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Editorial

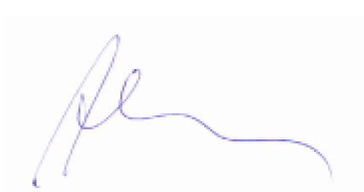
Dear readers,

In the last issue 2/2014 we opened the content with the EU Arctic policy - this time we introduce a new abbreviation: OCT, which means Overseas Countries and Territories, a number of small caillou-*type territories all over the oceans, belonging to EU Member States and therefore also part of the EU - somehow. They have a special relation grid with the EU, and this is what Ofelya Sargsyan writes about.*

Two other contributions on Ukraine, both on different aspects and from different angles, open the accent in this issue - the Eastern Partnership. Here there are also interesting developments and assessments on the Nagorno Karabakh question, which we include, among which the question of European regions and their foreign policy capacity may be an issue we will have to explore further in the future.

Furthermore, we are happy to publish an important aspect on one of the most interesting BRICS countries: India. Sourajit Aiyer from Mumbai/India contributed a multi-facet article on interesting economic sectors which should be considered by domestic and international investors. In this context, we hope to contribute to concrete economic discussions about India's future and the European Union, where India is met with a lot of sympathy. The largest democracy of the world with more than a billion citizens merits this.

With best regards,



Hans-Jürgen Zahorka

Overseas Countries and Territories (OCTs): Their Current Positione and Relationship with the EU

Ofelya Sargsyan

Contents

List of Abbreviations

CARICOM	Caribbean Community
ECJ	European Court of Justice
EDF	European Development Fund
EIB	European Investment Bank
EU	European Union
FPA	Fisheries Partnership Agreement
GEP	Greenland Education Programme
IOC	Indian Ocean Commission
MTES	Medium Term Economic Strategy
NEA	Netherlands Antilles
OAD	Overseas Association Decision
OCTA	Association of the Overseas Countries and Territories
OECS	Organization of Eastern Caribbean States
PDSD	Programming Document for the Sustainable Development
SPD	Single Programming Document
SPREP	South Pacific Programme for the Environment
SDP	Sustainable Development Plan
TFEU	Treaty on the Functioning of the European Union
TCI	Turks and Caicos Islands
UK	United Kingdom

Introduction

Several member states of the European Union have overseas countries and territories (OCT). Overall, there are 26 OCTs that constitutionally belong to the following EU MSs - Denmark, France, the Netherlands and the United Kingdom. The OCTs are Anguilla (UK), Aruba (NL), Bermuda (UK) , Bonaire (NL), British Antarctic Territory (UK), British Indian Ocean Territory (UK), British Virgin Islands (UK), Cayman Islands (UK), Curação (NL), Falkland Islands (UK), French Polynesia (FR), French Southern and Antarctic Territories (FR), Greenland (DK), Montserrat (UK), New Caledonia and Dependencies (FR), Pitcairn (UK), Saba (NL), Saint Barthelemy, Sint Eustatius (NL), Sint Maarten (NL), South Georgia and South Sandwich Islands (UK), Saint Helena, Ascension Island, Tristan da Cunha (UK), St. Pierre and Miquelon (FR), Turks and Caicos Islands (UK), Wallis and Futuna Islands (FR)[1].

According to the European Court of Justice (ECJ), while the citizens of the OCTs are considered to be also EU citizens[2] except the inhabitants of "the British OCTs because of the national constitutional principle of equality between citizens[3], the OCTs themselves are considered neither members of the EU nor third parties, but rather they are subject to special association arrangements encoded in Articles 198-204 of the Treaty on the Functioning of the European Union (TFEU)[4]. Consequently, given their legal status and specificities, an integrated EU approached towards them becomes inevitable.

In this vein, the current paper aims at enlarging the knowledge and understanding of the EU's OCTs, the challenges and the difficulties they have to undergo, the potential and capacity they possess and/or should develop for achieving sustainable development. To meet the objective the EU's engagement and role can by no means be undermined. Hence, the article goes further to overviews the EU strategies and policies implemented over the areas, observe the cooperation scope and its efficiency.

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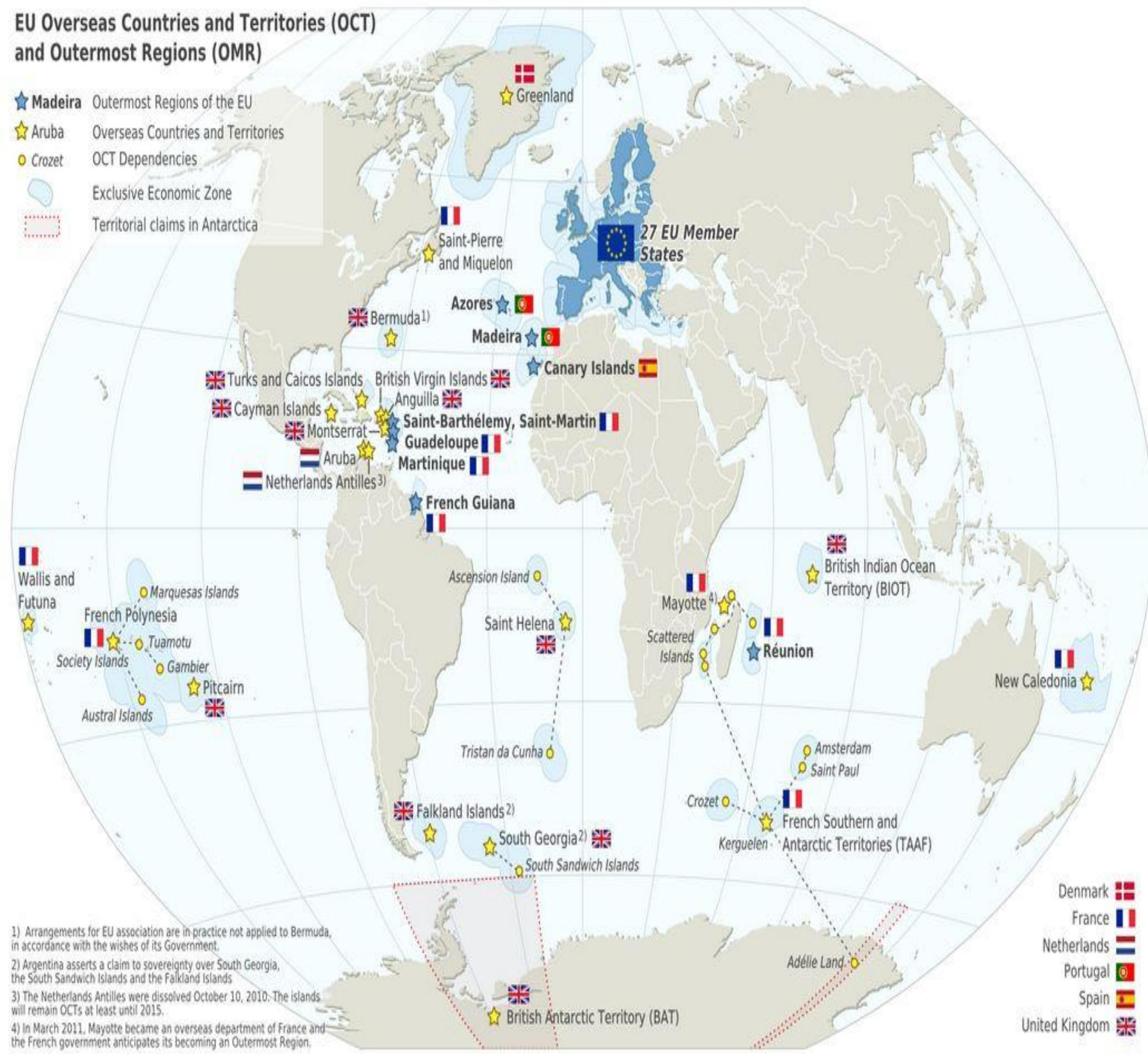
[1] European Commission, EU Relations with Overseas Countries and Territories, retrieved: June, 2014, http://ec.europa.eu/europeaid/where/octs_and_greenland/index_en.htm

[2] European Union External Action, EU Relations with its Associated Overseas Territories and Countries, http://eeas.europa.eu/oct/index_en.htm

[3] Ziller, Jacques, The European Union and the Territorial Scope of European Territories, 2006, p. 57, http://www.victoria.ac.nz/law/nzacl/pdfs/vol_12_2006/ziller.pdf

[4] Kochenov, Dimitry, The Application of EU Law in the EU's Overseas Regions, Countries and Territories after the Entry into Force of the Treaty of Lisbon, Michigan State International Law Review, Vol.20, No 3, 2012, pp. 710-735, http://digitalcommons.law.msu.edu/cgi/viewcontent.cgi?article=1095&context=ilr



Source: Online Maps, http://onlinemaps.blogspot.de/2012/12/european-overseas-territories.html

OCTs: the Current Situation and Challenges

While the OCTs have certain discrepancies: they differ from each other with the level of their autonomy they have from the MSs they are related to, their economic and social stance as well as the geographical location, they also have commonalities. They are all parliamentary democracies but none is sovereign, they are all islands with small size of population and unique ecosystems, sensitive to external shocks and dependent on limited economic base which mainly derives from services.[5] Moreover, they heavily, depend on imports of goods and energy. As for the exports of goods from the OCTs to the EU or within their respective geographical territories, they are rather limited.

The OCTs welcome regional integration projects and seek to be integrated in them, acknowledging social economic, political as well as cultural benefits stemming from them, as such in the Caribbean, the OCTs are associate members to CARICOM, the OCTs in the Pacific cooperate with ACP countries via bilateral relationship as well as via associate membership with the Pacific Island Forum. They are also members of the South Pacific Programme for the Environment (SPREP). In the Indian Ocean, they cooperate with the Indian Ocean Commission (IOC).

In the Arctic Greenland has autonomous position in various international organizations and entities. However, there are also isolated OCTs – Falkland Islands, St Helena, Ascension Island, Trista da Cunha and Saint-Pierre and Miquelon, which are not included in any regional integration project. The OCTs also established the Association of Overseas Countries and Territories of the European Union (OCTA) to promote inter OCT cooperation as well as represent their interests to the EU.[6]

To address their economic, social as well as environmental difficulties the OCTs have ratified development or sector policies. Namely, The OCT in the Caribbean have put the focus on human and economic development, namely education, SME development, business services, etc. in the OCTs in the Pacific have prioritized the management of natural resources, economic development, environment protection, transport infrastructures, etc.

In the Indian Ocean, the only island with permanent inhabitants being Mayotte, the agenda concentrates on the environment and management of natural resources. In line with this, subsequently some of the OCTs that have permanent inhabitants and get EU financial aid will be detailed to observe their current stance, difficulties they face, their development strategies and the EU's role and position towards them.

[5] EU Commission, EDF 10, Single Programme Document, Regional Cooperation Strategy for Overseas Countries and Territories, 2011, pp. 10-19, http://ec.europa.eu/europeaid/where/octs_and_greenland/documents/20120123_scan_originalcopy_regional-spd_signed_en.pdf

[6] European Commission, Overseas Countries and Territories (OCT), Region level evaluation, Final Report, Volume II, October 2011, pp. 15-90, http://www.cvce.eu/content/publication/2013/11/15/6f7c0eed-6572-4c47-83da-05d2ce024c45/publishable_en.pdf

The OCTs of the UK

Anguilla

Anguilla is an Overseas Territory belonging to the United Kingdom (UK) with an associate status to the European Union (EU), based on the 2001 the Overseas Association Decision (OAD). Additionally, it is an associate member to the Organization of Eastern Caribbean States (OECS) and the Caribbean Community (CARICOM). While its economy of it was prospering quite steadily until 2008, after the economic crisis it has acquired certain economic difficulties. The situation looks even complicated due to the climate challenges of the country – hurricanes, tsunamis, earthquakes and droughts. Hence, its development strategy seeks to ensure macroeconomic stability and promote sustainable economic growth. The only source Anguilla gets financial aid is from the European Development Fund. Through its EU Response Strategy the union aims to curb the poverty, as well as promote development and economic strategies of Anguilla. Within the period of 2008-2013 the EU allotted to the country 11,7 million Euros. The EU Medium Term Economic Strategy 2010-2014 (MTES) of the Government of Anguilla is based on 4 aspects: Restoring Macroeconomic Stability, Stimulating Sustainable and Diversified Economic Growth, Providing Supporting Social Development and Social Protection and Reducing Environmental Vulnerability.[7]

Source: CIA Factbook

[7] European Commission, Single Programming Document of Anguilla 10th European Development Fund, 05 March 2012, pp. 9-33, http://ec.europa.eu/europeaid/where/octs_and_greenland/documents/spd_anguilla_10th_en.pdf.pdf

Falkland Islands

The Falkland Islands are located in the South Atlantic. The archipelago includes two major islands – East and West Falkland, and 778 smaller islands, covering 12 000 square kilometres, in total.

The Falkland Islands are overseas territories, belonging to the UK. In this connection it is to be mentioned that on 2 April 1982, Argentina invaded and occupied the Islands, claiming that it had inherited them from Spain still in the 19th century and that the Islands were close to South America. In response, the UK which had possessed the Islands for 150 years, launched military actions to reclaim the territories, with Prime Minister Prime Minister Margaret Thatcher stating that the 1,800 Falklanders were "of British tradition and stock". The 74-day war ended with the Argentine surrender on 14 June 1982. There are about 1000 British troops on the Islands to ensure the security as well as road building and supervising minefields there. Except for the defense the Islands are self-sustaining. They have open economy, high level of social and educational services. The main fields of industry are fishing and farming. Additionally, tourism is growing[8].

In its relationship with the EU two fields are prioritized. To begin with, its European Development Fund (EDF) Programme seeks to contribute to the sustainable growth of the region, by diversifying economy, increasing public participation in the existing industries, developing new fields, especially tourism. Additionally, reforming the economic and social difficulties of the rural regions of the Islands, mostly because of the internal migration from Camp to Stanley, are on the agenda. These spheres are of significant importance as they will promote export development and capacity building which are the key spheres for ensuring sustainable economic growth on the islands.

The Falkland Islands' 2012-2017 Plan emphasizes the necessity of sustainable growth and diversification of the economy. The focus is on tourism development onshore fisheries and seafood connected industries as well as on fundings to promote business skills and start-ups. The Plan also prioritizes Rural Development. In this connection the EU will assist in reforming the

[8] BBC News, Key facts: The Falklands War, Retrieved: September 2014, http://news.bbc.co.uk/2/shared/spl/hi/guides/457000/457033/html/

returns from agricultural production[9]. The money allotted to the Islands for the period from mid-2013 to early-2016 amounts to 4.13 million Euros[10].

Montserrat

Montserrat is an OCT, belonging to the United Kingdom. It is situated in the Caribbean, approximately 50 miles southwest of Antigua. Its economy highly depends on financial aid from the United Kingdom. There are several challenges, the country faces. One of them is of the economic nature. The country is still in the process of tackling away the 2008 financial and economic crisis effects. It needs 4 to 7% GDP growth so as to implement such projects as the Little Bay Town Centre, the port expansion and the new tourism development project. Another challenge the country faces is related to the population growth. The country has a zero population natural growth rate and because it has too small population – 5000, the country needs labour load to achieve its development objectives. One more issue is to reduce the annual budget deficit and its dependence on the UK financial aid. Additionally, Montserrat is to reform its public financial management[11].

Another problematic aspect is the volcano on Soufrière Hills. While previously dormant, it erupted in 1995 and the two-thirds of the population fled from there. The 1997 eruption caused further destructions and also human losses. Currently, half of the island is abandoned[12].

Under such conditions, the country's objective is to meet the policies determined in its Sustainable Development Plan (SDP) of 2008-2020 and in its Sustainable Roadmap. The SDP defines the policy framework of the country, mentioning the national development priorities and presenting the scope of resources allocation for the island. It highlights five key fields - economic management, population growth, human development, environmental management

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[9] European Commission, Single Programming Document of Falkland Islands 10th European Development Fund , 03 July 2013, pp. 6-8 , http://ec.europa.eu/europeaid/where/octs_and_greenland/documents/spd_falkland_islands_10th_edf_signed.pdf

[10] European Commission, Press Release: Falklands Islands Receives €4.13 Million to Support Sustainable Growth through Economic Diversification; Brussels, 03 July 2013, http://ec.europa.eu/europeaid/where/octs_and_greenland/documents/falkland_islands_web_release_en.pdf

[11] EU Commission, Single Programming Document of Montserrat 10th European Development Fund, 2012, pp 6-28, http://ec.europa.eu/europeaid/where/octs_and_greenland/documents/spd-montserrat-signed.pdf

[12] Montserrat, Island Partially Abandoned After Volcano Eruption, Is Slowly Being Consumed By Nature, 10.08.2013, accessed: September 2014, http://www.huffingtonpost.com/2013/10/08/montserrat-volcano-eruption_n_4059709.html

and Disaster management as well as good governance. As for the Sustainability Roadmap, it is in complement to SDP and seeks to promote the elimination of the country's dependence on the budgetary assistance.

On the way Montserrat also counts on the EU and its financial support. The EU has been providing support to Montserrat since 1976. In the framework of the 10th EDF the country received 15.66 million Euros to promote the implementation of the country's Sustainable Development Plan (SDP) and the Sustainability Roadmap by fostering economic welfare, its development, diversification, employment opportunities as well as reforming the public sector infrastructures and administration[13]. The assistance allotted to it through the 11th EDF is 18,4 million Euros.

Pitcairn

Located in the Pacific, Pitcairn is an Overseas Territory under the United Kingdom. It was named Pitcairn in honour of the British midshipman Robert Pitcairn, who discovered it on July 2, 1767. The island is well-known for being the home of the descendants of the Bounty mutineers and the Tahitians who joined them.

The Bounty left England on 23 December 23, 1787 for Tahiti for breadfruit saplings, which was to be transported to Jamaica. During their second round for the cargo, in 1789, the crew, led by Fletcher Christian, had a mutiny against Captain William Bligh and set him and his loyalists adrift in a 23-foot open boat. Miraculously, the captain survived and managed to reach Timor Island. As for Christian and his soldiers, they eventually came and settled in Pitcairn in 1790. The mutineers could stay invisible to the world for eighteen years with the last mutineer leader, John Adams, managing to provide prosperity on the island[14].

Today Pitcairn has a population of 54. It is the smallest overseas territory that gets EU Funding. It has no natural harbour and has no air routes. The only way to the island is by sea. The geography of the islands has encouraged barter economy based on the fish, agriculture, gardening complemented by sale of handicraft to the passing ships. The revenue of the territory is very restricted. The territory is highly dependent on the UK financial assistance which covered e.g. the annual deficit reaching 98% of the expenditures in 2009-2010. Its Single

[13] EU Commission, Single Programming Document of Montserrat 10th European Development Fund, 2012, pp 6-28, http://ec.europa.eu/europeaid/where/octs_and_greenland/documents/spd-montserrat-signed.pdf
[14]Brunner Borgna, The Bounty, Pitcairn Island, and Fletcher Christian's Descendants April 28 marks the anniversary of the world's most famous mutiny, accessed: September 2014, http://www.infoplease.com/spot/pitcairn.html.

Programming Document (SPD) calls for investment to raise the economic development, especially tourist sector as well as transport infrastructures. The EU support for the SPD comprised 2.4 million Euros under the 10th EDF [15], the same amount will also be allotted to it under the 11th EDF.

St. Helena, Ascension and Tristan da Cunha

The three are small isolated islands in the South Atlantic Ocean. With the 2009 St. Helena, Ascension and Tristan da Cunha Constitution Order, Ascension and Tristan da Cunha are no longer St. Helena's dependencies. The islands have the status of overseas territory under the United Kingdom. The population of the islands is around 5500 people. St Helene's economy relies on the public sector as well as financial aid from the UK and the EU through the EDF. As for Ascension and Tristan da Cunha are mostly self-financing, yet, acquire external financial subsidies for capital investments.

The islands have several challenges. One of them is the economic difficulties, connected with its isolated position and scarce natural resources. The islands heavily depend on imports and few exports. Additionally, they are vulnerable towards extreme natural disasters. The economic growth is related to the development of tourism and fisheries.

To promote the establishment of a prosperous and peaceful society the islands have set Sustainable Development Programmes., prioritizing the rehabilitation of major roads as well as their maintenance, establishment of a secure landing infrastructures, improved sea defenses in St. Helena, improvement of roads on Ascension as well as reforms of harbour, in water supply as well as waste management and electricity distribution infrastructures and capacity building for lobster fishery on Tristan da Cunha.

Hence, the 10th EDF with the budget of 16.63 million Euros was devoted to the implementation of the targeted fields[16]. Within the framework of the 11th EDF the financial assistance will be 21,5 million Euros.

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[15] European Commission, Pitcairn Single Programming Document 10th European Development Fund, 2012, pp. 11-33, http://ec.europa.eu/europeaid/where/octs_and_greenland/documents/pitcairn-spd-10-edf-signed_en.pdf.

[16] European Commission, 10th EDF Single Programming Document St. Helena, Ascension and Tristan da Cunha, 2012, pp 10-38, http://ec.europa.eu/europeaid/where/octs_and_greenland/documents/spd_st_helena_10th_edf_signed_en.pdf.

The Turks and Caicos Islands (TCI)

The islands are Overseas Territories of the UK. They consist of two island groups and are situated at the south-east of the Bahamas and the north of Hispaniola. Overall, there are eight islands with 31 500 population. Until 2009 the territory was largely self –governing. However because of the maladministration and corruption the UK deferred the status. The current constitution of the territory was ratified in 2011 and put into force in 2012. The economies of the islands are quite open. The main economic drivers are tourism and construction. While the economy of the territory declined from 2009-2012, afterwards it experienced a quick recovery. As such, the GDP rose for 4.7%, the budget had 4 million Euros surplus in 20012-2013, the public sector and its administration reformed notably.

The key priorities for the development of the islands have remained budgetary control and appropriate financial management, promotion of sustainable economic growth. In this context the EU has been supportive towards the TCI since the 1990s, aimed to reform the infrastructures. As such the 9th EDF was allotted for the development and realization of transport policy, as well as technical assistance was provided for a Revenue Study and a Legislative Review. Within the framework of the 10th EDF 28.46 million Euros were provided to the islands for reforming the business and investment environment, capacities and infrastructures, developing modern IT services[17]

The OCTs of the Kingdom of the Netherlands

Aruba

Situated in the southern Caribbean Sea, located about 1,600 kilometres west of the Lesser Antilles and 29 kilometres north of the coast of Venezuela, Aruba has 102.911 population. It has undergone steady tourism-related increase since it received the status of an autonomous country within the Kingdom of the Netherlands in 1986. It is one of the most developed Caribbean islands, the economy of which is highly dependent on tourism. Yet, because of the 2008 financial crisis the country has suffered decline in tourism which led to the reduction of the GDP by 7.6% in 2009. Constructions in the tourism sector as well as refining action in the Valero refinery were temporarily stopped, with the unemployment rate growing from 6.9% of 2008 to 11.3% in 2010.

[17] European Commission, 10th EDF Single Programming Document: The Turks and Caicos Islands, 2012, pp. 9-26, http://ec.europa.eu/europeaid/where/octs_and_greenland/documents/tci-spd-signed-211113_en.pdf

However, the economy is currently recovering. The country seeks to diversify its economy by establishing favourable investment conditions and a knowledge economy. To meet the objective the government emphasizes the importance of high level education. Moreover, already in 2006 the country launched National Education Plan for 2007-2017 which prioritized societal support for education, quality of teaching personnel, as well as access to education. To the point, in the framework of the 10th EDF the EU has allotted 8.8 million Euros to support the Aruban National Education Plan[18]. The EU's financial aid for the island for 2014-2020 will be 13.0 million Euros.

East shore near Budi, Aruba
Source: CIA Factbook

[18] European Commission Single Programming Document of Aruba 10th European Development Fund, pp. 6-25, http://ec.europa.eu/europeaid/where/octs_and_greenland/documents/spd_final_aruba_text_en.pdf

Netherlands Antilles

The former Netherlands Antilles (NEA) incorporated two island groups: 1) the Leeward Islands – Curacao and Bonaire, 2) the northern Caribbean Windward Islands – St. Martin, St. Eustatius and Saba. The population of the islands reaches 190 100, taken all together. The former Netherlands Antilles had the status of an autonomous Caribbean country under the Kingdom of the Netherlands, before ceasing to exist in October, 2010. Since then Curacao and St. Maarten have received the status of an autonomous country under the Kingdom of the Netherlands and Bonaire, St. Eustatius and Saba have become overseas public entities within the Netherlands.

The economy of the former Netherlands Antilles is relatively open, with the key sectors being tourism, trade, oil storage and bunkering as well as financial services. The former Netherlands Antilles have had a relatively high GDP per capita in comparison to many Caribbean countries.

However, noticeable level of poverty is still existent -the poverty assessment survey of 2004-2005 revealed that the percentage of households with very low income amounted to average 14% for the five islands, jointly taken. All the islands have scarcity of drinking water. The cooperation with the EU has had a central role for the islands. The Union initially conducted revenue-raising activities, such as tourism, promotion of small and medium enterprises (in the scope of the 5th to 7th EDFs). The 8th and 9th EDFs included also youth development projects, projects for reforming the infrastructures, drinking water distribution as well as reforming sewerage and waste water treatment. Hence, the EU promoted the restoration of Queen Emma Floating Bridge in Curacao. The Youth Development Programme in its turn opened up new career opportunities. Under the 9th EDF Urban Infrastructure project the EU focused on the development of social infrastructure and services in the deprived areas.

The 10th EDF also aimed to reduce the poverty level. The EU dedicated the 10th EDF resources for the of basic social infrastructures in Curacao and Saba, contribute to solving environmental and health problems in Bonaire and St. Maarten such as sewerage and sanitation, as well as improving maritime infrastructures in St. Eustatius. Another objective was mainstreaming of Disaster Risk Reduction strategies. The total amount of the financial aid to the islands amounted to 24 million Euros. [19]

[19] European Commission, 10th EDF SPD (former) Netherlands Antilles, 2012, pp. 16-50, http://ec.europa.eu/europeaid/where/octs_and_greenland/documents/signed-spd-06-2012.pdf.

The Queen Emma Floating Bridge at Willemstad, Curacao
Source: CIA Factbook

The OCT of Denmark

Greenland

Greenland is situated between the Arctic and Atlantic Oceans, east of the Canadian Arctic Archipelago. It has the status of an autonomous country under the Kingdom of Denmark. The country acceded the European Community in 1973. However, concerned that the EU membership could threaten its lifestyle and economy, especially in the fields of fishing and sea mammals hunting, with the 1982 referendum Greenlanders showed will to leave the EC. Officially it left the Community in 1985[20]. Since then the association of the country with the EU has been as an Overseas Country and Territory (OCT) through the prism of the Overseas Association Decision.

