1-1-2011

Iceland's Lost Leverage and New Power

Gregory Capece
Lehigh University

Follow this and additional works at: http://preserve.lehigh.edu/perspectives-v29

Recommended Citation
http://preserve.lehigh.edu/perspectives-v29/4

This Article is brought to you for free and open access by the Perspectives on Business and Economics at Lehigh Preserve. It has been accepted for inclusion in Post-crash Iceland: opportunity, risk and reform by an authorized administrator of Lehigh Preserve. For more information, please contact preserve@lehigh.edu.
Introduction

With a population of approximately 320,000 citizens, Iceland can be classified as a microstate. To put that number in perspective, Pittsburgh, Pennsylvania, has approximately 330,000 inhabitants. As with many microstates, Iceland is a weak state and produces a narrow range of products (fish and aluminum), depends on foreign imports, tends to conduct foreign trade with few partners, and suffers from lack of scale in many sectors. Historically, these difficulties leave weak states sensitive to price fluctuations and political pressures from more powerful states. (Handel, p. 165) But like many small states, Iceland has made demands of powerful states with great success. (Baker Fox, p. 40)

Beginning in the years following World War II, Iceland saw its importance on the world stage grow. As the buildup of the Cold War started, the international community saw the emergence of two superpowers: the Soviet Union and the United States. Put in context through discussion of classical international relations theories, Iceland was important to the national security of many countries, enabling it to secure American defense and leverage its alliances to play the Soviet Union against the West for economic and political gain. However, as the Cold War ended, Iceland saw the leverage it once exhibited disappear because of changes to the international structure.

This article discusses ways in which Iceland can regain power. Several opportunities, such as the exploitation of oil reserves and trade routes, are examined. Located in the North Arctic, Iceland is currently sitting on oil fields that have already gained the attention of countries around the world and is located along newly forming trade routes in the Arctic that can dramatically decrease travel time and distance from Asia to the Western world. By controlling both of these resources, Iceland may find itself in a position of tremendous financial power in the not too distant future. Thus, Iceland can shift its power from one based on national security to one based on financial security. The conclusion reached is that these two powers are not equal, and in the absence of
international conflict, Iceland will never regain the leverage it had during the Cold War.

**Iceland during World War II**

Before the start of World War II, Iceland was a country few people in the world paid attention to; it was simply a poor island nation located in the North Atlantic. It had been under the Danish crown since 1397, and by 1918 it had been granted full sovereignty by the King of Denmark. After receiving sovereignty, Denmark was asked to represent Iceland in all matters of foreign affairs, eventually representing the country at its embassies around the world. That arrangement lasted until April 9, 1940, when Hitler’s troops occupied Denmark, effectively cutting off all communication with Iceland. It was at that moment the eyes of the world shifted to Iceland for the first time.

Because Denmark was occupied by Nazi Germany, Iceland sought to control its own foreign affairs and thus declared itself neutral in World War II. ("Background Notes....," p. 3) This was worrisome to the Allied forces and the United States (which had not yet entered the war). In a speech to Congress on May 16, 1940, President Roosevelt made clear that the United States would be within range of bomber planes taking off from Iceland. (Mosely, p. 746)

The Allied forces needed to guarantee that Iceland would not fall into the hands of the Axis powers, because Iceland would be an ideal location from which to carry out military strikes. Trying to reach out to Iceland, Great Britain unsuccessfully asked for cooperation with a naval blockade on the Nazis. However, on Iceland’s insistence on neutrality, Great Britain decided to invade the nation on May 10, 1940. Great Britain occupied Iceland until July 7, 1941, when defense of Iceland was turned over to the still neutral United States. (Ingimundarson, “Buttressing....,” p. 83) Over the course of the next four years, the United States was able to use Iceland as a refueling station and a command center for the defense of Arctic waters and skies. During this time, Iceland benefited greatly as the United States presence in the country created jobs and infrastructure development.

