

# INTERNATIONAL YEARBOOK CIDD@B 2010

Spanish  
foreign policy  
and international  
relations in 2009

*Country profile:  
Russian Federation*

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## **RUSSIAN FEDERATION: COUNTRY PROFILE**

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Since 1989, the *CIDOB International Yearbook* has been systematically monitoring international relations and Spanish foreign policy. The Yearbook combines analysis with statistics, chronologies and maps designed to contribute towards better understanding of our evermore complex world. Year after year, the volume provides comprehensive monitoring of the international state of world affairs and offers keys to interpreting international relations, EU policies and Spain's relations with foreign powers. This publication aims to be a reference for policymakers, experts and scholars in international studies throughout the international Spanish-speaking community and beyond.

One of the main concerns of the 2009 international agenda was how to deal with the ongoing economic and financial crisis, how to draw the right lessons and thereby prepare the ground for sustainable recovery. A post-crisis world order needs to avoid the old mistakes arising from prioritising the system's continuity over its reform. There have been many meetings of world leaders with a view to remedying the global economic crisis, the intensity and depth of which has been unknown anywhere in the world since the Great Depression of 1929. The onus of responsibility has been placed on the financial markets and institutions, and the need for improved global economic governance to provide stability is mentioned in practically all the articles included in the *CIDOB International Yearbook 2010*.

The present edition of our Yearbook is structured into three sections. The first part offers an analysis of Spain's foreign relations, with two articles, one by Güntern Mainhold on Spain's foreign relations in the diplomatic sphere, and the other co-authored by José Luis Escrivá and Mónica Correa López on its international economic links. In this section, appendices devoted to Spanish foreign policy include a chronology of the main events and statistics on foreign trade and investment, migration and international cooperation policy.

The second part includes articles dealing with global and European international politics, starting with an analysis of global trends since the end of the Cold War by Michael Cox, and another text on the current world economic crisis by professor Renato Flôres. It also presents three studies on the evolution of European politics in 2009, focusing on the EU integration process (Werner Weidenfeld), its foreign policy (Stefani Weiss) and the banking crisis in Europe (Nicolas Véron). This section also contains appendices devoted to the international scene and to the European Union.

The third part includes a country profile, which is devoted in the 2010 edition to the Russian Federation. This section contains three articles, the first of which, written by Andrei Markarychev, offers a general overview of the country's politics in 2009, while the latter two focus on the relations between the Russian Federation and Spain and vice-versa, and are signed respectively by Alexander Gusev and Manuel de la Cámara. The appendices of this chapter offer a complete analysis of the country, including internal politics, historical chronology, foreign relations, economy and migration.

With the perspective of time, 2009 appears as a year of transition from the previous "new economy" order to the uncharted waters of a post-crisis world, a world that is desperately asking for new economic governance, the nature of which remains to date an open-ended question.





# SPANISH FOREIGN POLICY





# Spain's foreign and security policy in 2009: the search for "Spain's place" in international relations

Günther Maihold,  
Deputy Director of the German Institute for  
International Security Affairs/SWP

"Spain's participation in the G-20 summit in London on the international economic crisis, in the NATO summit on its 60<sup>th</sup> anniversary in Strasbourg-Kehl, in the EU-US summit in Prague (which featured the participation of President Barack Obama) and finally, Spain's joint presidency of the 2<sup>nd</sup> Forum of the Alliance of Civilisations in Istanbul, has all represented an historic period in terms of Spain's role in international relations, one that is unprecedented in our contemporary history, and which has finally located Spain in its proper place" (Moratinos, 2009a).

This declaration by Miguel Ángel Moratinos, minister of foreign affairs and cooperation, could well be a nice summary of Spain's foreign and security policy in 2009, in what could be called the "foreign affairs spring" or the "big April" of Spain's external influence throughout the course of the country's history.<sup>1</sup> However, this euphoria that Moratinos' words express fails to clarify the exact coordinates of "Spain's place" in international relations, particularly as a member of the European Union and with respect to Spain's EU presidency in the first half of 2010. This 'search for its place' is one of the central pillars of Spain's overseas action, and which cannot be disassociated from internal conflicts, on one hand, and from its relative weight in major international issues, on the other (Maihold, 2009). Therefore, the task of Spanish policy on the regional and international stage must be duly analysed, and in greater depth, in order to highlight what Spain's true achievements and the country's role in the

international sphere were during the "blossoming" 2009, the year of the "attempted" and declared "re-founding" of the bases that have governed the international economic system over the past 60 years.

Despite Spain's increasing presence as an international actor – something that is undeniable, whether it be at the aforementioned summits or in promoting and leading multilateral operations to fight against piracy in Somalia (Operation Atalanta of the European Union's naval forces – EUNAVFOR), a debate exists over the impact that Spain has succeeded in generating through its international presence, in terms of "*power over outcomes*" as a central criterion of political action. The general impression that the Spanish government might be more interested in merely attending international meetings without generating any impact or shaping the agenda or results of these events has dominated not only the debate within Spain, but also international perceptions of a country that has been badly hit by the international financial crisis. This may have limited Spain's ability to project itself as an important actor in international relations. Thus, in Spain's current policy on foreign affairs and security, three factors have emerged once again that have become an essential deficit for said policy, and for the "place" that Spain is attempting to define as its own on the international stage:

- The first factor is the lack of consensus between the two main national political parties for the purpose of establishing basic guidelines on foreign and security policy, so that the policy could be considered "a State policy, not subject to the changes of government that result from a change in the parliamentary majority" (Arenal, 2008: 348).

Examples of this dissent include the criticism of the Zapatero government over the handling of the "passport crisis" between Spain and Morocco caused by the Saharai activist Aminatu Haidar (who, in passing, brought the thorny and interminable issue of the self-determination of the Western Sahara back onto Spain's political agenda), Spain's "active neutrality" (Kausch, 2010) and the fragile balance of Spanish-Moroccan relations. Furthermore, there was the controversy that broke out in July 2009 over an issue that is highly sensitive in terms of domestic policy (Gibraltar) and the official visit made by Moratinos to the Rock of Gibraltar – the first such visit by a Spanish minister in the past 300 years. This provoked further dissent between the two main political parties over the advisability of the trip, and whether it would implicitly strengthen the Gibraltar government's position regarding Spain's historic claims. Furthermore, we should not forget the confrontation between the PSOE and the PP that arose over the hijacking of the *Alakrana* fishing vessel by Somali pirates in the Indian Ocean. The subsequent handling of the rescue mission by the different Spanish ministries involved – who were accused of a lack of coordination – and the alleged payment of a ransom to free the vessel's crew, all



sparked fresh controversy on the national political stage. The consequence is that Spain's foreign policy is constantly being checked and influenced by a domestic policy that exposes it to a "law of the pendulum... with each change of government" (Duran i Lleida, 2009), and which hinders the creation of a consensus or the setting of basic guidelines for external action.

- The second factor is based on the current PSOE government's very conception of international relations. The government is attempting to achieve a leading role as an international actor through a foreign affairs policy with a high ethical-value component and a strategy of changing alliances on the world stage. Without claiming to (or being able to) anticipate the possible results of the government's current management strategy, it is worth considering certain queries over the possible success of the path that the Zapatero government has chosen to follow. On one hand, there is a clear lack of internal conciliation between the ethical aspirations expressed in Zapatero's speeches (in which he attempts to position Spain as a "synonym of solidarity, justice and humanity in all four corners of the world" (Rodríguez Zapatero, 2008: 2), and Spain's actual national interests, as demonstrated by the country's good relations with the regimes of Gaddafi in Libya and Ben Ali in Tunisia, the government's relations with Chávez's Venezuela, and the trips made by Moratinos to Equatorial Guinea (which included a meeting with Teodoro Obiang) and Cuba (also featuring an important meeting with Raúl Castro) in July and October, respectively. In all these cases, the defence of Spain's economic interests took precedence over the promotion of human rights and democracy.

**"A clear asymmetry continues to exist between the role that Spain wishes to play as a medium-sized power, and the instruments and resources it has available"**

- Finally, a clear asymmetry continues to exist between the role that Spain wishes to play as a medium-sized power, and the instruments and resources it has available to develop this role within the current international system. In this respect, it is worth asking whether Spain really has the means available to be able to sustain an activist foreign policy with respect to both its diplomatic resources and its capacity for response and initiative in international politics. One example of this is the analysis by the Ministry of Foreign Affairs and Cooperation of the ambitious Plan África (Africa Plan) for the period 2009-2012. The Africa Plan (AECID and MAEC, 2008), which covers the sub-Saharan area, identifies ten countries as priorities: Equatorial Guinea, Mali, Nigeria and Senegal in Central and West Africa; Angola, Mozambique, Namibia and South Africa in southern Africa; and Ethiopia and Kenya in East Africa. Furthermore, the Plan includes the category of "countries for special monitoring", comprised of Chad, Ivory Coast, the Democratic Republic of the Congo, Sudan

and Zimbabwe, and which examines them with respect to both their potential over the medium term and as situations of instability that represent a risk for regional peace and security. In addition, the Plan declares that on a bilateral level, efforts will be intensified to complete a network of accords on migration and readmission policy with the countries deemed to be priorities in this sense, and which include Cape Verde, Cameroon, Ivory Coast, Gambia, Ghana, Guinea-Conakry, Mali and Senegal, in addition to those already included with Nigeria and Guinea Bissau. Or rather, this signifies a total of 19 countries; 19 priorities that are to be covered through a diplomatic redeployment that involves the creation of embassies and technical offices for cooperation. Obviously, it will be hard to organise a foreign affairs policy that is coherent and at the same time effective with so many destination countries.

These characteristics limit the development of the potential of Spain's external action and mean that the country has become one of the international political actors that have yet to succeed in developing their own identity that identify them as a stable, reliable counterpart in international relations. Moreover, it is worth mentioning that a reflection should be carried out in Spain on the importance of foreign policy, not only at the level of the country's political classes in general, but also among civil society, so as to try and prevent (for example) the analysis of Prime Minister Zapatero's first official visit to the United States in October from being reduced to a family snapshot taken at the White House, and preventing us from being able to assess the actual visit in itself. Therefore, all the actors and parties should carry out a rigorous examination of national interests to generate greater consensus, legitimacy and support for the work of the government in power at the time.

### **The search for "Spain's international place" as a foreign policy objective in 2009**

What has been demonstrated in Prime Minister Zapatero's second term of office, and exemplified in 2009, is the search for greater international protagonism as compared to Spain's low profile in external action during his first term of office. During this first term, following the controversial and unilateral withdrawal of Spanish troops from Iraq, Zapatero had been hoping for a multipolar world, one without George Bush as president and with Spain having a decisive influence on decision-making in the European Union, in tandem with the France-Germany axis. However, what happened was that the US president won a second term of office, which reduced transatlantic relations to the absolute minimum on the agenda, while the changes of government from Schröder to Merkel in Germany and from Chirac to Sarkozy in France all served to "distance" Spain from

the European power centre. This external “solitude” experienced by Spain with respect to the major powers, for four long years, reached its peak and maximum impact with the image of Prime Minister Zapatero “isolated” at the NATO summit in Bucharest in April 2008, just one month before his re-election as prime minister.