The relationship between the Union and Greenland was via a Fisheries Partnership Agreement (FPA) from 1985 to 2006 through which the EU allotted the country 42.8 million Euros on

[20] Wegge, Njord, The EU and the Arctic: European foreign policy in the making, Arctic Review on Law and Politics, vol. 3, 1.2012, p. 6–7, http://site.uit.no/arcticreview/files/2013/04/The-EU-and-the-Arctic-European-foreign-policy-in-the-making.pdf

annual basis. Due to the FPA, the EU had the right to enter the waters of Greenland for fishery. In 2006 the Council revised the cooperation scope. The Programming Document for the Sustainable Development of Greenland (PDSD) for the period 2007-2013 enlarged the collaboration fields, including education and vocation training as the central sphere for collaboration for the given period. To promote the realization of the project the EU provided the country 25 million Euros annually. The external studies show that the EU – Greenland cooperation regarding the implementation of the Greenland Education Programme (GEP) positively impacted on the Greenland's economy and financial independence[21].

Source: CIA Factbook

The cooperation scope for the 2014-2020 was defined with the 14 March 2014 Council Decision. It aims at promoting Greenland's diversification of the sustainable economic development, education, know-how as well as public administration. The focal cooperation fields include:

[21] EU Commission, Mid-term Review of the EU-Greenland Partnership 2007-2013, (2006/526/EC), 08 May 2012, pp. 5-30, http://ec.europa.eu/europeaid/where/octs_and_greenland/documents/mid-term-greenland-eu_partnership_2007-2013_en.pdf

"(a) education and training, tourism and culture; (b) natural resources, including raw materials; (c) energy, climate, environment and biodiversity; (d) Arctic issues; (e) the social sector, mobility of the workforce, social protection systems, food safety and food security issues; and (f) research and innovation in areas such as energy, climate change, disaster resilience, natural resources, including raw materials, and sustainable use of living resources"[22].

The OCTs of France

Mayotte

With about 176 000 population (2005 census) Mayotte is a French oversees territory. It includes around 30 islands situated in a lagoon between Mozambique and Madagascar. Its economy is heavily dependent on external support, especially due to the outdated infrastructures. The EU development aid for the period 2000-2007 amounted to 24.15 million Euros. For the period 2008-2013 it was 22.92 million Euros[23] to promote economy, livelihoods, improve sanitation as well as the protection of the environments. The fields concerned have been rural electrification, introduction of public transport infrastructure, improvement of roads, marine conservation. In its turn Mayotte has been committed for reforms. As the President Zaidani highlighted the financial aid would help the country to solve budgetary hardships and reform the infrastructure of the country[24].

New Caledonia

New Caledonia is a French overseas territory. It is composed of several islands and is located in the southwest Pacific. The population on the islands is about 244 600 according to the 2008 census[25]. The country is quite rich in comparison to other overseas countries and territories, due to the subsides, stemming from France and also the nickel resources, with which it is the third

[22] Official Journal of the European Union, Council Decision 2014/137/EU of 14 March 2014 on Relations between the European Union on the one Hand, and Greenland and the Kingdom of Denmark on the Other, pp. 1-3, retrieved: June, 2014, http://www.italiaue.esteri.it/NR/rdonlyres/0DF4CDA3-A1FC-4FD3-83DC-4233B6697341/78923/GROENLANDIA.pdf

[23] EU Commission, EU Relations with Mayotte, retrieved: June, 2014, http://ec.europa.eu/europeaid/where/octs_and_greenland/countries/mayotte_en.htm

[24] European Commission, Budget support for Mayotte to boost the economy and livelihoods from 09 December 2013, retrieved: June 2014, http://ec.europa.eu/europeaid/where/acp/news/20130307_en.htm

[25] EU Commission, Document unique De programmation de la Nouvelle-Calédonie pour le 10eme Fonds Europeen de Development, p.6, http://ec.europa.eu/development/icenter/repository/scanned_spd_10edf_nc_fr.pdf

largest in the world. Hence, the country's main industry and export is nickel. The exports go to Japan, South Korea, Europe as well as China. To the point, in 2006 nickel amounted about 96% of the overall New Caledonia's exports, thus, comprising 18 % of the country's GDP. Because of the dependence on nickel as the main export, New Caledonia is vulnerable towards fluctuating commodity prices.

Hence, diversifying the economy becomes a precondition. Developing such areas as manufacturing, agriculture and tourism can improve the economic stance and options of the territory. It acquired the status of an overseas territory by the 1998 Nouméa Accord. Since then it has had various working groups with the European Commission on regional integration programmes and had a central role in forming the EU policy towards the Pacific, ratified in 2006. The record recognized France's role in the Pacific as well as the role that the French territories have in their regional integration.[26] From 2000-2007 the EU provided 30.2 million Euros as development aid. The financial aid for the period 2008-2013 made up 19.81 million Euros[27] and for 2014-2020 it will be 29.8 million Euros.

Saint Pierre and Miquelon

Situated in the north-western Atlantic Ocean near Canada, Saint Pierre and Miquelon is a French territory and has a population of 7036 according to the 2007 census. The economy of the territory relies on fishing and servicing the fishing fleets. However, because of the conflicts with Canada regarding fishing quotas the economy has been suffering. Promoting tourisms is considered an economic opportunity for the area. Additionally, to diversify the economy, fish farming as well as agriculture are being developed. Yet, the territory is rather isolated, not being part of the ACP region. To promote development in the region the EU provided 12.8 million Euros within the framework of the 2000-2007 EDF. The money was allotted for the rehabilitation of the transport and environment infrastructures because facilitated entry to the islands as well as the provision of the basic maintenance infrastructures can contribute both to the overall wellbeing of the inhabitants and also promote tourism. For the period 2008-2013 the EU financial assistance to the territory made up 16 million Euros which was also aimed for the

[26] Bradley, Sarah, New Zeland, France and New Caledonia: Changing Relations and New Caledonia's Road to Independence, School of History, Philosophy, Political Science and International Relations Victoria University of Wellington, 2011 pp. 36 – 46, http://researcharchive.vuw.ac.nz/xmlui/bitstream/handle/10063/2566/thesis.pdf?sequence=2

[27] EU Commission, EU Relations with New Caledonia, June 2014, http://ec.europa.eu/europeaid/where/octs_and_greenland/countries/new-caledonia_en.htm

establishment and development of infrastructures[28]. Within the present EDF, it will get 26,3 million Euros.

Wallis and Futuna

Located in the South Pacific, the French overseas territories Wallis and Futuna have 13445 population (according to 2008 census) and are situated in the Pacific[29]. While the islands refer to French law in the governance, at the secondary order it is ruled by three traditional kingdoms/clans who execute customary law and there is a magistrate in the capital - Mata-Utu; a court of appeal is located in Noumea, New Caledonia[30].

The economy of the islands depends on agriculture, fishing as well as on traditional crafts. The islands still need to develop tourism infrastructures. The islands are a member to the Pacific Community, the South Pacific Regional Environment Programme and the Pacific Islands Development Programme, via which it gets technical assistance. From 2000-2007 it received 16.8 million Euros from the EU's EDF to reform a fishing port, a commercial port and a primary school. To promote further development of the islands 16.5 million Euros were allotted for 2008-2013 for maritime and transport infrastructures[31]. The financial aid for 2014-2020 reaches 19.6 million Euros.

The EU's position and policies towards the OCTs: The Development and the Legal Framework of the OCT-EU Relations

The former chapters have covered the current position of the OCTs, their difficulties and challenges as well as their development strategies. Taken their limited financial and capacity resources, it is evident that to meet the objectives the cooperation with the EU can have a focal position. The EU can increase their competitiveness, strengthen their capacities, restrain their

[28] EU Commission, EU Relations with Saint Pierre and Miquelon, June 2014, http://ec.europa.eu/europeaid/where/octs_and_greenland/countries/saint-pierre-and-miquelon_en.htm

[29] European Commission, Document Unique de Programmation De Wallis et Futuna pur le 10eme Fonds Suropeen de Development, p. 7, http://ec.europa.eu/europeaid/where/octs_and_greenland/documents/signed-spd-wf-10th-edf_en.pdf

[30]Wallis & Futuna Governance Information, http://www.governance.usp.ac.fj/top-menu-29/countries-and-territories-175/wallis-and-futuna-france-215/?no_cache=1

[31] EU Commission, EU Relations with Wallis and Futuna, retrieved: June 2014, http://ec.europa.eu/europeaid/where/octs_and_greenland/countries/wallis-and-futuna_en.htm

economic and environmental limitations, and enhance partnerships between them and other parties.

The OCTs have been related to the EU since 1958 – the date when the Treaty establishing the European Economic Community was put into force. When producing the EEC Treaty, France, the country with most overseas territories refused to accede the Common special accommodation for its territories abroad, especially the African territories. Hence, it was decided to enhance the Common Market to include the overseas territories of the MS. This is how Europe's OCTs emerged. While initially the EU-OCT relations were based on providing development, the strategy has changed since it has become neither efficient nor reflects the economic and social stance of the OCTs. Moreover, some of the OCTs have higher per capita than the average EU MSs. The trade between the two seems to be co-beneficial. Furthermore, the OCTs can serve as strategically significant outposts for the EU, in advocating the EU values and interests. Moreover, taken into account the challenges of the globalization, increased level of regional integration is fairly the cry of the day. These all factors resulted in the development, reformation and intensification of the EU-OCT relationship[32].

The scope of the relations between the EU and OCT are enshrined in the Treaty on the Functioning of the European Union in the Articles 198 to 204. As Article 198 states: "*The purpose of association shall be to promote the economic and social development of the countries and territories and to establish close economic relations between them and the Union as whole… Association shall serve primarily to further the interests and prosperity of the inhabitants of these countries and territories in order to lead them to the economic, social and cultural development to which they aspire*"[33]. And while the OCTs are not considered as full EU MSs, they are, in fact, highly interlinked. As such, the inhabitants of the OCTSs' are considered EU citizens - Art. 9 of the TFEU states that the citizens of a Member States are also the citizens of the Union. The agreements between the EU and OCT are mainly on creating a preferential trade climate. Additionally, the OCT gets EU funds for development via the European Development Fund[34].

[32] Vestergaard, Cindy, The European Union, its Overseas Territories and Non-Proliferation: The Case of Arctic Yellowcake, EU Non-Proliferation Consortium, No. 25 January 2013, pp. 3-4, http://www.sipri.org/research/disarmament/eu-consortium/publications/EUNPC_no%2025.pdf

[33] Official Journal of the European Union, Consolidated Version of the Treaty on the Functioning of the European Union, 2012, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C_.2012.326.01.0001.01.ENG#C_2012326EN.01004701

[34] John A. & Quintero V., The Legitimacy of the EU-OCT Association; the European Union Institute in Japan, Waseda University, 2012, pp. 21-23 http://www.euij-waseda.jp/common/pdf/EUIJpaperJohnQuintero.pdf

With regard to the OCTs it is important to differentiate between the association of the OCTs with the EU and the association agreements that the EU establishes with the third countries. The OCTs' association is related to the EU secondary law structure. As such, the OCTs' association does not imply any negotiations or ratification of agreements with the OCTs per se. The every-day procedures of the association are enshrined in a Decision made on the basis of Article 203 of TFEU which states that with the Commission's proposal the Council may act unanimously without any negotiations, diplomatic talks.[35] The EU and the OCT hold dialogues through annual OCT-EU forums, where all the OCTs, MSs as well as the Commission are present, via regular three-party meetings with the Commission, the OCTs and the MSs related to the OCTs, via Partnership working parties with the Commission, individual OCTs and the linked MS, as well as through bilateral meetings of technical and political nature[36].

The EU's position and policies towards the OCTs: The Scope and Platform for the current EU-OCT Relations

The current relations are guided by regulations and procedures identified by the Council Decision known as the Overseas Association Decision (OAD) adopted on 23 November, 2013. The record was produced as a result of negotiations between the Commission, OCTs and Member States. In 2008 the European Commission produced Green Paper on 'Future relations between the EU and the Overseas Countries and Territories' as well as initiated consultations for policy makings. The paper briefed individual OCTs, EU-OCT ties, the legal basis of the relationship as well as the trade regulations between the parties. It identified the challenges and the potential of the OCTs which would enable the European Council to come up with a policy between the EU and the OCTs which will be efficient and beneficial. In their turn the OCTs presented the Commission their communications. Among them Anguilla highlighted the importance of the European funding programmes for overcoming the vulnerabilities as well as preserving the environment. The British Virgin Islands called for special status for trade as well as pointed to the mutual interest in the environment related issues. The Cayman Islands prioritized offshore finance and disaster management as well as referred to their small size, for the EU to consider in shaping its policies towards the islands. Aruba also mentioned the

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[35] Kochenov, Dimitry, The Application of EU Law in the EU's Overseas Regions, Countries and Territories after the Entry into Force of the Treaty of Lisbon, Michigan State International Law Review, Vol.20, No 3, 2012, pp. 710-735, http://digitalcommons.law.msu.edu/cgi/viewcontent.cgi?article=1095&context=ilr

[36] EU Commission, OCT-EU Forum, retrieved: June, 2014, http://ec.europa.eu/europeaid/where/octs_and_greenland/forum_en.htm

necessity of development policies and regulations for overcoming vulnerabilities. Similar provisions are also included in the comments of the other stakeholders.

In November 2009 the commission presented its conclusion, regarding the consultations. It supported the idea of conducting policy changes in the EU-OCT relations, setting out three layer policy. The first focus was on increasing the OCTs' competitiveness in education and training, information and communication technologies, macroeconomic stability, small and medium sized enterprises and good economic and political governance. Secondly, the communication underlined the importance of enhancing resilience of the OCTs by reducing their economic, environmental as well as energy vulnerabilities. Thirdly, it promoted cooperation on economic, environmental and cultural issues. The commission's recommendations were endorsed by the European Council in December, 2009 and the Commission was assigned by it to prepare a draft for the new Overseas Association Decision (OAD) by July 2012[37].

This document replaced the Council Decision 2001/822/EC which focused mainly on 3 aspects – poverty reduction, sustainable development and the integration of the OCTs into the regional and world economies, by ensuring development funding via the European Development Fund (EDF), as well as platform for economic and trade partnerships enabling the OCT to export to the EU duty free the products of the OCT origin. While the 2001 OAD was to expire until December 31, 2011, the deadline was expanded to December 31, 2013, subsequent to the technical reforms performed in 2007, so as to correspond to the interval of the 10th European Development Fund (EDF) which encompassed the 2008-2013 timeframe as well as the multinational funding project of 2007-2013[38].

Generally, the OCTs get financial resources from the EU through European Development Fund (EDF), European Investment Bank (EIB) Investment Facility and loans as well as from financial resources generated from overall EU budget and thematic programmes.[39] And while for 2002-07 OCTs were allocated 153 million Euros an for the period 2008-2013 the union provided the OCTs

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[37] Sutton, Paul, The European Union and the Caribbean Region: Situating the Caribbean Overseas Countries and Territories, European Review of Latin American and Caribbean Studies 93, October 2012, pp. 80-84 http://www.cedla.uva.nl/50_publications/pdf/revista/93RevistaEuropea/93-Sutton-ERLACS-ISSN-0924-0608.pdf

[38] Commission of the European Communities, Green Paper: Future Relations between the EU and the Overseas Countries and Territories {SEC(2008) 2067}, Brussels, 25.6.2008, p. 4, http://naalakkersuisut.gl/~/media/Nanoq/Files/Attached%20Files/Bruxelles/Overseas%20Countries%20and%20Territories/Green%20Paper%20between%20the%20EU%20and%20OCTcountries/Green%20Paper.pdf

[39] Lorincz, Andras, The Importance of the Outermost Regions for strengthening EU Foreign and Regional Relations, Conference paper submitted to International Conference on The EU as a Global Actor - From the Inside Out: The Internal Development of the European Union and its Future, Role in an Interdependent World, Berlin July, 2011, p, 9, http://www.culturaldiplomacy.org/academy/content/pdf/participant-papers/eu/Andras-Lorincz-The-Importance-of-The-Outermost-Regions-for-Strengthening-EU-Foreign-and-Regional-Relations.pdf

286 million Euros via the 10th EDF. For the 2014-2020 period the amount reaches 364.5 million Euros. It is to be noted that Greenland is not included in the EDF, yet, it get financial aid from the EU through Partnership Agreement between the EU, Denmark and Greenland.[40] The new OAD renews and enlarges the scope of the EU engagement with the region as well as enhances cooperation fields. It targets such fields as sustainable development, overcoming climate change-related issues, promotion of education, increased access to research innovation, promotion of EU values, standards and interests, entry to the EU market[41].

The agreement goes beyond the objective of development cooperation between the partners, highlighting the mutual interests resulted in the cooperation, acknowledging OCTs' potential and showing the EU's willingness to promote in the region sustainable development in the economic, social and environmental fields. It includes three key pillars: increasing competitiveness, strengthening competitiveness and promoting cooperation between the OCTs and the EU as well as third parties. It states that that the relationship will be based on their belonging to the same "European family". The cooperation will seek to be mutually beneficial and efficient, they will aim to promote the EU standards as well as the OCTs can become as the EU's outposts in the region[42]. The OAD also acknowledges the role of the association of the overseas countries and territories (OCTA)[43].

In line with this significant was the EU-OCT 12th forum which was held on 5-6 December, 2013, after the ratification of the new OAD. And as Andris Piebalgs, EU Commissioner for Development, highlighted "partnership is not only working; it is growing, too. Moreover, having

[40] European Commission, EU Relations with Overseas Countries and Territories, retrieved: June, 2014, http://ec.europa.eu/europeaid/where/octs_and_greenland/index_en.htm

[41] Nanoq homepage, Overseas Countries and Territories, retrieved: June, 2014, http://naalakkersuisut.gl/en/Naalakkersuisut/Greenland-Representation-to-the-EU/Overseas-Countries-and-Territories

[42] Official Journal of the European Union, Decision, Council Decision 2013/755/EU of 25 November 2013, on the Association of the Overseas Countries and Territories with the European Union, 25 November 2013, pp. 1-10, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:344:0001:0118:EN:PDF

[43] The OCTA is a non-profit organization in Brussels. Its partners are the EU, OCTs and the MSs of the related OCTs. It aims to 1) "To consolidate and reinforce solidarity between OCTs and EU stakeholders, 2) To make recommendations and carry out various projects/programmes to enhance opportunities, comparative advantage and natural assets in order to strengthen the position of OCTs at regional and global levels 3) To promote cooperation and develop a knowledge centre and thematic networks in order to consolidate ownership and provide a point of reference for creating and disseminating valuable information on the relationship between the EU and the OCTs, 4) To create a framework to engage the private sector, academia and civil society 5) To enhance the profile, the reputation and position of the OCTs". (Association of the Overseas Countries and Territories of the European Union (OCTA), Structure and Mission, retrieved: June, 2014, http://www.octassociation.org/structure-and-mission)

all the parties engaged enthusiastic about the intensified cooperation and relationship opportunities enabled by the new OAD[44], it seems that the partnership will further flourish.

Conclusion

Europe's overseas countries and territories are spread in the Antarctic, the Arctic, the Caribbean, the Indian as well as the Pacific Ocean. Traditionally, the EU's approach towards them has been in the form of development assistance. However, this kind of policy has ceased to be efficient or effective given the OCTs' potential, capacity and challenges[45] as well as taking into account the international context. Hence, in the age of globalization, constant liberalization of trade, ongoing regionalization processes, the renewal of the partnership has grown to be inevitable. The relationships have developed from the mere "donor and beneficiary" model, seeking not only to contribute to the poverty reduction and development of the OCTs but also to form reciprocally beneficial environment which would promote sustainable development of the OCTs, taking into account the EU values and norms.

The framework endorsed by the 2013 OAD seems indeed promising, hence for the coming years the task of the OCTs is show will and capacity for reforms as well as test for them to prove themselves as favourable and reliable partners. Moreover, it is also the EU's task to keep the hand on the pulse and ensure the implementation and realization of the provisions enshrined by the OAD.

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[44] Piebalgs, Andris, EU Commissioner for Development European Commission, 12th edition of the annual OCT-EU Forum, Brussels, 5 December 2013, p. 2.

[45] Hruškovic, Ivan, Legal Aspects of the Association of overseas countries and Territories with the European Union, Law and Economics Review, 5 (1), p.7, http://www.eaco.eu/documents/issue/hruskovic2.pdf

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Ukraine: Can Meaningful Reform Come out of Conflict?

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Highlights

- **Apart from threats to its national security and territorial integrity, Ukraine faces serious economic challenges. These result from the slow pace of economic and institutional reform in the previous two decades, the populist policies of the Yanukovych era and the consequences of the conflict with Russia.**

- **The new Ukrainian authorities have made pro-reform declarations, but these do not seem to be supported sufficiently by concrete policy measures, especially in the cri-tical areas of fiscal, balance-of-payment and structural adjustment. Also, the interna-tional financial aid package granted to Ukraine has not been accompanied by sufficiently strong policy conditionality.**

- **Ukraine urgently needs a complex programme of far-reaching economic and institu-tional reform, which will include both short-term fiscal and macroeconomic adjust-ment measures and medium- to long-term structural and institutional changes.**

- **Energy subsidies and the low retirement age are the two critical policy areas that require adjustment to avoid sovereign default and a balance-of-payments crisis.**

[46] Bruegel is a European think tank specializing in economics. Established in 2005, it is independent and non-doctrinal. Its mission is to improve the quality of economic policy with open and fact-based research, analysis and debate. Its membership includes EU Member State governments, international corporations and institutions. See under: http://www.bruegel.org/about/

Since the end of 2013 Ukraine has faced a series of dramatic geopolitical, domestic political and economic challenges. First, there was mass protest in Kyiv's central square against former president Viktor Yanukovych after he declined to sign an association agreement with the European Union. After collapse of Yanukovych's regime, the internal Ukrainian conflict became internationalised with the illegal annexation of Crimea by Russia, and Russia's active role in a 'proxy' war in the Donetsk and Lukhansk regions.

For this reason, international attention is concentrated on geopolitical threats and the violation of Ukraine's territorial integrity. The geopolitical and security challenges are also at the top of the agenda for the new president and government of Ukraine. As result, the economic situation and economic reform are less prioritized, domestically and internationally. However, pressing economic questions must also be addressed. The unsatisfactory results of previous reform rounds were very much responsible for the recent political crisis and the fragility of the Ukrainian state. Most importantly, successful economic and institutional reforms are critical for attempts to consolidate both state and society and to prevent any new authoritarian drift.

The new Ukrainian authorities have made general pro-reform declarations, but these do not seem to be supported sufficiently by concrete policy measures, especially in the critical areas of fiscal, balance-of-payment and structural adjustment. The same must be said about the international financial aid package granted to Ukraine in April and May 2014, which has not been accompanied by sufficiently strong policy conditionality.

History of Half-Hearted Reform

The recent developments in Ukraine are not the first time since independence in 1991 that the country has found itself at a critical juncture. In 1991-92, under Leonid Kravchuk's presidency and on a wave of independence enthusiasm, Ukraine had the chance to build new democratic and market institutions as was done, for example, by the Baltic countries. Unfortunately, all the political energy went to giving old Soviet institutions 'new' Ukrainian names. The macroeconomic and social populism of that period led to hyperinflation at the end of 1993.

After Leonid Kuchma's victory in the 1994 presidential election, some market reforms were finally enacted: most prices were liberalized, the exchange rate system was unified, subsidies and the fiscal deficit were reduced (but not eliminated), the issuing of money was brought under control and, finally, a new currency, the ***hryvna*** (UAH), was introduced in September 1996. This half-hearted reform process was stalled by a coalition of emerging oligarchs – the early winners from partial liberalization and the macroeconomic disequilibria of early the 1990s, and the beneficiaries of various rents created by them – and old-style 'red' directors in industry and agriculture.

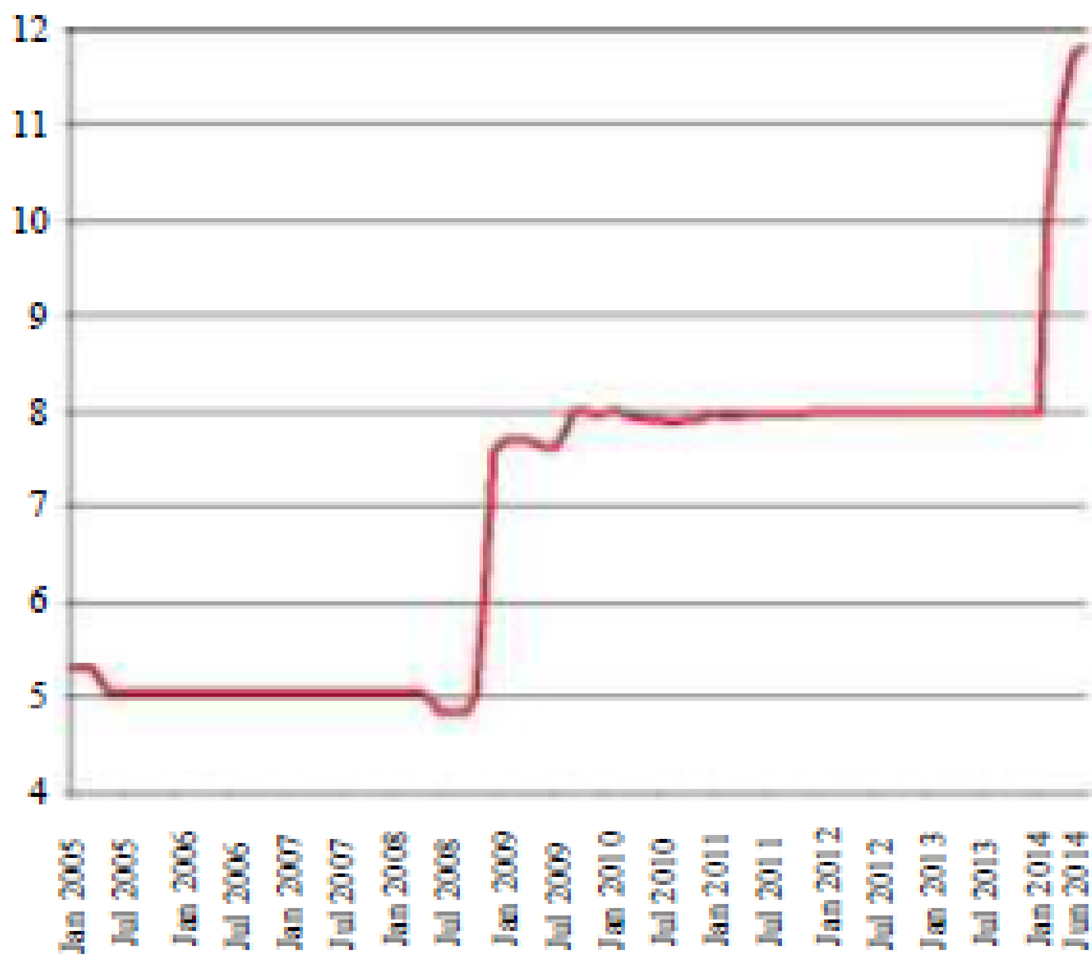
The next reform push came after the financial crisis of 1998-99 and Kuchma's re-election in 1999 alongside Prime Minister Viktor Yushchenko, the former governor of the National Bank of Ukraine. There was some fiscal adjustment, reform of the management of public finance and attempts were made to restructure the loss-making and heavily corrupted energy sector. However, the political life of Yushchenko's government was short (17 months) and it was soon replaced by a government that was again dominated by 'red' industrialists and oligarchs.