**Iceland and Neorealism**

As the dust from World War II settled, the world became one dominated by two superpowers: the United States and the Soviet Union. With each power trying to gain as much influence as possible, lines started being drawn and countries started taking sides. Seeing how important Iceland was to the Americans during World War II, Iceland knew that its location could be just as strategically important to the Soviets. This fact could potentially lead to power. In "The Power of Small States," Anne Baker Fox declares, “The main external source of a small state’s strength in dealing with one great power was the knowledge, open to both parties, that there were behind the small state one or more great powers, despite the customary absence of alignment.” (Baker Fox, pp. 44-45)

For Iceland, this meant that it had the ability to get more out of both the United States and the Soviet Union because of the competition between the two. If one existed without the other, then Iceland would have essentially had no power at all. Yet because the two coexisted, Iceland had arguably the greatest power of all: leverage.1 Whenever the United States looked at Iceland, it could always see the Soviet Union lurking in the background waiting to pounce on any opportunity and vice versa. Because securing Iceland was a matter of national security, Iceland had the opportunity to become an important player in world politics.

Because of this coexistence, one of the first things the United States needed to do was secure the defense of Iceland. To understand why, it is important to first understand the rationale behind actions taken by states on an international scale. According to Kenneth Waltz’s structural realist theory, or neorealism, the international political system is based on anarchy. In such a system, there is an absence of a world government, “each state plots the course it thinks will serve its best interests,” and a state uses force if necessary. (Waltz, pp. 111-12) A state does not care about preserving an organization to which it may belong (Waltz, p. 110) and has the mentality that to

1Leverage is defined as the power to influence another country or situation to achieve a particular outcome. (Merriam-Webster Dictionary)
“maximize profits tomorrow as well as today, [it first has] to survive.” (Waltz, p. 102)

In relating the structural realist theory to defense policies, when threats are high, there is more cooperation in providing collective defense, and when threats are low, there is less reason to cooperate. (Hower, p. 13)

Throughout World War II, Iceland did not have a standing military. From the United States’ perspective, this was a problem; the Soviet threat was real and it could not afford to have Iceland fall into their hands. Therefore, out of its own self-interest, the United States wanted to be able to protect Iceland and prevent the Soviets from taking over the country. For Iceland, a protector such as the United States meant tremendous leverage for two reasons. First, the backing of the United States inherently meant that Iceland could leverage the relationship for more political clout with other nations. Second, Iceland understood that the United States wanted to protect Iceland. Iceland could use this fact as leverage and threaten its acceptance of protection at any time.

**Iceland’s Use of Leverage**

America first tried to shore up Iceland’s defense with the signing of the Keflavik Agreement of 1946, which was an agreement between the United States and Iceland that allowed the United States to land troops in Iceland but not station permanent troops. For Iceland, this represented a tradeoff. On one hand, it was able to keep an American presence that was pumping money into the economy. On the other hand, it felt its sovereignty was being threatened. Yet, this feeling is common in protection alliances. (Christensen, p. 93)

Several years after that Agreement was signed, Iceland had the opportunity to gain even more protection and power when it was offered the chance to become a charter member of the North Atlantic Treaty Organization (NATO) along with Canada, France, Denmark, Italy, Norway, Portugal, Belgium, Netherlands, Luxembourg, the United Kingdom, and the United States under the agreement that American troops would not be stationed in Iceland during peacetime. Iceland accepted this invitation in 1949 in a classic case of bandwagoning. Many left-leaning and socialist Icelanders were outraged, eventually organizing violent protests, referred to as the “NATO Riots.” They argued that Iceland was losing its neutrality and militarizing itself, which went against the country’s principles. (Ingimundarson, “Buttressing…”, pp. 83-85) By joining NATO, Iceland ideologically aligned itself with the West and found itself in an even more powerful position as the members of NATO wanted Iceland to be a member as much, if not more than, Iceland wanted.

