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CYPRUS CENTER FOR EUROPEAN AND INTERNATIONAL AFFAIRS
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1993-2017 TWENTY FOUR YEARS OF POLICY FORMULATION AND ANALYSIS

Security Equation in Eastern Mediterranean: Global and Regional Contexts



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Eastern Mediterranean as a crossroads, where West and East meet, has traditionally had strategic significance. Nowadays, the emerging strategic landscape in the region is getting more and more complicated and unpredictable. The global context is characterized by two crises - the Russia-West crisis after Ukraine and the EU-US crisis after the election of president Trump. It is widely recognized that relations between Russia and the West are on decline and Russia is steadily drifting away from EU, NATO or US. It will not be an exaggeration to say that these relations have reached their lowest point in the past 25 years. There have been many disagreements between Russia and the West in the past - Kosovo problem, Iraq, Caucasus crisis, Libya, human rights, energy deals etc, but it is security orientation of the post-Soviet states and the Russia-NATO/EU rivalry in this space that constitutes the crux of the fallout.

The divide on the macro level of the international relations has a strong impact on the regional cooperation, which is why there is a strong dialectical link between Ukraine and Syria or security in Eastern Mediterranean at large. Russia's strategy in the region as its foreign policy at large is defined by three factors - post-imperial syndromes, security concerns and negative experience of the Russia-West cooperation after the collapse of the USSR. With the loss of the great empire and status equal to the US status rebuilding has become the guiding star of the Russian foreign policy. As for security concerns, the biggest threat to Russia, as it seen in Kremlin, is regime change through the so-called export of democracy and orange revolutions. Sovereignty in its traditional Westphalia meaning has become a sacred cow for Moscow, which is why Russia's support of Assad is not so much about Assad himself but rather a matter of principle - no regime change for the sake of democracy. And which is why the mess in Libya is a reminder of the evils of the regime change policy.

The conflict in Ukraine resulted in the sanctions war and Russia's exclusion from the main international forums. Russia's isolation from the West left her no choice but to seek new allies and exploit any gap or flaw in the regional

strategies of her opponents. Nowadays Russia is present in the Mediterranean region on an extended scale. It is enhancing its political, economic and military involvement both in Eastern and Southern Mediterranean through regular political contacts with the authorities of the largest countries in Levant and North Africa, arms sales, trade and energy cooperation, renting military bases and conducting military exercises.

The EU-NATO-US relations are also in flux although the nature and substance of the crisis between Europeans and Americans differ from the former. "There is no doubt that the election of Donald Trump not only sent shockwaves around the world but has increased the risk of an unsettled future US relationship to the world and its European allies. Europeans and Americans alike worry about the future transatlantic relationship ...".¹ The US as a main security provider of the West is rethinking its foreign policy becoming a less reliable and predictable partner for Europe, which has strong implications for security in Eastern Mediterranean, first and foremost for Syria. Although it is not clear what will happen in the Mediterranean with Donald Trump as president of the United States, some of the American analysts argue that despite the different style of the new administration, it is unlikely to see a radical change in US policy to date in the Mediterranean. A US withdrawal from the Mediterranean in terms of politics and security would not even be possible. The Mediterranean region remains an important asset, even essential for the United States especially with the Israeli-Palestinian conflict, Turkey or Egypt. The key question is not whether the US will be active – it will be – but whether this activism, and the strategy behind it, will be pursued in a more unilateral way.²

The possibility that the European allies in NATO or the European Union will fill the American role in the East Mediterranean is not feasible. EU is not a real strategic actor, it is in the process of rethinking its strategic autonomy and presently it lacks the necessary military assets, a clear strategic vision, as well as the political will to take a lead as a security provider for the East Mediterranean.

China is asserting herself as a new global power, although her global ambitions are more about economics than politics at least for the time being. China is "neither a missionary culture nor a values superpower... Clan-focused Confucianism and the fear bred by communism have

¹ Stefan Fröhlich, Germany Cannot Replace the US, But Europe Can Live with Trump by <https://transatlanticrelations.org/publication/germany-cannot-replace-us-europe-can-live-trump-stefan-frohlich/>

² Ian O. Lesser, The Trump Administration and the Mediterranean http://www.iemed.org/observatori/arees-danalisi/arxiu-adjunts/anuari/med.2017/previews/IEMed_Medyearbook2017_Trump_Mediterranean_Ian_Lesser.pdf

persuaded the Chinese to mind their own business".³ However the very fact that Chinese are showing their flag in an area far from their traditional area of operations undermines the wide spread assumption that the Mediterranean will become a purely Western sphere of influence.