After the Orange Revolution at the end of 2004 and Yushchenko's election as the third president of Ukraine, there was a political window of opportunity to start serious political, institutional and economic reform. Unfortunately, this was prevented by a political split inside the 'Orange' camp, in particular, the permanent political infighting between Yushchenko and twice Prime Minister Yulia Tymoshenko (2005 and 2007-10). The only success of the period were entering the World Trade Organization (WTO) in 2008 and starting negotiations with the EU on the association agreement.

The economic boom of 2000-07 did not create pressure for serious reform either. The macroeconomic situation improved: after 10 years (1990-99) of steep output decline and thanks to reforms that were partially completed at the beginning of the new millennium (especially privatization of the larger part of the manufacturing industry), a rapid recovery started. This was also fuelled by the 2003-07 global boom (high prices of metals and agriculture commodities, Ukraine's main exports) and an oil boom in Russia. The UAH exchange rate stabilized against the dollar, inflation diminished for a while, and the fiscal deficit and public debt to GDP ratio declined as result of rapid GDP growth. On the institutional front, the economic system could be considered largely a market system, but heavily distorted by pervasive corruption and nepotism, poor governance (which made implementation of market-related legislation and definition of the rules of the game a permanent problem) and state capture by oligarchic groups, similar to most other post-Soviet countries.

The era of relative prosperity came to the abrupt end with the global financial crisis in 2008. Ukraine was particularly heavily hit, recording in 2009 a decline in GDP of 14.8 percent (Table 1), one of the steepest falls of all emerging-market economies. Despite a low public-debt-to-GDP level (12.3 percent of GDP in 2007), Ukraine was cut off from international markets because of a current account deficit (-7.1 percent of GDP in 2008), external debt exceeding 50 percent of gross national income, external debt service costs equal to 20 percent of export proceeds, and expectations of devaluation. Between September 2008 and January 2009, the UAH depreciated by almost 60 percent, from 4.85 to 7.70 UAH to the dollar, and then further down to 8 UAH to the dollar in 2009 (see Figure 1). Ukrainian authorities had to ask for the International Monetary Fund Stand-by Arrangement (SBA) in the second half of 2008.

Figure 1: Average official exchange rate, UAH per $1, January 2005 – June 2014



Source: Bruegel based on IMF International Financial Statistics, National Bank of Ukraine.

Table 1: Ukraine, basic macroeconomic indicators, 2006-13

Indicator	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP, % change	7.4	7.6	2.3	-14.8	4.1	5.2	0.2	0.1
Inflation, %	11.6	16.6	22.3	12.3	9.1	4.6	-0.2	0.5
Unemployment rate, % total labour force	6.8	6.4	6.4	8.8	8.1	7.9	7.5	7.4
General govt. revenue, % of GDP	43.2	41.8	44.3	42.3	43.2	42.9	44.5	43.7
General govt. expenditure, % of GDP	44.6	43.8	47.4	48.6	49	45.6	49	48.2
General govt. net lending/borrowing, % of GDP	-1.4	-2	-3.2	-6.3	-5.8	-2.8	-4.5	-4.5
General govt. structural balance, % of potential GDP	-2.7	-4.3	-4	-2.3	-3.9	-3.2	-4.6	-4.2
General govt. gross debt, % of GDP	14.8	12.3	20.5	35.4	40.5	36.8	37.4	41
Total investment, % of GDP	24.8	28.2	27.9	17.1	18.5	20.7	18.3	15.1
Gross national savings, % of GDP	23.3	24.5	20.9	15.6	16.3	14.5	10.1	6
Current account balance, % of GDP	-1.5	-3.7	-7.1	-1.5	-2.2	-6.3	-8.1	-9.2
External debt stocks, % of GNI	49.5	56.2	55.1	90.9	93	83.8	77.9	

Source: IMF WEO database, April 2014, data on external debt from the World Bank WDI.

Legacy of the Yanukovych Era

After the victory of Viktor Yanukovych (who had been prime minister in 2002-04 and 2006-07) in the February 2010 presidential election, and the formation of the government of Mykola Azarov, a new reform effort was declared. Legislation was adopted related, among other issues, to social policy (a gradual increase in the retirement age of women from 55 to 60, lengthening the service period needed to obtain a minimum pension and, for various privileged groups, limiting the maxi-mum pension to 10 times the subsistence mini-mum), Ukraine's WTO membership commitments, and preparing the legal ground for the forthcom-ing EU-Ukraine association agreement (including the Deep and Comprehensive Free Trade Agreement, DCFTA). However, corruption and predatory pressure from the narrow oligarchic elite around the president and his family led to deterioration in the already poor business climate and further declining confidence in state institutions. The continuously deteriorating total investment rate, and the declining gross national savings rate (see Table 1) illustrate well the macroeconomic consequences of dysfunctional governance.

Governance failings and authoritarian drift created fertile social ground for the wave of civil unrest that erupted as the Euro-Maidan protest movement in November 2013, after it became clear that the government would not sign the association agreement with the EU (see the next section). Another source of social disappointment was the deteriorating economic situation. After the 2008-09 crisis, Ukraine failed to return to its pre-crisis GDP level (Table 1). In 2010 and 2011, GDP grew by 4.1 and 5.2 percent, respectively (not enough to compensate for the 2009 output decline), followed by stagnation in 2012-13. Stagnation was a result of weak external demand (a consequence of the European debt and financial crisis), increasing domestic imbalances, a deteriorating business and investment climate and increasing Russian import restrictions – Russia wanted to discourage the government of Ukraine from signing the association agreement with the EU. The Azarov government's populist policies, such as keeping domestic energy prices low and generous wage[47] and pension increases, led to deteriorating fiscal and current account balances, a typical manifestation of the twin deficits. These policies also effectively derailed the two subsequent IMF SBAs (of 2008 and 2010), both backed by the EU's Macro-Financial Assistance (MFA)[48]. As a result, from summer 2013, Ukraine started to face the growing danger of the subsequent balance-of-payments crisis (the two previous balance-of-payments crises happened in 1998-99 and 2008-09).

Relations with the EU

In 1990s and early 2000s, the EU's relationships with countries of the former Soviet Union other than the Baltic states were based on the bilateral Partnership and Cooperation Agreements (PCA) which included, in the economic sphere, the Most-Favored Nation clause, and technical, legal and institutional cooperation in such sectors as transportation, energy, competition policy, and some legal approximation in the areas such as customs law, corporate law, banking law, intellectual property rights, technical standards and certification. Ukraine signed the PCA in June 1994 and the agreement entered into force on 1 March 1998.

The next steps, after the start of the European Neighbourhood Policy in May 2004 and the Orange Revolution in Ukraine at the end of 2004, were the signing the of the EU-Ukraine Action

[47] According to IMF Country Report No. 14/106 (Table 1, p. 35), average nominal monthly wages in the econ-omy increased by 17.5 per-cent in 2011, 14.9 percent in 2012 and 8.0 percent in 2013 and real wages by 8.8 percent, 14.2 percent and 8.3 percent, respectively. In 2013 the average nominal wages in the public sector increased by 7.1 percent (IMF Country Report No. 14/145, p.84).

[48] Since obtaining independence, Ukraine had nine IMF programmes (1994, 1995, 1996, 1997, 1998, 2004, 2008, 2010 and 2014), six of which went off-track prematurely.

Plan and the granting of market economy status to Ukraine (both in 2005). The action plan was updated and upgraded into the EU-Ukraine Association Agenda[49] in 2009 and then, once again, updated in June 2013 with the focus on implementation of the forthcoming association agreement[50].

In March 2007, the EU and Ukraine started negotiations on a new enhanced agreement to replace the PCA. At the Paris EU-Ukraine Summit in September 2008, the negotiated agreement was upgraded to the association agreement and included the DCFTA as an integral part. The negotiation was concluded in December 2011, and the text of the association agreement was initialled on 30 March 2012 and signed on 27 June 2014 after a series of dramatic political events in 2013 and first half of 2014. These included the failure of Yanukovych's administration to meet the political preconditions for signing the association agreement stipulated by the EU (related to fair elections, judicial reform and so-called elective justice against opposition leaders[51]), the subsequent last-minute refusal to sign the association agreement during the Third Eastern Partnership Summit in Vilnius on 28-29 November 2013, the resulting Euro-Maidan mass protests in Kyiv and regime change (November 2013 – February 2014), Russian annexation of Crimea and war in eastern Ukraine (since March 2014).

The association agreement, in particular, its DCFTA component, will offer Ukrainian companies partial access to the European single market. At the same time, it might stimulate regulatory and institutional reforms in trade and investment-related spheres, and ease the business climate for domestic and foreign firms. It can also help to bring the country's legal system, public administration and infrastructure services closer to EU standards (the *acquis*), depending on the political will and determination to reform on the Ukrainian side.

Economic Challenges Posed by the Current Crisis

The combination of recent dramatic political developments and the deteriorating economic situation has made the current crisis particularly serious and severe. Ukraine faces an existential threat to its independence and territorial integrity caused by Russia's aggressive policy, and must

[49] See http://eeas.europa.eu/sitemap/index_en.htm
[50] See http://eeas.europa.eu/sitemap/index_en.htm
[51] See http://www.consilium.europa.eu/

also overcome the adverse consequences of its past failures in economic and institutional reform to secure its survival and rebuild domestic and international confidence.

As a result of the violent conflict in eastern Ukraine and the related political uncertainty, real GDP will decline in 2014. According to the IMF estimate built into the SBA assumptions, the decline could reach 5 percent; according to the European Bank for Reconstruction and Development May 2014 forecast it could even reach 7 percent.

Decline in GDP and political turmoil, including war in the east, have undermined seriously the revenue flow to Ukraine's budget and have created additional expenditure needs, especially in the area of national defense and security, humanitarian assistance and infrastructure repair. The same IMF estimates of April 2014 predicted an increase in the general government deficit to 5.2 percent of GDP in 2014 from 4.8 percent in 2013, despite the recommended fiscal adjustment.

If the quasi-fiscal deficit of Naftogaz (the state-owned monopoly in charge of natural gas imports and distribution) is added, the combined deficit will increase from 6.7 percent of GDP in 2013 to 8.5 percent of GDP in 2014. Generally, the IMF projections are based on optimistic assumptions. They might underestimate the downside risks in the national security sphere, potential further disruption to trade relations with Russia and bank recapitalization needs.

In the first half of 2014, the hryvna depreciated from 8 UAH to more than 11.5 UAH to the dollar, i.e. more than 45 percent. In the face of a looming balance- of-payments crisis, such an adjustment was both unavoidable and necessary to improve trade and current account balances. However, it has also put an additional burden on the balance sheets of unhedged banks, companies (including Naftogaz) and households. The ratio of non-performing loans (NPL) to total loans in the banking sector amounted to 23.5 percent at the end of 2013, i.e. before the UAH depreciation.

Overcoming these negative tendencies requires not only political stabilisation but also far-reaching fiscal adjustment and structural and institutional reforms to help eliminate macroeconomic disequilibria and unlock Ukraine's long-term growth potential, as we detail in the next section.

International Aid Package

The international community supported the new Ukrainian authorities with a generous financial aid package. At the core of this package is the 24-month $17.1 billion IMF SBA, i.e. 800 percent of Ukraine's quota in the Fund[52], provided under so-called exceptional access[53].

The first tranche, which was disbursed immediately after the SBA's approval (on 30 April 2014), amounted to about $3.2 billion, of which $2 billion could be used as budget deficit financing. In April 2014, the IMF SBA was backed by an EU MFA loan of €1 billion available in two instalments and the EU's grant of €355 million (also in two instalments) under the State Building Contract.

Recently, the World Bank approved two loans to Ukraine – the District Heating Energy Efficiency Project of $382 million and the Social Safety Nets Modernization Project of $300 million. The US Government provided loan guarantees amounting to $1 billion. Investment loans can be provided by the European Bank for Reconstruction and Development and the European Investment Bank.

Weak Conditionality

Even the most generous international aid package can provide only temporary respite to Ukraine's balance of payments. To ensure the sustaining effect, aid must be supplemented by a domestic adjustment and reform package which aims at removing the roots of domestic and external imbalances. This is why the conditionality attached to financial aid should require reform of policies and institutions. However, such conditions are not obvious in the content of the IMF SBA and EU assistance. The IMF SBA said the following reforms should be implemented:

- Changes to the monetary policy regime, i.e. replacing the ***de-facto*** fixed but adjustable peg of the UAH to the dollar by a flexible exchange rate and inflation targeting, with the targeting of

[52] If implementation of the SBA follows the original assumptions and schedule, the IMF's total net loan exposure to Ukraine will exceed 10 percent of GDP in 2015 and 2016

[53] Ukraine: Request for Stand-by Arrangement – Staff Report; Supplement; Staff Statement; Press Release; and Statement by the Executive Director for Ukraine, IMF Country Report No. 14/106, http://www.imf.org/exter-nal/pubs/ft/scr/2014/cr141 06.pdf.

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monetary aggregates as the intermediate solution in 2014;

- Financial sector stability, i.e. in-depth diagnosis of Ukrainian banks and their recapitalization needs (if necessary), and bringing banking regulations into line with best international practices;

- Gradual reduction of the structural fiscal deficit;

- Modernization and restructuring of the energy sector, gradual adjustment of end-user energy prices accompanied by development of the respective social safety net;

- Structural and governance reforms, improving the business climate.

At first glance, this looks like a comprehensive approach that aims to address key challenges faced by the economy of Ukraine. However, detailed proposals raise some doubts.

In fact, structural and governance reforms which are essential for improving the business climate and investors' confidence have not been detailed in the SBA at all. There are no structural benchmarks – they are to be the subject of a separate diagnostic study.

The memoranda signed between the Government of Ukraine and the European Commission on the occasion of both the MFA and the State Building Contract are a bit more concrete in this respect. They set out some detailed conditions on fighting corruption, avoiding conflicts of interest for public servants, government transparency, changes in public procurement legislation and practices, public access to information, civil service reform, constitutional reform, election law and financing for political parties. However, very important areas such as deregulation of business activity, simplifying public administration structures and procedures, reform of the judiciary and law enforcement agencies and decentralization (building genuine local and regional self-government) are virtually absent.

As we have noted, exchange-rate adjustment was crucial in avoiding a full-scale and uncontrolled currency crisis earlier this year. Similarly, attempts to make the exchange rate more flexible, together with the abandoning of existing restrictions on current account convertibility, should be welcomed. However, moving to inflation targeting in a one-year period does not look feasible, especially in a time of political and security turmoil and continuous fiscal pressure on monetary policy, and considering the limited legal and actual independence of the National Bank of Ukraine.

In order to create room for more independent monetary policy and an inflation-targeting regime, serious fiscal adjustment is needed, but on this the IMF programme looks rather weak and unconvincing. The fiscal adjustment target of 2 percent-age points of GDP annually plus another 1 percentage point of GDP of quasi-fiscal adjustment by Naftogaz cannot prevent further rapid increases in Ukraine’s fiscal deficit and public debt. According to the SBA targets, the general government deficit will stay at the level of 4.2 per-cent of GDP (without Naftogaz) and 6.1 percent of GDP (including Naftogaz) in 2015. Furthermore, several risks have been evidently underestimated in this projection, as we have noted.

As result of lax fiscal policy, the public debt-to-GDP ratio will jump from 40.9 percent in 2013 to 56.5 percent in 2014 and further up to 62.1 percent in 2015. Then it will reduce slowly to 51.9 percent in 2018, under the assumption that the economy will grow by at least 4 percent annually from 2016. So far, the government of Ukraine faced problems accessing private financial markets even at a much lower level of public debt. Similar public-debt funding constraints have been experienced by other post-Soviet and developing countries with similar characteristics to Ukraine. In practical terms, this means that despite the IMF programme, Ukraine will remain cut off from private debt markets for several years, and will be totally dependent on official financial aid.

Furthermore, without bolder fiscal adjustment there is no chance to increase substantially the very low rate of gross national savings (6 percent of GDP in 2013), because most private savings are absorbed by the public sector borrowing requirements, or to improve the current account balance. In turn, this will mean continuous balance-of-payments vulnerability and a limited pool of resources to finance investment.

Some of the proposed fiscal adjustment measures go in the right direction, such as abandoning the previous populist decision to replace the 20 per-cent VAT rate with two much lower rates. However, the fiscal effects of some one-off steps, for example, fighting tax fraud, might be overestimated. Wage and hiring freezes in the public sector might complicate the badly-needed reform of the civil service and public services such as education and healthcare. The Ukrainian public sector suffers from an excessive number of employees, who are poorly paid and managed. In such a situation, targeting the public-sector wage bill would be a better strategy to create both financial room and incentives for deep restructuring of both public administration and major public-service sectors.

In two areas of fiscal adjustment, the SBA looks particularly disappointing: elimination of energy subsidies and social welfare reform.

Energy Subsidies

According to the IMF estimate[54] post-tax energy subsidies in Ukraine amounted to 7.6 percent of GDP in 2012. They are much higher than in other countries of central and eastern Europe and the former Soviet Union, apart from Turkmenistan, Uzbekistan and Kyrgyzstan. Most subsidies have the quasi-fiscal form (periodical recapitalization of Naftogaz) and are aimed to support low house-hold tariffs for natural gas and district-heating services (which use natural gas as an input). The price paid by Ukrainian households for natural gas covers only about 20 percent of the cost-recovery level, and is ten times or more lower than the price paid by Lithuanian and Estonian households.

Low domestic energy prices are not only responsible for high fiscal and quasi-fiscal deficits and the deteriorating current account balance. They do not help to reduce excessive energy consumption and increase energy efficiency, which in Ukraine is among the lowest in the world and has hardly improved since 1990 (Table 2 on the next page).

Furthermore, low energy prices do not create incentives to increase domestic energy production and invest in energy-saving technologies. They do not allow the elimination of one of the most obvious sources of corruption – trading in, and distribution of, subsidized energy imports – and they prevent the reorientation of the energy sector towards a competitive market environment. As long as Naftogaz is obliged to deliver gas at price below the cost-recovery level, its reorganization, de-concentration and privatization will not be possible.

Low energy prices are also counterproductive for reducing Ukraine's energy dependence on Russia. In this context, the discussion on economic sanctions against Russia has limited merit as long as the international community is ready to support financially Ukraine's overconsumption of Russian gas. Unfortunately, despite a correct diagnosis, the IMF SBA sets only a very gradual price adjustment schedule with the aim of eliminating Naftogaz's deficit only by 2018.

The first round of tariff increases, for gas by 56 percent (from May 2014) and for district heating by 40 percent (from July 2014) looks drastic, but only if one disregards their very low initial level. In fact, the 2014 increase only compensates for the effect of UAH depreciation earlier this year. The next planned rounds of tariffs increases (by 40 percent in 2015 and by 20 percent in 2016 and 2017) might bring them closer to the cost-recovery level, but only if the UAH

[54] Ukraine: 2013 Article IV Consultation and First Post-Programme Monitoring-Staff Report; Press Release; and Statement by the Executive Director for Ukraine, IMF Country Report No. 14/145, p.87, http://www.imf.org/external/error.htm?URL=http://www.imf.org/%20external/pubs/ft/scr/2014/%20cr14145.pdf.

exchange rate and other cost components remain unchanged. And there is no certainty that the tariffs will reach the cost-recovery level even in 2017.

Table 2: GDP per unit of energy use, 2011 PPP USD per kilogramme of oil equivalent

Country/ region	1990	2011
Albania	5.4	13.2
Armenia	1.7	7.4
Azerbaijan	2.7	11.5
Belarus	1.8	5.3
Bulgaria	3	5.9
Czech Republic	3.8	6.5
Georgia	3.1	8
Hungary	6.1	9
Kazakhstan	2.8	4.4
Kyrgyzstan	2	5.2
Latvia	4.6	9.4
Lithuania	3.6	9.3
Macedonia	8.2	7.9
Moldova	2.4	4.5
Poland	3.7	8.3
Romania	4.2	9.6
Russia	3.3	4.4
Serbia	5.4	5.3
Slovakia	3.8	7.8
Slovenia	6.4	8
Tajikistan	3.6	7.2
Turkey	11	11.7
Turkmenistan	1.7	2.3
Ukraine	2.2	3
Uzbekistan	1.3	2.7
Europe & Central Asia	3.4	6.3
World	5.4	7.3

Source: World Bank World Development Indicators.

Oversized and inefficient welfare state

The general government total expenditure in Ukraine is close to the level of 50 percent of GDP, one of the highest in Europe and among emerging market economies. In 2014, it might even exceed 50 percent of GDP. The biggest expenditure item is various social benefits (23.1 percent in 2013), of which public pensions account for 17.2 percent of GDP, again one of the highest shares in Europe and the world. The limited pension reform of 2011 (discussed previously) has stopped the growth in pension expenditure, but is unable to ensure system sustainability over the long term in the context of one of the least favourable demographic trends in Europe. The retirement age, both statutory and effective, remains low by international standards and taking into consideration the rapid ageing of Ukrainian society. Numerous group privileges and special pension schemes offer opportunities for earlier retirement and generous benefits. As result, 13.6 million pensioners account for about one third of the Ukrainian population. This implies dependency ratio of 1 or higher. Both the public pension system and other components of social welfare provide most benefits to better-off groups instead of lower income groups. According to the World Bank's Atlas of Social Protection, only 13.4 percent of total social-protection and labour-programme benefits went to the poorest 20 percent of the Ukrainian population in 2006:

What Should be Done?

Our analysis suggests there is an urgent necessity for the new Ukrainian authorities with the help and support of international community to elaborate a complex programme of far-going economic and institutional reforms. These should include both short-term measures of fiscal and macro-economic adjustment (much bolder than currently planned) and medium- to long-term structural and institutional changes. These are closely interlinked. For example, without removing energy subsidies, fiscal and balance-of-payments adjustment looks unrealistic and deeper reform of the energy sector (especially Naftogaz) cannot start, leaving serious distortions and sources of rents and corruption intact. Public pensions are a similar case: without increase in both the statutory and actual retirement age, the fiscal cost of the pension system will further expand, and labor market distortions and widespread informal employment will not be reduced.

Fiscal adjustment must play a central role in short-term policies, i.e. in 2014-15 because of deep disequilibria and sovereign insolvency risk. The concern that a too-radical fiscal adjustment can hurt growth prospects through the demand channel might not be justified in the Ukrainian economy in which eliminating distortions (for example, in the energy sector) and uncertainties (related to macroeconomic imbalances), and returning business confidence, can boost both investment and consumption. Long-term growth will be impossible without increasing the national savings rate, which requires, in first instance, the elimination of fiscal imbalances.

Discussion on the speed of reform must take into account both politics and economics. Obviously, fiscal adjustment which is crucial for rebuilding macroeconomic equilibrium and business confidence will include politically unpopular measures, especially in relation to energy prices and the pension system. There will be social costs and various special interests will be threatened. How-ever, the unfavorable social consequences for the poor can be mitigated by well-targeted social safety nets. In turn, overcoming the resistance of special interest groups requires political mobilization around the reform programme.

A time of geopolitical confrontation with a powerful neighbor might be considered to be an unlikely opportunity for difficult economic and political reform. However, Ukraine does not have any more time to waste. It must quickly rebuild confidence in its state institutions and economy. Perhaps the current patriotic mobilization of Ukrainian society in the face of a threat to the country's independence and after political change can create sufficient window of opportunity for difficult reforms.

Past experience tends to illustrate that such a window of opportunity is usually short-lived. Revolutionary mobilization does not last long. People who do not see visible positive changes become disappointed, and enthusiasm is replaced by apathy and impatience. This opens door to populism and authoritarianism as experienced by Ukraine itself after the failure of the Orange revolution, or recently in Egypt. Easing social pain over longer period does not necessarily make life easier compared to a more radical and upfront reform package.

The resignation of Prime Minister Arseniy Yat-senyuk's government on 24 July 2014 with the objective of facilitating early parliamentary election in October 2014 might help build a stable pro-reform majority. However, it also means a further delay in implementation of reforms, and additional instability and uncertainty, which will accompany the forthcoming election campaign in the environment of the unresolved conflict in the east.

For international donors, the best strategy is to offer a substantial aid package to Ukraine (which has partly happened) but with more stringent conditions on reform compared to the current package, and immediate technical assistance. This means upgrading the existing aid package built around the IMF SBA, EU and World Bank programmes to ensure faster macroeconomic adjustment in short-term and deeper institutional and structural reform in the medium-to long-term, backed by more international resources.

Too Blind to See the Threat We Pose to Russia…[55]

Andreas M. Bock

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NATO Secretary General Anders Fogh Rasmussen made his point clear: "Russia's illegal and illegitimate aggression against Ukraine is the greatest challenge to Europe's security in a generation. So we have rightly reinforced the defense of our Allies, including Poland." (NATO 2014) In other words: to balance[56] against the Russian aggression and threat, NATO is considering permanently deploying troops in the alliance's Eastern European member states.

[55] An extended version of this analysis will appear in the next issue of *Zeitschrift für Außen- und Sicherheitspolitik* (ZfAS). I thank Professor Dr. Thomas Jäger and Professor Dr. Reinhard C. Meier-Walser for their valuable comments and suggestions, which significantly contributed to improving the quality of my analysis.