Iceland’s protection was guaranteed when it signed a bilateral defense pact with the United States in 1951. This agreement allowed the Americans to station troops in Iceland permanently at the Keflavik Air Force Base. Finally the Americans secured Iceland and, in return, the Icelanders gained political clout and leverage in the world arena.

After joining NATO and accepting American defense, Iceland had the opportunity to make demands. For the United States during the buildup of the Cold War, Iceland was a blip on the radar screen. Any demand that Iceland made would not be as large as to be considered outrageous and the United States and its allies would probably acquiesce. This wide scope of attention is part of the reason why weak states are able to get demands from great powers. Great powers are often concerned with multiple issues taking place on the international stage; they cannot afford to be distracted by the interests of small states. (Baker Fox, p. 47)

For the West, it was crucial that Iceland remained under control for national security reasons and Iceland used its leverage to benefit in two main areas as a result in the early years of the Cold War: fisheries policy and financial aid.

Iceland’s first demonstration of its new leverage took place during a dispute over fishing policy with Great Britain in 1952. Referred to as the first set of Cod Wars, it started when Iceland drew a four-mile boundary around its shores, gave Icelandic vessels exclusive rights to fish in this zone, and limited the number of fish

---

2 Iceland still does not have a standing military at the date of this publication.

3 If “the aggressor wins the war, the worst the weak state can expect is to be absorbed, without its territory destroyed by conquest. At best, the weak state may receive more benevolent treatment from the conqueror than those states that resist it.” (Hower, p. 30)
that could be caught. Upset with this decision, the British Trawler Owners’ Association implored British docks to ban the landing of fresh fish in Britain from Icelandic vessels, believing that there was no reason to impose any limits. (Mitchell, p. 128) The British docks did so, and to retaliate, Iceland opened up trade relations with the Soviet Bloc, reorienting itself so that more than one-third of its trade was with the Soviets. (Ingimundarson, “Iceland’s...,” p. 77) Great Britain ultimately accepted the four-mile boundary in 1956 after seeing Iceland open up trade relations with a non-NATO member. (Mitchell, p. 128)

During the heart of the first Cod Wars in 1953, Iceland demanded that the American bilateral defense pact be revised. It threatened to revoke the defense pact entirely unless the United States built a fence around the Keflavik Air Force Base to limit movements off base, replaced foreign workers with Icelandic workers, and only hired construction workers from the Keflavik area. Unwilling to create any hostility with Iceland, the United States accepted the deal and, in turn, was able to increase troop levels from 3,900 to 6,200. The base turned out to be such a boon to the economy that when Iceland stopped receiving Marshall Aid, the country suffered nary a hiccup.\(^3\) By 1956, the base accounted for ten percent of Iceland’s national income. (Ingimundarson, “Buttressing...,” p. 88)

During the 1956 Icelandic elections, a coalition between the Progressives, Social Democrats, and the Popular Alliance gained control, in which several of the Popular Alliance party representatives were Soviet sympathizers. Uncomfortable with this situation, NATO decided to halt the circulation of classified documents to Iceland. When then Prime Minister Hermann Jónasson threatened to pull out of NATO, Iceland started receiving all classified documents, except those pertaining to military plans. This new coalition also wanted to reduce American presence in the country and wanted to propose that United States forces be replaced by rotating NATO forces. However, Iceland was in a bind, because it needed foreign aid and loans to pursue its economic development plans. After being turned down for aid by both West Germany and France because of the uncertainty surrounding the military base\(^5\), Iceland reluctantly turned to the United States. Talks had begun with the United States when some socialists within the Icelandic government had secret talks with the Soviets and verbally reached an agreement on aid. Afraid that Iceland would act on the Soviet deal, the United States granted Iceland $5 million for construction of a power plant, a $3 million dollar emergency loan based on the continued success of the bilateral defense agreement, and in addition, pledged to fund specific projects in the future if deemed worthy. (Ingimundarson, “Buttressing...,” pp. 90-94)