The regional balance is even more complicated due to the fact that the main regional actors – Turkey and Iran - are reconsidering their regional strategies on the basis of big-power nationalisms. And even within the so-called allied coalitions like the Astana peace process on Syria there exist differing interests and competing regional strategies of the actors – Russia, Iran and Turkey.

Despite the complexity and multidimensionality of the security landscape in the Mediterranean, the main challenge to the regional security is the deep divide in the relations between Russia and the West, since neither Russia, nor the West can stabilize the region without each other. Russia's expansion in the region is widely perceived in the West as a threat to the global and regional stability. However it is not Russia's expansion but rather her isolation that presents a threat to the regional and global security.

³ China's Future, <http://www.economist.com/news/essays/21609649-china-becomes-again-worlds-largest-economy-it-wants-respect-it-enjoyed-centuries-past-it-does-not>

OPENING ADDRESS
40 YEARS AFTER THE BEGIN-SADAT AGREEMENT – A HISTORICAL ASSESSMENT AND FUTURE PROSPECTS*



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Forty years have passed since the historic agreement at Camp David signed by the then Prime Minister of Israel Menachem Begin and the then President of Egypt Anwar Sadat which raised high expectations about peace and cooperation between Israel and Egypt. At that time hopes were also expressed for the beginning of a process for a comprehensive settlement of the Palestinian issue as well.

Expectations were not fulfilled though. President Sadat was assassinated in 1981. And what was basically achieved was Cold Peace between Israel and Egypt. Subsequently, Jordan also came to advance a relationship of Cold Peace with Israel. The Palestinian issue was not resolved despite the Oslo Agreement signed in 1993. It is worthwhile noting that while four years after the Camp David Agreement President Sadat was assassinated, a few months after the second Oslo Agreement the Prime Minister of Israel Yitzhak Rabin was also assassinated in November 1995.

These are times of high turbulence in the broader Middle East and beyond as we are witnessing ethnic, religious and ideological antagonisms, strife and violence, as well as redrawing of frontiers. The future of several countries cannot be predicted as there is great uncertainty. Let me also note that during the Cold War when addressing Middle Eastern issues analysts had in mind four major power pillars: The Arab World, Israel, Iran and Turkey. The current flash points in the Middle East are indicative of a much more complex situation. Within this framework we witness great divisions in the Arab World on issues of ideology, religion and interethnic power struggles. Iran has been supporting particular regimes and groups within the Arab World and at the same time opposing other ones. And Turkey aspires to have its own leading role.

* Excerpts of his Opening Address at the event entitled *40 Years After the Begin-Sadat Agreement – A Historical Assessment and Future Prospects*, which was organized by the Center for European and International Affairs of the University of Nicosia in cooperation with the Dialogue Chair in Middle Eastern Studies on October 23, 2017.

Furthermore, terrorism is one of the greatest asymmetric threats that must be addressed decisively and effectively. That does not imply only the use of military force. It is also essential to work in ways which aim to contain the causes of terrorism. Given the current state of the international system it will be a step in the right direction if eventually there is much more cooperation between the US, Russia, the EU and other major as well regional powers in addressing the current challenges as well as regional conflicts. Such a policy approach will contribute to decreasing tensions in an uncertain World.

Regarding Turkey, with an assertive Erdogan, the country is moving toward a new paradigm - neo-ottomanism. The objective of "zero problems with the neighbouring countries" deteriorated to a situation involving problems with each and every neighbour. Turkey also wishes to have a hegemonic role in the Middle East and the Eastern Mediterranean. In addition, it tries to secure an important position in the international political system.

Another critical issue in international politics is how issues of governance in biethnic and multi-ethnic states are addressed. In cases where constitutional models have been chosen on the basis of ethnonationalist pillars, the overall record is not positive. For example, Bosnia, Lebanon and even Belgium are indicative. Obviously, Cyprus has to take this into serious consideration and think outside the box.

In relation to the Cyprus Problem let me also note that eight months ago forty years have been completed from the high level agreement between President Makarios and the Turkish Cypriot leader Rauf Denktash. This was followed by another high level agreement between President Kyprianou and the Turkish Cypriot leader Rauf Denktash in May 1979. Since then there have been several efforts and initiatives to address the Cyprus Problem. To the present day the problem remains unresolved.

I have serious doubts whether it is possible to reach a comprehensive settlement under the current circumstances. Given the high level of mistrust between the two sides in Cyprus, their different approach on several issues and, moreover, the overwhelming role of Turkey, it will be useful and appropriate to seriously consider an evolutionary process. This may include CBMs as well addressing energy issues in the Eastern Mediterranean with Turkey's participation and within the framework of normalization of relations with the Republic of Cyprus.

