

Greenland issue: An explainer

Reiterating a long-standing demand, the US President intensified efforts to acquire Greenland in the interest of national and global security. The island nation, with a large area of over 2mn sq kms and with a population of only about 57,000, is covered largely in ice. It is an autonomous territory under Denmark. The US President's threat of using economic and military power to annex Greenland, hence created a significant rift in the NATO alliance of which both the US and Denmark are a part. In this study we have traced how the conflict has evolved and what are the reasons behind the US' demand for controlling Greenland.

Context:

The US, led by President Trump has sought to “purchase” Greenland citing it to be “imperative for national and world security”. This is not a new demand from the US President, as even in his first Presidency a similar claim was made. So what's new this time and why is it important for the global trading system?

Greenland: Politics and beyond

Greenland is recognised as the World's largest island with an area of over 2mn square kilometres. The island is an autonomous territory of Denmark. This means that while the local government controls the majority of domestic issues such as education, health and use of domestic resources, the Danish government handles matter such as foreign policy, defence and security policy. A large part of the budget of Greenland is also financed by Denmark. Officially, the country's status is Overseas country and territory (OCT). However, Greenland is also a part of the Council for Europe, and is also the part of the North Atlantic Treaty Organization (NATO) through its close association with Denmark, of which US is also a member.

US threat: Higher tariffs

Over the last few days, the US President intensified his claims to annex Greenland, resorting to the use of both military and economic power, if required. Recognising this as a legitimate threat, several European nations, including France, Germany, Sweden amongst others increased military deployment in Greenland, further escalating tensions. This is said to have resulted in the US President threatening to impose tariffs on several European countries who do not back the US' plans to take over Greenland. President Donald Trump announced a 10% additional tariff on goods from UK, Denmark, Norway, Sweden, France, Germany, Netherlands and Finland from 1 Feb 2026. The rate was expected to increase to 25% by 1 Jun 2026.

Greenland: Strategic importance for the US

The US has long stated the importance of Greenland for US' military and defence strategy. While the US has a permanent base in Greenland, the Pituffik Space Base, the US President has said that the island is crucial for his ambitious “Golden Dome” defence project. The Golden Dome defence system proposed by the US, with an estimated cost of US\$ 175bn, is aimed at reducing the threat of missile and drone attacks. It is a more comprehensive system which protects the US mainland against a vast spectrum of threats and attacks, with advanced tracking systems and multiple layers of interceptions.

The island's geographical location in the Arctic circle, offering close proximity to the EU, Russia and the US.

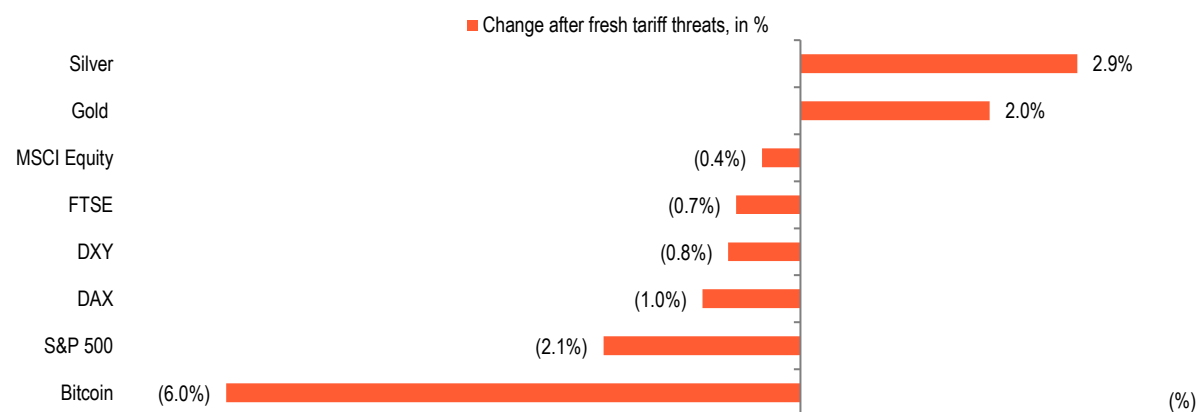
Greenland: Land of opportunities

Despite being mostly covered in ice and its economy largely dependent on fishing, Greenland does boast of abundant natural resources. These include oil, gas and rare earth minerals. At present, China controls much of the supply of rare earth minerals. The strategic importance of these can be gauged from the fact that these minerals are used extensively in modern manufacturing processes, including in the production of items such as electric cars, defence equipment amongst others. Given their importance to the global system, China has time and again leveraged its position to threaten and coerce countries, including the US, to agree to its terms. Controlling Greenland would give the US access to its own trove of these minerals, which at present, are under strict government control. Climate change is also rapidly transforming the topology of the island, as melting ice exposes more resource stockpiles as well as opens new shipping routes.

Markets fall as trade tensions resurface:

Volatility returned to the global markets as US President announced fresh tariffs on European nations. Investors once again braced for trade tensions as the European countries scrambled to finalise retaliatory measures of their own. Prices of precious metals, which act as a hedge against market volatility edged up, with both gold and silver prices noting increases of 2% or more. On the other hand, equity markets worldwide witnessed a sell-off. The most jarring decline was noted in US equity markets as the "Sell-America" trade marked a comeback. DXY also drifted lower. Bitcoin, declined sharply as investors dumped riskier assets.

Fig: 1: Impact of US threats on major asset classes



Source: Bloomberg, Bank of Baroda | Note: Change between 19 Jan 2026 to 20 Jan 2026

DAVOS and the Framework deal:

After days of turmoil, the US President backed off from his threat of imposing tariffs on European countries along the sidelines of the World Economic Forum meeting in Davos. President Trump hinted that the US has struck a deal with NATO. While finer details of the deal have not been disclosed, it has been described as "framework of a future deal with respect to Greenland and, in fact, the entire Arctic Region". Several analysts believe that the deal would broadly work along the lines of updating the existing security agreement between the US and Denmark, which was signed in 1951. It is generally

believed that more details of the deal would be negotiated in due course which will cover areas such as US military presence in Greenland, as well as use of its mineral resources and sovereignty.

To sum up:

Less than a month into 2026, global markets were jolted with threats of tariffs and global trade war as the US President double down on his claims to take Greenland. The US President maintains that US' interest in the island stems purely from the standpoint of national and global security. However, Greenland has vast and largely unexplored mineral reserves, which can be of interest to the US. The announcement of a framework deal between the US and NATO has helped to soothe investors' nerves, however the details of the deal are still fuzzy. Going ahead, investors are likely to await more details of the deal, as there are a few sticking points which can derail the negotiations. Hence, some volatility can be expected.

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