In 1957, Iceland unsuccessfully asked the Americans for over $40 million in loans to cover the continued construction of power plants. The Soviets had offered a $25 million loan to be repaid in fish but some in the Icelandic government did not want to agitate the West, fearing the need for future loans. During this time, the Soviets were willing to build 12 fishing vessels in East Germany for Iceland in return for $3 million to be repaid at a later date. At the United States’ urging, Iceland turned to NATO, presenting the case that Soviet aid was available and that NATO should respond in order to prevent realignment. With the secretary-general of NATO recommending that loans be given, the United States and West Germany eventually agreed to give $5 million and $2 million, respectively. In turn, Iceland turned down Soviet aid, again using its tremendous leverage for fiscal gain. (Ingimundarson, “Buttressing...,” p. 95)

By September 1958, the second major flare-up of the Cod Wars between Iceland and Great Britain was underway. In this dispute, Iceland was able to leverage its NATO membership for favorable results. It started when Iceland extended its fishing zone from 4 miles to 12 miles (Mitchell, p. 128) when the United Nations Conference on the Law of the Sea (UNCLOS) of 1958 failed to establish a fishing boundary policy. (Ingimundarson, “Buttressing...,” p. 99)

\(^3\) Iceland first started receiving major aid after World War II by means of the United States’ Marshall Plan in 1948, a year after the Keflavik Agreement was signed.

\(^5\) There were feelings that Iceland would take control of the air force base from the United States, and its future was uncertain.
France, Netherlands, and West Germany all accepted this ruling and withdrew from Iceland’s fishing zone. Great Britain, on the other hand, saw no justification and continued to allow its vessels to fish in Iceland's coastal waters, this time protected by the Royal Navy. (Mitchell, p. 128) Many Icelanders felt that the United States was responsible for the failure to adopt a policy at the UNCLOS, and if Britain used force within the boundary, Iceland again threatened to withdraw from NATO. Furthermore, because of the 1951 bilateral defense agreement with the U.S., the Americans would be forced to come to Iceland's aid in the case of a British attack. This disagreement lasted until another UNCLOS was held in 1960. For the duration of the conference, Britain left the Icelandic fishing zone. Again, this conference did not establish any fishing policy and Great Britain was prepared to resume fishing, thus restarting the Cod Wars. However, Icelandic minister of justice Bjarni Benediktsson promised that if this happened, Iceland would leave NATO. (Ingimundarson, “Buttressing…,” p. 100) Not willing to call Iceland's bluff, Great Britain's hand was forced and an agreement was reached in 1961. It allowed both Great Britain and West Germany to fish within the new boundary for three years and made explicit the fact that Iceland was looking to further increase its exclusive fishing limits. If any increases were made, there would have to be six months' notice and any complaints would be settled at the International Court of Justice. (Mitchell, pp. 128-29)

Iceland expertly used the leverage gained from its importance to national security in the years after World War II. Between 1948 and 1960, the United States gave more than $70 million in aid to the country and from the years 1954 and 1960 alone, the Keflavik Air Force Base provided Iceland with jobs and 15 to 20 percent of its foreign currency earnings. (Ingimundarson, “Buttressing…,” p. 102) Iceland also used its alliance with the West to negotiate aid from its NATO allies and threatened this very NATO alliance multiple times to secure favorable deals in terms of American defense and the Cod Wars. Iceland was able to accomplish this because of the leverage granted it by the existence of two superpowers. It was in the best interest of each of the NATO countries to have Iceland as an ally and, in accordance with the theories of neorealism, the countries did what was necessary to keep it that way it. By pitting the Soviet Bloc against the West, Iceland benefited greatly. Unfortunately for Iceland, its period of leverage would eventually come to an end.