FROM TECHNOLOGICAL REVOLUTION TO ARMAGEDDON AND BACK: UNBREAKABLE VICIOUS CIRCLE



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On September 4, 2017 Elon Musk, founder of Tesla and Space X, has said again that artificial intelligence could be humanity's greatest existential threat, this time by starting a third world war.¹ About a month before that the ATM (automated teller machine), which was initially viewed as a "killer" of bank tellers and a harbinger of mass technological unemployment, celebrated its 50th anniversary.² And a bit earlier, on June 27, it was fourteen years since Air France's final Concorde flight took place (Concorde was the fastest passenger plane alongside the Soviet-built Tupolev 144, which was grounded in 1983).

What is common between the three? They are all technologies but each offering a unique glimpse of us and our world. The first is the manifestation of our ever-present fear before the unknown future, and technologies of the future in particular. The second is just one of many examples when the fear never materialized. And the third is the illustration of the economic model, which we are living in, where even the most advanced inventions can perish because of their economic unviability.

Speaking about the economic model and the future, it is worth mentioning what Bank for International Settlements (BIS), central bank of central banks, identified in its 2016 Annual Report as global economic risks: "One could speak of a "risky trinity": productivity growth that is unusually low, casting a shadow over future improvements in living standards; global debt levels that are historically high, raising financial stability risks; and a room for policy manoeuvre that is remarkably narrow, leaving the global economy highly exposed".³

¹ Hern, A., *Elon Musk says AI could lead to third world war*, The Guardian, September 4, 2017, downloaded from <https://www.theguardian.com/technology/2017/sep/04/elon-musk-ai-third-world-war-vladimir-putin>

² Harford, T., *We Still Waiting for the Robot Revolution*, 4 August 2017, downloaded from www.timharford.com

³ Bank for International Settlements, *86th Annual Report BIS 2016*, downloaded from <http://www.bis.org/publ/arpdf/ar2016e1.htm>

This autumn we are also “celebrating” the tenth anniversary of the financial crisis, which is now often referred to as the Great Recession, and the consequences of which we still cannot overcome, i.e. no solid productivity gains and healthy sustainable economic growth.

As a consolation prize, over the same ten years, we lived through several generations of ever-bigger iPhones, massive proliferation of all sorts of digital gadgetry and introduction to mesmerizing world of the “internet of things”, which left many around the world with the strong sense that the fascinating future we’ve been told about for so long has arrived at last.

And finally, for those who did not notice, over the same period of time we have been introduced to the whole two Industrial Revolutions. The first came from Jeremy Rifkin, famous American economist and theorist, who in 2011 published his best-selling *The Third Industrial Revolution*. Mr. Rifkin served as an advisor to three EU Commission Presidents - from Prodi to Juncker - as well as many heads of states around the world including governments of Germany, France and China. The principal ideas of his Third Industrial Revolution have been endorsed by the European Parliament, and represent the basis for a long-term sustainability plan, which addresses the trinity of the global economic crisis, energy sustainability and security, and the climate change. Mr. Rifkin was pronounced by many as visionary who leads us into the low-carbon future.

But before the dust settled over the Third Revolution, the Fourth was already storming in. This time Charles Schwab, founder of the World Economic Forum, released a book *The Fourth Industrial Revolution*, where he describes how this fourth revolution is fundamentally different from the previous three, which were characterized mainly by advances in technology. Some call it industry 4.0, but whatever you call it, it represents the combination of cyber-physical systems, the Internet of Things, and the Internet of Systems. In short, it is the idea of smart factories in which machines are augmented with web connectivity and connected to a system that can visualize the entire production chain and make decisions on its own. In this fourth revolution, we are facing a range of new technologies that combine the physical, digital and biological worlds. These new technologies will impact all disciplines, economies and industries, and even challenge our ideas about what it means to be human.⁴ Mr. Schwab reckons we should fasten the seat belts and get ready for a ride because this future is just around the corner.

⁴ Marr B., *Why Everyone Must Get Ready For The 4th Industrial Revolution*, Forbes, April 5, 2016, downloaded from <https://www.forbes.com/sites/bernardmarr/2016/04/05/why-everyone-must-get-ready-for-4th-industrial-revolution/#511416743f90>

This created a heated debate and anxieties of several sorts. The talk about “inevitable revolution” immediately got accompanied by the talk about “inevitable Armageddon”. The latter camp is made of two main groups: those who fear mass unemployment caused by robotization, and those who fear that robots powered by advanced AI will take over the planet, and the human race is facing the risk of extinction either by the means of transhumanism or Third World War with robots.