[56] Balancing is not limited to joining a powerful alliance (like NATO) or building up arms, which are two classical forms of balancing (Waltz 1979, 168), but rather refers to all strategies of a state that aim reduce a perceived threat by improving the security situation of the threatened state(s) compared with the state(s) perceived as a threat (Bock und Henneberg 2013, 9–15). For example, by imposing sanctions against Russia or by planning to reinforce troops in Eastern European NATO member states the US and EU are balancing against Russia using strategies aiming to improve the US and European power and security position compared to that of Moscow (part of these strategies may also be described as deterrence). In short, balancing refers to all state strategies intended to weaken the power position of the state(s) perceived as a threat.

And how should Rasmussen have reacted differently? Moscow annexed Crimea from Ukraine. Russian President Vladimir Putin used the annual military parades commemorating the victory over Nazi Germany as a show of force not only in Moscow, but also in Crimea. Moreover, Russia stationed an estimated 40,000 troops near the Ukrainian eastern border, which was undoubtedly a threat to Ukrainian security and territorial integrity.

From a Western perspective, the Ukraine Crisis seems easy to judge: Russia is the aggressor and poses a threat to peace and security. Consequently, the reactions of the US and NATO are only defensive. As US General Philip Breedlove said, “We are taking measures that should be very easily discerned as being defensive in nature. This is about assuring our allies, not provoking Russia.” (Reuters 2014)

The problem is that Russia can easily misperceive these measures as provocative. The statement of John Foster Dulles, former US Secretary of State, projects a dilemma of perception that is still applicable: “Khrushchev does not need to be convinced of our good intentions. He knows we are not aggressors and do not threaten the security of the Soviet Union.” (Jervis 1976, 68) As we know today, Khrushchev saw the US as a severe threat to the Soviet Union, which was one of the reasons for his decision to deploy nuclear missiles to Cuba. Although the US and NATO may not have offensive or aggressive motivations for their deployment strategies towards the western border of Russia, Moscow may perceive otherwise (Bock 2013, 83–87; Bock and Henneberg 2013, 21–28).

The crucial point here is not that the perception of the Ukraine Crisis or the Cuban Missile Crisis lies in the eye of the beholder, but that we are too blind to see how far we threatened Russia and drove Moscow into that crisis, just as Kennedy was too blind to see how much the US nuclear missiles in Turkey threatened Khrushchev. The crucial question is: How could Kennedy fail to see how provoking and threatening his policy was to Khrushchev?

I believe that the psychological phenomenon of inattentional blindness offers an explanation for the escalation of both the Cuban Missile Crisis and the Ukraine Crisis. Inattentional blindness means the failure to perceive and notice an unexpected stimulus despite its being in one’s own range of perception (Mack und Rock 1998; Mack 2003; Most u. a. 2005; Simons 2000).

My argument therefore goes beyond the scope of the research done on perception and misperception by authors such as Robert Jervis (Jervis 1976; Jervis, Lebow, and Stein 1989) or Richard Ned Lebow (Lebow and Stein 1994; Lebow 1984; Lebow 2010), in that I am not only concerned with the problem of *how* the Soviet deployment of missiles to Cuba or the Russian annexation of Crimea is perceived, i.e. as a threat to US security or as a neo-Soviet aggressive

Russian policy, but that I focus especially on *why* decision makers are too blind to see that their decisions are provoking and threatening – despite obvious consequences.

Kennedy Fails to See the Gorilla

As we know today, Kennedy knew only too well about the impact the *Jupiter* missiles would have on Khrushchev. Only three weeks after his inauguration, Kennedy was presented with a congressional report that was highly critical of the European missile deployment. Consequently, in April 1961 Kennedy asked for an internal review of the missile deployment, which revealed that the *Jupiter* missiles were militarily useless for anything but a first strike, i.e. that they would be provoking to the Kremlin (Lebow and Stein 1994, 44). Khrushchev also complained repeatedly about the deployment of these missiles (e.g. three times during their private talks at the Vienna summit in June 1961) (Lebow and Stein 1994, 44–45). In September of the same year, Khrushchev even told the *New York Times* how unhappy he felt about the nuclear weapons in Turkey: “She is our neighbour, but you have stationed your bases there and threaten us from those bases. […]” (quoted in Lebow and Stein 1994, 45) And on 27 October 1962, during the Crisis, Khrushchev wrote a letter to Kennedy in which he defended the missiles in Cuba as a justifiable response to the *Jupiter* missiles in Turkey: “You are disturbed over Cuba. You say that this disturbs you because it is 90 miles by sea from the coast of the United States of America. But Turkey adjoins us; our sentries patrol back and forth and see each other. Do you consider, then, that you have the right to demand security for your own country and the removal of the weapons you call offensive, but do not accord the same right to us?” (Khrushchev 1962b)

Obviously, the effect of the *Jupiter* missiles on Khrushchev was in Kennedy’s immediate range of perception. That notwithstanding, neither Kennedy nor the ExComm – as we know from the Kennedy Tapes, the secret recordings of the discussions that took place during the 13 days of the crisis – ever seriously considered that the Soviet missiles in Cuba might be a response to the *Jupiter* missiles, i.e. not an offensive measure, but rather a defensive measure to reduce the strategic vulnerability felt by the Soviet Union.

An exception may be Adlai Stevenson, then US Ambassador to the United Nations, who had always been skeptical of the air attacks against Cuba. On 19 October 1962, the fourth day of the crisis, he was the only one to propose a *quid pro quo*. After the Soviet had withdrawn the missiles from Cuba, the US would withdraw the nuclear missiles from Turkey. Stevenson faced strong, even shrill opposition and outrage in the ExComm; his recommendation to Kennedy was regarded as a clear sign of weakness to Khrushchev. As Stevenson later remarked: “I know that most of those fellows will consider me a coward for the rest of my life for what I said today, but perhaps we need a coward in the room when we are talking about nuclear war." (quoted in Baker 1996, 420)

Inattentional blindness always comes into play when our attention is captured by something else (e.g., the perceived threat of a Soviet nuclear attack), or if we have certain expectations (e.g., that the USSR is war-prone, as the Berlin Crisis indicated). We are then likely to be blind to obvious stimuli/information, like the impact the *Jupiter* missiles had on the Cuban Missile Crisis or the eastern expansion of NATO on the Ukraine Crisis. This insight dates back to late 1970s, when the psychologist Ulric Neisser was one of the first to systematically research the link between attention and perception. However, it was Daniel J. Simons and Christopher F. Chabris who attracted broad attention with their gorilla experiment in 1999 (Simons and Chabris 1999). Approximately half of the people who watched two groups of students playing ball failed to notice a person dressed in a gorilla suit crossing their field of perception. The clue to this puzzle is that the observers had the cognitively demanding task of counting the passes of only one of the two student groups, which made 50 per cent of them too blind to see the gorilla (Simons and Chabris 1999, 1069).

The same is true for decision processes in a crisis situation; which are beyond doubt extremely cognitively demanding for all participants. Given that the analysis of international relations and foreign policy decisions cannot rely on large-n experiments, as psychologists normally do, I used a qualitative approach to identify the reasons why Kennedy failed to see the connection between the *Jupiter* missiles and Soviet missile deployment to Cuba. As a content analysis of the Kennedy Tapes reveals, Kennedy suffered from inattentional blindness – and he could not see either the effect the *Jupiter* missiles had on Khrushchev, or how they affected the deployment of nuclear missiles to Cuba.

And as inattentionally blind as Kennedy was to the effect the *Jupiter* missiles had on Khrushchev, US and NATO policymakers seem to have been even more blind for years regarding the eastern expansion of NATO.

Richards J. Heuer offers an explanation for this "perception problem". He describes perception as "an active rather than a passive process; it constructs rather than records 'reality'" (Heuer 1999, 7). The active process of perception means that we construct meaning out of the abundance of perceived stimuli – and thus *de facto* create our own social reality. This process of constructing meaning and social reality depends on internal and external factors. As Heuer explains: "What people in general and analysts in particular perceive, and how readily they perceive it, are strongly influenced by their past experience, education, cultural values, and role requirements, as well as by the stimuli recorded by their receptor organs." (Heuer 1999, 7)

Together, these factors constitute an expectation with which we respond to stimuli and interpret them.

For precisely this reason, the US and Israel were surprised on 6 October 1973 by the Egyptian-Syrian attack: The US and Israel thought that an attack by two Arab states was completely unlikely due to the massive military superiority of Israel. This image was very difficult to change, even after the war has started. As Robert Jervis writes: “The predisposition was so deeply ingrained that the image of the Arabs as weak and incompetent was not shattered on October 6, at least not in the United States.” (Jervis 1985, 19) In addition, Washington ascribed to Egypt an understanding of rationality which corresponded to that of the US: that Egyptian President Anwar Sadat would only start a war if he could win it. Given that a war against Israel was perceived in Washington as unwinnable for both Egypt and Syria, the policymakers never seriously considered such an option and therefore failed to see the signs of war. (Jervis 1985, 19–20) They obviously were too blind to see such information that they didn’t expect.

A Threat – To Russia!

At the end of the Cold War, then Soviet President Mikhail Gorbachev developed an idea that would facilitate peaceful reconciliation between the conflict-prone spheres of influence in the East and West: the “all-European Home” (Malcolm 1989).[57] During a visit to Czechoslovakia in April 1987 he explained his idea in greater detail: “We assign an overriding significance to the European course of our foreign policy. [...] We are resolutely against the division of the continent into military blocs facing each other, against the accumulation of military arsenals in Europe, against everything that is the source of the threat of war. In the spirit of the new thinking we introduced the idea of the ‘all-European house’ [which] signifies, above all, the acknowledgment of a certain integral whole, although the states in question belong to different social systems and are members of opposing military-political blocs standing against each other. This term includes both current problems and real possibilities for their solution.” (quoted in Svec 1988, 990)

In other words: the topos of the “Common European Home” originally meant to bridge the gap that the Iron Curtain had left between Eastern and Western Europe during the Cold War.

[57] Gorbachev later transformed this idea into the concept of the “Common European Home”: “The philosophy of the ‘Common European Home’ concept rules out the probability of an armed clash and the very possibility of the use of force or threat of force – alliance against alliance, inside the alliances, wherever. This philosophy suggests that a doctrine of restraint should take the place of the doctrine of deterrence. This is not just a play on words but the logic of European development prompted by life itself.” (Gorbachev 1989, 5)

But in retrospect and from the Russian perspective, Gorbachev's idea was systematically transformed into the exact opposite—an exclusive Western European home with former Warsaw Pact and Soviet Union member states changing sides. In 1999, Poland, Hungary, and the Czech Republic, former member states of the Warsaw Pact, joined NATO. With the second large expansion in 2004, seven Central and Eastern European countries joined NATO: Slovenia, Slovakia, Bulgaria, and Romania, as well as three former Soviet Socialist Republics: Estonia, Latvia, and Lithuania. In 2009, Albania and Croatia joined the defensive alliance. Moreover, future expansion is still planned; Cyprus and Macedonia are interested in joining NATO, as are Bosnia and Herzegovina, Montenegro, Kosovo, Georgia, and Ukraine.

Of course, this extension policy was not implemented exclusively by the US or the West, since all membership ambitions to NATO of the former satellite states of the Soviet Union or the former Soviet republics (the Baltic States) were made voluntarily or were even made on the initiative of these states.

As proven by declassified documents and interviews, the eastern expansion of NATO was a serious security concern that had already been haunting the Soviet Union on the eve of German reunification – and its own decline. In a 2009 interview, Gorbachev himself recalled "that Western Germany, the United States and other powers had pledged after Germany's reunification in 1990 that 'NATO would not move a centimetre to the east'" (RIA Novosti 2009). He continued, that "the Americans had failed to fulfil the promise and the Germans had also turned a blind eye" (RIA Novosti 2009). And as sorrow investigations of the German newsmagazine "Der Spiegel" uncover, in February 1990, the then German foreign minister Hans-Dietrich Genscher tried to silence scruples of his then Soviet ministerial colleague Eduard Shevardnadze by saying: "We are aware that NATO membership for a unified Germany raises complicated questions. For us, however, one thing is certain: NATO will not expand to the east." (quoted in Klussmann, Schepp, and Wiegrefe 2009) And Genscher added explicitly: "As far as the non-expansion of NATO is concerned, this also applies in general."(Quoted in Klussmann, Schepp, und Wiegrefe 2009) Shevardnadze replied that he believed "everything the minister said" (Klussmann, Schepp, and Wiegrefe 2009).

And although Gorbachev is often considered as the gravedigger of the Soviet Union (especially by Putin), he may nevertheless serve as an early witness of the longstanding Russian fear of the eastern enlargement of NATO.

Not surprisingly, Putin tried to delay the eastern expansion of NATO. In 2007, during the Munich Security Conference (MSC), he made his security concerns public: "It turns out that NATO has put its frontline forces on our borders, and we […] do not react to these actions at all.

I think it is obvious that NATO expansion does not have any relation with the modernization of the Alliance itself or with ensuring security in, it represents a serious provocation that reduces the level of mutual trust. And we have the right to ask: against whom is this expansion intended?” (Putin 2007) He quoted the then NATO Secretary General Manfred Woerner, who, according to Putin, declared that “the fact that we are ready not to place a NATO army outside of German territory gives the Soviet Union a firm security guarantee” (Putin 2007). Subsequently, these security guarantees diminished with the eastern expansion of NATO. As stated by Putin and repeated and reinforced by Gorbachev, the eastern expansion led to Russia’s disillusionment with its post Cold War relations with the West (RIA Novosti 2009).

Putin’s speech was neither perceived as a warning nor was it taken into account. Putin’s actions are now taken seriously, but are wrongly perceived as undeniable indicators of an aggressive, neo-Soviet Russian foreign policy. It is reminiscent of the Cuban Missile Crisis, in which Khrushchev warned Kennedy about Soviet security concerns regarding the US *Jupiter* missiles in Turkey, which he perceived as offensive (Lebow and Stein 1994, 44–48). Kennedy had never taken these complaints seriously. He then wrongly perceived the Soviet missile deployment to Cuba as aggressive. Such mistakes led the world to the brink of nuclear war (Lebow and Stein 1994, 5).

Seeing Things Come…

The Russian reaction shouldn’t come as no surprise to western policymakers. On 2 May 1998, shortly after the U.S. Senate approved the first round of NATO expansion, the former U.S. diplomat George Kennan articulated his harsh critique in an interview in the New York Times, predicting a new Cold War (Friedman 1998). An interview that surely did not go unnoticed; Kennan was present at the creation of NATO and whose anonymous 1947 article in “Foreign Affairs”, signed “X”, defined America’s cold-war containment policy for 40 years.

Asked by Thomas Friedman what the Russian reaction to the eastward expansion of NATO will be, Kennan answered: “I think it is the beginning of a new cold war […] I think the Russians will gradually react quite adversely and it will affect their policies. I think it is a tragic mistake. There was no reason for this whatsoever. No one was threatening anybody else. Of course there is going to be a bad reaction from Russia, and then [the NATO expanders] will say that we always told you that is how the Russians are – but this is just wrong.” […] ” (Friedman 1998) The current escalation proved his analysis to be remarkably prescient.

Still, the puzzling thing is: How could Western policymakers fail to see the extent to which their course of action threatened Russia and how much it checkmated Moscow over the years? One may object that the eastward expansion of both the EU and NATO was executed regardless of Russian objections because the US and NATO felt no need to consider Russian sensitivities, and not because they were inattentionally blind. Even then it remains puzzling why Russian security concerns are not taken seriously – *at least now*.

An analysis of the latest speeches of NATO Secretary General Rasmussen as well as US and European policymakers reveals that they too suffer from inattentional blindness; they fail to see that the eastern expansion of NATO is part of the escalation dynamic that tentatively ended in the annexation of Crimea – regardless of the Russian breach of international law.

The recently leaked draft of the NATO Defence Planning Committee (DPC) reads like a literal confirmation: "Russia's ability and intent to undertake significant military actions without much warning, represents a far-reaching threat to the maintenance of security and stability in the Euro-Atlantic zone. Russia is able to build a military threat from local or regional size at short notice and at any location." (Spiegel Online 2014c) In other words: Russia is the threat, not us!

Time to see the gorilla!

On 26 October 1962, shortly before the climax of the Cuban Missile Crisis, Khrushchev wrote an emotional appeal to Kennedy: "Mr. President, we and you ought not now to pull on the ends of the rope in which you have tied the knot of war, because the more the two of us pull, the tighter that knot will be tied. And a moment may come when that knot will be tied so tight that even he who tied it will not have the strength to untie it, and then it will be necessary to cut that knot, and what that would mean is not for me to explain to you, because you yourself understand perfectly of what terrible forces our countries dispose."(Khrushchev 1962a) This was a call to action, to take the security concerns of the Soviet Union seriously, which Kennedy fortunately did on the 13th day of the crisis.

Putin may not be as impulsive as Khrushchev was, but on Tuesday, 18 March, the day he announced the annexation of Crimea, he used a metaphor to describe Russia's limited scope of action in light of the eastern expansion of NATO, that is not less efficacious: "If you compress the spring all the way to its limit, it will snap back hard." (Putin 2014) This is also a call to action, a wake-up call to the US and the EU. Russia is no longer willing to tolerate and accept the Western expansion of both political and military tools, i.e. the entry of Eastern European states especially into NATO. Stephen M. Walt reminds us of something Moscow has been doing for the last 20-plus years, "watching the United States and its European allies expand NATO eastward and deploy ballistic missile defenses there, to boot, with near-total disregard for Russian interests and complaints" (Walt 2014).

From the Russian perspective, the prospect of Ukraine becoming a member of NATO is a clear and immediate threat to its vital interests and security; no matter what intentions the Western states may have, as John J. Mearsheimer rightly points out: "[I]t is the Russians, not the West, who ultimately get to decide what counts as a threat to them."(Mearsheimer 2014b) Therefore, the prospect of Ukraine becoming a member of NATO was inacceptable to Russia. This should come as no surprise, at least not to Washington: "One might expect American policymakers to understand Russia's concerns about Ukraine joining a hostile alliance. After all, the United States is deeply committed to the Monroe Doctrine, which warns other great powers to stay out of the Western Hemisphere." (Mearsheimer 2014a) The same argument is made by Walt: "Imagine how Washington would react if a powerful China were one day to cultivate close security ties with Canada or Mexico, and you'll appreciate Putin's perspective a bit more." (Walt 2014)

A sustainable de-escalation of the Ukraine Crisis, which would benefit the EU, the US, and Ukraine, can only be achieved if the vital security concerns of Russia are considered. As indicated by the current escalation dynamic in which both sides are balancing against what they perceive as a threat, the sole focus of improving security is counterproductive (Bock, Henneberg, und Plank forthcoming). Here again, the Cuban Missile Crisis may serve as evidence. The efforts of Khrushchev and Kennedy to balance against the threats perceived from the opposing side led the world to the brink of nuclear war.

But what can be done? To break the vicious circle of escalation, a bargaining chip is needed – one that is valuable to one side and acceptable to the other. In the case of the Cuban Missile Crisis, the withdrawal of the Jupiter missiles from Turkey fulfilled both conditions; it was valuable to the USSR and acceptable to the US.

At the moment, the credible termination of the eastward expansion of NATO may serve as such a bargaining chip. Given that for many years, the expansion of NATO towards Russia's western borders has been an issue of great concern for the Kremlin, it is most valuable to Moscow. Frank-Walter Steinmeier, German Foreign Minister, was therefore right to declare that "There is no pending NATO membership for Ukraine." (Spiegel Online 2014b; Spiegel Online 2014a) Although some may think otherwise, this is acceptable not only to the US and Europe but also to Ukraine. The security of Ukraine does not dependent on membership in NATO; multilateral security guarantees (with NATO and also with Russia) may even better serve this purpose –

without provoking or threatening Russia. The key concept here is neutrality; something that worked e.g. for Austria since decades…

Honestly speaking, could anything better serve the security needs of Ukraine and the Baltic states than a Russia that is not balancing against a perceived threat at its western borders?

But if Western policymakers stay blind to vital Russian security concerns, the crisis will surely run the risk of escalating even further. Why haven't we learned this from the Cuban Missile Crisis?

As proven by the example of Adlai Stevenson, in times of crisis we need someone who thinks the unthinkable, someone who can see the gorilla: that it's *we* who pose a threat to Russia.

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The Latest 2014 Standard Eurobarometer: The European Elections Made a Difference

End of July 2014, the latest Standard Eurobarometer survey results were published - the first EU-wide opinion poll conducted since the European Parliament elections in May 2014 which were organised under the slogan "This time it's different". The latest Eurobarometer survey shows that this time it was different with ***positive developments*** *in several areas. This survey is also of interest for all Eastern Partnership countries and beyond, as the citizens there are sometimes confronted with negative feelings of their countrymen or of their governments, or parts of it, towards the EU. They should know the mental situation of the EU citizens which is at present not so terrible.*

1. A 10 year record high in the number of citizens who feel their voice counts

After the European Elections, the number of citizens who feel **their voice counts in the EU** has risen from 29% in November 2013 to 42%. This is the highest level since this question was first put into the Standard Eurobarometer a decade ago (see Annexes 1 and 2). In addition, 65% of Europeans feel **like an EU citizen**, up from 59% in the last Autumn Eurobarometer.

Vice-President Maroš Šefčovič, responsible for inter-institutional relations and administration said: "*We have been through challenging times but Europe is now turning the corner. Joint efforts at European level to set Europe on the path of economic recovery are starting to pay off. Not only are the economic indicators improving but so too is the attitude of citizens towards the economic situation. And, of course, the many debates around the European Elections - not least the Citizens' Dialogues and the 'Spitzenkandidaten' process - have brought Europe closer to its citizens.*"

2. Growing Optimism about the Economic Situation and the Future of the EU

For the first time since the beginning of the financial crisis seven years ago, **more Europeans think the economic situation will improve in the next 12 months.** (see Annex 3) and almost three out of four people do not expect a negative trend. And for the first time in years, the percentage of Europeans who believe that **the impact of the crisis on the job market has reached its peak** is larger than that of those who think that the worst is still to come (see Annex 4).

Support for the Euro is on the rise. And whilst Lithuania is getting ready to adopt Europe's single currency, we see a 10 percentage point increase (since last autumn) in the number of Lithuanians who say they are in favour of the euro (see Annex 5). We also see similar trends across Europe: + 10 percentage points in Latvia and Cyprus; + 5 ppercentage points in Portugal and Greece.

Finally, **people are more optimistic about the future of the EU**. Since November 2013, there has been a rise of five percentage points in those saying **they are optimistic** while the number of those saying they are pessimistic has fallen by five percentage points (see Annex 6). More than half of the people now have an optimistic outlook whilst only two out of five do not entirely share this sentiment.

Background

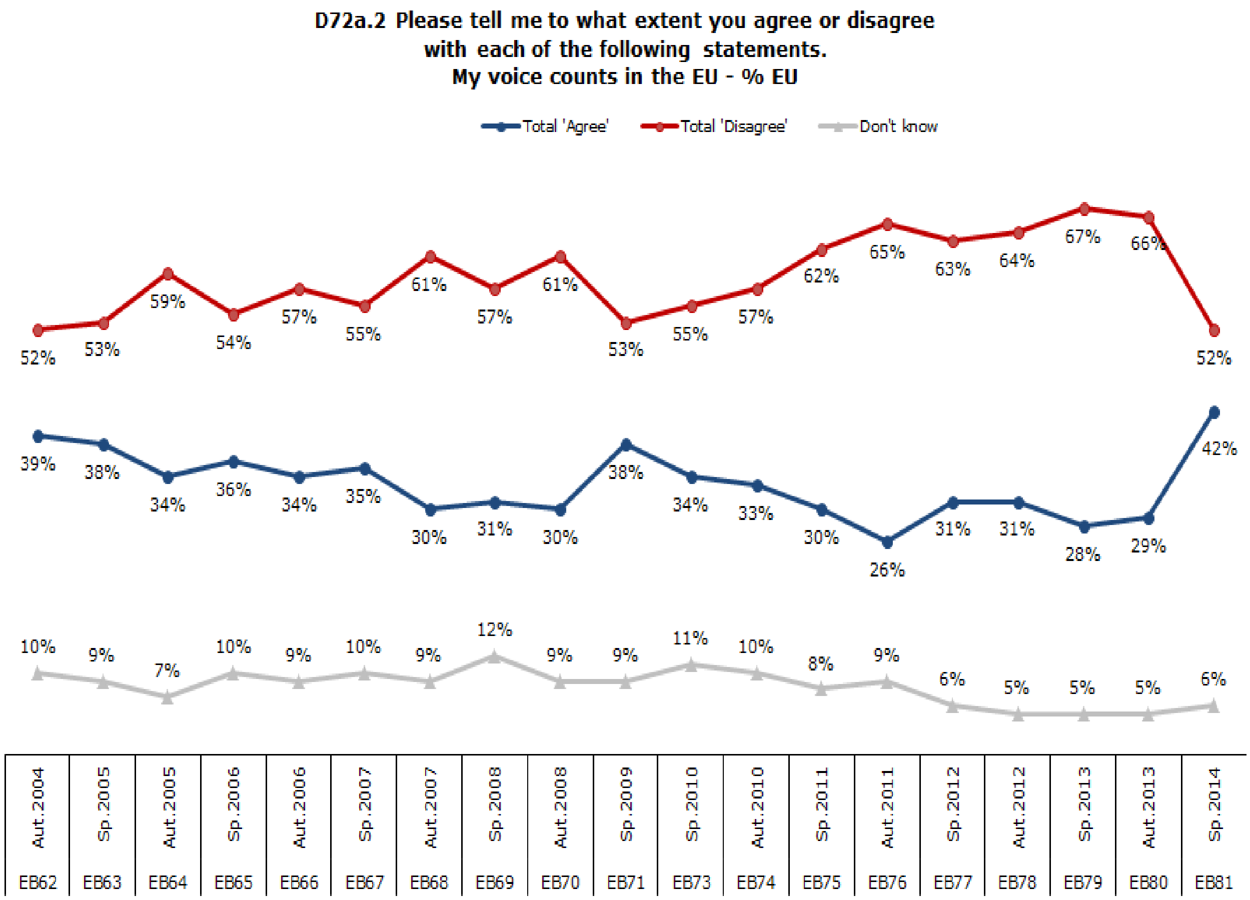
The Spring 2014 Standard Eurobarometer was conducted through face-to-face interviews between 31 May and 14 June 2014. A total of 32,689 people were interviewed across the EU Member States and in the candidate countries.