End of an Era

As the Berlin Wall came down, the Soviet Empire crumbled and the Cold War all but ended. At this point, the NATO allies were no longer concerned about a Soviet satellite in the North Atlantic. Instead, new European security issues arose; there were tenuous situations in the Balkans and Warsaw Pact states as well as worries about “refugee flows, environmental hazards from decaying nuclear reactors, international drug trafficking, and the proliferation of weapons of mass destruction.” (Hower, p. 106) It was time to reassess Iceland’s importance and involvement with NATO.

Many times in alliances, weak states offer different contributions than strong states. Often the strong states are left with a disproportionate amount of the burden in terms of defense spending and even physical protection. Yet for weak states, their seemingly small contributions are extremely large when compared to the size and capability of their country. From Iceland's perspective, this was the case when the Cold War ended and remains true today. Although the country maintained no standing army, it was able to offer special services from engineers, medical personnel, and professionals, air defense and ocean surveillance services surrounding Iceland, and its opinion on matters critical to NATO. (Hower, pp. 24-25)

To the great powers of NATO, however, Iceland fit the description of a free rider. During the Cold War, Iceland benefited no matter how much effort it was exerting toward the Organization. Thus, the country had “little incentive to provide additional collective goods once the large member provides what they want.” (Hower, p. 32) Yes, Iceland may have had to wage some domestic political battles regarding its NATO involvement, but externally, Iceland did comparatively little as it had minimal chance of affecting the Soviet Union. When this happens, weak states usually develop passive for-
eign policies and put together weak defenses. This is exactly what Iceland did as it was essentially getting free defense from the NATO allies. (Hover, p. 32)

With the threat of the Soviet Union gone, realist theory states that the alliance between the countries opposing the Soviet Union would weaken because there was no longer a security issue. (Hover, p. 126) Accordingly, NATO shifted its focus and interests to other security measures. As a result, Iceland was no longer of great importance to the Alliance and in turn, lost its leverage.

There is no greater proof of this lost leverage than the status of the Keflavik Air Force Base. During the Cold War, having American defense acted as a source of leverage for Iceland. However, American feelings and actions towards Iceland after the Cold War are consistent with the theories of neorealism. Because the Soviet Union ceased to exist there was no longer a threat to American survival from a would-be invader of Iceland. Accordingly, the United States Air Force Base at Keflavik was closed after nearly 60 years of operation. In March 2006, the United States announced that it would start removing troops from the base and eventually shut it down. On September 8, 2006, the base was officially closed during a ceremony attended by the remaining 100 United States servicemen and women still there. (Duprey, p. 6). This marked the end of American presence in Iceland and for many Icelanders was interpreted as a symbolic gesture by the Americans, essentially downplaying the importance of Iceland. With the Soviet demise, no longer can Iceland pit the Soviets versus the West or threaten its political alliances for gain.

Oil

Because Iceland is no longer of great importance to the national security of many countries, it needs to look for ways to regain the power this importance brought. In doing so, it may try to become financially powerful, using the Middle East as a model. There, a new type of state is appearing: one that is militarily weak but economically strong. By controlling a good with highly inelastic demand, such as oil, the members of the Organization of the Petroleum Exporting Countries (OPEC) are able to separate themselves from other countries with abundant natural resources. (Handel, pp. 155, 166) Unlike the fishing and aluminum industries that are currently important in Iceland, oil and trade routes are highly sought after with few substitutes and few competitors. Whereas in the past, Iceland represented a strategic military stronghold, Iceland now represents energy and trade potential. By pursuing these two areas, Iceland will enter a new era, which may change the course of the country's future.

Because of the improvement in deepwater drilling technology, it is now possible to extract oil in places previously thought of as impossible in Iceland's territorial waters. According to the United States Geological Survey, approximately 30 percent of the world's untapped oil reserves and 13 percent of the world's untapped natural gas reserves lay beneath the Arctic ice. This amounts to approximately 90 billion barrels of oil and 44 billion barrels of natural gas. ("Russia: Arctic Ambitions....", p. 1) That ranks as the third largest source of hydrocarbons in the world following the reserves in the Persian Gulf and Western Siberia. ("Russian Scientist Says....") With eight countries bordering the Arctic (Canada, Denmark, Finland, Iceland, Norway, Russia, Sweden, and the United States) the power struggle for these resources is just beginning.