Unquestionably, there has been a clear change in the orientation of Spain’s foreign policy for the government’s second term of office, a policy that would be more “international” and have a greater external focus. The most tangible proof of this is the fact that Zapatero attended the G-20 summits, which were devised as an organ of global governance to overcome the grave world economic crisis and reformulate the international financial system. Without breaking with the ethically-based elements that shaped “Marca España” (Brand Spain) during Zapatero’s first term of office, with the Alliance of Civilisations and the expansion of cooperation with development, the Spanish government has used arguments of “hard power” such as Spain’s spectacular economic growth over the past 20 years, and its position as third-largest world investor, in order to attend the summits in Washington (2008), and London and Pittsburgh in 2009, albeit as a guest nation and under the auspices of the European Union. In this way, Zapatero has added economic power to the ethical continuum of a foreign policy based on the concept of Spain as a regulatory and cultural power (Torreblanca, 2010). This search for a place at the table with the major powers in international politics is not a new feature of the PSOE government’s management, but rather one that forms part of the continuities that can sometimes be glimpsed between the domestic tensions in Spain (Maihold, 2007). Nevertheless, Spain still lacks visible power to influence the decisions made by these powers, something that could become intensified by the fact that Spain is undergoing a serious economic crisis, which reduces the credibility of any initiative put forward by the Zapatero government within the G-20. Furthermore, the support received from certain countries (including the granting of a seat by temporary EU presidencies, such as France) is never given away for nothing, and in the future we will see what kind of compensation Spain is called upon to provide. In fact, as Torreblanca points out, “Spain’s participation in the G-20, by invitation albeit not formally, obliges the country to become politically indebted in order to be granted an invite each time they meet” (Torreblanca, 2010).

### The “new relationship” with the USA

Another factor that led to greater external activity in the Zapatero government in 2009 was the election of a new US president. The arrival of Barack Obama at the White House has opened the door to the possibility of re-activating transatlantic relations and the agenda between the two states. While some analysts believe that there is still considerable distance between Washington and Ma-

drid (Areilza and Torreblanca, 2009), the rebuilding of relations with the USA and how to move on from the stance of ‘balancing’ adopted by the PSOE government with the previous Bush Administration was one of the challenges of 2009, and continues to be so in 2010.

One determining factor in the recovery of bilateral relations is the good relationship that Zapatero and Obama seem to have on a personal level, something that became clear in the meeting they held in the White House in October, and regarding certain international relations issues such as the Obama Administration’s posture to multilateral action and the stance on the new military strategy drafted for Afghanistan. Naturally, this orientation by Washington creates spaces for initiatives by the PSOE government, and may represent an opportunity for Spain in international relations. However, Spain’s foreign policy cannot be based on a position of bandwagoning toward the United States, or by focusing solely and exclusively on cue-taking actions or blank cheque policies toward the US, as some of Zapatero’s actions (Encarnación, 2009), seem to be suggesting, such as attending a prayer breakfast and even giving a reading from the Bible. US foreign policy is also patently subject to the dynamics of the country’s domestic policy, as was made clear by the Obama’s more than predictable (or at least foreseen) non-attendance of the EU-US summit under Spain’s presidency of the EU in the first half of 2010. His absence, owing to issues on the domestic and international agenda (he chose to visit Southeast Asia instead of Madrid) may represent a setback to Spain’s aspirations to become the USA’s valid interlocutor in Europe, though at the same time it should help to ensure that the US does not forget its European partners, and to boost Spain’s European aspirations. In fact, greater links with Obama also signify, in contrast, taking on more commitments with the USA with issues such as accepting prisoners from Guantanamo and “peace” missions in locations such as Afghanistan.

Furthermore, certain divergences exist with the USA that did not help to strengthen Madrid’s position in the eyes of the new US administration in 2009, such as Spain’s refusal to recognize Kosovo’s independence; instead, Spain sided with the pro-Serbian group comprised of the Russian Federation, Albania, Romania and Greece, an affiliation justified by Moratinos as a decision that complied with international legality. Moreover, the unilateral decision announced by Defence Minister Carme Chacón in March to gradually withdraw Spanish troops from the international peacekeeping mission in Kosovo (KFOR) gave rise to a certain confusion among NATO members as to the motives behind Spain’s foreign policy. This withdrawal – completed in September and initially explained as a decision that was coherent with the non-recognition of the old Serbian province – brought harsh criticism both from the US Administration and from the secretary general of NATO.

The lack of coherence between, on one hand, a multilateralist discourse and a defence of international institutions, and on the other, making unilateral decisions of

this magnitude (Powell, 2009) is not unusual in Spanish foreign policy, but it does not help to facilitate the international trust that is required to achieve greater projection and presence in this sphere.

### Participation in international missions

Despite the ambiguity between discourse and action, it must be acknowledged that one of the most outstanding aspects of Spain's foreign policy is the country's participation in different peacekeeping operations. This presence was particularly increased by the Zapatero government in 2009 after the abolition of the maximum quota of 3,000 Spanish troops permitted to take part in international missions, a rule that had been in force until 2008. This fact denotes Spain's commitment and will to intervene overseas in the new challenges to security. Proof of this was the presence of Spanish troops in missions to stabilise post-war situations in the Balkans (EUFOR-ALTHEA in Bosnia-Herzegovina), Lebanon (as part of UNIFIL) and the EUFOR Chad/CAR mission in Chad and the Central African Republic, which concluded in April. Furthermore, Spain took on a leadership role (together with France) in the deployment of the EUNAVFOR Operation Atalanta, off the coast of Somalia and in the Indian Ocean, to fight against piracy. Even though in the latter situation, and as Carme Chacón mentioned, Spain's commitment derived from the defence of its economic interests.

But perhaps the most significant example of Spain's commitment to external action in 2009 took the form of the "new" strategy for Afghanistan (basically, sending in more troops) as promoted by President Obama at the request of General McChrystal's report. Minister of Defence Carme Chacón expressed Spain's commitment to this new process of "Afghanisation" and at the NATO summit in April, Zapatero committed more Spanish troops (currently totalling more than 1,500) to the International Security Assistance Force (ISAF) in Afghanistan. Thus Spain responded affirmatively to Obama's request to the countries of Europe for greater troop presence, and attempted to build bridges on the path towards re-establishing bilateral relations between the two states. Furthermore, this represents an attempt to gain credibility in international politics in the eyes of the other NATO members, following the announcement of the withdrawal from Kosovo and the accusation of the Spanish government's lack of involvement in the fight against terrorism in Afghanistan. This contrasts with the praise given to the Spanish troops for their work both at the Forward Support Base (FSB) in Herat, and in the Provincial Reconstruction Team (PRT).

As for Spain's presence in Afghanistan, the debate in 2009 revolved around three points:

- The idea that the Zapatero government should admit to Spanish public opinion that the "peace" operation in Afghanistan is, in fact, a situation of open warfare against groups of insurgents and international terrorism. In this respect, it would be advisable for the Zapatero government to stop referring to it as a peace mission and to redefine it as a counter-insurgency operation (Burke, 2010).
- It would also be advisable to strengthen Spain's call – made at the security summits during the course of 2009 – for greater numbers of troops from Muslim countries in the ISAF mission in Afghanistan.
- In terms of international security, there have been signs of increasing presence of the Al-Qaeda Organisation in the Islamic Maghreb (AQMI) in the Sahel area. AQMI is a term under which diverse heterogeneous groups operate, who have an explicit territorial claim for Al-Andalus, and represent a challenge for Spanish security. The possible links between AQMI and other factions connected with the terrorist organisation that originated in the region of Af-Pak and Somalia (Al Shaabab) could create a corridor of Islamist terrorism that would seriously affect both the region and Spain's interests. We should not forget that the operations against Islamic terrorism carried out in Spain by the security forces over the past three years have demonstrated the existence of links between these regions and some of the dismantled cells.

That is why, from the point of view of foreign and security policy, Spain's presence in Afghanistan becomes a matter of state, in the same way that the region of West Africa must become a priority area on Spain's agenda, just like the classic spheres of influence of Europe, the Mediterranean and South America.

### Africa as an area of expansion for Spanish presence

In fact, the Zapatero government showed great interest in West Africa during 2009, both in terms of political dialogue and in the broadening of cooperation with development in the region, the highpoint of which was the holding of the first Spain-Economic Community of West African States (ECOWAS) summit in June. Regarding cooperation with development, Spain is continuing to significantly increase its bilateral investments in sub-Saharan Africa. The total has risen from €58 million in 2004 to over a billion in 2008 (60% of which arrived through multilateral channels). In fact, Africa now represents 35% of Spanish cooperation, and the western part of the continent is gaining importance in foreign policy. Also, the Africa Plan 2009-2012 is a good indicator of the relationship that Spain wants to achieve with the African continent, though the Za-

*"All the actors and parties should carry out a rigorous examination of national interests to generate greater consensus"*

patero government should define more specific objectives, in addition to exercising control and transparency in giving aid for development to African states, to prevent it from becoming “suit and tie” cooperation, as well as taking into account the resources available for carrying such programmes out, in order to fight against the subversion of these states by drug trafficking, and strengthening governance skills in the region (Brombacher and Maihold, 2009). Furthermore, there is an alarming increase in the region in people trafficking, organised crime and the perceived terrorist threat, with the kidnapping of European citizens by AQMI (including three Spanish aid workers). This means that international security in terms of terrorism, irregular immigration and people trafficking should be placed on the same level as determined by Spain in the Alliance of Civilisations, and in compliance with the Millennium Goals (the first of which is the eradication of poverty).

With respect to international security, the fight against poverty and the creation of forums for dialogue between cultures and different *Weltanschauung* are important elements that could help to curb the expansion of Islamist terrorism. That is why Spain, in passing its Guideline Plan for Cooperation with Development 2009-2012, has made a commitment to reach 0.7% of the GDP in 2012 in development aid, even though the execution of the aid very clearly reveals the effects of the economic crisis from which the country is suffering.

### The “star project”: the Alliance of Civilisations

Regarding the Alliance of Civilisations, which has been called “Spain’s first theoretical contribution to the United Nations agenda” (Valenzuela, 2007: 275), the Alliance’s second forum was held in Istanbul in April, organised by its co-president, Recep Erdogan, prime minister of Turkey. But after this event, we should still consider whether the star initiative of the ethical continuum of Zapatero’s first term of office has opened up new opportunities for Spain’s foreign policy, whether the initiative has brought the country sufficient international protagonism, and whether it has been granted enough funds to generate feasible proposals (Barbé, 2006: 6). The project to make a “cosmopolitan democracy” effective in the international sphere, inspired by a universalist vision and through an international policy that is fundamentally multilateralist in its design, appears to be a project that is “excessively ambitious and beyond the objective possibilities of a country such as Spain” (Barreñada, 2005: 84). After Istanbul, and in spite of receiving backing from the UN General Assembly in its Resolution A/RES/64/14, certain elements remain that highlight the limitations of the project. Though it has a long list of over 60 governments and institutions, only 19 of them have, to date, drafted

their own National Plans<sup>2</sup>. Furthermore, the financial situation of the Alliance is still unstable. Spain does not appear to be receiving sufficient support from the international community to make such a large scale project operative, a fact that demonstrates that initiatives of a global nature such as the Alliance require greater preparation and generation of substantial cooperation with other countries around the world.