A breath of fresh air of realism came from historians and economists, who reminded us about multiple failed predictions of both inevitable technological revolutions and fears of what revolutions could bring. Renowned Canadian scientist Vaclav Smil says: “The fast breeder reactor is one of the most remarkable examples of a prolonged and costly innovation failure. In 1974 General Electric predicted that by 2000 about 90 percent of the United States’ electricity would come from fast breeders. Other promised fundamental innovations that still are not commercial concerns include supersonic passenger flight, magnetic levitation trains, and thermonuclear energy.”⁵

James Bessen of Boston University points out that the ATM did not, in fact, replace bank tellers — there are more bank teller jobs in the US now than when the ATM was introduced. The ATM is no outlier here. Economists say that our chief economic problem right now isn’t that the robots are taking our jobs, it’s that the robots are slacking off. We suffer from slow productivity growth; the symptoms are not lay-offs but slow-growing economies and stagnant wages. In advanced economies, total factor productivity growth — a measure of how efficiently labour and capital are being used to produce goods and services — was around 2 per cent a year in the 1960s, when the ATM was introduced. Since then, it has averaged closer to 1 per cent a year; since the financial crisis it has been closer to zero. Labour productivity, too, has been low. Tempting as it may be to blame the banks, productivity growth stalled before the financial crisis, not afterwards: the promised benefits of the IT revolution petered out by around 2006.⁶

Robert Solow, the Nobel laureate economist, who since 1980s was researching impact of computerization on the economy, insists that the internet has not had much impact on productivity. Studies have struggled to find the positive impact of the internet on overall productivity — the evidence is everywhere but in numbers.⁷

⁵ Smil, V., *When innovations fail*, August 2015, IEEE Spectrum.

⁶ Harford, T., *We Still Waiting for the Robot Revolution*, 4 August 2017, downloaded from www.timharford.com

⁷ Chang, H-J., *23 Things They Don’t Tell You About Capitalism*, Penguin Books, 2011, p. 37.

However, inability of the global economy to overcome the effects of the financial crisis of 2007-08, hit the economist camp with the fears of "Armageddon" of their own. It bears the name of *secular stagnation*, which means that the world reached the peak of its growth and stagnation is the "new norm" (another popular term nowadays!). The funny thing is that many trained economists believe that it is a new phenomenon.

So, the society today got trapped under the barrage of all sorts of extreme emotions ranging from imminent technological revolution and bright future just around the corner to fears of the end of economic growth and human race. At times like this, it is always wise to look at ourselves from historical perspective.

Here is the abstract from the paper called "The History of Technological Anxiety and the Future of Economic Growth: Is This Time Different?":

"Technology is widely considered the main source of economic progress but it has also generated cultural anxiety throughout history. From generation to generation, literature has often portrayed technology as alien, incomprehensible, increasingly powerful and threatening, and possibly uncontrollable.

In fact, these worries about technological change have often appeared at times of flagging economic growth. For example, the Great Depression brought the first models of secular stagnation in A.Hansen's 1938 book Full Recovery or Stagnation?. Hansen worried that economic growth was over, with population growth and technological innovation exhausted.

*Anxieties over technology can take several forms, three of which are the most prominent. The first two worries are based on "optimistic" view that technology will continue to grow and perhaps accelerate. First, is that technological progress will cause widespread substitution of machines for labour, which in turn could lead to technological unemployment. Second, there has been anxiety over the moral implications of technological process for human welfare (greetings to Elon Musk! **M.Y.**). And third concern, cuts in the opposite direction, suggesting that the epoch of major technological progress is behind us. In recent years, pessimists argued that our biggest worry should be economic and productivity growth that will be too slow because of insufficient technological progress in the face of "headwinds" facing western economies. Some of these so-called "headwinds" including slow productivity and population growth, formed the basis of Hansen's (1939) secular stagnation hypothesis."⁸*

In other words, we've been there and we've seen that before.

⁸ Mokyr J., Vickers C., Ziebarth N. L., *The History of Technological Anxiety and the Future of Economic Growth: Is This Time Different?*, Journal of Economic Perspectives, Volume 29, Number 3, Summer 2015, pp. 31-50.

It is important to remember that large-scale technological changes take time. They do not occur overnight, not least because they require a suitable combination of social, organizational as well as technical conditions.

Central to such an evolutionary perspective is the idea that economic growth occurs in series of cycles or “waves”. The best-known version of this idea is the Kondratiev wave, a long wave of roughly 50 years duration. We are now well into a fifth, though precisely how far in, what its precise trajectory will be is not yet clear.

Each wave can be divided into four phases: *prosperity, recession, depression and recovery*. Each wave tends to be associated with particularly significant technological changes around which other innovations – in production, distribution and organization – swarm or cluster and ultimately spread though the economy. Although such diffusion of technology stimulates economic growth and employment, demographic, social, industrial, financial and demand conditions also have to be appropriate. In other words, it is “the total package” that counts.⁹

It is ten years this fall since the beginning of the financial crisis of 2007-08, and the global economy still cannot overcome its effects: central banks in Europe and Japan keep printing money, many other countries continue stimulus programs in the hope to push their economies to the trajectory of healthy growth, which is not happening. As BIS points out, we are still facing sluggish productivity growth, big debts and narrow room for monetary policy manoeuvring.

