investment in intangible assets. To successfully compete in a market where Greenland-based firms have complete knowledge of the local market, consumer preferences, and trade policies, they must leverage the technological and marketing expertise of internationally operating firms and possess intangible assets that provide a competitive advantage. The effective utilization of these intangible assets by Greenland-based companies necessitates internalization through REI with Eurozone and EFTA countries, resulting in international companies



operating in these countries establishing foreign subsidiaries in Greenland. According to Buckley and Casson (2016), other forms of global trade, such as technology licensing and international trade restrictions, as well as investments in Greenland by Eurozone and EFTA countries under the FDI framework, could still occur.

When examining opinions regarding FDI, investments in Greenland by Eurozone and EFTA countries under the FDI framework lead to some contradictory statements regarding the economic impact of REI. If Eurozone and EFTA countries invest in Greenland under the FDI framework following the removal of tariffs among Greenland, the Eurozone, and the EFTA countries, investment flows may decrease. According to Kindleberger (1966) ideas, a Free Trade Agreement (FTA) among Greenland, the Eurozone, and EFTA countries could be more advantageous than FDI for exports from key countries such as the Eurozone and EFTA to Greenland, serving regional markets under the REI. In this case, the REI would not create incentives for investment reduction or capital repatriation, but rather policies and strategies to encourage the use of intangible assets within the region, thereby making it more intrinsic. Therefore, removing barriers to trade between Greenland, the Eurozone, and EFTA countries would enable international companies to operate more effectively internationally and could further increase investments from the Eurozone and EFTA countries in Greenland under the FDI. However, this situation applies to vertical FDI, and the activities of subsidiaries of international companies originating from the Eurozone and EFTA will be specialized according to Greenland's geographical location, and Greenland will play a significant role in the liberalization of trade between Eurozone and EFTA countries and in ensuring international economic cooperation for global companies.

When examining the static effects of REI between Eurozone and EFTA countries on FDI flows to Greenland, a partial balancing effect is observed. The impact of FDI on regional investment areas, or on Greenland itself, will depend on the structure and motivations of prior investments. Reducing or eliminating trade restrictions will lead to further liberalization of trade between Greenland, the Eurozone, and EFTA countries, and to increased FDI investment in Greenland. Conversely, the withdrawal of import-substitution FDI could negatively impact FDI investments in Greenland. Reconsidering FDI investments from Eurozone and EFTA countries in Greenland, both the reduction or elimination of tariff barriers and internalization lead to increased investment. Even with trade protection policies or trade restrictions imposed by geographical location, FDI from the Eurozone and EFTA countries in Greenland is expected to increase. Unlike local markets, the Free Trade Agreement (FTA) to be established as a result of the REI between Greenland, the Eurozone, and EFTA countries will ensure that fixed costs are covered for the investments of subsidiaries of international companies originating from the Eurozone and EFTA in Greenland. Increasing investments by Eurozone and EFTA countries in Greenland under the FDI framework is crucial, given Greenland's geographical advantages and disadvantages.

## 8.2. Dynamic Effects of REI and FDI Among Greenland, Eurozone, and EFTA Countries

The Regional Economic Integration (REI) that Greenland will establish with the Eurozone and EFTA countries, and the investments made in Greenland from the Eurozone and EFTA countries under the Foreign Direct Investment (FDI) program, will create a dynamic effect on the Greenland economy. To illustrate, an economic analysis of the Eurozone and EFTA countries suggests that the REI process and integration with Greenland can increase their productivity in the medium and long term. Therefore, these dynamic effects can play a significant role in making the established REI an attractive location for both local and foreign investors. Emerson (1992) stated that higher growth rates are temporary and can persist in a manner consistent with higher real income, provided there is close competition in the common market and efficient resource allocation. Baldwin (1989) stated that as a result of REI, initial gains related to efficiency and output increase, and the emergence of savings and investments that increase output, can lead to sustainable economic growth. According to Smith (1992), speculation may arise in analyses of dynamic benefits because the relationship between REI and dynamic growth effects is not well defined. However, investments made by Eurozone and EFTA countries in Greenland under the FDI are pretty significant in terms of dynamic benefits.