These initiatives need to be framed within the agendas of the big international actors, to ensure that they do not end up as isolated events of a foreign policy without a suitable international framework. And this support from the international community – which is necessary for dialogue forums and understanding, to eradicate poverty and to create effective security structures in Spain’s foreign and security policy – inexorably takes place through the classic regions of Spain’s sphere of influence: Europe, the Mediterranean and South America.

### The preparations for Spain’s European Presidency

The European and Europeist emphasis of the Zapatero government faces the challenge of Spain’s presidency of the EU in the first half of 2010, the first in which a state has applied the new Lisbon Treaty, following the “forced” Irish “yes” vote. During the years of 2008 and 2009, Spain’s diplomatic corps prepared very thoroughly for this event, in which the idea is to highlight the importance of Spain’s role within Europe, as well as the country’s role as a valid and effective interlocutor in South America, and especially so in the attempt to push forward negotiations for association agreements between the EU and MERCOSUR, Central America and the Andean countries, and to act as a bridge for dialogue between Cuba and Europe, and the Mediterranean. The aim of all this is for Spain to regain greater specific weight within the EU, and to culminate the attempted journey back “to the heart of Europe”, a journey that has been in progress since 2008. But so far, Spain has not succeeded in the objective of relocating the country within the hard nucleus and in the centres of power and decision-making (Duran i Lleida, 2009: 328).

Furthermore, the agenda for Spain’s presidency in 2010 looks to be very difficult for several reasons: the first of these is the leadership role being played by Germany and France to overcome the economic crisis within the EU, and particularly in the euro zone, a factor that may cause Spain’s presidency to lose visibility and prominence. In addition to this, there is the problem of overlapping agendas between Zapatero and the newly appointed president of the EU, in the form of Herman Van Rompuy, and the High Representative for Foreign Affairs and Security Policy of the EU, Catherine Ashton, both posts having been created following the entry into force of the Lisbon Treaty. Finally, the actual agenda for implementing the

new treaty, the economic crisis (which is hitting Spain very hard), energy security and climate change (following the failure of the conference on this subject held in Copenhagen in December) will all require enormous efforts by Spain to seek the maximum consensus in a context in which nations prefer to place their own national interests before those of the EU.

Furthermore, with respect to the EU, Spain has developed a foreign policy that is very much focused on access to, and maintenance of regional and structural funding, while the Berlin-Paris axis is calling upon Spain to become a net contributor to the EU. That is why some analysts view Spain as an 'outlier' in its foreign affairs in Europe, because they believe that the country could possess greater weight within Europe, but cannot manage to achieve it (Grant, 2009). Spain does seek to achieve this weight, incidentally, in its relations with the Russian Federation in what has become Zapatero's habitual annual trip (in September) to Russia to discuss issues concerning the economy, international security and energy security. Within Europe, one aspect that went virtually unnoticed was Spain's presidency of the Council of Europe (November 2008

*"One of the most outstanding aspects of Spain's foreign policy is the country's participation in different peacekeeping operations"*

to May 2009), which resulted in Spain's foreign policy taking greater interest in areas such as East Europe and the post-Soviet areas. One example of this was the first trip to Byelorussia in March.

### The Mediterranean scenario

In the Mediterranean region, Spain has achieved its aim – with the help of other European partners – of making Barcelona the headquarters of the Union for the Mediterranean, in spite of losing political initiative in the region to France, the country that launched this proposal which was, at first, unconnected with the Barcelona Process. However, the slowness and inertia of the progress call for a consideration of what instruments the country could use to generate greater commitment with this political process in the Arab world, on one hand, and the EU on the other.

While some observers have noted "too many years of European bilateral failures" (Areilza and Torreblanca, 2009), and are calling for an effort to be made by the EU as a whole, the reality is that Spain continues to possess strong bilateral profiles in the region. Indeed, one third of Spain's energy resources are imported from North Africa and the Middle East. In this consideration between EU-based and bilateral approaches, it is important to weigh up not only the increase in funding and the integration of the Union for the Mediterranean into the instrumentality of the Neighbourhood Policy, but also the supply which, in the interests of Spain, could be mobilised to generate a different dynamic in this relationship.

The bilateral profile of Spain's relations with Morocco and Algeria does not necessarily facilitate progress of a European nature – a situation that equally applies to other EU protagonists in the region, such as France, Italy and Great Britain. In fact, in foreign policy in the Mediterranean, national interests prevail above EU interests, and Spain is no exception in this respect.

This idea of bilateral agreements being more important than EU ones also serves to explain Dialogue 5+5 (made up of Algeria, Spain, France, Italy, Libya, Malta, Morocco, Mauritania, Portugal and Tunisia) and the 5+5 Initiative for the defence ministers of the aforementioned nations.

As for the Middle East, 2009 commenced with Israel's intervention in the Gaza Strip, which brought criticism from the Spanish government. However, in Spain's foreign policy (and in that of many other European states), the Palestinian-Israeli conflict is yet another source of contradiction between the ethical-value factor and the defence of Spain's national interests. One example of this is the sale of military and police equipment to Israel during the first quarter of 2008 (six months before what was called the "Gaza War"), to the value of €551,933, 94% of which was destined for the Israeli military forces.<sup>3</sup> Prime Minister Zapatero and Foreign Affairs Minister Moratinos (who in the past acted as special EU envoy to the region) have always shown great interest in acting as a bridge for dialogue between the two parties in the conflict, but all attempts have ended in failure, and 2009 was no exception.

### South America and the Caribbean: a scenario without any major progress for Spain's foreign policy

South America was, unquestionably, one of the great failures of Spain's foreign policy in 2009. In spite of the fact that one-third of Spanish cooperation and a quarter of overseas investment goes to South America (Gratius, 2010), and despite the efforts made to regain an organising role in relations between Europe and South America (particularly evident in the case of Cuba), the fact is that Spain has clearly lost its influence and international weight in the American continent. Brazil, Mexico and South America in general all need Spain less and less (Areilza and Torreblanca, 2009). One great example is the secondary role played by Zapatero's government in the handling of the political crisis in Honduras in June, following the destitution of the President Manuel Zelaya, and his replacement by Roberto Micheletti. As a consequence, some analysts believe that South America no longer needs Spain to have access to the globalised world, but that Spain, in contrast, does need South America to be a global actor (Torreblanca, 2010).

Furthermore, with each passing year, the Ibero-American summits (such as the 19<sup>th</sup> summit held in Estoril)

seem to be losing specific weight on the agendas of the participating states, which are more interested in organisations of a regional nature that can better represent their interests. Thus it is of vital importance for Spain to develop an innovative cooperation and political dialogue based on new instruments if the country aims to continue to be attractive to these countries. However, invoking the historical foundations of relations in the framework of the Ibero-American Community will not be sufficient, especially in view of the Bicentennial celebrations that are taking place in a region that contains a collection of governments with a doubtful commitment to democracy and strong populist overtones, and which could result in difficult situations with respect to the observance of human and civil rights. It is in this context that we find once more the tensions inherent in a policy with a strong ethical foundation and a universal validity of values, which the government will have to face up to. The case of Cuba – in spite of the latest decisions by the Obama Administration to facilitate contact between the island and the USA – will continue to be a point of generalised dissent with the PP opposition party. Furthermore, Spain, and specifically in its relations with Cuba, is coming to realise that the dynamics of Europeising or “bilateralising” relations with the island, depending on the situation, cannot be successful in the longer term in establishing Spain’s protagonism in its relations with South America. The intention to broaden the country’s role of special interlocutor with Cuba (Arenal, 2008: 342) could be affected by the growing Europeisation of relations and the posture – sometimes provocative, other times condescending – of the regime in Havana. Finally – after the government’s agreement with the opposition in parliament on the programme for Spain’s Presidency – the subject of Cuba was withdrawn from the agenda with respect to South America, and the summit with the region in May 2010 went to the head of the list.

### Seeking coordination with Asia

One continent that Spain’s foreign policy views as a priority is Asia. Hence the trips to India by Deputy Prime Minister De la Vega and Moratinos’ trips to the Philippines and South Korea, the institutionalisation with the latter country of an annual meeting with Spain, and the drafting of the third Asia-Pacific Plan for 2009-2012 which sets Spain’s objectives and priorities in the region. Two main characteristics of Spain’s overseas action in Asia should be stressed: the first is the priority given to national interests over human rights and the promotion of democracy (for example, we should mention the visit to Spain by the Chinese Prime Minister Wen Jiabao, who took part in negotiations to consolidate economic relations between the two countries). What appears to be true is that this pragmatism in the seeking and defence of Spain’s economic interests in Asia’s new markets has ena-

bled the country to broaden its presence beyond the traditional areas of access, such as Ibero-America. Though there is a need for a greater diversification of Spanish investments in the world, the country has a very advantageous base with which to achieve a very wide acceptance among the political actors at a global level, and Asia is an example of this. The second outstanding feature is the visibility of Spain’s “soft power” in Asia, for example through cultural promotion by means of opening new Cervantes Institutes, which enable the country to widely penetrate the social strata. The great asset that Spain can contribute in this respect is the country’s culture and its worldwide visibility, not only in terms of culture on the peninsula, but also in the broader sense of culture in Spanish. In addition, the sub-region of central Asia and all its potential in terms of energy security seems to have awoken the interest of Spanish external action, with the visit paid by Moratinos to Kazakhstan, Uzbekistan and Turkmenistan during 2009.

### Conclusions: Spain’s foreign policy in times of crisis

Moratinos’ declaration concerning “...four historical events that reveal the inevitable process of transformation of the international order, in which Spain has not been a mere spectator, but an active and substantial participant, with the leadership of the prime minister of the government” (Moratinos, 2009a) appears to be rather over-optimistic, given the reality of Spain’s foreign policy in 2009. The debate –indirect, incidentally, between the minister and academic observers (Areilza and Torreblanca, 2009; Moratinos, 2009b) – on the scope of Spain’s foreign policy have brought to public notice the different coordinates from which Spain’s location in international politics is being analysed. In spite of the Zapatero government’s new orientations in international affairs in the second term of office, the criticism regarding the absence of a strategic approach that will “make it reactive, or even merely intuitive” (Areilza and Torreblanca, 2009) continues to exist. Though this criticism may be motivated by very different interests, it represents a clear message concerning the absence of multidimensional external action, such as the consequence of acting in very different fields and without a recognizable common denominator.