Further information

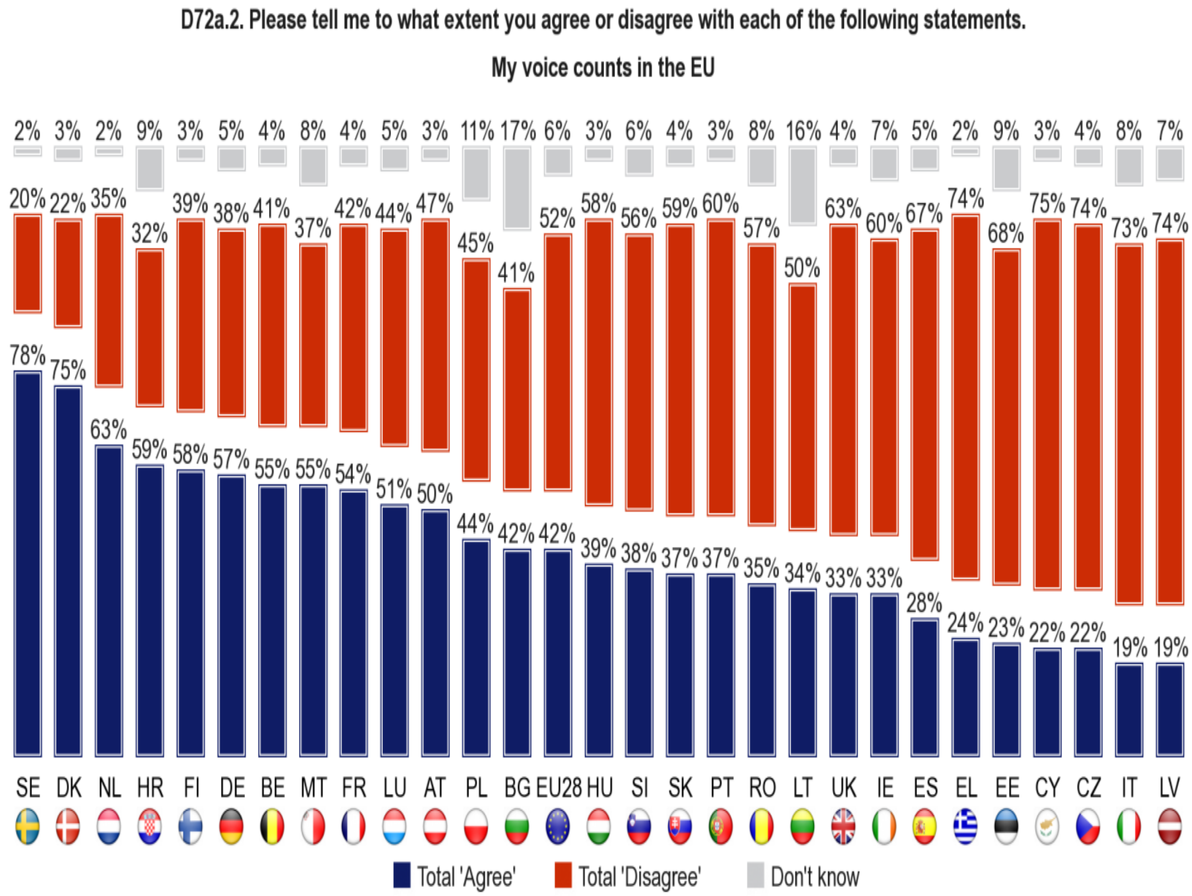
The First results report published on 25th July, 2014 outlines EU citizens' perception of the current economic situation, their main concerns and trust in political institutions. The First results report is available at: http://ec.europa.eu/public_opinion/archives/eb/eb81/eb81_en.htm.

Annexes

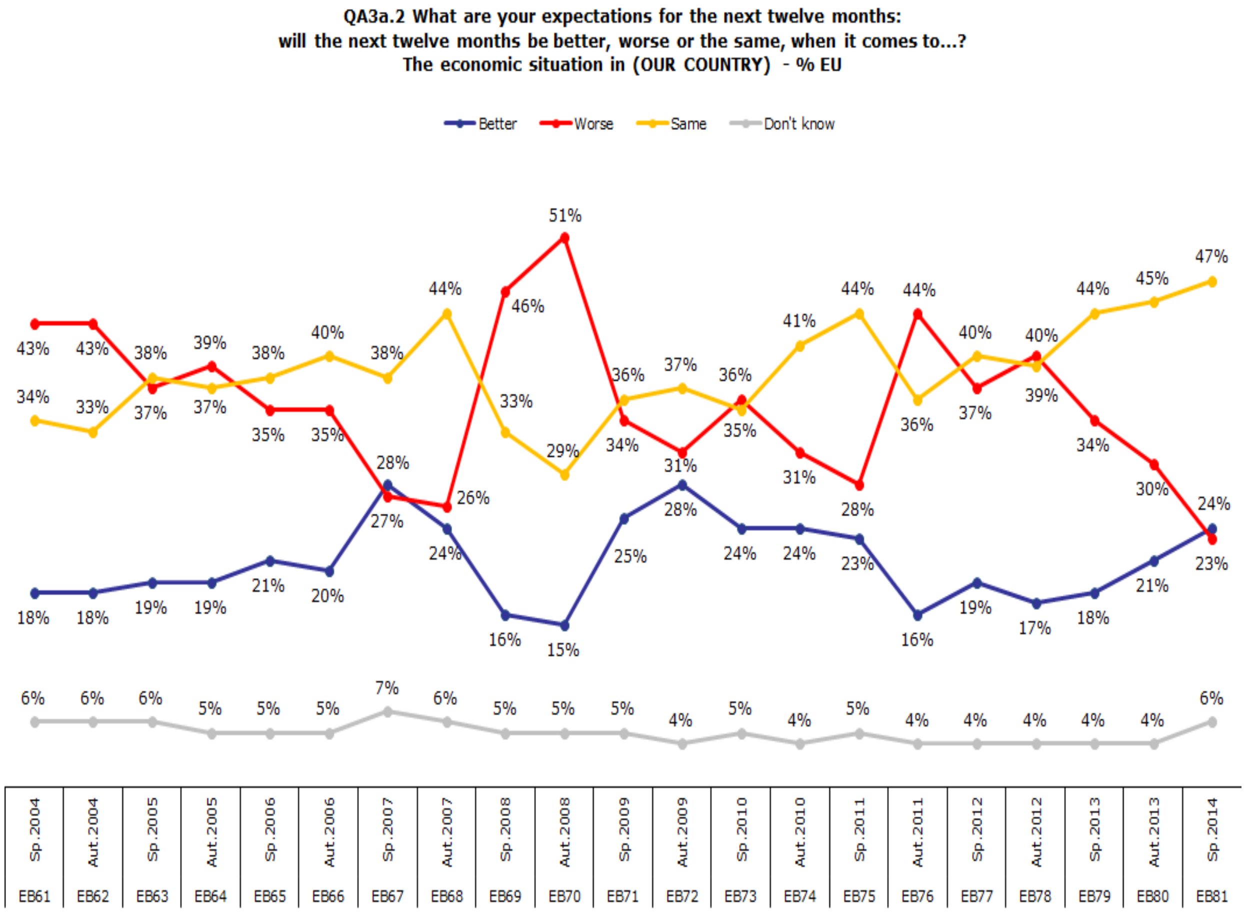
1. "My voice counts in the EU" – A 10 year high



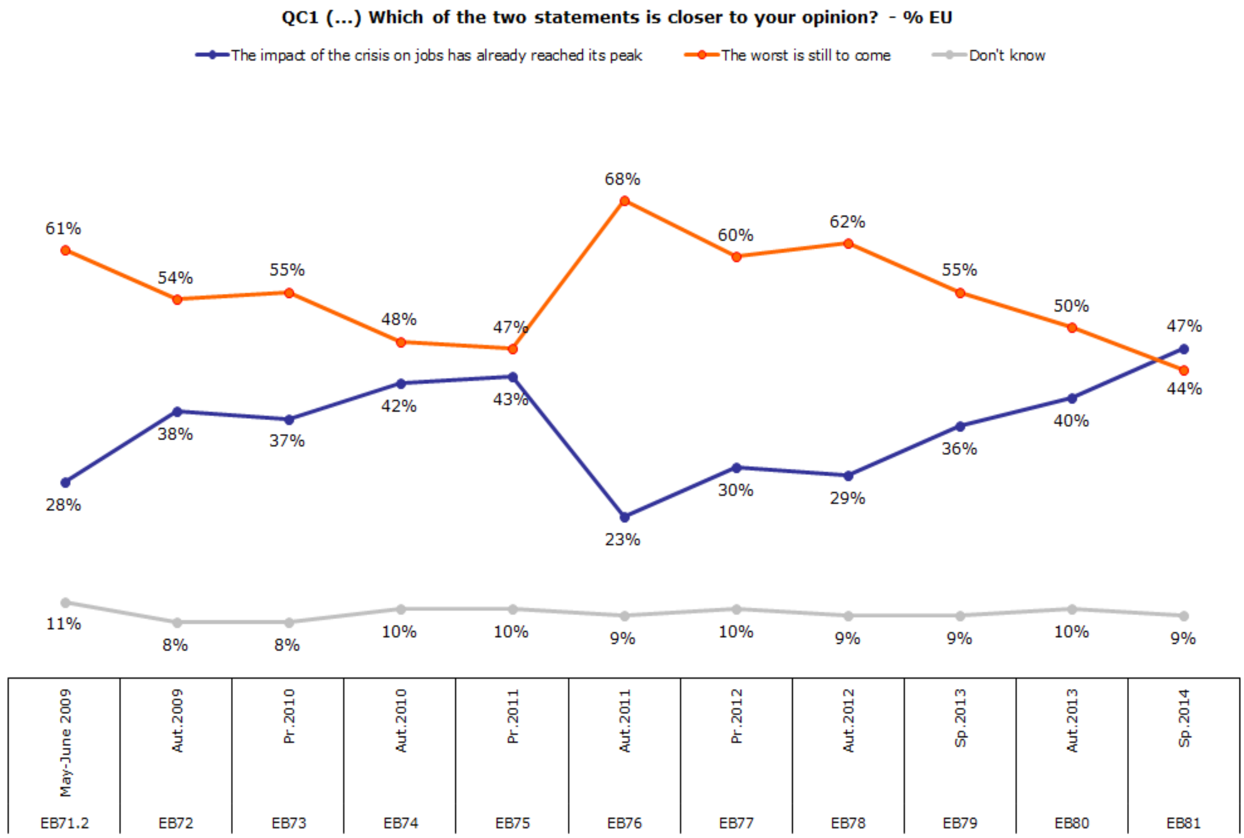
2. "My voice counts in the EU" – National Results



3. Economy: Expectations for the year to come are becoming more positive



4. The jobs crisis: Europe is turning the corner



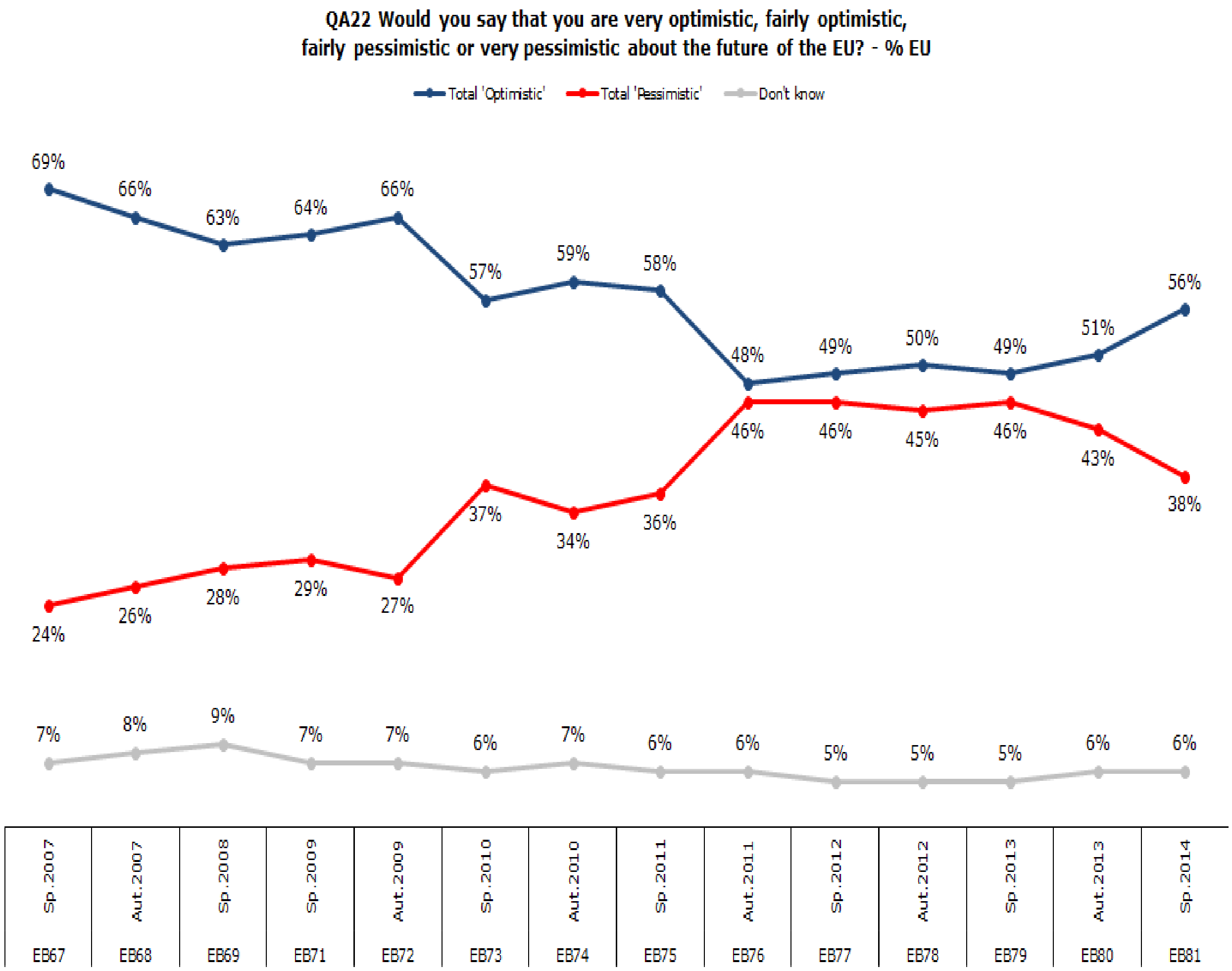
5. Support for the Euro is growing – changes since November 2013

QA17.1 What is your opinion on each of the following statements? Please tell me for each statement, whether you are for it or against it.
A European economic and monetary union with one single currency, the euro

	For	Diff. Sp.2014 - Aut.2013	Against	Diff. Sp.2014 - Aut.2013	Don't know	Diff. Sp.2014 - Aut.2013
EU28	55%	+3	36%	-5	9%	+2
LV	68%	+15	25%	-15	7%	=
LT	50%	+10	41%	-8	9%	-2
CY	53%	+9	44%	-8	3%	-1
PT	59%	+9	34%	-8	7%	-1
EL	69%	+7	29%	-6	2%	-1
FR	68%	+5	26%	-6	6%	+1
NL	76%	+5	21%	-6	3%	+1
RO	63%	+5	26%	-3	11%	-2
BE	78%	+4	20%	-5	2%	+1
DE	75%	+4	22%	-3	3%	-1
EE	80%	+4	14%	-7	6%	+3
IE	74%	+4	18%	-2	8%	-2
ES	60%	+4	32%	-5	8%	+1
MT	73%	+4	21%	-4	6%	=

	For	Diff. Sp.2014 - Aut.2013	Against	Diff. Sp.2014 - Aut.2013	Don't know	Diff. Sp.2014 - Aut.2013
EU28	55%	+3	36%	-5	9%	+2
AT	67%	+2	28%	=	5%	-2
PL	37%	+2	47%	-8	16%	+6
IT	54%	+1	29%	-7	17%	+6
SI	79%	+1	16%	-2	5%	+1
FI	76%	+1	20%	-2	4%	+1
LU	78%	-1	17%	-3	5%	+4
CZ	24%	-2	73%	+3	3%	-1
HU	53%	-2	40%	+2	7%	=
UK	16%	-3	73%	-1	11%	+4
DK	29%	-4	66%	+1	5%	+3
HR	53%	-4	38%	=	9%	+4
SK	74%	-4	21%	+3	5%	+1
SE	19%	-4	77%	+3	4%	+1
BG	41%	-10	42%	+6	17%	+4

6. Growing Optimism about the Future of the EU



European Year for Development 2015 - The First European Year Dealing with EU External Policy

The first European Year (EY) was held in 1983 and was devoted to small business (small and medium enterprises = SMEs) and craft industry. Since then the EU has selected a certain topic to stimulate discussions and negotiations within and between the EU Member States (MS). A EY is proposed by the Commission and adopted by the European Parliament and MSs. In some cases the European Commission can also present new legislation related to the topic. EYs carry the message that there exists a commitment and political signal from the EU institutions and MSs to evolve and strengthen the targeted field. They seek to increase public awareness on specific subjects, on a certain EU policy sphere, promote dialogues and change standpoints. They serve as a means of communication and platform for the realization of pilot programmes[58].

The activities for a specific EY evolve for several years, implying that the decision to set a specific EY is to be ratified prior to the launch of the actual Year. Preparatory actions are to be taken in advance and their realization is to be pursued during the Year. The monitoring and evaluation takes place the year that follows[59].

As for 2015, it is expected to be a unique year for development cooperation in the EU and worldwide. It marks the end of the project "Millennium Development Goals" (MGs) and the launch of the discussions and negotiations for a framework for the post-2015 framework for poverty reduction and sustainable development**.** In addition in 2015 it is four years since the ratification of the "Agenda for Change" which is the EC's proposal for reviewing developmental assistance and reforming poverty reduction strategies[60].

To the point, it is worth noting that the Union has realized development programmes with partner countries since its formation. This policy tends enlarging. The EU is one of the biggest

[58]European Union, European Years, http://europa.eu/about-eu/basic-information/european-years/index_en.htm
[59]European Commission, European Year of Development 2015: Accompanying the document Proposal for a Decision of the European Parliament and of the Council on the European Year of Development 2015, Commission Staff Working Document, 2013, pp. 3-11, http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013SC0265&from=EN
[60]B.BICE+, 2015 Officially Designated as European Year of Development, 16 April 2014, HTTP://WWW.B-BICE-PLUS.EU/2015-OFFICIALLY-DESIGNATED-AS-EUROPEAN-YEAR-OF-DEVELOPMENT/

development assistance donors in the world. The Union also has had a central position in the establishment and implementation of the MDGs. 60% of the total Official Development Aid has been generated from the EU and its MSs. Moreover, the 2012 Eurobarometer report 392 articulated that 85% of the Europeans consider that the assistance to the people in the developing countries is important. Additionally, the report mentions that six out of the ten questioned consider that the help to the developing countries should be raised. It is also counted that around 20 million EU citizens are engaged in the activities of development NGOs, 130 million EU citizens at least once annually donate to an organization helping developing countries. The statistics proves the idea that there exists solidarity among the EU citizens[61].

Hence, the EU and its citizens, along with its partners in the developing countries, are to have a decisive role in setting post-2015 development framework**.** In line with this on 16 April 2014 through the 472/2014 Decision the European Parliament and Council announced 2015 as the European Year for Development (EYD). The motto of the Year is "Our world, our dignity, our future"[62]. The objective is to enlarge citizen's knowledge and understanding on the Union and its MSs' development projects and cooperation frameworks, present the acquired results as well as highlight the consistency of the policy. Besides, it aims at raising the awareness that the Union's development cooperation is beneficial not only for the recipients of the development aid but also for the Union citizens per se by emphasizing the policy coherence and interdependence for development. The project also seeks to increase interest and direct inclusion of the citizens and parties engaged in the development cooperation, as well as promote a sense of joint responsibility and solidarity[63].

It is the first EY ever which deals with the EU's external action policy. It is a distinctive framework for involving citizens, connecting with them, raising their knowledge and information on the EU's development cooperation, furthering poverty eradication policies[64] and as well as promoting the continuing international process of structuring platform to the existing MDGs. As Andris Piebalgs, Commissioner for Development, stated "The European Year for Development 2015 is indeed set to be a special year, as the deadline for meeting the 2015 Millennium Development Goals (or MDGs) and for their replacements to be put in place. This year provides

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[61] World Vision, 2015: European Year for Development, http://www.wvi.org/world-vision-european-union/article/2015-european-year-development

[62] European Commission, European Year for Development - Welcome on board, http://capacity4dev.ec.europa.eu/eyd2015/blog/european-year-development-welcome-board

[63] Official Journal of the European Union, Decision No 472/2014/EU of the European Parliament an of the Council, of 16 April 2014 on the European Year for Development (2015), 16 April 2014, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014D0472&qid=1401791780952,

[64] European Commission, EYD 2015 Fact sheet, http://capacity4dev.ec.europa.eu/eyd2015/document/eyd2015-fact-sheet

an unparalleled opportunity for us to engage with EU citizens, to showcase our strong commitment to eradicating poverty worldwide and to inform them how every euro of support helps to make a difference in the lives of so many, in some of the world's poorest countries"[65].

The CONCORD has come forward with the idea of initialing EYD and has managed to achieve positive reaction from the relevant EU institutions. The European Commissioner for Development has supported the initiative and assigned a member of his cabinet to work together with the CONCORD task group. Other EU institutions also supported the initiative. As such the European Economic and Social Committee made a proposal to the European Parliament, calling for adopting EYD, as well as participated in the work of the task force. Likewise, the Committee of the Regions (CoR) seeks to make its contribution. It connects local and regional governments involved in boosting development cooperation. To ensure the endorsement of the initiaticve at the plenary also Members of European Parliament (MEP) got engaged, namely - Charles Goerens (Luxembourg, ALDE), Thijs Berman (Netherlands, S&D) and Philippe Bouland (France, EPP), while others supported their efforts [66].

On 23 October 2012 at the plenary session the European Parliament ratified the report by MEP Charles Goerens on the "Agenda for Change" by Commissioner Piebalgs with 540 votes in favour, 36 against, 60 abstentions. The report called for designating the European Year for Development. At the same time EP President Martin Schultz and European Economic and Social Committee Presdent Staffan Nilsson submitted a joint letter to Commission President José Manuel Barroso where they expressed their support for this European Year proposal. Afterwards, the European Commission has prepared a detailed plan for the European Year which will have a budget of 15 million EUR, including the costs of preparatory actions. To draw the blueprint the Commission has consulted with the European External Action Service (EEAS), the EP, Member States as well as international organizations. Additionally, an inter-institutional task force has been formed, consisted of the representatives of CONCORD, the European Economic Social Committee, the Committee of the Regions, Members of the European Parliament (MEPs) and Member States[67].

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[65] European Commission, European Year for Development 2015, HTTP://EC.EUROPA.EU/COMMISSION_2010-2014/PIEBALGS/HEADLINES/NEWS/2014/04/20140403_EN.HTM

[66] Featherstone Lynne, Explanatory Memorandum on a Commission Communication: Proposal for a Decision of the European Parliament and of the Council on the European Year of Development (2015), Department for International Development, 28 August 2013, pp. 3-6 http://europeanmemoranda.cabinetoffice.gov.uk/files/2014/03/12278-13.pdf

[67] Wanders Marius, 2015; a European Year Pan European Networks: Government 05, pp.1 – 2, http://www.fors.cz/wp-content/uploads/2013/01/Article-PanEuropeanNetworks-1.pdf

The European Council and the Parliament have approved this proposal and the EYD will soon be a reality. In this connection Parliament's rapporteur on the year Charles Goerens stated; “There can be no question of ignoring the more than 100 million poor people in EU countries or of pitting them against the poor and destitute elsewhere… What we would like the core message of this year to be is that human dignity, aspiring to a dignified life, does not stop at the borders of our continent and should not depend on where a person is born or lives… This is why parliament has insisted on putting the dignity of every human being on this planet at the centre of the European year for development by choosing the motto: our world, our dignity, our future”[68].

As seen, EYD engages various EU stakeholders - the European Parliament, the Council, the European Economic and Social Committee (EESC), the Committee of the Regions - the two institutions will serve as consultative entities, reflecting public opinion, guaranteeing the connection between the external action an European societies as well as providing estimations about development-connected issues. Major partners for the EU in implementing the targets of the EY will be EU MSs whose role will be determining for the successful accomplishment of the projects. They are to align the EU approach and policies to the national level and be engaged with the EYD issues from the beginning. The EU also acknowledges the role of the civil society organizations (CSO) and the local authorities who are actors and beneficiaries at the same time. They are supposed to serve as a communication and information platform s between the citizens and the EU on the EYD 2015-related issue. Meanwhile, they will get EU funds for furthering information framework. Besides, the EU will cope with International Organizations (IO), dealing with development issues, namely with the United Nations, the OECD, the World Bank Group and so on. Other stakeholders and partners for the EU to cooperate with will be bilateral donors, social partners, the private sector and international foundations[69].

To ensure the successful accomplishment of the objectives, communication campaigns, conferences, events, studies, surveys as well as development education, exchange of information, experience and good practices are to be held at the EU, national, regional as we well as local levels. As such, the EU has already undertaken numerous measures. The EU is promoting press and media relations (conferences, seminars, and communications), presentations and talks by Commission staff, European Development Days, Kapuscinski Development Lectures made by academic and political figures. EU Delegations distribute information on the EU policies, its

[68] Lewis Kayleigh Rose, 2015 Declared European Year for Development, the Parliament Magazine, 4 April 2014, https://www.theparliamentmagazine.eu/articles/news/2015-declared-european-year-development

[69] European Commission, European Year of Development 2015: Accompanying the document Proposal for a Decision of the European Parliament and of the Council on the European Year of Development 2015, Commission Staff Working Document, 2013, pp. 3-11, http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013SC0265&from=EN

development strategies and projects with the partnering countries. The website of the Commission incorporates information on the development policies. The Commission also provides information via its social media accounts such as Facebook, Twitter, YouTube and Dailymotion. It has also established capacity4dev.eu website for the exchange of practices on cooperation. Furthermore, the Commission awards the Lorenzo Natali Prize for the public recognition of the journalists who make a contribution in the field of development, democracy and human rights. The information level is also raised via various other platforms - the External Cooperation Info Point, The Development Education and Awareness Raising (DEAR) programme, TR-AID (Transparent Aid), The Practitioners' Network for European Development Cooperation. The results and achievements are presented and analyzed in the EU Results Expert Group, annual European Report on Development (ERD), different studies such as "Assessing EU Actions on the MDG", "Public policies in support of inclusive growth in developing countries", etc.. Thus, EYD 2015 "a unique opportunity for a broad public discussion and meaningful civic engagement on the vision of Europe on Global Development, within Europe as well as for other continents, with its dimensions of Human Rights, environmental sustainability and social cohesion"[70]. It promises to have a significant international and rights-based direction.