To exploit this opportunity, Iceland is selling permits between August 1, 2011, and December 1, 2011, for oil exploration in an area called the Dreki Zone off its northeastern shores and Russia seems highly interested. ("Icelandic Oil Licenses....") According to an article in the Tribune Business News, Alexander Bedritski, the Kremlin advisor on climate change, recently told an international forum on the Arctic that Russia has a “natural claim” to natural resources in the Arctic as “around 1.5 percent of [the Russian] population lives in the Russian Arctic sector. That's more than live [sic] in the polar regions of other neighboring countries.” (Mauder) Russia first gained worldwide attention for its Arctic interests in 2007 when it planted a Russian flag at the bottom of the sea at the North Pole. However, Russia has been working behind the scenes to make land claims since 2001, when it made a claim to the Commission on the Limits of the Continental Shelf at the United Nations that both the
Lomonosov Ridge and the Mendeleyev Rise (which extend from Siberia to Greenland) are attached to its continental shelf. Due to lack of evidence, the claim was rejected. Russia has since conducted major exploratory missions in search of evidence in both 2004 and 2007, vowing that it will submit another claim post 2010. ("Russia: Arctic Ambitions…," p. 1)

As Russia attempts to stake land claims, it has slowly improved its relationship with Iceland in what may be seen as an effort to eventually get access to Iceland’s oil. It is well known that Iceland had been negotiating an emergency aid deal with Russia during its financial crisis in 2008 that eventually fell through, and with Iceland holding oil exploration permits auctions in 2011, Russian Minister of Energy Sergei Shmatko has asked several Russian companies to begin dialogue with Iceland regarding the exploration permits in the Dreki Zone. ("Icelandic Oil Licenses…") Iceland has not been shy about the improving relations and leveraging its oil wells either. In September 2010, Icelandic President Olafur Grimsson told Russian President Dmitry Medvedev that Iceland would like to help Russia develop geothermal energy plans. Furthermore, he said that he would also like to sign an agreement with Russia that would allow Iceland to help Russia maintain air service to the Arctic. At the core of these initiatives is Grimsson’s wish to increase “engagement with Russia in developing natural resources in the Arctic and in opening new sea routes.” ("Iceland Wants To Join…")

Figure 1

Percent of Workforce by Economic Activity

Source: “Iceland Gets Ready For Offshore Drilling.”
Trade Routes

Located in Arctic waters, Iceland is able to control not only various oil reserves but also trade routes. The famed Northwest Passage mystified explorers for centuries. It was the holy grail of navigation, a sea route through the Arctic that could connect the Atlantic and Pacific Oceans. It was not until Norwegian explorer Roald Amundsen navigated the Passage between 1903 and 1906 that the world knew for certain that was possible. As great as Amundsen’s achievement was, he also proved that it was dangerous and difficult to navigate, as much of the Passage was covered in ice. In the 100 years since its discovery, the Northwest Passage and, more generally, the Arctic landscape have changed drastically and to the point that in the next decade, the Northwest Passage may be safely navigable. The origins of global warming can be argued (caused by human activities, natural occurrences, or a combination), but it cannot be argued that the Arctic sea ice has been thinning. In the early 1990s, the ice at the North Pole was measured as 3.1 meters thick, whereas in 2007 it had melted to 1.3 meters. As a result, Arctic trade routes are developing and the Naval Postgraduate School at Monterey, California, estimated that by 2013 some routes will be ice-free during the summer months. (“Ice-Melt Fuels...,” p. 1)