In fact, as we saw during 2009, Spain is still seeking its place in international politics, not only to achieve a suitable image of the country in the eyes of other actors but, perhaps, as a consequence of insufficient contributions with respect to the substantial nature of the contributions that are expected from Spain to solve the problems. This potential has not, to date, been put to reasonable use in order to promote Spain in the international system. Spain’s Presidency of the EU in the first half of 2010, the re-launching of transatlantic relations and of the recently commenced associations with West Africa, and a new

impetus in Ibero-America, where the aim is to produce a “quantum leap” for EU-South America links in 2010<sup>4</sup>, and the fight against international terrorism may prove to be fundamental for the future positioning of Spain’s foreign policy as a medium-sized power. However, the way in which the economic crisis evolves in Spain will also prove decisive in defining overseas action and its credibility in the eyes of other international actors, implying restrictions beyond the voluntarism that the government wants to demonstrate. In this perspective, it seems even more urgent for Spain to move towards the object of potentiating its “committed external policy” and strengthening the search for consensus in the design of basic areas of foreign policy as a matter of state, “... by including all the possible public and private actors” (Rodríguez Zapatero, 2008: 2), the reform of public diplomacy and greater ministerial political coordination in the handling of Spain’s overseas action.

It is also necessary to consider the characteristics of the international sphere in which the Zapatero government’s foreign policy is being deployed, and how to succeed in making compatible the ethical discourse with the country’s material interests, as well as how these could be ingredients in a specific action plan in the different thematic areas and regions that must be dealt with. The answers to these questions are very different in terms of their scope, but it might be useful for debate in the future. As one can imagine, the heads of Spain’s government have a long road ahead of them if they want Spain to make a profound impact as a “medium-sized power that occupies a singular strategic space in the current multipolar world”, “a nation that is being called on to possess greater weight in the international community if it knows how to assert – with a capacity for dialogue and persuasion – its status as a bridge between regions, between cultures, between rich and poor countries” (Rodríguez Zapatero, 2008: 1).

## Notes

1. The four summits to which Moratinos refers take place at the beginning of April, hence the name proposed.

2. Go to: <<http://www.unaoc.org/content/view/228/218/lang,english>> (last viewed: 05.05.10).

3. Go to: <<http://www.publico.es/internacional/189676/espana/vendio/armas/tel/aviv/seis/meses>> and <[www.comercio.mityc.es/NR/rdonlyres/7F4503DA-4395-4C9E-806E-3BDD6A7A00F4/0/Informeannual2008.pdf](http://www.comercio.mityc.es/NR/rdonlyres/7F4503DA-4395-4C9E-806E-3BDD6A7A00F4/0/Informeannual2008.pdf)> (last viewed 05.05.10).

4. Declarations by the secretary of state for Ibero-America Juan Pablo de Laiglesia in Montevideo on 11 June 2009: <<http://www.casamerica.es/es/actualidad-cfe/espana-impulsara-un-salto-cualitativo-en-los-lazos-ue-america-latina-en-2010-75133>> (last viewed: 28.07.09)

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# Spain: Competitiveness and the external sector

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The long period of economic expansion preceding the financial crisis that struck in 2008 went hand-in-hand with a decline in the competitiveness of the Spanish economy. This fact raises questions about Spain's ability to find a way out of the present cyclical downturn with a relatively high potential growth rate sustained by an expanding foreign sector and its correspondingly positive effect on domestic productive efficiency. In the absence of the nominal exchange rate as an adjustment mechanism the persistent loss in competitiveness of a country that is part of a monetary union can only be turned around, in the short term, by means of competitive devaluation, which is to say through coordinated institutional effort that would give rise to a virtuous combination of wage restraint and increased productivity and, in the long term, with a change in productive patterns tending towards the new technology sectors, high added value per employee and increasing presence in the international markets.

The competitive situation of an economy is typically manifested through two macroeconomic variables: the differential in the inflation rates of the country in question *vis-à-vis* its main trading partners and the evolution of the components of the current account balance. Since joining the Eurozone in 1999 and until 2008, Spain simultaneously experienced a positive inflation differential and deterioration in its foreign

deficit, two unequivocal symptoms that are associated with the economy's progressive loss of competitiveness with regard to the foreign sector. Given the importance that the external sector has taken on, both for determining the financing needs of the economy and for future potential growth, the aim of this article is to explore the pattern of competitiveness that the Spanish economy has shown in comparison with its chief trading partners, along with identifying the possible underlying causes of this pattern.

The article will be structured, first, by documenting the evolution of Spain's competitiveness through the real effective exchange rate, an indicator that is frequently used in the economic literature. Second, the pattern of competitiveness will be explored through detailed analysis of Spain's inflation differential with respect to the Eurozone, this making it possible to identify of the explanatory factors underlying the evolution of competitiveness in Spain and to situate them within the comparative international perspective. Third, evaluation is made of the domestic foundations of the Spanish external balance, adopting the intertemporal focus of current account balance. The closing section offers reflections on the findings thus established.

## Competitiveness in Spain

### The Real Exchange Rate: Tradable Goods versus Non-tradable Goods

The real effective exchange rate of the Spanish economy is defined as the nominal exchange rate for the euro with respect to a weighted basket of the currencies in circulation of its main trading partners around the world, adjusted by the ratio of the respective price levels. Given that a significant part of the price levels of a country reflects its domestic production costs, the real effective exchange rate is a comparative indicator of production costs and hence of cost-competitiveness with regard to other countries. Graph 1 shows the evolution of the real effective exchange rate, constructed on the basis of the GDP deflator of the Spanish economy *vis-à-vis* 24 industrialised countries in the period 1980 – 2009.<sup>1</sup> The graph highlights the great gain in competitiveness associated with the devaluations in the first half of the 1990s. Again, the indicator reveals the persistent loss of the Spanish economy's competitiveness until halfway through 2008, a downturn that is explained by the appreciation of the euro against other currencies and by the inflation differential accumulated over this period, as will be analysed in the following section. Graph 1 shows the stabilisation of this indicator after 2008, coinciding with the onset of the economic crisis.

In contrast, Graph 2 demonstrates the evolution of the competitiveness of the Spanish economy measured



by the real effective exchange rate of exports. This indicator contains more information on the external dimension of the competitiveness of an economy, since it is confined to the set of goods and services that are exported. Using both indicators indiscriminately, comparison of Graph 1 and Graph 2 shows temporary similar behaviour of the cost-competitiveness path of the Spanish economy, although the real effective exchange rate of exports suggests that, at this present adverse juncture, Spain has continued to lose competitiveness, with a brief respite in the middle of 2008.

The final cost-competitiveness indicator under consideration is the real effective exchange rate constructed on the basis of the monthly Harmonised Consumer Price Index (H CPI) for the countries that make up the Euro-12 area. Since this is an indicator applied to countries operating within a monetary union, it does not take variations of exchange rate into account. Moreover, given that some 60% of Spanish exports are destined for the European Union, this indicator is sufficient, even while partial, for carrying out a comparative analysis with the partners in the Union. Graph 3 shows the temporary evolution

**"Spain is among those countries of the Eurozone that, in their annual average, have registered a greater inflation differential of final demand"**

of competitiveness measured on the basis of two components of the aggregate price index. First, is the real exchange rate of tradable goods, which takes in the set of goods whose origin and destiny includes the external market. Second, is the real exchange rate of non-tradable goods, which takes in the set of goods whose origin and destiny is the domestic market.<sup>2</sup> From the time Spain joined the Eurozone until approximately mid-2004, the real exchange rate of tradable goods was seen to be around 5%, after which it levelled off. This pattern of behaviour would suggest that, in 2004, Spain had exhausted the competitive advantage of joining the euro at a depreciated nominal exchange rate of approximately 5%. Graph 3 also makes it clear that the deterioration of the exchange rate has been particularly pronounced in the set of non-tradable goods, although this appraisal tends to stabilise and even slightly reverse in recent years, especially with regard to two of the great Eurozone economies, France and Italy (see Graph 4).

Despite the fact that the service sector has, in historical terms, been representative of the non-tradable part of economic activity, its increasing productive weight and internationalisation means that the evolution of its relative cost with regard to other countries is now a highly relevant variable to be considered in competitiveness analysis. Accordingly, the steady deterioration of competitiveness in the service sector and an absence of improvement in competitiveness as far as goods production is concerned underlie the Spanish economy's loss of cost-competitiveness.

The next section carries out a disaggregated analysis of the inflation differential in Spain in comparison with the Euro-12 area, identifying and situating in comparative international perspective the factors underlying the evolution of competitiveness in Spain.

### **The Spanish-EMU inflation differential: a comparative analysis of its determinants**

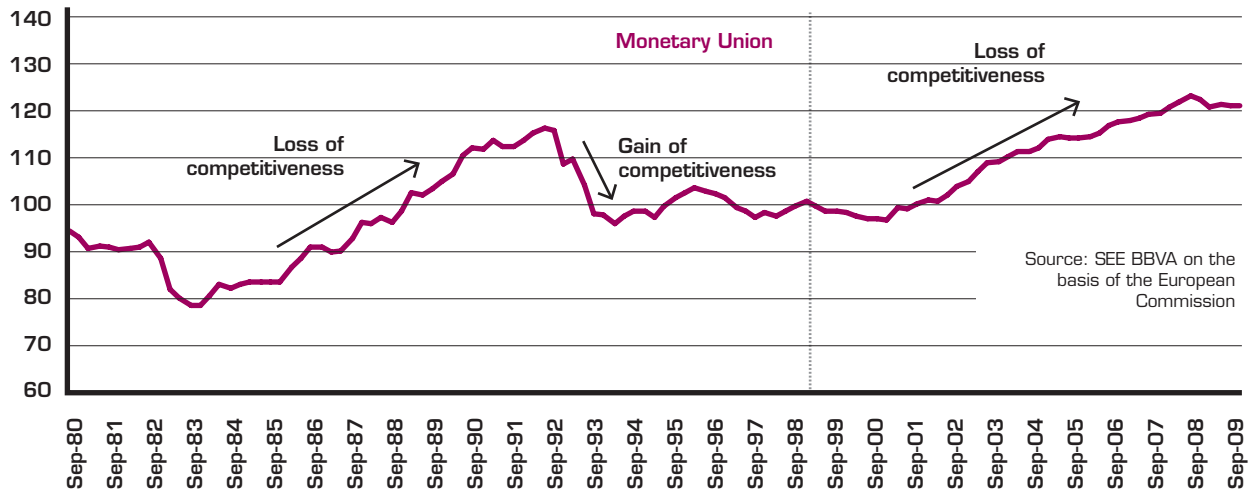
in the first eleven years of the existence of the Economic and Monetary Union (EMU), one of the main stylised facts of the Spanish economy has been the persistence of its inflation differential *vis-à-vis* the Eurozone. Graph 5 demonstrates the evolution of the inflation differential between Spain and the Euro-12 area. The annual average of the inflation differential for the period 1999 – 2009 is situated at around 0.9%. Since the year the euro was introduced, observations of an inflation differential close to zero, or negative, have been registered with two specific episodes: the economic downturn of 2001 and, in particular, the present economic crisis. The year 2009, specifically, is the first in which Spain registers a negative inflation differential for the year as a whole (to be precise, -0.6%) with regard to the EMU.