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[70] Gobiņš Andris, Opinion of the European Economic and Social Committee on the European Year of Development (2015), European Economic and Social Committee , 10 December 2013, Brussels, pp. 2-7, http://edz.bib.uni-mannheim.de/edz/doku/wsa/2013/ces-2013-6639-en.pdf

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Présentation

Multipol est un réseau international et interdisciplinaire de chercheurs et d'experts en droit international et relations internationales, provenant de milieux professionnels tels que la justice internationale, la diplomatie multilatérale et bilatérale, la recherche et la formation, la fonction publique internationale.

Sa première et principale réalisation est le site **http://reseau-multipol.blogspot.com** plateforme d'échanges, d'analyses et d'informations en temps réel sur l'actualité internationale. Ce nouveau media se positionne ainsi entre les publications ournalistiques, qui manquent parfois de recul et de données précises sur les évènements de la scène internationale, et les publications scientifiques, qui paraissent dans un délai souvent tardif.

Multipol est né à Genève, durant l'été 2006, de la rencontre de passionnés de relations internationales. Le réseau est régi par une association de droit suisse, apolitique, non religieuse et à but non lucratif. Il est composé d'une vingtaine de membres spécialisés dans les différentes branches des relations internationales (droit international, science politique, géopolitique, économie internationale, géostratégie, etc.).

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- Animer un réseau de chercheurs et de professionnels issus de cultures, de nationalités, de localisations, de formations et d'environnements professionnels différents.
- Proposer un support d'information innovant, rigoureux et gratuit, offrant à la fois des analyses de fond et des brèves d'actualité internationale, publiés par des chercheurs et des experts en relations internationales.
- Permettre aux membres de ce réseau de publier leurs analyses et les informations dont ils disposent dans un délai très court, et susciter des commentaires pertinents de la part des autres membres du réseau et des lecteurs.
- Organiser des colloques visant à diffuser la connaissance du droit et des relations internationales.
- Établir des liens avec des institutions et organismes poursuivant des buts analogues ou voisins.
- Proposer l'expertise scientifique des membres du réseau.

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The Strategic Culture of Authoritarian Regimes: Mountainous Karabakh Conflict in the Limelight

Grigor Boyakhchyan

Grigor Boyakhchyan is a graduate of the Fletcher School of Law and Diplomacy, Tufts University, where he did his MA in International Security Studies. Currently he serves as the head of Foreign Relations Department of the Center for Information and Analytical Studies (CIAS) functioning under the Government of the Republic of Armenia.

In the 21st-century security environment, both week and fairly capable authoritarian states will constitute the major sources of instability and conflict the world over. Their instability may stem from internal problems triggered by a lack of legitimacy, weakness in basic governance, and the suppression of domestic opposition movements by force. But these states also project power in their geographic regions, sometimes as a ploy of distracting attention away from internal issues, often as an expansion of their revisionist motives. Their weakness is provocative.

The strategic culture of authoritarian regimes permits drawing several generalizations: the violence orchestrated to cause destruction and suffering are permanent conditions and not anomalies; the threat of military force and its limited deployment is everyday business, used as a routine tool, not as a last resort; the issuance of warnings propagating war and uncompromising enmity is used to aid diplomacy in communicating power, resolve, and will. Unlike democratic states, where peace is viewed as the norm, and instability and violence as the anomaly, the strategic culture of authoritarian regimes perceives conflict and war much more as an enduring state of affairs - even as an advantageous condition to secure the continuity and prosperity of the ruling regime. Recourse to such means is tempting for any authoritarian regime. They may well prolong a regime's life, but at the same time they impede progress toward sustainable peace and security.

These strategic cultures, along with security perceptions embedded in them, also provide the framework through which political and military instruments are selected, organized and employed. At base, they are guided by strategic cultures that are willing to employ unrestrained means for shape their political objectives. That makes their assaults harder to predict and prevent, while their confrontational rhetoric renders negotiations or compromise almost impossible.

Now two decades into the cease-fire agreement, we are able to see that these regular low-level yet intensely deadly confrontations along the Mountainous Karabakh and Azerbaijani front line and Armenian and Azerbaijani border are here to stay. These are not isolated incidents or disparate attacks but rather examples of what are becoming the norm for confrontation on the ground. Rather, events such as destruction of cultural and historical artifacts, zealous talks about wiping Armenia off the map, threats to civilian aviation, glorification of axe-murderers, and a propensity not only to disregard the distinction between military and civilian targets but often to deliberately focus on the latter – something one would think belonged to a bygone era – are constant conditions. This new environment poses dangerous and evolving threats.

Understanding these trends and patterns for the OSCE Minsk Group Co-Chairs and the European foreign and security policy architects at large is critical, since these new challenges are likely to continue in a low-level yet deadly warfare. Staying on the periphery and supporting the efforts of the Co-Chairs are not sufficient to quell the outgoing breaches of peace on its doorstep. These events are not short-term disruptions of ordinary state of affairs and order. Rather, they are the harbingers of a new security environment that will likely present instability and gathering danger.

There comes a time in most mediation initiatives when the events on the ground force the custodians of the peace process to face the disparity between their favoured strategies and techniques and the necessity of action and change. When the assessment of the political landscape exposes the ugly reality that strong incentives for continued instability and conflict exist, no cherished diplomatic dogmas of neutral pronouncements and expressions of concern can help defuse tension.

Against the backdrop of recent intensified attacks along the Mountainous Karabakh and Azerbaijani line of contact and at the Armenian and Azerbaijani border, the mediators should come to a belated acknowledgement that many of their assumptions and approaches, often held as iron-clad tenets, are not valid. The deadly fighting, together with heavy toll of casualties and human death, highlights the many assumptions that the mediators have to jettison as they confront the disparity between the standardized public statements to uphold the peace and the increasing utility of use of force on the ground. These diplomatic messages are not construed on the part of a spoiling side; the audience is obscure, their home address is ill defined.

The mediation efforts under the auspices of the OSCE Minsk Group Co-Chairmanship have floundered, since those who assume the custody of conflict resolution process – or peaceful management for that matter – must first of all seek to nurture peaceful conditions on the ground. “Ambiguity is the diplomat’s friend,” – the oft-repeated cliché of many mediation textbooks – no longer befriends the Karabakh context. While international mediators may be impartial to the parties to conflict and the solutions they craft, they should not be impartial about bad behaviour that obstructs the peace process. The shackles and formalities of diplomatic parlance that constrain thinking and practice should be broken.

Effective conflict resolution efforts proceed not in isolation but amidst different interplay of interests and forces that often seek to derail the peace process. A proposal to establish an “incident investigation mechanism” is still on waiting list for implementation, along with ad hoc arrangements that should be designed to manage and control the local operating environment through a theater-wide monitoring architecture for preventing the obstructionist forces to thwart the peace process. More importantly, this should not be viewed as outside the peacemaking remit; but an important part and parcel of the overall conflict resolution effort. To provide demonstrable legitimacy in support of a peace process, the motivations for conducting a destabilizing activity must be recognized, confronted and overcome.

The case of Mountainous Karabakh is indeed unique, but the quest for viable peace is not. While the proposed Madrid principles are long shots, practical near-term priorities should be set to establish a predictable security environment with the potential to manage down the violence on the ground and dislodge those who seek to obstruct the road to a viable peace.

Spanish Regional Parliament Recognizes Nagorno-Karabakh's Self-determination

On Friday, September 12, 2014, a European Union regional parliament has, for the first time in history, adopted a motion supporting the self-determination of Nagorno-Karabakh following several official visits to the region that were organized by European Friends of Armenia (EuFoA, www.eufoa.org).

The motion adopted by the Basque Parliament praises the strong determination of the Nagorno-Karabakh people in their choice for democracy, despite the hard and difficult situation. In addition, it states that Karabakhi people have the right to decide their own future, namely their self-determination, which is said to be the fundamental element in any negotiation for the final settlement of the conflict.

Additionally, it emphasizes the importance of Nagorno-Karabakh's participation in the OSCE Minsk Group conflict resolution negotiations. Nagorno-Karabakh's Foreign Minister, Karen Mirzoyan, travelled to the Basque Country on this occasion and had official visits, including meetings with Basque country government high officials, the head of the legislative, Ms Bakartxo Tejeria Otermin, and departmental and main local authorities, as well as companies with an interest in the region.

"I am particularly pleased by the acknowledgment of the democratic governance development of Nagorno-Karabakh and the recognition of the efforts they are doing in transposing EU legislation. The Nagorno-Karabakh society should be proud that their commitment for democracy as an inalienable part of the European space is not only recognized in the US, but also in the EU," says EuFoA Director Eduardo Lorenzo Ochoa. The Basque Country is one of Spain's 17 autonomous communities since 1979 and has a population of approximately 2.5 million people.

Having a legislative of its own, the Basque Country disposed of a sub-state government that enjoys high level competences in the European Union. Basque authorities are competent to lead policies in domains such as fiscal policy and tax collection or police management, having its own police force, among other more classic competences at regional level, such as health, education, from elementary schools to universities, or territorial development. Moreover, the Basque country has its own External Actions Service (foreign service), at the head of a network of over 200 political and cultural delegations worldwide. From an economic point of view, the Basque country represents one of the European Union most developed areas, showing an annual GDP per capital of over 31 000 EUR, 20 % higher than the EU average (25 700 EUR).

Already, the day before, another Spanish sub-regional entity has recognized Nagorno-Karabakh:

Gipuzkoa: First European Territory at Sub-state Level Recognizes Nagorno-Karabakh

Gipuzkoa, in Spanish Guipúzcoa, is one of three provinces of the Spanish Autonomous Region of the Basque Country. Its capital is Donostia, or San Sebastian (with around 190.000 citizens). In Gipuzkoa live approx. 715.000 people, about a third of the whole Basque Country, and with 1.980 square kilometres it is, regarding its surface, the smallest of all 50 Spanish provinces. It is situated in the North East of Basque Cuntry at the coast of the Gulf of Biscaya, having also a small common border to France.

As mentioned above, the Nagorno-Karabakh Foreign Minister Karen Mirzoyan visited the Basque Country in the beginning of September 2014, meeting with high officials throughout the region. On the 11.9.2014 he met with the Gipuzkoa Province President Martin Garitano in San Sebastian to discuss further cooperation between Nagorno-Karabakh and the Basque Country.

During the statements of both officials, the Gipuzkoa President, on behalf of the government of Gipuzkoa, recognized the Nagorno-Karabakh Republic. “The suffering of these people has to end and they deserve a free and independent country that guarantees their future as a state, and the full respect of their culture and language,” Mr Garitano said. Mr Mirzoyan also took the time to speak to the human rights and international cooperation departments of Gipuzkoa’s government. The economy of the province is mostly structured around three pillars: trade, metallurgy and tourism. With an annual GDP per capita of about 32 000 Euros, Gipuzkoa tops the EU average by 28%.

This is the first time a European territory at sub-state level has recognized Nagorno-Karabakh, following the path of several US States as well as Australia’s New South Wales. Although this was not proceeded during e.g. a parliamentary session or likewise, it is remarkable for the opportunity of regions and sub-regions to "make foreign policy", although this may of course be at first restricted to economic, administrative or civil society exchanges.

Anyway, this recognition was on behalf of the territorial government, and it shows clearly, that also European sub-regions can beso somehow active in this field - like many cities or other local collectivities e.g. in development aid. It underlines the trends opened by the Basque Country as such. A tendency to discuss, and to watch - as International Public Law does not (yet?) dispose of any legal instruments which go beyond national states. The first researches have been undertaken, and others will follow. There is a general trend to region-to-region contacts, away from until now monopolized nation-to-nation contacts.

EU Commission: New Cooperation Priorities for the Eastern and the Southern Neighbourhood - 5,5 Billion EUR for 2014-2020

Following consultation with partner countries, EU member States and the European Parliament, the European Commission has taken in mid-September 2014 decisions providing important EU funding to the partners in the EU Neighbourhood in the coming years. This package includes programming documents for **Armenia, Azerbaijan, Belarus,** as well as for **Algeria, Jordan, Lebanon, Libya, Morocco and Tunisia,** as well as for **regional cooperation in both the Eastern and Southern neighbourhood** and for **European Neighbourhood-wide programmes**. The total amount of these programmes is over €5,5 billion.

Catherine Ashton, Commission Vice President and EU "Foreign Minister" said: *"Our relationship with the countries in our Neighbourhood has always been one of my priorities. We have strong links with these countries and an important role to play in helping them deal with the political and economic challenges they face. We are committed to accompany them on their path to peace, democracy and socio-economic development."*

Štefan Füle, European Commissioner for Enlargement and Neighbourhood Policy, said: *"Ambition and commitment to reforms will guide the massive EU funding for our Neighbours for the coming years. Priorities for support have been established through close dialogue with our partners, involving all the relevant stakeholders, in the spirit of ownership and partnership. The funding will help them address key challenges their societies are facing"*.

Following the adoption of programming documents for **Georgia and Moldova** in June 2014, in July the EU Commission adopted a package of bilateral and multi-country programming documents that will chart EU support to the partners for the coming years. These funds will come from the European Neighbourhood Instrument (ENI) that will provide the bulk of EU assistance to partners over coming years.

Programming is done only for the first years of the Multi-annual Financial Framework period (MFF 2014-2020) to allow adaptation of EU support to evolving situation in each country/region. In the spirit of differentiation, the timeframes of the programming documents differ and take into account the specificity of the country situation and/or programmes concerned.

The programming priorities have been developed in close cooperation with the national authorities of partner countries, civil society and other relevant stakeholders, and in coordination with EU Member States. They are also fully coherent with existing agreed documents setting policy priorities between the EU and the partner countries, such as Action plans and other jointly agreed documents. They were also subject of a Strategic Dialogue on programming with the European Parliament.

In accordance with the aid effectiveness principles, programming documents for bilateral cooperation present in general three priority sectors. Each sector of concentration will encompass sector-related capacity development and institution building activities, including technical cooperation, to support in particular approximation to EU legislation and technical standards.

In addition, a specific financial envelope in bilateral programming documents will allow notably for complementary support for capacity development and Civil Society. In principle, support to civil society will be also mainstreamed throughout all three sectors of intervention, with the ultimate goal of ensuring effective and inclusive policies at the national level. Efforts will be made to support civil society capacities and engagement, in the development, implementation and monitoring of national public policies supported by the EU, including through participation in policy dialogue.

The programming documents for **Egypt** and **Cross-border Cooperation** are expected to be adopted in fall 2014. Based on the programming documents, relevant implementation measures will be adopted and launched.

Background

The European Neighbourhood Instrument (ENI)

The new European Neighbourhood Instrument with a budget of €15.4 billion for the period 2014-2020 will provide the bulk of funding to the 16 partner countries[1] covered by the European Neighbourhood Policy (ENP). Building on the achievements of the previous European Neighbourhood and Partnership Instrument (ENPI), the ENI will support strengthening of relations with Neighbourhood countries and bring tangible benefits to both the EU and its partners. It will provide support through bilateral, multi-country and Cross Border Co-operation

(CBC) programmes as well as through "Umbrella programmes" that will represent the key mechanism for applying an incentive-based approach.

A. Bilateral programming documents

Algeria: the indicative allocation for the period 2014-2017 is between €121,000,000 – €148,000,000. The three priority sectors of intervention to be financed through this envelope are the following:

Justice reform and strengthening of citizen participation in public life (indicative 25%)

Labour market reform and employment creation (indicative 30%)

Support to the management and diversification of the economy (indicative 30%)

Armenia: the indicative allocation for the period 2014-2017 is between €140,000,000 – €170,000,000. The three priority sectors of intervention to be financed through this envelope are the following:

Private sector development (indicative 35%)

Public administration reform (indicative 25%)

Justice sector reform (indicative 20%)

Azerbaijan: the indicative allocation for the period 2014-2017 is between €77,000,000 – €94,000,000. The three priority sectors of intervention to be financed through this envelope are the following:

Regional and rural development (indicative 40%)

Justice sector reform (indicative 20%)

Education and skills development (indicative 20%)

Belarus: the indicative allocation for the period 2014-2017 is between €71,000,000 – €89,000,000. The three priority sectors of intervention to be financed through this envelope are the following:

Social inclusion (indicative 30%)

Environment (indicative 25%)

Local and regional economic development (indicative 25%)

Jordan: the indicative allocation for the period 2014-2017 is between €312,000,000 - €382,000,000. The three priority sectors of intervention to be financed through this envelope are the following:

Reinforcing the rule of law for enhanced accountability and equity in public delivery (indicative 25%)

Employment and private sector development (indicative 30%)

Renewable energy and energy efficiency (indicative 30%)

Lebanon: the indicative allocation for the period 2014-2016 is between €130,000,000 – €159,000,000. The three priority sectors of intervention to be financed through this envelope are the following:

Justice and security system reform (indicative 15%)

Reinforcing social cohesion, promoting sustainable economic development and protecting vulnerable groups (indicative 40%)

Promotion of sustainable and transparent management of energy and natural resources (indicative 20%)

Libya: the indicative allocation for the period 2014-2015 is between €36,000,000 – €44,000,000. The three priority sectors of intervention to be financed through this envelope are the following:

Democratic governance (indicative 45%)

Youth: active citizenship and socioeconomic integration (indicative 28%)

Health (indicative 16%)

Depending on the evolution of the political and security situation in Libya, the content of the priority sectors could however be readjusted to meet the needs of the Libyan population and institutions.

Morocco: the indicative allocation for the period 2014-2017 is between €728,000,000 – €890,000,000. The three priority sectors of intervention to be financed through this envelope are the following:

Equitable access to basic social services (indicative 30%)

Support to democratic governance, the Rule of Law and mobility (indicative 25%)

Jobs, sustainable and inclusive growth (indicative 25%)

Further support to the Action Plan and Civil Society (indicative 20%)

Tunisia: the indicative allocation for the period 2014-2015 is between €202,000,000 - €246,000,000. The three priority sectors of intervention to be financed through this envelope are the following:

Socio-Economic reforms for inclusive growth, competitiveness and integration (indicative 40%)

Strengthening fundamental elements of democracy (indicative 15%)

Sustainable regional and local development (indicative 30%)

B. Multicountry programming documents

Regional East: the indicative allocation for the period 2014-2017 is between €418,000,000 - €511,000,000. The four priority sectors of intervention to be financed through this envelope are the following:

Eastern Partnership including Flagship Initiatives (indicative 75%)

Regional cooperation frameworks (indicative 10%)

Energy and transport initiatives involving the wider region (indicative 5%)

Horizontal and sectoral support for multilateral cooperation (indicative 10%)

Regional South: the indicative allocation for the period 2014-2017 is between €371,000,000-€453,000,000. The four priority sectors of intervention to be financed through this envelope are the following:

Building a partnership for liberty, democracy and security (indicative 20%)

Building a partnership for inclusive and sustainable economic development (indicative 20%)

Building a partnership between the people (indicative 25%)

Support regional and sub-regional institutional cooperation (indicative 15%)

European Neighbourhood-wide programme: the indicative allocation for the period 2014-2017 is between €1,675,000,000 to €1,876,000,000 of which €770,000,000 for specific support ("Umbrella programmes") for countries progressing further towards deep and sustainable democracy and implementing agreed reforms contributing to that goal. The other three priority sectors of intervention to be financed through this envelope are the following:

Building a partnership for inclusive and sustainable economic development and integration (indicative 55%), notably support to the Neighbourhood Investment Facility.

Building a partnership between people: Erasmus+ in the Neighbourhood and Russia (indicative 40%)

Building capacity for European Neighbourhood countries (indicative 5%)

Adapting to Arctic Change

Monica Bjermeland[71]

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Arctic climate change is real and happening faster than expected. Impacts will likely be large over the next 20 years and society needs to adapt. Climate researchers around the world are now engaged to help stakeholders understand and cope with the challenge. The melting of the sea ice, the spreading of Persistent Organic Pollutants (POPs), and changing sea bird distributions are examples of the changing Arctic environment. Adapting to climate change in the Arctic requires understanding how climate change interacts with other environmental and socio-economic drivers.

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CICERO conducts research on and provides information and expert advice about national and international issues related to climate change and climate policy. It has a staff of about 80 persons.Read more at: www.cicero.uio.no.
This article has to be seen in context with the article "The Arctic Region: Its Regional Integration and the Relationship with the EU" by Ofelya Sargsyan, published in EUFAJ_3_4_2013, pp. 5-28, see under - http://www.libertas-institut.com/de/EUFAJ/EUFAJ_3_4_2013.pdf.

Photo: NASA

Integrates climate knowledge

Traditional assessments of climate, environmental and socio-economic issues in the Arctic have focused on single pressures: climate, acidification, persistent organic pollutants, human health, oil and gas, to name just a few. These assessments have provided valuable information, but there is currently little understanding on how these drivers of change may interact.

The Arctic Council, under the lead of the Arctic Monitoring and Assessment Programme (AMAP), has begun a new assessment to enable more informed, timely and responsive decision making in a rapidly changing Arctic. Adaptation Actions for a Changing Arctic (AACA) will be presented at the Arctic Council Ministerial Meeting in the USA in 2017.

“The Arctic is changing two to four times faster than more southern latitudes. The causes are multiple feedback processes such as loss of snow, sea ice and permafrost. Researchers in the past have tracked previous changes, and we need to continue tracking in order to understand the speed of these interacting changes”, says James Overland, Professor at the Department of Atmospheric Sciences, University of Washington, and one of the authors of the assessment.

Helps decision makers

"Assessments in the past have been scientific documents that began and ended with the science itself. AACA serves as a bridge between science and policy making. It helps to better link the current science and related understanding to the decision makers", says Thomas Armstrong, Executive Director with the U.S. Global Change Research Program in the Office of Science and Technology Policy, Executive Office of the President, and AMAP Head of Delegation.

"AACA synthesizes scientific information of the Arctic and makes it accessible for all. It also will ensure that the science is relevant to decision-making by placing the science information into it a "so what?" context. The assessment points to what the effects of climate change are on people and on nature today and, through the backdrop of scenarios, it can begin to project what the impacts of tomorrow and beyond may be as well", says Armstrong.

Arctic climate scientists from around the world are now making a scientific report which will lay the basis for designing and implementing adaptation actions. A laymen report will make the knowledge accessible to a broad range of stakeholders, informing them about climate change impacts across scales and over time.

"We want to talk to people at the very local level where impacts and effects are felt directly all the way up to the national and international policy levels in order to better understand how climate change affects people, land and water across geopolitical boundaries. Climate change knows no boundaries. It affects people at the global scale all the way to the local scale", says Armstrong.

Breaks new ground

Climate, environmental, and socio-economic drivers may interact and amplify, making decision making in a rapidly changing Arctic particularly difficult and uncertain. Changes may increase existing pressures in the Arctic, while others may bring new opportunities. We already see both, with increased pressure on the environment and existing livelihoods occurring in parallel to a new focus on Arctic resources and shipping routes.

The new AMAP assessment will cover three pilot regions: 1) Barents Region, 2) Baffin Bay and Davis Strait Region, and 3) Bering, Beaufort, and Chukchi Region. All three regions will cover both marine and terrestrial areas, and will be forward looking with a focus on 2030 and 2080.

The findings of these three pilot regions will lead to an overall integrated report for the 2017 Arctic Council Ministerial Meeting.

“AACA will break new ground by integrating knowledge from many different fields of expertise, and across regions with large cultural diversity, multiple uses and users of local resources, and ambitious development plans for the future. It is an ambitious project. But developing a comprehensive knowledge base on how the drivers of the rapidly changing Arctic interact, gives decision makers the resources they need to respond to the challenges, and prudently take advantage of opportunities”, says Glen Peters, co-chair of the assessment and a researcher at CICERO Center for International Climate and Environmental Research - Oslo.

Zooming in

The Intergovernmental Panel on Climate Change (IPCC) assesses climate change at the global scale. With the new Working Group II report in its Fifth Assessment Report it has started to dive into a more detailed level looking at regions like North America and the Polar regions, but still with a low level of resolution. What AMAP aims to do with AACA is to focus from the general scale of the Arctic into the previously mentioned three specific regions of the Arctic.

“We’re trying to connect what people are seeing across the Arctic on a regional level. The assessment does not go down to the local level yet, but on a regional level it will hopefully provide a richer level of information than ever before and getting closer to where decisions are being made. The decision makers will see a level of detail and specificity in say Alaska or Northern Finland that will be significant for climate change policy making down the road. AACA is definitely going to be more relevant to immediate decision making than we have seen up until now”, says Thomas Armstrong.

The final reports are not only relevant for Arctic stakeholders. The Arctic climate has a global footprint, and many countries have a keen interest in future Arctic development.

“Extra solar energy is being added to the Arctic Ocean in newly sea ice free regions; this energy is being transferred to the atmosphere and changing local wind patterns. There is evidence that this increasing energy source may also impact the larger jet stream which enhances severe weather in mid-latitudes. Also less sea ice increases the possibility of economic advances, such as shorter sea routes and resource extraction”, says James Overland. “Arctic resources have created global interest, and decisions made in the Arctic will have global implications”, says Glen Peters.

India: New Business Opportunities

Sourajit Aiyer

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Niche Opportunities In India's Higher-education, As A Growing Economy And Job Competition Make Skill-addition Inevitable

Private and foreign interest in India's higher-education sector is way below the potential. This interest is largely restricted to the more-unregulated segments like technical, professional and vocational education, while the school and university segments (which form the larger chunk of the sector) is out of radar due to archaic regulations. India may have the 3rd largest education enrollment in the world after USA and China and one of the largest networks of institutions across disciplines, however, the majority of these rank very low on quality compelling many to go overseas.

There are very few quality institutions in India (be it public or private owned) and they are cannot cope to meet the supply of skilled professionals India needs. This gap will become more acute going forward given the country's growth ambitions, unless private/foreign participation is expanded. **This note looks at the challenges currently faced, the underlying rationale and the niche opportunities which private/foreign players might explore.**

Challenges

Private investments till-date has largely been in the vocational, technical and coaching courses. Not so much in schools and universities due to restrictions on establishment structure, foreign investment, high capital outlay and opacity on what is allowed/not allowed, which made investing risk-prone. Universities have to be structured with a non-profit character, due to the social nature of education. But this limits the returns given that greenfield-universities are capital-intensive due to the need to buy land and construct buildings.

Moreover, surplus funds have to go into the establishment instead of being paid out as dividends. As it is, rough estimates suggest that 1,000-2,000 enrolments are needed at least, for generating a decent ROE. Indians, being experts in finding loopholes, have identified ways to get around this non-profit issue. Private owners create a Trust to run the university, along with a separate company which leases the infrastructure to the Trust. The Trust is responsible for the faculty and the operations. But this Trust structure has some limitations. Pricing of transactions has to be cautiously done to avoid unnecessary scrutiny.