Generation of baby boomers began retiring this decade. Fertility rates in the Western world, Russia and China keep falling, and population is aging fast in many parts of the world, which directly affects the scale and patterns of consumption and demand, which in turn, has direct effect on profitability of service and manufacturing companies, and overall economic growth.

Core technology of the fifth wave is microchip (with core sectoral branches spreading to computers, digital IT, internet, software etc), which is widely believed has reached saturation stage, and therefore we have no productivity gains in the economy. In other words, new iPhones, gadgets and internet apps no longer represent a technological progress but rather an attribute of stagnation, since all the telecommunication and internet revolution was driven by microchip-based technological platform, which has already exhausted itself and reaching the peak of its 50-year cycle.

⁹ Dicken, P., *Global Shift: mapping the changing contours of the world economy*, Sage 2015, Seventh edition, pp. 77-79.

Another part of technological problem is that the next technological wave based on AI and robotics is only in the process of birth, and it will take another ten to fifteen years before new technologies start producing economy-wide positive productivity effects generating new jobs and growth.

All these demographic, economic and technological problems find their direct reflection in political arenas across the globe: from Great Recession, Brexit, migration crisis and Trump to Catalonia and geopolitical tensions between regional and global powers.

The main challenge and danger we all should worry about is not that technological progress is over or robots will take over the planet. At the end, we will shift to the new technological wave and we will successfully adapt to AI, and robots will eventually become an integral part of our life. We will adapt as we always did.

The main danger is how to survive the transition period and not to plunge into the chaos of global destabilization before we make it to the other side of the river.

40 YEARS AFTER THE BEGIN-SADAT AGREEMENT – A HISTORICAL ASSESSMENT AND FUTURE PROSPECTS*



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The 40th anniversary of the Egyptian-Israeli peace agreement serves as a reminder of the uniqueness of Egypt in the Arab world and the significance the agreement has carried.

By the virtue of the treaty the most ardent enemy of Israel had done a U-turn. Egypt had been the leading Arab country in the 1967 and the 1973 wars against Israel. In the latter Cairo had also played a significant role in the political and military camouflage that had caught the Israelis off-guard.

The paradigm shift that took place in Egypt at the time was partly due to the realization by President Sadat that the military defeat of Israel in the foreseeable future seemed unfeasible. The late Egyptian president then decided to assess and formulate policies in rational terms rather than ideological or emotional. By tapping Egyptian nationalism, aplenty in the long history of his homeland, Sadat managed to place the interests of Egypt first and foremost (Egyptians did the same when they, in their millions, demanded the ouster of Muslim Brotherhood President, Mohammad Morsi, in 2013).

In so doing Cairo also risked its relations with other Arab and Islamic states (it was in fact suspended from the Arab League as a result for nearly a decade and almost all Arab states cut off diplomatic ties with the country). Unwittingly it may also have paved the way for the rise of Islamism for peace with Tel Aviv was interpreted by some as an open admission that Arab nationalism could no longer aspire to defeat Israel.

Following Egypt's lead Palestinians and Jordan each came to recognize Israel and signed agreements with Tel Aviv respectively in 1993 and 1994. By now the Israeli establishment was more than convinced that it should

* Summary of his speech at the event entitled *40 Years After the Begin-Sadat Agreement – A Historical Assessment and Future Prospects*, which was organized by the Center for European and International Affairs of the University of Nicosia in cooperation with the Dialogue Chair in Middle Eastern Studies on October 23, 2017.

always maintain its military (particularly air force) superiority over its Arab neighbours.

The question that has now for some time loomed in the minds of many is whether or not other Arab states have also come to the same conclusion as the late President Sadat over the prospects of defeating Israel. It must be remembered that thus far the only time Israel has actually given territory back has been after a peace agreement – the Sinai returned to Egypt after their peace treaty.

Israel would equally do well to remember that agreements concluded with states appear to have withstood the test of time i.e. the peace treaty with Egypt was respected even by Morsi after nearly 40 years and although he probably did not believe in it. To the contrary arrangements agreed upon with the Palestinians in 2013 already appear to have withered away. That should encourage those who seek the establishment of a Palestinian state in the earliest possible future for agreements with a state will in all likelihood be more enduring and long-term.

The spread of Islamism in the past few decades (past its climax, however, and on the wane at the moment) must have made political manoeuvring towards Israel more difficult for Muslim leaders. Together with the left wing of Arab politics, staunchly anti-Israel, they soured the climate for any Sadat-like demarche. However, the courage, vision and the statesmanship of the Egyptian leader in 1979 peace treaty is no easy task to follow. He paid with his life but exhibited the kind of leadership that is sadly scarce but desperately needed in the region and beyond.