This pattern of behaviour of the inflation differential is present whether indiscriminate use is made either of the H CPI aggregate measure of inflation or that of its core component, which excludes from the aggregate energy and unprocessed foods (see Table 1 and Graph 6). In particular, the core inflation differential for the period 1999 – 2009 hovered at about 0.9% per year. The first data for 2010 herald a possible return to a positive inflation differential, although, for the moment, this is exclusively due to increased inflation in the energy component. Moreover, the core inflation differential is situated at values very close to zero, a symptom of the slowdown in the growth on internal demand in Spain.

All other things being equal, within a monetary union, the existence of a positive inflation differential for one of the member countries means, on the one hand, a loss of purchasing power for its inhabitants as against that of its neighbours in the union and, on the other, erosion in the indicators of competitiveness of the set of goods exchanged on the international market, which is to say tradable goods. Again, those countries with higher inflation rates tend to bear higher costs of borrowing in the form of a risk premium that is greater than that of its co-members of the union. Despite these negative effects, the existence of a positive inflation differential is not necessarily cause for alarm if it is the natural consequence of a process of convergence that characterises economies starting out from lower levels of wealth.<sup>3</sup>

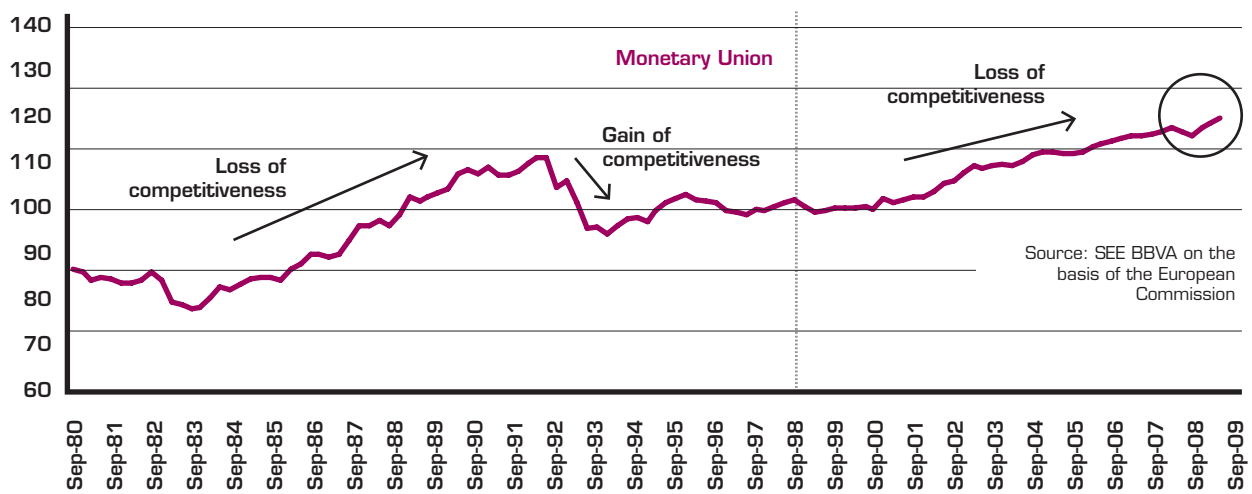
**GRAPH 1. REAL EFFECTIVE EXCHANGE RATE. SPAIN IN RELATION WITH 24 INDUSTRIALISED COUNTRIES**

(calculated on the basis of GDP deflator) 1999=100



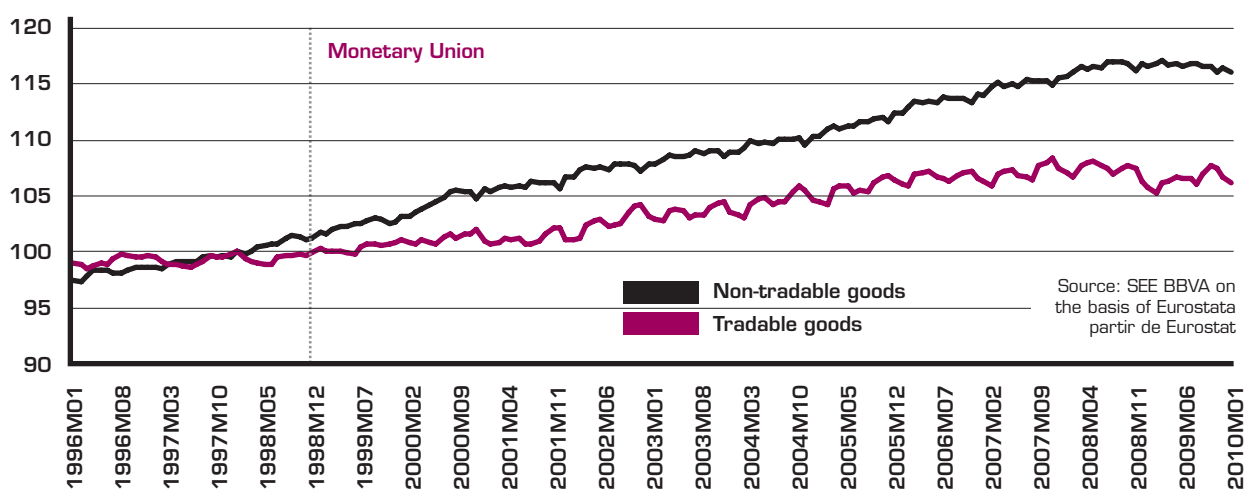
**GRAPH 2. REAL EFFECTIVE EXCHANGE RATE. SPAIN IN RELATION WITH 24 INDUSTRIALISED COUNTRIES**

(calculated on the basis of exports of goods and services deflator) 1999=100



**GRAPH 3. REAL EXCHANGE RATE TRADABLE GOODS AND NON-TRADABLE GOODS. SPAIN IN RELATION WITH THE EURO-12 AREA**

(calculated on the basis of HCPI - Goods and Services) 1998=100



Another explanation of inflation differentials within a monetary union is the presence of shocks that asymmetrically affect the different member states, or of shocks that are of an idiosyncratic nature with effects circumscribed to only one country, or even of shocks that, while they are shared and symmetrical, give rise to heterogeneous responses in the inflation of each country, the latter being due to differences that may prevail between countries in their price- and wage-formation mechanisms. Although the extant economic literature does not identify any single cause that explains the persistence of the inflation differential, there is indeed agreement in indicating that the argument of price level convergence, a result of the Balassa-Samuelson effect, has not been relevant in determining the inflation differential sustained by the Spanish economy.<sup>4</sup> In López-Salido et al. (2005), the persistence of inflation is explained in terms of the degree of inertia characterising the rules of price- and wage-formation of the Spanish economy, highlighting in particular the role played by the real rigidities introduced through the wage indexation clauses. Recently, Andrés et al. (2008) have studied to what degree differences in the economic structures prevailing among countries of a monetary union, such as

**"Structural reforms are required in order to reorient the productive pattern of the economy"**

degree of competition in goods markets, the degree of liberalisation or level of nominal inertia, might be decisive in determining the inflation differential, even with the presence of shocks that are common to all.

Hence, one of the worrying signs of the existence of the inflation differential is its persistence, which is to say a clear absence of any tendency to disappear or, in the last instance, of any substantial reduction. The fact that, for the fifteen months prior to March 2010, the inflation differential was negative or close to zero, raises the question of to what extent the average differential observed between 1999 and 2008 was wholly caused by the greater growth in aggregate demand in Spain by comparison with the EMU or whether, in contrast, this is only a partial explanation, so that when both economies go back to expanding at a level above their potential growth rates the positive inflation differential will reappear and the Spanish economy will once again show a decline in competitiveness. With a view to putting the experience of the Spanish economy into comparative perspective and identifying the underlying causes of the inflation differential, the next section will inquire into the determining factors of the inflation differential observed in the Eurozone over the period 1999-2008. In these exercises of inflation accounting, homogeneous national accounts data for the period of interest have been employed.

Table 2 shows a breakdown of the growth rate of the final demand deflator with regard to relative contri-

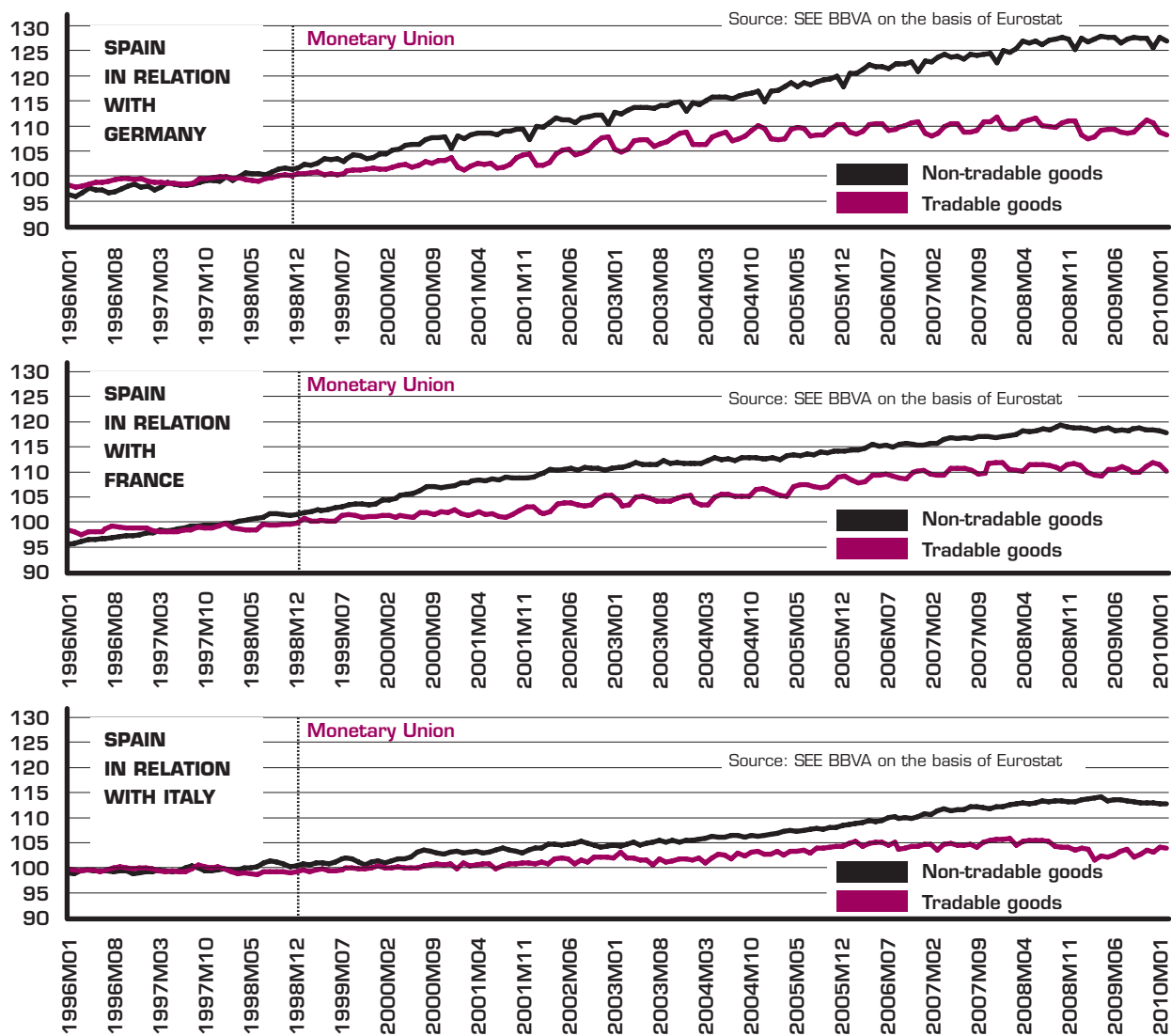
bution of domestic factors and imported costs. Spain is among those countries of the Eurozone that, in their annual average, have registered a greater inflation differential of final demand. In the cases of Spain, Greece and Portugal, the contribution of domestic costs to the determination of the inflation differential is significantly higher than the contribution of imported costs. These three countries of southern Europe also registered, on average, the highest inflation rates over the period 1999 – 2008. In the case of Italy, the contributions of domestic and imported costs to the inflation differential are approximately equal. Likewise, the evidence shows that Germany, France and Finland were the only three countries of the Eurozone that registered below-average contributions for both indicators. The good performance of the contribution of domestic factors in Germany has been decisive in reducing the average inflation in the Eurozone over the first eleven years of the monetary union while, in contrast, domestic factors in Spain have played a markedly inflationist role within the Eurozone.