The current legal structure does not allow degrees to be awarded by foreign universities in India. Getting accreditation for universities is a laborious process. Many Indian private universities are backed by influential politicians. Giving cash-donations for seats in certain universities is another notorious problem. All these make the university business a tough nut to crack for foreign players. Lack of clarity on ongoing legislations regarding education quality and malpractices is deterring fresh private/foreign participation. But these are challenges mainly in universities, and there are several other segments in Indian higher-education where private/foreign players could participate easily.

While it is true that the challenges in the university segment have to be addressed to increase the pool of aspirants for other segments as well (since students might be ineligible for those segments without graduating from universities first), nevertheless the current addressable opportunity for those segments is also large enough.

Rationale

First is the circle of growing economy, income, middle-class aspirations and job competition. A growing economy providing opportunities for income along with growing aspirations of the people for a better life, would boost the willingness to pay for education. Increasing competition in the job market would also make it inevitable to add education skills, if one has to stay in the right side of the growth curve. People will demand it for their value-addition and keeping themselves relevant in a competitive workplace. Education is less prone to economic cycles. Spending on education often increases in tough economic times as people seek to add weight to their CVs in a competitive scenario.

Elasticity of education spending is high - for every 1x increase in income, the increase in education spend will be more than 1x. A fundamental driver is the high quantum of young population, with rough estimates that about 1 million Indians will turn 18 years each month. Public spending on education is low in India and the scope for it to grow further is restricted due to limited fiscal capacity. This makes private/foreign participation imperative if the supply of quality education has to increase. The resultant competition amongst institutions may improve the value of the offerings, which bodes well for students. The good thing is that the Industry is open to take people based on interviews/tests which tests their knowledge, merit and thinking, rather than solely on their certificates. However, the ability to get selected for the interview actually depends on the certificate in the first place. This cycle should push student demand for quality education further. For India, the rationale is not just about making its youth job-ready or re-skilling its executives.

This also has an enormous earnings potential for the country, which it is now losing as many students go overseas to study. Moreover, increasing the supply of quality workforce is imperative to support the government's economic growth ambitions, and this can only be possible by furthering investments into quality education. Education has been a priority area for the government and 100% FDI through the automatic route has been allowed since 2000-2001 in some segments. The government has also set itself a target of achieving a Gross Enrolment Ratio of about 30% in higher education by 2020. While it still has work to do to bring more clarity on the policy and regulatory front, the opportunity is existent as the facilities, quality, infrastructure etc in majority of the institutions are currently quite poor. This is also a strong opportunity for the country to build a competitive advantage using its educated/skilled workforce, and emerge as a leading knowledge-driven economy in a competitive world.

Opportunities for foreign/private participation

The supply of quality teaching faculty is low in India and their attrition is high. First and foremost, there is a massive opportunity for **importing teaching talent or developing faculty-training institutions** with foreign collaboration**.** Without building this critical resource, the very objective of imparting quality education to a higher number of students will not be possible to achieve.

For foreign players, the opportunity is huge in **specialized professional and managerial training**, where they have an experience track-record. Such courses would be shorter-duration, but the value would be higher considering the career-stage when aspirants opt for this. Corporate trainings and Management Development Programmes are examples in this context. Companies may often sponsor employees for **MDPs as a corporate-incentive scheme**. It is well accepted that employees value non-monetary benefits as much as monetary ones. MDPs help add critical skill-sets and provide networking opportunities. **Corporate trainings largely focus on business skills in line with the demands of India's higher economic growth**. In India, famed personalities often impart soft-skill training (for example: Shiv Khera, Deepak Chopra, etc). Opportunities abound for foreign service-providers in these areas, and they can leverage the economies of scale which Corporate India's large network provides.

Critical areas for corporate trainings and MDPs include sales effectiveness & delivery, fostering entrepreneurship, team & people management, productivity improvement, business intelligence & data warehousing, managing cross-border business & MNCs, de-stressing and work-life balance, developing business strategy & measuring its effectiveness, social media marketing, etc. But while corporate trainings and MDPs are valuable in terms of knowledge and insights, they may not have the certification value in the CVs. In a labour-surplus country like India, a stronger CV is often useful to get selected for an interview ahead of others. It is only later during the interview stage that one can stress the knowledge gained through corporate trainings. Hence, adding the weight to the CV is a necessary compulsion in India. Technical/vocational skills and University education are examples in that context.

Foreign partners looking at **technical/vocational areas** have to stress on **sectors where India could become a global sourcing base** for **supplying products/services to overseas markets**. That would broaden the potential returns for the country and the service-providers over the longer-term. For example: Japan and Korea developed as hubs for global animation content. But one needs top-notch education providers and industry participation for this vision to materialize. They also need to **combine the focus areas with the prospects of Corporate India**, so that the skills are job-relevant, facilitate final placement and they can use it as a USP for further enrolments.

In industrial training, **creating employability for low-income youth** by bringing in foreign expertise might put a 'social-face' to the business and help gain faster acceptability for foreign investments. One might also aspire to attract Asian and African students for such vocational/technical courses to increase the demand pool of aspirants. Increasing economic growth in many emerging/frontier economies of Asia and Africa means their youth would also seek specialized, job-ready education. **India can leverage this opportunity by becoming a favourable regional base for technical/vocation education for Asian/African youth**.

Global brands entering India can acquire several fragmented institutes under one umbrella to offer a comprehensive set of disciplines or gain economies of scale in operations. Emerging areas include retail store-keeping & purchasing, animation, graphics & VFX, airline ground and flight services, manufacturing & motor skills, textile & apparel design, jewelry & lifestyle product design, beauty & cosmetics, stock market trading, CAD & product design, etc.

Opportunities in **university education** are restricted due to regulatory hindrances; nevertheless there is still scope for foreign collaborations. If a private university bypasses the accreditation process, **then it has to build its USP on the quality of its teaching, research facilities and industry participation**. For example: the Indian School of Business in Hyderabad. Once the brand becomes synonymous with quality, it will see demand from students who perceive a higher value in it as compared to a low-quality, accredited university. Collaboration opportunities here exist for teaching resources, research and consulting, etc.

A limitation is that this cannot work for professions where students need to graduate from accredited universities to be eligible to practice. Foreign and domestic collaborations **might work on a Franchisee system**, similar to hotel or restaurant chains. Local partner brings in the infrastructure, workforce and manages the operations. Foreign partner brings in its brand, subject knowledge, delivery standards, and expertise in research areas. It gets paid for services rendered through a fee, since sharing of final profits might be difficult under the regulations governing dividends. This might be **relevant in specialized professional segments**, where brand of the foreign partner in that discipline can pull in aspirants. For example: the collaborations with Ivy-League Business Schools.

Collaboration **joint-ventures are picking up**, there being more than 100 tie-ups between Indian and British institutions alone. Foreign players might also **explore tie-ups with leading scions of Corporate India who are keen to invest in Indian academics**. For example, corporate leaders like Azim Premji and Shiv Nadar have focused heavily into quality education. Corporate leaders might also have weight in India's administrative and political circles, which might reduce the risk factor to some extent. Foreign players can look at **setting up university campuses in India's neighbouring countries like UAE, Malaysia, etc where regulations are more facilitative**, in case setting up greenfield-universities in India or tie-ups with Indian universities is tough. It can develop those campuses as regional hubs of education for both Indian students, as well as a broader set of students from Asia and Africa. For example: UAE invested into its Dubai Academic City and Malaysia has also focused on its higher-education infrastructure. Indian students may prefer this than going to Europe or USA since the cost of living would be lower. Moreover, students can travel to India more frequently due to proximity of distance and cheaper air fares.

Promising collaboration areas also include **Research & innovation, Content-creation & sharing, Case-study & situational learning, Online learning resources**, etc. Research facilities have to be in focus, if India wants to move from being a country of executives to a country of innovators and **make its place as a knowledge-driven economy**. Innovation includes not just in technology, medicines, engineering etc, but also agriculture, livestock and green energy, etc. Content-creation & sharing includes **development, teaching and consulting for a fee**. For the foreign partner, it is a way to make initial inroads into a new market at lower investments.

However, ensuring IPR on proprietary content might be a challenge in a country like India. Case-study & situational based learning workshops is another area that might work at lower investments. It can be a **valuable and sought-after activity in management/technical education** where the experience of foreign partners would be useful. There is an opportunity to collaborate with existing general institutions or with specialized centers of learning of that segment only. Online e-learning modules are doable for working professionals, but they won't be sought after as an actual course of study in India since the recognition of e-learning courses has not developed. But these websites can also make advertising money apart from content subscription/course charges, **so can be a viable business option**.

Entrepreneurship skills and incubation centers are a key area of higher-education that a growth economy like India sorely needs. India is a country where the social acceptability of entrepreneurship as a career is low and where support infrastructure for start-ups has yet to evolve properly. **Institutionalized support might bring in more entrepreneurs and address the common risks and myths for the benefit of budding entrepreneurs**. India's existent corporate sector, even allowing for its expected growth, would be able to employ only a certain chunk of the working population. If India's population truly has to reap the demographic dividend, then **fostering entrepreneurship to create more start-ups is essential**.

Coming to **schools and pre-schools**, the opportunity for International Baccalaureate K-12 schools is growing as **higher aspiration and higher income levels drive demand**. However, the school segment is also bound by regulations similar to universities. **In the pre-school segment, activity-based learning is picking up in Indian teaching methods**, and this segment can gain from foreign collaborations since activity-based learning has had a longer foothold in those countries. Their experience in developing relevant content in this might add value to the Indian pre-schools segment.

Foreign investment might still look at the **coaching segment** for Entrance Exam preparation, though the opportunity for foreign partners is limited. Coaching does not have to comply with seat-reservations, so every seat can be monetized. However, this segment is highly fragmented. Conversion ratio and word-of-mouth marketing work better, rather than brand. Entrance examinations are often based on local content, which reduces the scope for a global institution's expertise. Another challenge is the low supply of instructors, leading to high-attrition and costs for star-instructors.

Conclusion

It is imperative that India's politicians facilitate investments into India's higher-education sector that can support its economic growth ambitions, promote India in an internationally-competitive market and rank India higher in skills and thought leadership. But it is equally imperative to **look at the pricing and financing aspect of higher education**. India is still a low-income country, and many cannot afford expensive higher education even if they qualify on merit. It is essential that foreign and domestic players in this sector **keep their pricing competitive and affordable**, otherwise Indian students would see better value in travelling to USA and UK only as they are doing now. This may include **broadening the education-loan segment through direct, subsidized financing to banks/NBFCs** (just like the National Housing Bank does for housing loans), or **awarding scholarships to meritorious students in later stages of their course**, who performed well in the initial stages of their course. There would still be the instances where the service-provider charges high fees because they are targeting higher-end niche clientele, like the Harvard Business School's Mumbai campus which offers specialized short-term programs for senior-level professionals. In conclusion, foreign and private domestic entrants need to balance the brand, teaching quality, facilities, snob value and pricing, in order to attract relevant students.

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Let Them Also Face The Lions, Irrespective Of Ownership!

It is in fashion to say that the government has no business to be in business. Easier said than done, as governments bearing the liabilities of ailing Public Sector Enterprises (PSUs) may vouch. PSUs played a critical role in initiating their nations' commercial capabilities post-independence, given the absence of private capital. But government patronage through bailouts, job-secured inefficient management and gaps between strategies with ground-realities spelt doom. Divestment of PSUs is now a politically-sensitive issue, given the sheer numbers they employ and resources they buy. The issue is not just about the loss of employment to excess, unproductive staff in case of privatization; the dilemma is equally regarding loss-making vs. profitable PSUs. Unless the industry itself is fundamentally sound, and there is some visibility that inculcating modern strategies might affect a turnaround in the company, finding buyers for a loss-making PSU would always be a struggle. Even if there is a buyer, the price it gives would not add much to the Treasury.

It would naturally be easier to find buyers for profitable PSUs, a recourse the government would prefer. But selling a good PSU might make the government poorer in the long-run, since the value and wealth it creates could have benefited the government and the citizens.

Some PSUs have performed well, and that shows government ownership need not always spell doom. It depends on the organizational practices, adeptness and initiative of its top management, and inculcating productivity standards. That may pain the inefficient staff, but that is a small price to pay for the wealth created which benefits the entire nation. Using India's example, the recent PSU Survey by India Today Group of ~170 federal PSUs showed they can deliver results if managed well.

Whether the government can achieve divesting all its PSUs or not, one might instead look at how their performance can be improved. Privatizing would undoubtedly make them more efficient, but that presupposes there were buyers for the ailing PSUs.

What about those which don't get buyers? They can be made more efficient by putting them on a level-playing field at par with private companies and the divested PSUs – i.e. let the PSUs also face the lions, just like all the rest of companies in the country.

1. **Outsourcing the management of ailing PSUs which do not get buyers to private contractors/consultants** might be an unconventional idea worth exploring. If any ailing or profitable PSU was worth buying, then any private enterprise would naturally prefer to buy it outright. That would mean 100% of the profits which the new private owner generates from effecting a turnaround would accrue entirely to him, and that is his main incentive. But for the PSUs that do not get buyers, that means they are in a condition where making a large capital outlay for acquisition is deterring buyers. Outsourcing the management for a fee for services rendered along with a sharing of returns generated over and above a pre-agreed mark-up, might be a possible way to bring in better management practices without the capital outlay.

   Of course, this assumes that the returns to the private contractor through fees and sharing have to be a strong enough incentive, for him to undertake the task without 100% ownership of the PSU. As long as the private contractor/consultant can improve the performance of the PSU to factor in his fee cost and a reasonable returns through sharing, that would be incentive enough. There might be management consulting firms who might enjoy a challenge like this – of getting their hands dirty instead of just giving advice from outside the ring. There are also serial entrepreneurs and distressed business experts who have built a track-record of managing and turning around private firms, so they might like to try their hand with a larger PSU. Two critical challenges for this theoretical suggestion – the contractual terms and guidelines have to be detailed in fine print to avoid tricky situations later amongst the parties involved. Secondly, most PSUs are mammoth in the size of their operations as compared to lean private enterprises and this size is a challenge to outsource.

2. Some practices can be brought in even ahead of retrenchment of excess staff. One is a **board of advisors that has the industry-experience, have the competence to give long-term strategic direction, and have the authority to hold management accountable** in case of gaps between strategy and performance. Moreover, it ensures adherence to corporate governance standards, which every company worth their salt looks at today while partnering with prospective stakeholders. These are practices common to private companies, and the intent is to make the functioning similar for PSUs. Using India’s experience, a stronger Vigilance and Comptroller & Auditor at the federal level also helped raise accountability and transparency.

3. The government anyway has to **bring in a culture of incentives as a motivation for the PSU management to perform better**, something that raises the performance of private companies. There is less chance of the management becoming complacent and lax, since the variable component in his benefits becomes prominent. The management becomes more professional and energetic. Under-achievement might have the same repercussion as in a private company. Changes in PSU compensation practices may inevitably require legislation, and hence a chance

of politicizing the issue. However, ESOP schemes (i.e. allotting of equity shares of the company to the management as an option) also work well as a management incentive. Incentive schemes also work in indirect ways, like awarding of free gifts, free trips, loans at subsidized rates, etc to the better performers.

4. A level-playing field for all public and private companies means that **exemptions and preferences in rules, and regulations which benefit PSUs have to be removed**, even if it pains like removing a sticking-bandage. When competing for tenders and contracts, the battle-field has to same for everyone. Private companies have to get the same treatment as PSUs, so that they do not face hindrances when competing with PSUs. Otherwise, that might discourage further private investments. This hold true in the opposite way as well. Many PSUs (airlines being the best example) have to provide free/subsidized services to government employees, which is a potential loss of revenue. Private companies do not need to adhere to this and so they can collect revenue on every unit of product/service sold. So, the level-playing field for public companies has to work in both ways.

5. Another is placing importance to merit and competencies. Technical/management qualifications at one side, **rewarding the PSU employees based on their meritorious performance at work** ahead of personal references, would go a long way to develop motivated employees. In more cases, motivated employees are better performing employees. Private companies assist in ongoing learning by sending employees to institutes for learning new skills and competencies. These add to the feel-good factor for the employees, as it helps their career progression. Increasing the coverage of similar practices amongst PSU staff might also make their workforce more motivated and better-performing, which bodes well for the PSU.

6. **Allow the PSU management to take the initiative for strategic directions**, rather than always work on instructions from the Ministries. They need to be leaders instead of followers. The management is better placed in taking relevant decisions since they are on-ground. But their inputs often get overruled by the politicians who have their vote-banks in mind. This can often impact the viability of the PSUs' projects. There has to be balance between management and politicians. Rewarding initiatives that worked would also motivate the management. However, this requires that the management (and bureaucrats) have the support of the politicians, otherwise the fear of repercussion will freeze decision-making.

The bottomline to the debate is competition. Unless competition is brought in, PSUs bleed the taxpayers' money which could be used for better purposes than just to keep a White-Elephant alive, which most PSUs have become today. PSUs cannot run as monopolies as its the best way to become inefficient. The market has to be open for all participants, irrespective of their ownership. **This is the premise behind saying that irrespective of whether all PSUs can get**

divested or not, it might be best to let the PSUs face the lions just like the rest of the companies. If an existing PSU starts performing better due to this, it would benefit the nation in the long-term.

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India's Inland Waterways Calling Global Expertise: Niche Opportunities To Utilize In India's Bountiful Water Network

Inland waterways carry only ~1% of all goods transported via the various modes within India, a clear sign of underutilization. Despite the common knowledge that bulk transportation through waterways is more energy-efficient and economical as compared to road or rail, utilization of inland waterways in India lags other regions with similar water endowments. It even lags peers in the utilization of coastal shipping (short-sea shipping). Inland waterways can be a more secure mode of transport. Better utilization could help Indian businesses save transport costs significantly, apart from benefits to the environment. About one-third of India's ~15,000 kms of navigable inland waterways are designated as national waterways, and much of these are in West Bengal, Assam, Kerala and Goa. Most of the current utilization is concentrated in these provinces, along the Ganga-Hooghly rivers, Brahmaputra river, Mandovi-Zuari rivers, Kerala backwaters, etc.

The government has made the right noises so far. In 2013, India's maritime regulator granted exemptions to ships exclusively carrying cargo on local routes through sea and river. The aim was to reduce the costs of constructing/operating vessels for coastal and inland water shipping.

The integration of river-sea trade using coastal ships was expected to provide quick dispersal of cargo from ships docking at big ports to smaller ports/inland locations. The new government has also stressed on this segment, and is considering launching the 'Pradhan Mantri Jal Parivahan Yojna'. Large-scale private/foreign participation is needed to develop the infrastructure, fleet and navigation aids for India's inland waterways, in order to reap its benefits of reduction in costs, fuel and time, as well as safety. Success is possible, as evidenced by the rapid growth in barge transport of iron-ore along the Mandovi-Zuari-Cumbarjua rivers in Goa.

Challenges

The segment remains underutilized due to hazards like receding water-levels or narrowing-channels in summer, silting of river beds and erosion of banks. Availability of right-of-way in the channels, lack of terminals for loading/berthing, interlinking with rail/roads for seamless connectivity, availability of low-draft technology vessels and technological support infrastructure are factors that challenge the operational aspect. Non-availability of return cargo, non-availability of bulk cargo in proximity to the terminals and inadequate navigational-aid restricting sailing for a long and continuous period also impact the viability factor. This segment is highly capital-intensive, as significant investment is required for buying vessels, maintaining the waterways and terminals and repairing the aground vessels.

Moreover, private vessel operators have large fleet, but they have not really invested much in recent years. This has led to scrapping of many vessels, and investments are required for new vessels. Increased drawing of water for construction, irrigation and domestic usage impacted the regularity of the downstream flow of water. This made transport operations difficult. Dams also became a barrier for smooth transport. The physical drop of the river could not be too much, or else ship-locks have to be constructed to manage the height differential. Often, dams are constructed for hydro-energy without integrating ship-locks which impacts the development of inland shipping. An exception is Brazil where ship-locks were built during dam construction. Costs also accrue in periodic maintenance and dredging of the river, since the river has to always provide sufficient depth for the vessels (training and draft in maritime lingo).

The challenge is the trade-off between the draft and cost. Inland waterways typically gain from economies of scale in operations, to compensate for their high fixed costs. The larger the vessel, the more cargo it can carry, and hence lower its operating costs. However, the larger vessel would require more draft, which would be costlier. There is a lack of sufficient draft in India's inland waterways to operate vessels of a reasonable size. The need for multi-modal linkages adds to the client's cost. Moreover, cargo clients are often reluctant to experiment with new modes right away.

Opportunities

Despite these challenges, India's inland waterways network is significantly large and provides an opportunity for foreign/private players. If the country has to produce more goods in coming years, it would need the infrastructure to transport it. It would be even better if that infrastructure can transport the goods at a lower cost per kilometer as compared to other modes.

1. **Areas of foreign/private participation:** India needs to develop inland ports and terminals, floating terminal facilities, fairways including dredging and mapping, vessels (shallow-draft, trans-shipper, barges), mechanized cargo handling, night-navigation aids, navigation-support (channel markings, GPS, river chartings, etc), warehousing facilities, vessels that carry road vehicles to facilitate multi-modal interlinking, technical training facilities for knowledge-sharing, as well as equipments (handling gears, shore cranes, gantries, forklift trucks, trailers, mobile cranes, conveyor system, etc). China's experience in developing its inland waterways shows that it focused on new ports, upgrading of existing ports, improvements in navigation channels (including side rivers), development of support systems (GPS, VTS, digital charts), and developed plans for barge standardization, subsidies (for fleet innovation or setting up new routes), IT platforms (for terminal operating systems to increase efficiency) and for connecting infrastructure to inland ports. These are also some critical areas that India should seek to invest into, if it wants to build a scalable and efficient inland system.

2. **Synergies of inland-coastal waterways in close proximity to large ports:** The first focus for development should be the river inlets along the coast, especially those near large ports. This can create a synergy between inland and coastal infrastructure, and developing smaller ports in the river system can support the large port in its vicinity. It is a basic supply-chain principle because the river system is connected to the port. Vessels can even unload directly on to ocean vessels, provided customs can be facilitated for that. Interlinking inland waterways with coastal shipping around large ports holds good prospects in several rivers in India. For example: the Ganga-Sunderbans river system can be integrated with Haldia port, the Brahmani-Mahanadi river system with Paradip port, Krishna-Godavari with Chennai port, Kerala inlet channels with Kochi port, etc. Connectivity of waterways with the ports will ensure development of the region, and will also relieve pressure from the existing modes of transportation. For example: A transshipment terminal in Kochi is expected to boost coastal shipping using smaller feeder vessels to feed the larger vessels. Moreover, coastal shipping is under the ambit of the federal government in India, so would be easier to synergize with national-category inland waterways.

3. **Concentrate on areas that can create a critical demand base and hence deliver faster ROIs:** The development should concentrate on river-stretches which offer maximum opportunity to complete the door-to-door transfer of cargo via the river itself, or at least the origin or destination is on a waterfront. The costs would work best for those clients, and so the demand should sustain. If there are navigable rivers near Industrial-Corridors, that could also reap economies of scale for transporting the construction raw materials. Hydro-electric plants are an attractive

option to cater to, since the destination would naturally be a waterfront itself. The best cargo would be bulk in medium/large-sized consignments, to gain economies of scale. What it means for foreign/private participation is that there would be a demand for suitable- equipped vessels. Participants need to focus on getting long-term cargo commitments from bulk sectors like fertilizers, coal, cement, oil, metals, fly-ash, limestone, grains, containers, etc as these could add long-term demand.

Another focus area could be small customers with regular demand, like agriculture and machinery manufacturers. Bulk cargo through inland waterways is picking up. For example: Jindal ITF is transporting bulk coal from Sandheads to NTPC's Farakka plant. Operators need to be responsive in keeping schedules both fixed and variable, depending on certainties of flows and to avoid un-remunerative runs. Learnings from China and Brazil show that China used inland waterways mainly to transport building materials, metals and ores, coal and coke, while Brazil used it for agriculture. The growth in China's inland waterway volumes have been ahead of Brazil.

4. **Passenger ferry opportunity is capped in Rural areas, but might have scope in Urban areas:** The passenger opportunity in rural areas would really be for river-crossings or short travel stretches. For example: Short stretches along rivers in Sunderbans, Goa, Kerala, etc. The cost for the passenger would include all the modes of transport, apart from the ferry. So, any investment into this segment has to keep in mind the upper limit that such a passenger would want to bear. In effect, the scope for investments might actually be limited to that extent. Moreover, if the ferry system is not able to provide seamless connectivity with other modes like bus and train, then its demand would be limited.

   Nevertheless, there is an opportunity for investing into faster boats, modern landing facilities and creating connectivity with other modes. Inland waterways can also play a key role in urban transport, as an integrated transport option with other urban modes like MRT or buses. Kochi and Mumbai have been actively looking at options on how inland waterways can be leveraged for urban transport, but a sustainable option is yet to be found. Urban passenger transport also includes air-sea networks like seaplanes for higher-end clients by using water surfaces which can offer faster connections to destinations in close proximity.

5. **Tourism for both staying and entertainment has major potential in a high-growth economy:** Increasing disposable income of Indian people and their need to de-stress in a demanding work-life, means that tourism should see demand. Inland waterways tourism can capture a share of this business. Kerala, Goa and Kashmir are popular destinations in this, but even Mumbai, Odisha, Gujarat, Andamans etc have an opportunity to invest into developing this promising segment. Vessels that offer dining, partying and casinos, Houseboats that offer relaxed

overnight staying like a hotel, River cruise boats that offer sightseeing, are all segments that merit increased interest from foreign/private patcipants.

6. **Accessing Bangladesh and North-East India markets through inland waterways:** India's North-East provinces face constraints in rail and road transport, as they have to pass through a circuitous route to reach Kolkata. Moreover, the region is still largely unindustrialized and so depends heavily on shipments from the rest of India for most of the goods it demands. Inland waterways connecting the Ganga-Hooghly system directly with Brahmaputra in Assam via the Padma and Jamuna rivers in Bangladesh can help reduce transport costs and times appreciably. However, this depends on the protocol with Bangladesh on usage of Bangladeshi waters by Indian vessels. Nevertheless, Bangladesh is also signs of increasing business co-operation with India, and revision of the protocol to open the waterways for more Indo-Bangla commerce can also merit investments.