Specialization in finishing and mining in Greenland, leveraging economies of scale, implementing policies to increase economic efficiency by focusing individual economic activities on the geographic area, and attracting foreign investment through the FDI program are among the factors driving Greenland's economic development. Building on ideas from Smith and Venables (1988), increased FDI in Greenland and the development of policies and strategies to improve production efficiency, such as increasing the capacity of Greenlandic producers and closing gaps in the production process, are highly effective in making Greenland more competitive. Blomstör and Kokko (1996) stated that FDI can play a significant role in enabling firms operating both directly and domestically to disseminate technology further worldwide. If REI enables Greenland to access broader markets, then several dynamic effects are likely to emerge, considering the impact of intangible assets on the firm, which facilitates FDI.

The markets of the Eurozone and EFTA countries will play a crucial role in enabling firms operating in Greenland to compete more strongly in international markets. An REI among Greenland, the Eurozone, and EFTA countries will help remove trade restrictions and barriers, thereby ensuring Greenland's global competitiveness. Economic cooperation between Greenland companies will contribute to Greenland's macroeconomic and international economic development. Therefore, companies in Greenland will grow as a significant result of establishing REI with the Eurozone and EFTA countries, and will be able to invest more in R&D and marketing. This could encourage further FDI investment from Eurozone and EFTA countries both within and outside Greenland.

An examination of the dynamic effects of REI and FDI reveals that investment from Eurozone and EFTA countries has a significant impact on Greenland's macroeconomic and international economic development. REI and FDI aim to transform Greenland into an attractive investment hub. Therefore, further FDI investments from the Eurozone and EFTA countries in Greenland should be encouraged.

## **9. Multi-National Corporations (MNCs), REI, and FDI**


MNCs, REI, and FDI, which play a crucial role in the development of the global economy, have led to changes in production and in the lives of countries and are among the most critical factors that have further increased the volume of international trade. MNCs play a significant role in the economic development of Greenland, the Eurozone, and EFTA countries. Hellström (2016) states that MNCs not only contribute to a country's economic growth but also shape its political structure. In this case, policymakers are the first to analyze the political effects of MNCs and use them as a key tool in the country's economic development. Therefore, investment by Eurozone and EFTA-based MNCs in Greenland under the FDI will ensure Greenland's macroeconomic and international economic development. Consequently, investment by Eurozone- and EFTA-based MNCs in Greenland under the FDI program, following the establishment of REIs with Greenland, will play a vital role in making Greenland more competitive globally.

In addition to the REI to be established with Greenland, the Eurozone, and EFTA countries, "capital integration" will also be established. Therefore, capital integration can be described as the strengthening of economic ties through the ownership and control of capital by Greenland, the Eurozone, and EFTA countries. Capital integration can also be defined as the transformation of trade relations between Greenland, the Eurozone, and EFTA countries from traditional market relations to equity relations. In the capital integration to be established with investments in Greenland under the FDI program, "multi-national joint-stock companies" are a key factor, and cross-investment is crucial. The REI process between Greenland, the Eurozone, and EFTA countries involves the removal of trade restrictions and barriers by MNCs, based on the efficient allocation of resources, and investment in Greenland through FDI. Therefore, Eurozone and EFTA countries can also establish capital integration in the production sector by shifting commodity production to Greenland.