INTERNATIONAL FINANCIAL INSTITUTIONS AS POWER MAXIMISERS – ENHANCING RIVALRY?



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The main argument of the article is that international financial institutions mainly promote the national interest and influence of the state-leader and it is based on the academic debate between Neorealists and Institutional Liberals. The article relies on the theoretical aspect of Realism, according to which institutions enable states to coordinate however, there are asymmetric benefits for each state, since power is the dominant variable which set out the formation and the operation of each institution. As Krasner (2001:29-30) mentions, *"International financial institutions have tried to alter domestic institutional structures, not just policies. They have supported particular actors and agencies in borrowing countries. They have placed their own personnel in key bureaux.[...] In sum, sovereign lending has, since the nineteenth century, been characterized by contractual arrangements that have compromised the domestic autonomy of borrowers."* In order to confirm the argument, the analytical framework is developed under the prism of International Political Economy and we examine the case of the US. More specifically, the analytical framework relies on two axes. The first axis examines the priorities of international financial institutions involved. The second axis examines the provision of foreign aid. Variables such as the dependency path, the shareholding in international lending institutions as well as the coincidence between foreign policy objectives with the priorities of the institution show that there is a strong correlation between them. We focus on international financial institutions and foreign aid because they directly affect the national sovereignty of the recipient country, since they transform the domestic structure of the state. Examining the case of the United States and its role in the International Monetary Fund and the World Bank in Afghanistan and Iraq, crucial areas for the U.S. interests and conflict engaged countries, we conclude that international financial institutions mainly promote their leader's national interests and this may cause disproportionate gains for other state-leaders of international financial institutions, such as China and the Asian Infrastructure Investment Bank, which develops in the same region.

However, can the international financial institutions become power maximisers for their leader and further expand its influence? We will answer this question studying the case of the US and using the mentioned variables.

Regarding the dependency path, the International Monetary Fund as well as the World Bank established by the end of the World War II in order to frame a new global economic system according to the needs of the US economy which would help the US to maintain their hegemonic position within the international system. Therefore, the International Monetary Fund and the World Bank are mainly affected by the US strategy promoting at the same time their interests. This can be justified by focusing on three elements: a). the shareholding, the norms which define the objectives and the operational field of the institution.

Regarding the shareholding in the International Monetary Fund, the United States have the highest percentage of votes, which is the 16,53% of the Fund total, corresponding to 831.406 votes (IMF (1), 2017). As far as the World Bank is concerned, the United States also have the highest percentage of the voting power in each organization. More specifically, in the International Bank for Reconstruction and Development (IBRD), the United States have 16,39% of the total, which corresponds to 385.192 votes (World Bank (1), 2017). In the International Finance Corporation (IFC), the United States have 20,99% of the total, which corresponds to 570.199, (World Bank (2), 2017) In the International Development Association (IDA), the United States hold the 10,21%,(World Bank (3), 2017) and in the Multilateral Investment Guarantee Agency (MIGA) again the United States are in the first place, holding the 15,02% of the voting power (World Bank (4), 2017).

Regarding the similarities between the US foreign policy objectives and the priorities of the IMF and the World Bank in Iraq and Afghanistan we see strong correlation. More specifically, in Afghanistan, from 2011 to 2015 USAID has spent approximately 8.020,3 mil. USD from which 4.751,4 mil. USD concern "Democracy and Governance" as well as "Economic Development" (USAID (1), 2017), the World Bank committed more than 3,46 billion USD for development projects (World Bank, (5), 2017) and the IMF approved a loan of 133,6 million USD under a 3-year arrangement, since "*Last year's crisis at Kabul Bank, the largest bank in Afghanistan, exposed the country's serious governance problems*" (IMF (2), 2017). In Iraq, from 2011 to 2015 USAID spent for "Democracy and Governance" 629,4 million USD and for "Economic Development" 281,9 million USD, since these were the highest priorities (USAID (2), 2017). In addition, the IMF and the World Bank also contributed in democracy and governance as well as economic development in Iraq. The IMF provided in 2010, 2015 and 2015 loans of 3,64 billion USD, 1,24 billion USD and 5,34 billion USD

respectively for supporting the government's reform program (IMF (3), (4), 2017). On the other hand, the World Bank in 2015, in parallel with the IMF, approved a loan of 2,64 billion USD for economic stability and growth and in March of 2017 approved 2,19 billion USD for increasing prosperity, reducing poverty and enhance people's trust to government institutions (World Bank (6), 2017)

Concluding, the dependency path shows that international financial institutions mainly promote their leader's national interests, because of their structure so the leader's foreign policy objectives define the priorities and the norms of the lending institutions. In addition, foreign aid with financial institutions also contribute to hard power, since the American troops first created the conditions under which the foreign policy objectives could be achieved further. Therefore, the results show that international financial institutions can become power maximisers for promoting the state-leader's national interest. The challenge now is to examine the repercussions which occur and examine if lending institutions enhance rivalry among their leaders, since they expand the sphere of their influence. As Foot, MacFarlane and Mastanduno (2003:5) mention, "*The United States, in this view, should not allow itself to be constrained by institutions that reflect the least common denominator of world public opinion, especially when that opinion tends to be hostile to U.S. power and the purpose to which it is put*".