As the ice in the Arctic continues to melt, it is easier for vessels to travel through the Arctic waters. Iceland is perfectly situated in the Northern Atlantic to benefit from the opening of new sea passages in the Arctic. For countries located in Southeast Asia, travel time to Western Europe and the Eastern United States will be reduced (Sverrisdóttir). However, many large vessels currently find the northern Arctic unnavigable. To solve this problem, Icelandic Minister of Social Affairs Ásta Ragnar Jóhannesdóttir suggested that Iceland provide ports for shipping companies to transfer cargo from large vessels to smaller vessels. These smaller vessels in turn would better be able to traverse the frozen Arctic. (Nikolov)

These new sea routes can lead to great financial gain for Iceland. Icelandic president Olafur Ragnar Grimsson has been quoted: “Iceland is at the center of the sea routes that are gradually opening up, linking Asia in a new way with Europe and North America in a similar way as the Suez Canal did in its time.” (Ward, “Iceland Uses Arctic Thaw...,” p. 7) Iceland could surely use the boost in revenues that would result from charging ships to use waterways in its exclusive economic zone. In the fiscal year between June 2006 and June 2007, Egypt collected $4.16 billion dollars from the Suez Canal alone (“Suez Canal Earns...”). An impact like that on Iceland’s $12.15 billion GDP would be tremendous.

Iceland has been expertly using its leverage with the Arctic trade routes. For example, China has been making overtures at Iceland because it believes it can benefit from Iceland’s geographic location in the Arctic when shipping lanes emerge from the melting ice. From China, the shipping distance can be as much as 40 percent shorter through the Arctic to reach European and North American port cities than through the Suez Canal or around Cape Horn. (Sverrisdóttir) In a demonstration of friendship, China built the largest embassy of all countries in Reykjavik and publicly campaigned for Iceland to gain a seat on the United Nations Security Council in 2008, even though China knew Iceland would never gain the seat. (Wade, p. 10) Continuing its friendliness in June of 2010, China agreed to a $500 million currency swap with Iceland to help alleviate some of Iceland’s financial pain by granting it better access to foreign currency. (Ward, “Iceland Secures...,” p. 6) As recognition for these benevolent acts, Iceland and China announced in December 2010 that Iceland would be helping China develop geothermal power. (Daya) Again, Iceland is leveraging its geography for fiscal gain.

Conclusion

Iceland and the Arctic may be to the world what the Wild West was to the American pioneers in the 1800s. The opportunity in Iceland for new industries revolving around goods with inelastic demand, such as oil and trade routes, can transform Iceland into an economically strong state. As the weak and dependent OPEC changed the political structure of the world in the 1970s, when they were able to apply economic pressure to militarily superior states through the use of oil control (Handel, p. 177),
the smaller, weaker Arctic countries today may gain similar power. Oil and trade routes represent a great opportunity for collaboration, with the Arctic countries coming together to offer one product or service.

Unfortunately, however rosy the outlook for Iceland appears, the country will never be able to regain the leverage it had during the Cold War. It had the ability to influence power nations because they were at Iceland's mercy. This leverage no longer exists. Yes, Iceland can gain political clout and power through its economic capabilities in the future, but because the country is so small with such a narrowly focused economy, it (like many other weak states) alone cannot grow the capital it has the ability to accumulate. Instead, it needs to invest in other countries in order to maximize its fiscal potential. (Handel, p. 180) This leaves the country vulnerable to international pressures. As a result, Iceland will be at the mercy of the great powers.

Whereas Iceland's past power was the result of national security, Iceland's new power will be the result of financial security. Kenneth Waltz's theory of neorealism argues that states do whatever they need to do to survive. The Cold War was a matter of continued existence that allowed Iceland to extract as much as it could from the Soviets and the West. Anything short of such a conflict will ultimately limit Iceland's power because states will not be willing to bend unless survival is threatened. Thus, no matter how much power Iceland gains, it will be hard pressed to find itself with the amount of leverage it had during the Cold War.
REFERENCES