7. **Investing into modern Shipyards and Terminals which cater to multiple vessel operators to help gain scale:** Dockyards for ship-building and repair of a range of vessels can cater to multiple vessel companies, and so gain scale in operations. Existing dockyards like CIWTC's Rajabagan Dockyard in Kolkata are under distress, and there is an opportunity to develop much more modern and upgraded dockyard facilities to cater to this segment. Terminal construction and operation is an area where concessions to foreign/private players under the BOT model could add value, a bit similar to the airport modernization projects. The success in Goa indicates that private sector is capable of barge ownership, operation and support services.

Imperatives

The Government as a facilitator needs to reduce investors' risk by concessions for imported equipment, easy availability of funds or ability to raise bonds, long-term committed traffic of cargo, captive users like PSUs as initial participants, periodic surveys and notices to operators. These might encourage private/foreign participation in the development of infrastructure and operations of inland waterways. The government has also used the Joint-Venture route to bring in participation, as that gives more comfort to external partners in a new terrain. Past JVs in this space have mainly been for inland barrage construction and operation. For example: Royal Logistics (Ship) Ltd with SKS Logistics Ltd, Vivada Logistics Pvt Ltd with Vivada Inland Waterways Ltd and SKS Waterways Ltd with SKS Logistics Ltd. The government needs to broaden the scope of such JVs to include other critical areas of development of this sector as well. Shipping Corporation of India can be a valuable partner, given the recession in international trade and freight rates has made it inevitable for it to explore other business areas.

Conclusion

There is a strong rationale for foreign/private participation into India's inland waterways system. Road transport can cater to smaller loads with faster service, but at higher rates. Rail can cater to larger loads and partial door-to-door service at medium rates. Inland waterways can cater to medium loads, but with slow movement and limited door-to-door service. However, its rates are cheapest. There would be addressable opportunities for transportation in this segment as the economy grows further. More investments would improve the cost-benefit ratio significantly.

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Packaging the "Package-Tour" Tourism Opportunity of India

Ironically, India features high amongst the Must-See countries of the world, but Inbound and Domestic tourist flows are far less than the potential. **Increasing 'Package-Tours' for niche tour experiences** might be a potential solution to counter some of the challenges to grow Inbound and Domestic tourism in India (Inbound refers to foreign tourists visiting India, while Domestic refers to resident-Indians travelling within India).

Its advantages may counter the industry's current challenges

The purpose is to stress the advantages of growing the package-tour business. Package-tours may give a more organized look to the industry, which is still largely unorganized and fragmented in India. It may address the opaqueness of practical information that often challenges prospective tourists while planning for Indian destinations. This difficulty in prior planning of an itinerary causes dilemma in the minds of prospects and delays their decision to travel. More often than not, this is a reason why prospects drop India and instead opt for other destinations which have ample planning resources, even if they have fewer sights to offer than India.

A more organized industry might reduce harassment that individual travellers often face from local service-providers/touts. Package-tours may deepen the B2B business, which can create incentives for quality adherence and further investments. The potential pie for each service-provider can be bigger due to synergies that B2B business can give, unlike now when the market is too fragmented. Cash-based transactions are common at many Indian destinations and this limits the government’s taxation earnings. Not to mention that cash-based transactions increase the risk for individual travellers due to the need to carry cards/cash. Even the loss of travel cards or travellers’ cheques is a potential loss. Package-tours may increase the transparency and accountability of the earnings of the industry. That would benefit the governments’ earnings and its ability to invest back into developing tourism infrastructure.

Investments into much-needed infrastructure like highways, transport and airports in Tier 2 towns would improve the connectivity and access to popular spots. Inbound tourism is a key source of foreign exchange, something which India’s government sorely needs for its current account deficit. Everyone knows tourism is a large employment generator and a more organized industry might make the employment (and related skilling/training) more sustainable and stable. That may also reduce the need of low-skilled temporary workers to constantly migrate in search of livelihood, a major reason for social unrest and crime in India today. As it is, local crime and national security issues are negative publicity. India’s Tourism Ministry has made several initiatives, including overseas promotion from its 14 overseas offices through brochures/collaterals, trade fairs/industry forums, outdoor advertising/TV commercials; E-Recognition facilitation systems for travel service-providers; Campaigns like Incredible India, Colors of India; and a National Tourism Policy. However, it needs to ensure faster movement on regulatory issues and project approvals.

Main USP and target customers for this business

The USP of the package-tour business has to be the convenience factor, rather than costs. Target customers for package-tours are often the mid/high-end tourists, as they have a higher propensity to spend. That works well for the business since package-tours can end up being priced higher than an individual budget travel. Budget/backpacker tourists would prefer individual travel as their cost might be lower. But there may be a chunk in this segment too, who may prefer the convenience of a package-tour to visit India. It might open the market to an entire segment of prospects, who are currently undecided about visiting Indian spots.

Many expats work in Corporate India today. But many are unable to visit as many Indian spots as they would want, due to the inconvenience of planning and travelling. These expats, and their families who visit them, form a significant chunk of target customers for package-tours. To put all this into the price multiplied by quantity formula, the objective of this article is to increase the quantity variable. Economies of scale might benefit operators in terms of their ROE, while travellers might benefit from competitive pricing in a larger B2B business landscape. One might also add that Services sector typically has higher operating leverage. This would maximize the throughput for the service-provider at lower-than-proportionate incremental cost and investment.

Niche tours for experiential travel may create differentiation in a mass market

In a mass business like package-tours where customization might be limited, experiential travel might give a scope for more targeted travel plans as per what an individual customer may want. The objective would be that such niche plans provide some degree of customization in terms of what the tourist wants to see and experience in India. That would mean niche tours targeting specific customer groups, rather than a mass bucket of customers that a typical package-tour concept would entail.

Niche, experiential travel that might find favour in India are Ayurveda/Yoga tourism for healthcare addicts, Rural tourism for experiencing customary ways of life, traditional crafts and culture (it would also be alternative to agriculture earnings for the village communities), MICE tourism for trade fairs, events, conferences, sales incentive trips which combine the event with visiting attractive Indian spots, Sustainable Living/Wellness tourism for high-end customers who want an experience of alternate and stress-free living, Medical tourism for patients who prefer high-quality healthcare and facilities at prices more affordable than developed countries, Historical Sites tourism for those interested in history and culture, Buddhist Circuit to Buddhist sites like Sarnath, Bodh Gaya, Kushinagar, Sanchi, Dharamsala, Rumtek, Tawang and Leh for East Asian tourists from Japan, Thailand, Laos, Singapore, etc, and Extreme/Adventure tourism including treks, hikes, camps across extreme terrain which test human endurance.

Educational tourism to familiarize the aspirants to Indian universities/international schools with a first-hand look at the educational facilities India offers. This may require attracting educational consultants and agents from the target markets rather than the prospective students, due to the cost. Economic tourism is another area worth exploring, given that Corporate India is gaining importance amongst global business circles. The objective would be to facilitate first-hand interactions with the Indian industry which would create awareness amongst global businesses of

Corporate India's capabilities in a specific industry. This is something on lines of corporate roadshows/familiarization trips. Homestay tourism is a concept for tourists who seek a more personal and local experience. This is quite similar to a Bed & Breakfast concept, which is quite popular in the UK.

Marketing campaigns by leveraging on Word-of-mouth, Referral prizes, B2B networks, Digital initiatives and Bollywood locales

While trade fairs and industry forums would be conventional platforms for B2B businesses, utilizing word-of-mouth marketing from existing, satisfied travellers might be useful for targeted marketing within the travellers' community, which would include several prospects. This presupposes that the quality of service standards and expectations of existing travellers were met, since dissatisfied customers can also cause severe negative publicity. A way to incentivize existing travellers towards word-of-mouth marketing might be prizes for referrals who do convert. Incentives for referrals might make word-of-mouth marketing more impactful.

The B2B aspect of this business means extending the reach of marketing by using the network of the various stakeholders, which might be a more targeted outreach. The job of marketing would be shared by more than one, which is always desirable. The stakeholders in a B2B relationship like this would typically be entrepreneurs working on the ground, and their commitment to grow their business would be a critical driver to deepen the industry. Opportunities for tie-ups between stakeholders to form a value-chain of offerings would firm up competition, make pricing and quality more transparent.

Digital marketing would be emailers which include comprehensive information for planning, instead of just showing fancy pictures of the Taj Mahal and elephants. This also includes travel planning portals which help prospects explore options, listen to videos of experiences and actually take their final decision to travel. Bollywood shooting locales have been famous for promoting Indian Outbound tourism to Switzerland, New Zealand and Malaysia, and there is no reason to believe the same could not work for boosting Inbound tourism to attractive Indian destinations. Bollywood movies are being viewed globally, not just by the Indian diaspora, but also by a global audience as they are being dubbed in various languages. It can catch as much eyeballs as any other advertising campaign can.

Imperatives for the government and other stakeholders

The Government's National Tourism Policy has stressed on speedy implementation of projects, developing integrated circuits, capacity building and new marketing strategies. The Reserve Bank of India has made suggestions regarding monitoring the end-usage of foreign receipts and completion of projects within a stipulated period.

The Visa-on-Arrival and E-Visa scheme has also gained popularity. E-Visas issued grew from 9,328 in the Jan to Jun 2013 period to 11,953 in the Jan to Jun 2014 period. Other possible facilitations can include single-window clearance for projects to minimize the time taken for approvals, faster decision-making on existing proposals, investment into roads, airports and transport that improve connectivity between key tourism destinations, ensuring that land acquired for hotel projects is not diverted for resale as it can cause a real estate bubble, increasing the supply of hotel rooms across high-end and budget hotels, keeping the pricing of India tours competitive to Asian peers like Thailand, Malaysia, China, and building information channels that reduce opacity of relevant planning information. Last but not the least, a major social imperative that is required is a change in the attitude of local Indians towards foreign travellers (especially women travellers) so that they do not feel uncomfortable, as well as in maintaining the cleanliness of their own tourism destinations.

Investment opportunities abound for foreign investors and strategic partners

Growing the package-tour business would create investment opportunities into several segments. Investment would be useful from strategic partners in the global tourism business, who can bring in specialized knowledge and service platforms which would benefit this business in India. Opportunities can abound for hotel and resort chains, travel planning providers especially those using e-commerce platforms, event planning companies and experiential travel providers, restaurants chains across fine dining, QSR and coffee shops, hard and soft infrastructure like roads, transport and broadband networks, airport developers for smaller, lower cost airports and training centers for skill-creation and knowledge training in the catering and tour services.

Conclusion

The package-tour business can create opportunities for several more segments apart from those mentioned above. If the tourism footfalls grow, it would enhance income, earnings and employment for the industry, and promote further investments into the sector. Global providers might do well to explore this opportunity in India.

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India's Unique Business Opportunity: Becoming A Potential Destination For Affluent Retirees From Across The Globe

For many who have not realized, India faces a unique business opportunity as a potential destination for affluent pensioners/retirees from across the globe. Whether India can grab this opportunity or not, it is imperative to appreciate why this is an opportunity for India in the first place.

Home-countries are expensive and inconvenient at old-age

Old-age living in most developed countries is expensive, and moreover, inconvenient. The social structure of extreme nuclear living means many pensioners go through the cycle of daily living by themselves. There are retirement homes and a social system that supports pensioners. However, daily living in the old-age remains expensive and inconvenient for many. To sound anecdotal from my own observations, a visit to any department store in UK or European cities on a typical Sunday morning would vouch this. In contrast, India is a comparatively cheaper place to live in. This is despite the fact that cost of living in India has also grown leaps and bounds in recent years than historical levels. The recent movement in the Indian Rupee also means that every US Dollar can fetch more in Rupee terms now.

Demand for premium, convenient and secure townships

Real estate townships have come up in Indian cities which feature every convenience and facilities that one can imagine. Living in such complexes is relatively secure since professional security agencies are appointed along with daily maintenance of people entering/exiting. Many of these townships are expensively priced and only the affluent fraction of India's population can afford to pay that premium. Influx of foreign affluent retirees would help enlarge the demand pool for such developers, and help them avoid situations of unsold stock of apartments or condominiums. If demand actually swells, it may incentivize developers to initiate more projects, which would give a fill-up to ancillary industries like steel, cement, transport, materials–which are high employment generators in themselves.

Generics-pharma and Medical-tourism aspirations

India aspires to become a leading generics-pharma manufacturer, as many drugs are nearing the end of their patent periods in Western countries. This means India is competitively placed to cater to the pharmaceutical demands, as one assumes that generics would lower the cost of medication significantly. High cost of medicines is a challenge for the old-aged across the world, and local generics manufacturing might help bring down this cost for global retirees. In the context of medical tourism, India houses state-of-the-art specialty hospitals which offer the whole range of medical care. Indian doctors have made their mark globally. While India was a destination for patients from Asian and African countries historically, focus on medical tourism is now bringing in patients from Europe, USA and Japan as well. So why not get them to live here, so that taking care of their medical needs would become convenient for both the parties concerned.

Employment for professional care-givers

India has adequate manpower to cater to caring for such people. In Indian families, the family members themselves act as care-givers to old-aged ones as most professional care-giver agencies are expensive for Indians. However for foreign retirees, who have typically made their money at comparatively higher income levels in USA, UK, EU, Japan or Singapore might not face this affordability concern in India that Indian families face. Moreover, this serves a major employment opportunity for the country's vast semi-skilled population.

Rationale for global affluent retirees

Foreigners who want to live relatively inexpensively and maximize the utilization of their corpus should look at relocation. They can stretch their local currencies further in Indian Rupee terms. India now has the infrastructure and facilities to cater to such a population, all of which is available relatively cheaper. With interest rates in developed countries are at lows, the yield earned on their risk-free financial assets is minimal. It makes financial prudence to spend in a relatively low-cost country, so that the earnings-expense equation is favourable. This is the basic rationale why global affluent retirees should look at India.

Affluent retirees might be live in India only from the interest income they earn, without even touching their capital or reallocating it to riskier financial assets. Secondly, India is officially home to a number of religions including Christianity, Buddhism, Islam, which most global retirees from Europe, USA, Japan would belong to. One does not envisage issues arising in foreign tourists practicing their own religions. Thirdly, English is the main business language of India. Local media, road signs, information materials are in English, apart from vernacular languages. Even low-skilled workers can converse in broken English. Next, the advantages of care-givers, medical facilities and secure townships have been discussed in above sections. Lastly, India houses fascinating tourism destinations, which might attract foreign visitors. That would incentivize Indian tourism authorities to spruce up their destinations and infrastructure for foreign visitors.

Better quality for foreign visitors

Every country likes affluent tourists as they will spend more on local products and services, as compared to budget tourists. Visa policies of most developed countries are skewed towards this mind-set. But that is correct– since such affluent tourists bring in more foreign currency which supports the local tourism infrastructure. Extending preferential treatment for such long-term visitors within India's visa policies would help bring in people who will address tourism, medical care, real estate and employment areas for the country. Such long-term visas are issued on showcasing a certain level of financial security, which also gives a level of comfort to the visa authorities on the genuineness of visitors. Competing countries like Malaysia, Thailand, etc have special visa plans to enable long-term stay for elderly retirees from Japan etc.

Addressing risk factors

The biggest risk that tourists face in India is of safety. The good news is that large-scale advocacy by common-Indians has shaken up the government to address this. Safety and security are risks even common-Indians face, not just foreigners. The new government has made the right noises to address women's safety, etc. But still a lot is still needed. However, one might also add that like any smart traveler, one needs to know which places to avoid. The second risk is availability of information and literature. Tourism websites need to provide information on infrastructure, processes and facilities that global retirees can use to build their decisions, and make their transition smooth. India might team up with professional agencies that cater to people looking to live abroad. Lastly, the investment into local real estate poses a risk. Many retirees might not want to sell their houses in home countries as they may want to return after few years. Garnering the capital to buy units in India might involve liquidating some financial assets which may not be desirable either, despite the outlook on residential prices in India. In such a situation, taking units on rentals is the only way out. But that assumes there are enough affluent Indians available to buy the lot of premium units in the first place.

Conclusion

There is significant business case for India to pursue this opportunity, although a lot is needed yet. Affluent foreign retirees should also look at this option for their advantage. As an ending note, one might add that many global retirees have been business-owners. Being in a high-growth market in India might make them rethink about setting up a business again. India can also gain from the knowledge and insights of their business experiences. All that might sound far-fetched, but the 21st Century is the Knowledge-Century, after all.

Value Africans Place on Education Varies Widely by Country: Africans Often Perceive Personal Connections as More Important to Success[72]

Steve Crabtree

This article has been written highlighting key issues in Africa in relation to the first-ever U.S.-Africa Leaders Summit taking place in Washington, D.C. on Aug. 4-6, 2014. It is based on a Gallup service in Africa which is of key significance.

The quality and accessibility of education across Africa is central to the discussions about Africa's next generations taking place at this week's U.S.-Africa Leaders Summit. The perceived value that Africans themselves place on education varies across the 31 countries Gallup surveyed in 2013, with the percentage choosing education as the most important factor for a successful life ranging from 73% in Botswana to 13% in Ivory Coast.

Overall, there are few differences in Africans' priorities by demographic categories such as gender and age. But it is possible to identify factors that may influence the differences between countries. Most notably, in countries that are politically stable and have well-functioning democratic systems -- such as Botswana and Ghana -- residents tend to be more likely to say education is most important to success. On the other hand, in countries that suffer from the disruptive effects of chronic conflict -- such as Ivory Coast and the Democratic Republic of the Congo -- residents tend to be more likely to cite personal connections than education as the most important factor for a successful life.

[72] The article was originally published by Gallup World. See under: http://www.gallup.com/poll/174332/value-africans-place-education-varies-widely-country.aspx?utm_source=alert&utm_medium=email&utm_campaign=syndication&utm_content=morelink&utm_term=Well-Being

In your opinion, which of the following is MOST valuable for someone in [this country] to have in order to succeed in life?

	Education	Family/friend connections	Strong work ethic	Intelligence
Botswana	73%	10%	4%	13%
Ghana	72%	12%	9%	7%
Zambia	64%	19%	9%	8%
Liberia	63%	15%	11%	2%
Tanzania	63%	5%	12%	20%
Malawi	61%	4%	18%	17%
Sierra Leone	59%	21%	10%	6%
Kenya	58%	17%	11%	13%
South Africa	51%	25%	11%	12%
Zimbabwe	47%	35%	5%	11%
Angola	45%	21%	15%	17%
Nigeria	45%	39%	5%	10%
Madagascar	43%	17%	24%	15%
Morocco	43%	21%	15%	15%
Uganda	42%	19%	15%	24%
Rwanda	41%	21%	14%	25%
Tunisia	38%	29%	11%	17%
Chad	31%	41%	13%	15%
Ethiopia	30%	7%	29%	33%
Niger	30%	38%	8%	25%
Burkina Faso	29%	45%	8%	17%
Cameroon	29%	48%	7%	15%
Mauritania	24%	51%	10%	14%
Mali	23%	63%	7%	7%
Benin	20%	56%	9%	15%
Senegal	20%	59%	13%	8%
Guinea	19%	49%	9%	22%
Congo (Kinshasa)	18%	54%	8%	19%
Gabon	17%	62%	9%	12%
Congo (Brazzaville)	16%	54%	8%	21%
Ivory Coast	13%	49%	10%	25%

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Language May Be a Factor

Language may also play a role in Africans' opinions on what is most valuable to a successful life. All nine countries where a majority of residents say education is most important are predominantly English-speaking places, and most are former British colonies. Conversely, all seven countries in which a majority of residents say personal connections are most important are predominantly French-speaking places or former French or Belgian colonies. Overall, across English-speaking countries in Africa, 51% of residents say education is most important to success; among residents in French-speaking countries, the figure drops to 28%.

Analysts have noted that English-speaking African countries have developed more quickly and more successfully attracted foreign direct investment than their French-speaking counterparts. In some cases, the result has been a virtuous cycle: Rising interest from foreign firms creates a strong economic incentive to establish a stable business environment. That motivation in turn helps bolster the rule of law and reduces the need for personal connections to gain access to opportunities in English-speaking countries. Cultural influence may also play a role in the differences. For example, several French-speaking African countries -- including Burkina Faso, Chad, Guinea, Mali, Mauritania, Morocco, Niger, Senegal, and Tunisia -- have large Muslim populations and historical ties to the Middle East region. The reliance on connections to influential family members or friends to facilitate transactions -- referred to as "wasta" in Arabic -- is endemic to many Middle Eastern societies.

Bottom Line

Education's perceived importance is one of many factors influencing schools' potential to raise the level of human capital and support economic growth in a country. The quality and accessibility of education -- and particularly its capacity to help students meet the country's labor market needs -- are fundamental concerns throughout Africa.

Nevertheless, differences in the way Africans think about what it takes to succeed in life have powerful implications for development. Those who do not view education as the key to unlocking economic opportunities may be less motivated to ensure that their children stay in school and attend every day. In many cases, obtaining even a basic education can mean making sacrifices because children would otherwise be available to help with farm work or other means of supporting the family. In countries where success is seen as a function of personal relationships -- that is, *who* you know rather than *what* you know -- residents may be more likely to view education as not just a costly endeavour, but also a pointless one. Often, the result is that children fail to develop the skills they need to envision and work toward a brighter future for their families and their communities. For complete data sets or custom research from the more than 150 countries Gallup continually surveys see under: www.gallup.com.

Survey Methods

Results are based on approximately 1,000 face-to-face interviews with adults, aged 15 and older, in each country during 2013. For results based on the total sample of national adults, one can say with 95% confidence that the maximum margin of sampling error is ±3.9 percentage points. The margin of error reflects the influence of data weighting. In addition to sampling error, question wording and practical difficulties in conducting surveys can introduce error or bias into the findings of public opinion polls. For more complete methodology and specific survey dates, please review Gallup's Country Data Set details.

EU and Third Countries: The New Policy of Cross-Border Cooperation

Ayca Ergun & Hamlet Isaxanli: Security and Cross-Border Cooperation in the EU, the Black Sea Region and Southern Caucasus

IOS Press, Amsterdam/Netherlands, 23-24 September 2011, 188 pages, €108, ISBN 978-1-61499-186-1 (hard copy), 978-1-61499-187-8 (e-Book)

The current world is changing bringing new structures, systems as well as attitudes and expectations. The decisions and choices undertaken today are bound to affect tomorrow's stance. The contemporary states are to practice multi-vectored, flexible and innovative strategies and policies to ensure sustainable development. It is to be acknowledged that peace is the basic component of welfare, a precondition for warranting and respecting human rights and dignity. Hence, states are to be civil, democratic, open and tolerant, ready to solve their internal and/or external conflicts peacefully, without use of force, and without repression. And if ever there is the necessity for the external intervention it is to be coordinate, multifaceted, limited as well as complementary to the undertakings of the primary actors.

Indeed, security, being the prerequisite for the economic development, should be a pivotal target. It can promote investments, economic reforms as well as democratization process. Good governance and efficient social service delivery should be set. In this token the role of the cross -border cooperation cannot be undermined. It can induce security and economic development in the countries, stimulate region's economic development, social integration and stability. Due to the joint venture, the peripheral regions can meet the challenges and adventures provided by the border between them, improve the relations between the countries, enhance people-to-people contact as well as networks between local communities. Moreover, cross-border cooperation can contribute to the development of the border-region identity, build trust and mutual understanding between the communities.

Thus, borders can be utilized and used as resources for the stakeholders, acting across it. Yet, establishing adequate infrastructures and systems and realizing cross-border projects are a learning procedure which implies a lot of research and expertise. These are the points and messages, addressed in the book “Security and Cross-Border Cooperation in the EU, the Black Sea Region and Southern Caucasus edited by Ayca Ergun ad Hamlet Isaxanali. The book is a compilation of papers from the NATO Advanced Research Workshop entitled “Security and Cross-Border Cooperation in the EU, Black Sea Region and Southern Caucasus”, held in Ankara, Turkey, in 2011. The contributors of the book seek to come up with policy implications that can promote and strengthen cross-border cooperation between the Euro-Atlantic region, the Black Sea region and the Southern Caucasus. For that purpose the academics investigate the role of the international, domestic and regional stakeholders in building security and cross-border cooperation, speculate formats and terms of regional cross-border cooperation in East and Central Europe, the Black Sea region and the South Caucasus, analyze aspects and questions concerning cross-border cooperation.

The book is divided into 3 chapters. In the first part the international and domestic players contributing to the establishment of security in the Euro-Atlantic, the Black Sea and the South Caucasus are presented. The role of the United Nations, NATO, OSCE, EU and the Black Sea Economic Cooperation (BSEC) in promoting cross-border cooperation is highlighted. The frozen conflicts around the Black Sea – Moldova vs. Transnistria, Armenia vs. Azerbaijan, Georgia vs. Abkhazia and South Ossetia, are seen as the key barriers for the stability in the region. Hence, a comprehensive security strategy is a prerequisite.

The chapter goes further to detail the EU’s position and policies in encouraging border cooperation. To begin with, it argues that in case active and efficient policies are implemented in the region, the EU can belittle divisions between itself and its neighbouring regions. Afterwards, the EU and OSCE’s past and forthcoming actions in relation to the above mentioned conflictual areas and conflicts per se are addressed. The study finds that so far both institutions have led incremental and limited policy.

The section also describes the EU policies on cross-border cooperation. In line with this, the next article briefs how intergovernmental organizations influence on the cross-border cooperation, stating that institutionalized cross-border cooperation can contribute to the problem alleviation and/or resolution in the Black Sea region in various fields e.g. economy.

The second chapter of the book identifies the modes and scopes of cross-border cooperation in East and Central Europe and the Black Sea region, namely in Romania, Moldova, Ukraine, Georgia and Russia.

In the third part of the book cross-border cooperation and issues related to it in the South Caucasus are detailed. The conflicts of the region are seen as impediments for state-building and consolidation of democracy. Peace is volatile and unstable. In this connection, the role of the international and regional organizations, also questions related to energy and security in the region, taken into account local energy resources, are under the discourse. Also, the study analyzes Turkey's bilateral relationship with Azerbaijan, Armenia and Georgia and views the country as a significant player in undertaking cross-border cooperation projects.

Additionally Georgia is examined - specifically, its strategy towards Russia's Northern Caucasus, namely, the execution of a visa free regimen for the residents of the region as well as the recognition of the "Circassian Genocide" by the Georgian Parliament. On the other hand, Russia's position towards these policies is described. Lastly, the role of energy on security in the South Caucasus and Caspian region is observed. The conclusion is that while energy can promote security development in the region, it cannot be the basis for conflict resolution and peace establishment.

In the end, it is worth mentioning that the book is an excellent opportunity to increase knowledge on security-building and cross-border cooperation, stimulate discourses on the related topic and also make use of the proposed policy recommendations.

Ofelya Sargsyan

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