Given the results established in the foregoing breakdown, Table 3 explores in detail the weight of the different domestic factors in determining the inflation differential as calculated on the basis of the GDP deflator. In particular, the results of the deflator breakdown are presented in terms of the relative contribution of wages, productivity, profit margins and net indirect taxes.<sup>5</sup> The evidence presented in Table 3 indicates that Ireland, Greece, The Netherlands, Portugal and Spain registered instances of nominal wage growth substantially above the average. However, in the cases of Ireland, Greece and The Netherlands, growth in productivity cushioned the inflationary effects of wage increases. In contrast, it is observed that productivity performance in Portugal, and especially in Spain, has contributed towards opening up the inflation differential gap. At this point, one should stress the different performance of the German economy where the productivity growth differential was situated at around an average of 0.4% in comparison with the Spanish economy with an average productivity growth differential of -0.3%, which was only slightly better than that registered for Italy (-0.4%). Finally, Table 3 also indicates that profit margins contributed in great measure to the positive inflation differential in Spain, Greece and Ireland. Graph 7 illustrates the procyclical nature of profit margins during the period under consideration. Hence, those economies that, as an annual average, registered greater growth in internal demand with regard to the Eurozone average are those that show bigger contributions of profit margins to inflation differentials.

From the above analysis it may be concluded that the contribution of profit margin growth (on average 50%) and the input of the existing imbalance between earnings and the evolution of productivity (on average 45%) explain the inflationist role that Spain has

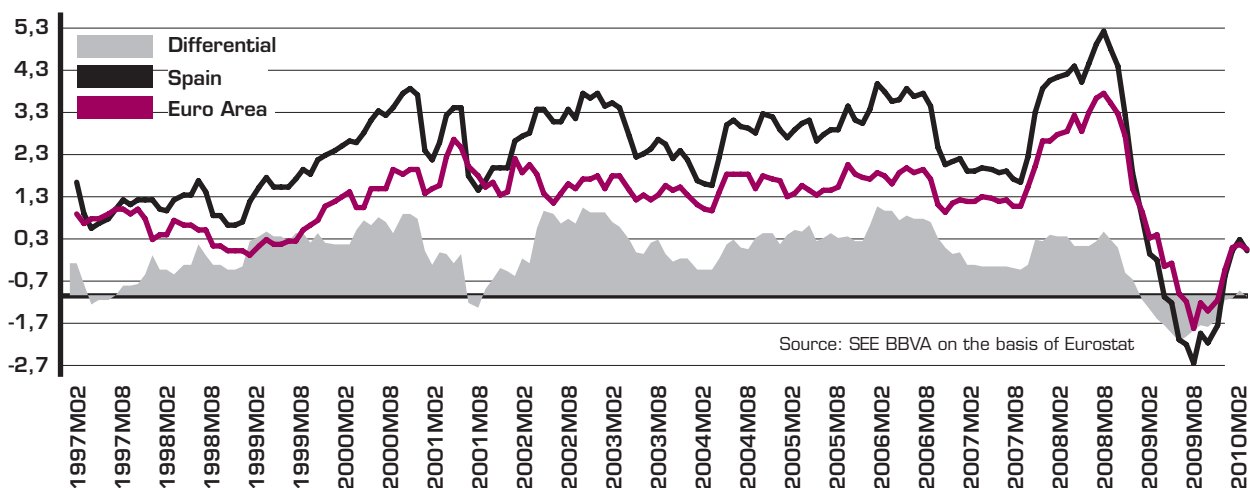
**GRAPH 4. REAL EXCHANGE RATE. TRADABLE GOODS AND NON-TRADABLE GOODS**

(calculated on the basis of HCPI - Goods and Services) 1998=100



**GRAPH 5. INFLATION AND DIFFERENTIAL: SPAIN IN COMPARISON WITH THE EUROZONE**

% [a/a]



played within the Eurozone and the associated loss of competitiveness of its goods and services. The slow-down in the growth of internal demand that has characterised the present economic crisis has contributed towards the disappearance of the positive inflation differential, which was even clearly negative in 2009 with an attenuation of the pressure that demand had been putting on profit margins over the past decade. Nevertheless, this temporary reduction of the positive inflation differential will only become permanent if the Spanish economy implements changes in the goods and job markets that can reduce its inflationist tendency with the EMU.

Once the loss of the Spanish economy's loss of competitiveness is documented and analysed from the standpoint of the real exchange rate and inflation differential, the following section explores its manifestation through the evolution of external deficit.

### The Current Account Balance

In the last twenty years, data on the current account balance in Spain show an average deficit of about 4% of GDP (see Graph 8). Moreover, the external sector has not registered any accounting surplus in recent economic history, apart from some isolated quarters in the second half of the 1990s. If one observes the temporary evolution of the balance of goods, their average deficit over the past twenty years exceeds 5% of GDP, while the balance of services has continuously registered a surplus of around 3% of GDP. The

**"It is necessary to reorient the productive pattern of the Spanish economy towards sectors of high technological content"**

better current account performance at the beginning and in the middle of the 1990s reflects the boost given to the foreign sector as a result of devaluations of the peseta. In contrast, taking as a reference the period of establishment of the single currency and making it operative, what stands out, first, is an acute deterioration of the current account deficit in 2004, a downturn that was present in all the sub-balances and, in particular, in the balance of goods and, second, the notable improvement in the deficit as of the middle of 2008, with the adjustment in the balance of goods leading the way in this rectification. This pattern of recent behaviour is notable since, although the Spanish economy has presented a persistent problem of competitiveness, the marked fluctuation of the current account deficit in recent years could, in great part, be due to close correlation with the domestic cycle, a matter that is discussed immediately below.

An intertemporal focus on the current account balance<sup>6</sup> is adopted here in order to analyse the degree of consistency of the Spanish economy's external deficit with its domestic foundations. From this standpoint,

the dynamics of the current account deficit reflect an optimal response of economic agents especially that of consumers faced with changes in their environment. With this type of focus, the formation of expectations is a key element. A first mechanism acts on expectations of growth. Hence the expectation of higher income in the future brings consumers to advance to the present part of their future consumption, thereby reducing the savings ratio and, *ceteris paribus*, aggravating the negative current account balance. This deficit is financed through the present debt of consumers. A second monetary transmission mechanism appears with expectations concerning the real interest rate. For a small open economy, the expectations of inflation that determine the real interest rate tend to converge through the change in relative price *vis-à-vis* the foreign sector. On the one hand, the increase in real interest rate as a result of the increased nominal interest rate would make present consumption more costly in terms of future consumption and thus the agents would tend to replace present consumption with future consumption. This increase in savings would give rise to an improved current account balance. On the other hand, changes in relative prices in comparison with the foreign sector affect the current account through an intertemporal effect on the agents' decisions. An increase in the price of imported goods in comparison with those produced within the country would therefore give rise to an increase in the real interest rate owing to the reduction of relative inflation, with a consequent decrease in real wealth, a reduction in present consumption and, accordingly, an improvement in the current account balance.

From the above it follows that expectation formation with regard to future growth, interest rates and relative inflation with regard to the foreign sector are crucial elements when it comes to explaining the dynamics of the current account balance. One of the basic features of this model is that any drastic change in the expectations of economic agents brings about a marked adjustment of the external balance. Graph 9 shows the results of an estimate of the intertemporal model of the current account balance for the Spanish economy. Presented, in particular, are the contributions of expectations of growth and of the real interest rate to the estimated current account balance, where the latter is expressed in terms of deviation from the historic mean. Thus, expectations concerning future growth have made a significant contribution (with a historic mean of about 60%) when it comes to explaining the estimated dynamics of the external deficit, a role that is confirmed by the onset of the sharp downturn of the external balance in 2004 when the flow of imports covered the expansion of domestic demand. Moreover, from the above analysis one can infer that the intense downwards adjustment in expectations as to growth is the main underlying cause of the major



**TABLE 1. INFLATION DIFFERENTIAL**

Spain in relation with the Euro-12 Area (% , p.a.)

	HCPI	Non-processed foods	Energy	Core Average
1997	0.2	0	-0.2	0.4
1998	0.6	0.2	-1.2	0.7
1999	1.1	1	1	1.3
2000	1.4	2	0.3	1.5
2001	0.5	0.2	-2.9	0.6
2002	1.3	1.6	0.5	1.4
2003	1	2.4	-1.7	1.1
2004	0.9	3	0.4	0.7
2005	1.2	2.5	-0.4	1.2
2006	1.4	1.1	0.3	1.5
2007	0.7	1.3	-0.8	0.8
2008	0.9	0.4	1.7	0.8
2009	-0.6	-0.9	-0.7	-0.5
2010*	0.1	-1.5	7	-0.6
<b>Promedio</b>	<b>0.8</b>	<b>0.9</b>	<b>0.2</b>	<b>0.8</b>

\*Data to February 2010.