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THE COMMONWEALTH IN THE (POST-) BREXIT ERA: WHAT ROLE FOR CYPRUS?



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An association of independent and equal sovereign states

The Commonwealth is an intergovernmental organisation comprising 52 member states and a total of 2.4 billion citizens across the globe. But what do its members have in *common*? A common history, to begin with. The overwhelming majority of the Commonwealth countries have once had ties with the British Empire. Common values and principles, as these have been declared in the Commonwealth Charter adopted in 2013: democracy, human rights, rule of law, sustainable development - just to name a few. All in all, the Commonwealth is a family of states with a common past committed to working together on an equal footing towards a common future.

An opportunity to strengthen existing partnerships

It was not long ago that we heard UK Prime Minister Theresa May say that the decision of the UK to leave the EU is an opportunity to embrace the world. Regardless of whether this outward-looking stance has been an option or a one-way street, the impact on Commonwealth relations is clear: this is a time of opportunity both for the UK as well as for the rest of the Commonwealth countries to renew their vows and capitalise on this long-standing partnership with a view to making it stronger. In April 2018 London will host the Commonwealth Heads of Government Meeting (CHOGM), where the UK will be taking over from Malta to serve as 'Chair-In-Office' of the Commonwealth until 2020. The upcoming Commonwealth Summit will be the first one taking place post Brexit decision. It will be a forum to discuss common approaches to global challenges (climate change, sustainability, economic growth, terrorism, cyber security, violent extremism, human trafficking as well as upholding democracy, human rights and the rule of law) under the stewardship of the UK and an opportunity to make pledge for a renewed partnership between the Commonwealth countries.

Building bridges

Cyprus is, together with Malta and the UK, one of the three Commonwealth countries in Europe. At the same time Cyprus is the southeastern-most flank of the European Union. The special links it enjoys with the UK and the rest of the Commonwealth (trade, tourism, higher education, legal system) could make Cyprus the gateway to the EU for its Commonwealth partners - and vice-versa. Situated between the East and the West, Cyprus is strategically positioned to become a regional hub (legal and financial services, higher education, energy, innovation etc.) and further develop its potential as a pillar of stability in an otherwise turbulent neighbourhood. The role of Cyprus in the region, the EU and the Commonwealth can render the former a bridge linking the other three in a mutually beneficial way.

**REFORMING LOCAL GOVERNMENT IN THE REPUBLIC OF CYPRUS: A
CRUCIAL, BUT STILL INCOMPLETE PROCESS**

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The Republic of Cyprus encompasses 39 Municipalities and 484 Communities (2017). Surprisingly, they are still functioning based on a restrictive legal and institutional framework dating back to the 19th century. Specific restrictive provisions were first incorporated into the Ottoman laws regulating the administrative, financial and political condition of Local Government (LG). Most of these provisions were repeated by the British Colonial laws and were thus transferred to the current laws regulating the condition of LG in the Republic of Cyprus.¹ These historical continuities have established a local culture of limited self-initiative and increased dependence on central state structures. Thus, LG's capacity to function efficiently is severely restrained, limiting the possibility of coping with modern challenges, i.e. securing EU funding.² While this inconsistency has been clear to Cypriot executives, a successful reform attempt has not yet completed.

Three consecutive reform attempts have taken place so far:

First Reform Attempt (2010-2012). The first attempt was based on a report prepared by the National Centre of Public Administration and Local Self-Government.³ The basic aims of this attempt focused on decentralization and empowerment of LG. This effort was characterized by an incremental scope (2010-2021). It included both functional and territorial reforms, establishing new structures: 5 District Councils (second tier) with a key mission to participate in development planning. Economic incentives were to be given so as to promote the establishment of larger amalgamations. These would be enhanced by a decentralization of revenues, competencies and functions. Finally, local services would be merged aiming at the establishment of local scale economies.

¹ Tornaritis, K. (1972) Local Self-Government in Cyprus [in Greek]. Nicosia.

² Kirlappos, A. (2016) *Local Government in the Republic of Cyprus: The Limited Europeanization and the Burdens of the Past* [in Greek]. Larnaca: Vivliekdotiki.