## **10. The Development of REI and FDI Among Greenland, the Eurozone, and EFTA Countries**

It has been previously stated that the REI is to be established among Greenland, the Eurozone, and EFTA countries, and that investments made in Greenland under the FDI as a result of the REI play a significant role in Greenland's economic development. Therefore, the integration to be established in production will ensure that the firms in Greenland, using their internal control systems, are combined with Eurozone and EFTA countries according to their capital needs, and that interdependence is high. The fundamental element of production integration among Greenland, the Eurozone, and EFTA countries is the international division of labor, and multinational corporations (MNCs) are the driving force behind it. Based on Moravcsik's (2013) idea, it is possible to characterize international economic cooperation between Greenland, the Eurozone, and EFTA countries as a business relationship resulting from the creation of, for example, producers in Canada or the Kurdistan Region through global markets. This situation results from the widespread expansion of business relationships from local to international markets. In the modern sense, the international division of labor refers to the separation of the industry and product value chains. According to the contemporary international division of labor, countries are examined in two groups. Firstly, there are countries at the top of the industrial and product value chains, and secondly, countries at the bottom of the industrial and product value chains.

When examining the productive forces in the Eurozone and EFTA countries, the development of science and technology is considered a driving force. They will provide the material means for the modern restructuring of international business relations and industries. In Greenland, further development of information technologies has led to the establishment of REI and the shifting of investments to Greenland by Eurozone and EFTA countries through FDI. Therefore, international business relations and related production activities depend more on the international distribution of factors



of production than on geographical location and natural resources. Consequently, the Eurozone and EFTA countries, with robust economic structures, can access global resource allocation. In this case, according to Ricardo's "Comparative Advantages Theory", the Eurozone and EFTA countries can choose their own place in industrial and product chains. Changes in international business relations in Greenland will lead local industries to prepare themselves for globalization and abandon traditional practices. As a result, local industries in Greenland may transform into MNCs. From the perspective of increasing productivity in the community, a monopoly of capital held by MNCs could trigger a transformation in Greenland. Investments from the Eurozone and EFTA countries under the FDI could enable them to establish subsidiaries in Greenland by providing capabilities, capital, equipment, production, and management support. These subsidiaries of Eurozone and EFTA-based MNCs will facilitate their participation in international cooperation in different countries. For example, the establishment of subsidiaries by Novo Nordisk, Mercedes-Benz, Van Hool, or Mondelēz International, Inc. in countries such as the Kurdistan Region, Kuwait, Jordan, and Indonesia will lead to the inclusion of these countries and regions in international cooperation. In Greenland, the production management of the multinational corporations' subsidiaries would be provided by resource-rich Eurozone and EFTA countries, and the multinational corporations would procure production technologies from these regions.

## 11. Conclusion

This study examines the establishment of Regional Economic Integration (REI) between Greenland and nearby locations such as the Eurozone and EFTA countries to facilitate Greenland's international economic development. Although currently a focus of debate due to its strategic location, Greenland possesses significant economic potential. While currently an autonomous region within Denmark, it's seen as a potential future independent state. Establishing REIs with the Eurozone and EFTA countries is crucial for attracting Foreign Direct Investment (FDI) to Greenland. Greenland's primary sources of income are seafood and mineral mining. FDI investments from the Eurozone and EFTA countries in the seafood and mineral mining sectors will play a significant role in Greenland's macroeconomic and international economic development.

Greenland has a large surface area of approximately 2,166,086 km<sup>2</sup> and a relatively small population of around 55,745. It currently lacks significant economic assets beyond seafood and minerals. However, as a result of the Eurozone and EFTA countries investing in Greenland through FDI, Greenland's assets will be processed and exported globally, contributing to a noticeable increase in GDP. Implementing an export policy linked to FDI in Greenland will enable significant economic growth. However, the fact that Greenland is a large region and has not yet received sufficient investment raises questions. Therefore, this study examines how the REI that Greenland will establish with the Eurozone and EFTA countries, and the resulting FDI, will contribute to the increase in Greenland's global trade volume.

Analysis of macroeconomic data reveals insufficient information about the Greenlandic economy. Therefore, this study, focusing on Greenland's economic potential, aims to guide analysts who wish to examine REI and FDI. More specifically, this study examines Greenland's significant global economic potential, particularly its most important economic resources: seafood and mineral extraction. This potential can be realized through REI agreements with Eurozone and EFTA countries, which could consequently attract investment to Greenland under FDI.

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