Source: SEE BBVA on the basis of Eurostat

**TABLE 2: INFLATION ACCOUNTING: COUNTRIES OF THE EURO-12 AREA. FINAL DEMAND DEFLATOR**

1999 - 2008 (contributions to change. Annual growth rates expressed as %)

	Total	Domestic costs	Imported costs
<b>Euro-12 Area</b>	<b>2.02</b>	<b>1.57</b>	<b>0.45</b>
Deviation in comparison with Euro-12 Area mean			
Belgium	0.19	-0.4	0.59
Germany	-0.6	-0.36	-0.24
Ireland	-0.16	-0.4	0.25
Greece	1.13	0.77	0.36
Spain	1.11	1.01	0.1
France	-0.3	-0.05	-0.25
Italy	0.64	0.33	0.32
Luxembourg	1.23	-0.01	1.25
Holland	-0.04	-0.12	0.09
Austria	-0.17	-0.24	0.07
Portugal	0.56	0.45	0.12
Finland	-0.45	-0.42	-0.03

Note: The contribution of Euro-12 imported costs is calculated as a weighted average of the contribution of the countries' imported costs. In the case of Luxembourg, the contribution of domestic factors is calculated residually, using the annual exchange rate of the final demand deflator. The total is the sum of the contributions.

Source: SEE BBVA on the basis of AMECO.

**TABLE 3: INFLATION ACCOUNTING: COUNTRIES OF THE EURO-12 AREA, GDP DEFLATOR 1999-2008**

(contributions to change. Annual growth rates expressed as %)

	Total	Wages	Productivity	Margins	Taxes
<b>Euro-12 Area</b>	<b>1.99</b>	<b>1.29</b>	<b>0.41</b>	<b>0.87</b>	<b>0.23</b>
Deviation in comparison with Euro-12 Area mean					
Belgium	-0.07	0.13	0	-0.09	-0.11
Germany	-1.08	-0.35	0.43	-0.33	0.03
Ireland	1.1	1.01	0.35	0.28	0.15
Greece	1.24	0.63	0.24	0.65	0.2
Spain	1.71	0.44	-0.32	0.87	0.08
France	-0.12	0.11	-0.02	-0.16	-0.08
Italy	0.5	-0.14	-0.44	0.2	-0.01
Luxembourg	1.7	0.24	-0.18	1.16	0.12
Holland	0.64	0.62	0.32	0.2	0.14
Austria	-0.44	-0.14	0.3	0.16	-0.16
Portugal	1.01	0.59	-0.1	0.09	0.24
Finland	-0.52	0.33	0.36	-0.34	-0.14

Note: The contribution of profit margins is calculated residually. The total is the sum of the contributions of wages, margins and taxes, minus the contribution of productivity. Productivity is measured as contribution per employee.

Source: SEE BBVA on the basis of AMECO.

adjustment of the Spanish external deficit in the second half of 2008 and part of 2009, without sidestepping the fact that long-term correction of the historic deficit in the current account balance needs permanent recovery in the indicators of foreign competitiveness. This question is dealt with below.

In a developed economy, the long-term recovery of competitiveness requires productive specialisation in sectors of high-level technological content and levels of productivity, without overlooking the possible boost that might come from differentiated goods and services that already have a niche in the international market. With regard to the latter observation, it is positive and noteworthy that Spain, in contrast with other major world powers, is characterised for having maintained its export quota of goods and services over the first decade of the twenty-first century, as one may see in Graph 10. Furthermore, the recent performance of goods exports suggests that, after the slump of the economic crisis, the export track is showing quite a forceful resurgence (see Graph 11).

Nonetheless, the Spanish economy's lack of specialisation in the sectors of high added value per employee is manifested in the technological composition of the manufactured goods exported to its trading partners in the Organisation for Economic Cooperation and development (OECD). There has been scant variation in this composition since the early 1990s (see Graph 12), which is a sign of the scope and depth of the structural reforms that are required in order to reorient the productive pattern of the economy. This critical vision of Spain's lack of specialisation in the high technology sector is endorsed by the fact that, in the last thirty years, the world economy has undergone one of the most important technological changes in contemporary history with the advent of ICT (information and computing technology), a transformation in which Spain has only played a secondary role. Accordingly, in the period from 1995 – 2004, the figure for the contribution of labour productivity growth to GDP growth was an annual average of 0.2%, while for Finland it was 3.3%, for the United Kingdom 2.7%, and for France 2%, a contribution that is partly explained in the case of Spain by the negative growth rate of multifactor productivity which, to be specific, is estimated at -0.9% of the annual average (Van Ark et al., 2008).<sup>7</sup> These data to some extent explain the performance of the weight of exports of ICT goods in the total of Spanish exports of goods around the world, this being situated at 5% on average for the period 1996 – 2006, which highlights the need to reorient the productive pattern of the Spanish economy towards sectors of high technological content.

## Conclusions

This article has shown that the combined presence of the factors of the performance of profit margins and the existing imbalance between earnings and the evolution of productivity have significantly contributed towards the fact that Spain's inflation has been higher than EMU levels and that the economy has lost in competitiveness *vis-à-vis* the foreign sector. This higher level of inflation may be partially explained by the greater growth of internal demand experienced by the Spanish economy in the long period of expansion prior to the onset of the crisis in 2008. Although this loss of competitiveness has affected the production of both goods and services, it is notable that the competitiveness of Spanish goods stabilised as of 2004, while the service sector has seen continuous erosion of its indicators. This latter aspect is especially worrying given the increasing commercialisation of the sector and the external effects this could entail for the rest of the economy. In contrast, in the light of the positive results that the Spanish tourist sector continues to show, the external accounts pinpoint the competitiveness-price of Spanish-produced goods as the variable upon which depends, to a large extent, a significant and permanent reduction of the deficit in the current account balance. This reduction requires an effort in the form of reorienting the productive pattern of the economy, an effort that will have to aim at expanding the high-technology sectors as generators of technological change and of new products that are capable of penetrating new markets. Such an effort needs ambitious structural reforms to stimulate investment in technology, enhance the quality of human capital, and improve efficiency in the operation of the job and goods markets.

## Notes

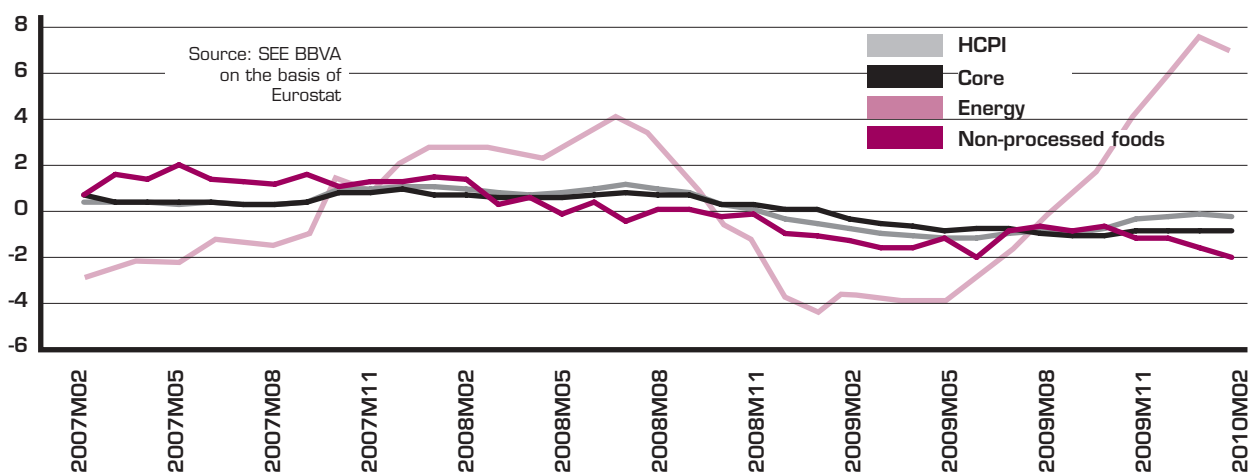
1. Besides the countries that make up the Euro-12 area, the group of industrialised countries includes Denmark, Sweden, United Kingdom, Australia, Canada, United States, Japan, Norway, New Zealand, Mexico, Chile and Turkey.

2. By way of simplifying and in keeping with the other articles in the literature (see, for example, Rabanal, 2006) tradable and non-tradable goods are respectively approached through the HICP categories of "goods" and "services", as published by Eurostat.

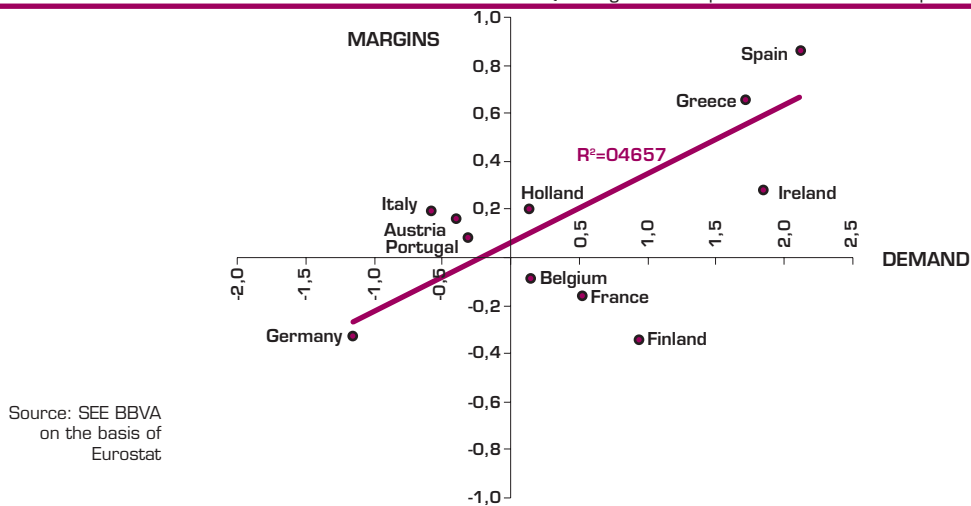
3. If it is true that there has been an inverse relationship between per capita income and the inflation differential of the Eurozone countries since the establishment of the EMU, it is also noteworthy that relative per capita income explains only a limited part (17%) of the variation observed in the inflation differential (see BBVA, 2009).