³ National Centre for Public Administration and Local Government (EKDDA). (2010). Study for the Restructure of Local Government of the Republic of Cyprus [in Greek], Available at: http://www.ucm.org.cy/Project_Card.aspx?ProjectID=10&ProjectCategoryID=61&Language=Greek [Accessed 12 June 2017].

This reform attempt was never implemented due to conflict caused by the worsening financial situation of the island and the increased tensions in view of the February 2013 Presidential elections. Support for the LG reform bills, pending in Parliament since 2011, evaporated, especially since fears were raised that local reactions could influence the outcome of the election.

Second Reform Attempt (2013-2016). In fulfilment of obligations deriving from the Memorandum of Understanding (MOU), the government commissioned British experts to prepare new reform reports. The aim of this drastic reform plan was to reduce the fragmentation of the system by promoting a substantial mandatory reduction and down-sizing of the LG actors, i.e. 5 District level authorities merging all Municipalities and Communities per District.⁴ These new units were to incorporate all LG competencies along with 15 new additional competencies decentralized by the government.

Despite the high external pressure stemming from the MOU, there was strong resistance and backstage pressure by specific mediating factors, i.e. political parties, local politicians and employees to the suggested reforms.⁵ As a result, the government changed its mind about the scope of the LG reforms and accepted a final report by the British experts that was substantially different. All LG actors would be preserved, but only, with a cosmetic role without having any substantial powers or assets. These would be incorporated by 5 powerful District Councils, along with competencies belonging to Sewerage and Water Boards and decentralized state competencies, i.e. Town Planning.⁶ As expected this attempt caused new intense reactions and disagreements forcing the Ministry of the Interiors to withdraw the Bill, shipwrecking the goal of completing the reform process by the end of the MOU.

Third Reform Attempt (2016-present). The third reform process was initiated when the executives accepted a reform study commissioned by some of the Municipalities (Urban and suburban) and eventually the Union of Municipalities as the basis for reform legislation. The aim of this reform plan was to decrease the number of Municipalities to either 22 or 12 and to

⁴ National School of Government International. (2014) Local Government Reform in Cyprus: Final Options Report, Available at:

[http://www.moi.gov.cy/moi/moi.nsf/0/D1BB8168615F0DF3C2257D02002F7C52/\\$file/Local%20Government%20Reform%20in%20Cyprus%20Final%20Options%20Report%2008%2004%2014.pdf](http://www.moi.gov.cy/moi/moi.nsf/0/D1BB8168615F0DF3C2257D02002F7C52/$file/Local%20Government%20Reform%20in%20Cyprus%20Final%20Options%20Report%2008%2004%2014.pdf) [Accessed 20 June 2017].

⁵ European Commission, (December 2014) The Economic Adjustment Programme: Cyprus 5th Review-Summer 2014, European Economy: Institutional Paper 009. Luxembourg: Publication Office of the European Union.

⁶ Bill (09/2014) titled: "Law Regulating the Functioning and Administration of First and Second Tier Local Government Organizations, their Competencies and Other Related Matters".

increase LG productivity.⁷ It proposed an incremental process aiming at producing two new structures, i.e. local clusters consisting of Municipalities and Communities and District clusters. District Administrations' role and competencies were to be substantially reduced in favour of the new units which would also acquire additional decentralised central state competencies. The Ministry of the Interiors prepared the relevant Bills drawing on the new reform proposals and brought them to the Parliament in March 2016.

Yet, just like before, the reform proposals triggered new disagreements and significant backstage pressure. The main concern had to do with the proposed reduction in the numbers of the Municipalities and Communities. This has been creating further obstacles to the successful conclusion of yet another attempt to reform LG. Since these Bills are still (2017) debated in parliament, a dramatic change in the executive's decisions on the scope of the proposed reforms could not be excluded based on previous experience. Finally, since tensions are expected to rise once again in view of the February 2018 Presidential elections, support for the LG reform bills is expected to further decrease, in fear that local reactions could influence the outcome of the elections.

Conclusions. Cypriot LG continues to function based on an outdated legal and institutional framework. The reform attempts demonstrated that central state structures left limited space to LG to voice its opinion for such a key issue. Yet, local voices were strengthened when there was a threat to the existing local political positions. In this context, LG was able to transcend, up to a point, the historical continuities that affect local autonomy. They did not manage to demonstrate the same interest, however, in voicing alternatives that could improve their restrictive condition.

⁷ Notoria International & Union of Municipalities (2015) Lean Six Sigma Value Proposition on the Municipalities service processes, Available at: <http://www.notoriainternational.com/Our-Job-for-the-UOM> [Accessed 2 October 2017].

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