**"An effort needs ambitious structural reforms to stimulate investment in technology, enhance the quality of human capital, and improve efficiency"**

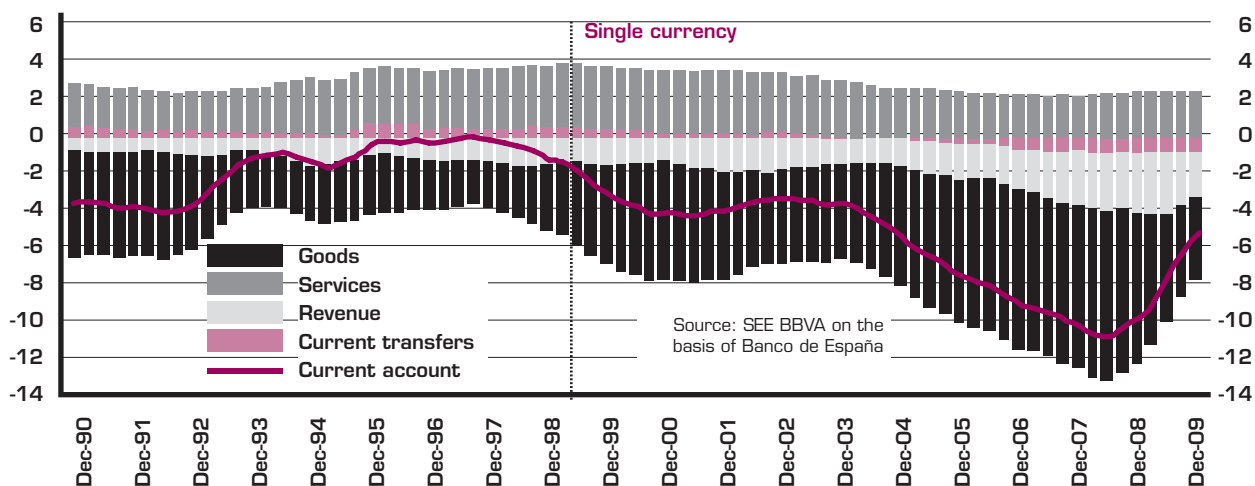
**GRAPH 6: INFLATION DIFFERENTIAL, HCPI AND COMPONENTS. SPAIN WITH RESPECT TO THE EUROZONE (% a/a)**



**GRAPH 7: CONTRIBUTION OF MARGINS AND GROWTH OF INTERNAL DEMAND. EACH COUNTRY WITH REGARD TO THE EURO-12 AREA (average for the period 1999–2008 expressed as %)**

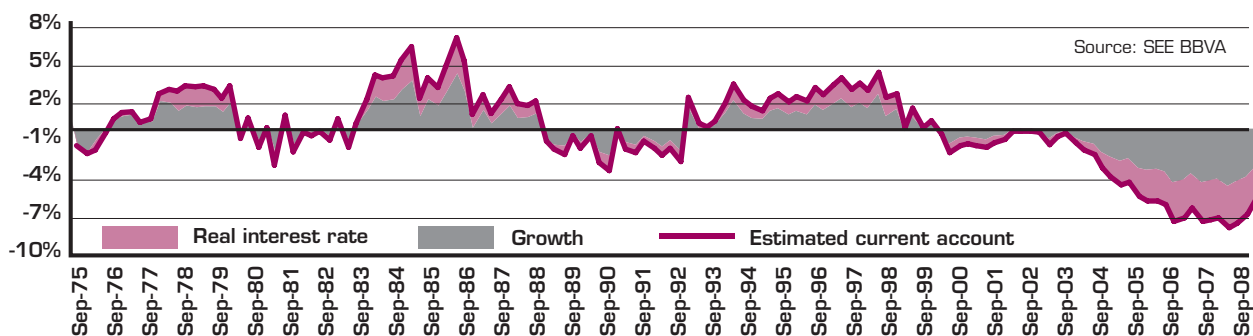


**GRAPH 8. SPAIN: CURRENT ACCOUNT BALANCE (as percentage of annual accumulated GDP)**

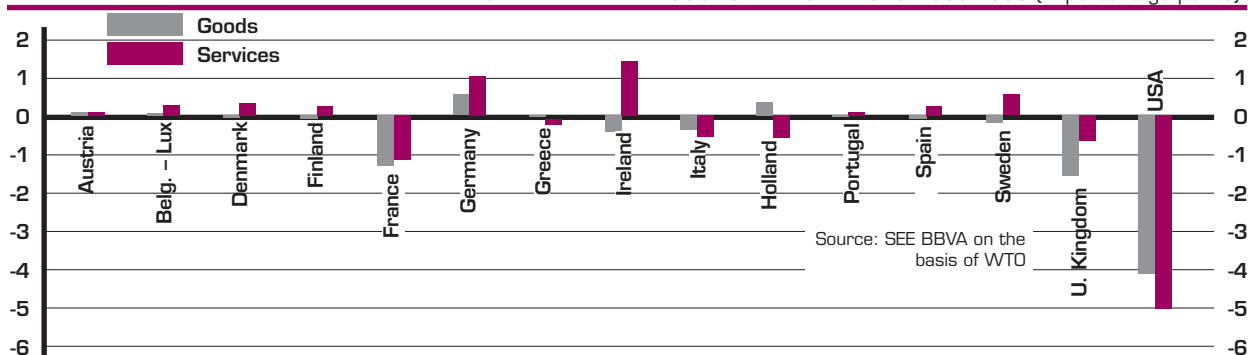


**GRAPH 9. INTERTEMPORAL MODEL OF THE CURRENT ACCOUNT: CONTRIBUTIONS**

(deviation with respect to historic mean)

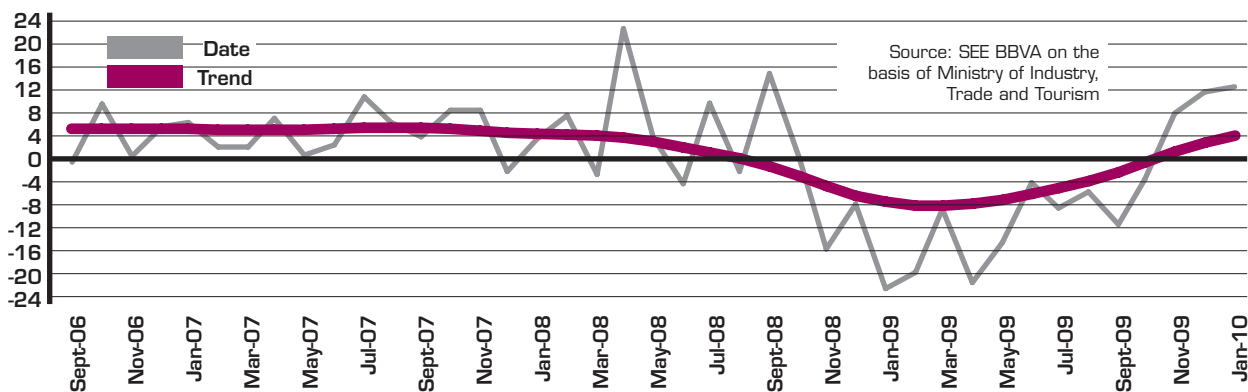


**GRAPH 10. CHANGE IN SHARE OF WORLD TRADE OF EXPORTS OF MARKETABLE GOODS AND SERVICES 2000-2008 (in percentage points)**

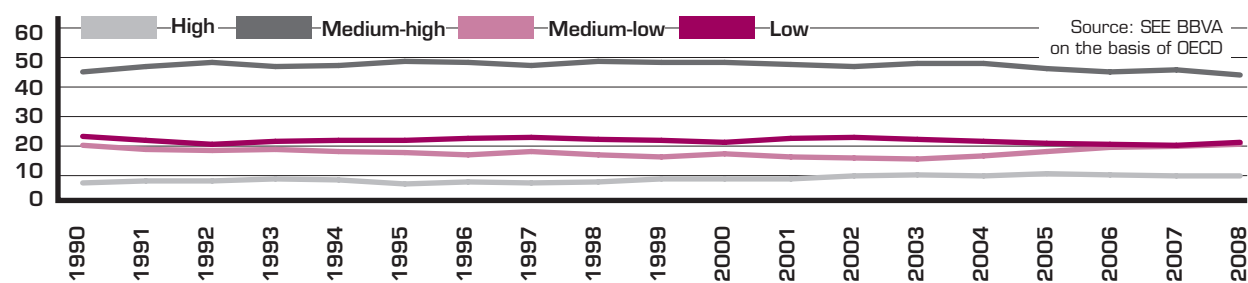


**GRAPH 11. SPAIN. EXPORTS OF GOODS BY VOLUME**

(Interannual growth, as percentage)



**GRAPH 12. SPAIN: EXPORTS OF MANUFACTURED GOODS TO OECD COUNTRIES CLASSIFICATION BY TECHNOLOGICAL CONTENT (as percentage of total)**



4. The Balassa-Samuelson effect assumes accelerated growth in productivity in the tradable goods sector as the result of a process of convergence of economies that depart from lower levels of per capita income. This acceleration of productivity has a repercussion on aggregate inflation through increased wage inflation in the sector of tradable goods as well as that of non-tradable goods.

5. Productivity is measured as the total product per employee. A more precise measure of productivity would be given by total production per hour worked. However, the breakdown is based on the definition used in the AMECO (European Commission) macroeconomic database.

6. See Obstfeld and Rogoff (1996) and Bergin and Sheffrin (2000) for a summary and application of the intertemporal model of current account balance. Furthermore, see BBVV (2008) for the principal analytical aspects of the model and the details of the estimate subsequently presented.

7. The data exclude the public sector.

\* The authors wish to thank Miguel Cardoso, Rafael Doménech and Pep Ruiz de Aguirre for their comments on this text.

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# ▶ APPENDIXES





# Chronology of the Spanish Foreign Policy

## JANUARY

**04.01.09**

### 1. India

In an interview in Delhi between the Spanish Deputy Prime Minister, María Teresa Fernández de la Vega, and the Indian Prime Minister, Manmohan Singh, Spain and India lay the foundations for closer bilateral cooperation. Both parties express interest in intensifying collaboration against terrorism and agree on “an immediate” exchange of Department of the Interior advisers, besides undertaking to set up a working group on prevention of terrorism, coordination, and also help to victims of terrorism. Both countries agree to promote the implementation of a global strategy against terrorism in the UN and to urge subscription to an international agreement on this matter. The rapprochement between the two countries also includes shared views on the need to end violence in the Middle East, and Singh’s support for Spain’s attending the coming G20 Summit which is planned for April in the United Kingdom.

**09.01.09**

### 2. Somalia

The Council of Ministers approves an agreement whereby the authorisation of Parliament is sought for the participation of a Spanish contingent in the European military operation in the Indian Ocean (Operation Atalanta), which aims to combat piracy in the waters off Somalia. The agreement, which was proposed by the ministers of Defence and of Foreign Affairs and Cooperation, envisages that Spanish participation in the mission would consist of one frigate, one logistic supply vessel, one marine patrol aircraft and 395 personnel. Operation Atalanta was approved by the EU in 2008, thanks to an initiative of France and Spain.

**12.01.09**

### 3. Middle East

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, travels to the Middle East to visit Egypt, Syria, the Palestinian National Authority and Israel. Moratinos meets the region’s leaders under the auspices of international diplomatic efforts aimed at favouring an end to violence and bringing about a ceasefire in the Gaza Strip.

**18.01.09**

### 4. Egypt / Middle East

The Prime Minister, José Luis Rodríguez Zapatero, accompanied by the Minister of Foreign Affairs and Cooperation, Miguel Ángel Moratinos, attends the Sharm el Sheikh Sum-

mit (Egypt) called by President Hosni Mubarak. Also present are the Heads of State of France, Italy, Germany, the Czech Republic, Turkey and Jordan, along with the Secretary General of the League of Arab States and the President of the Palestinian National Authority. The aim of the meeting is to move on from a ceasefire to “lasting peace” in the Gaza zone through the withdrawal of Israeli tanks and the holding of a donors’ conference that would pressure for the opening up of the Gaza Strip border crossings, which Israel has kept closed since 2006.

**22.01.09**

### 5. Portugal

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, accompanies the Prime Minister, José Luis Rodríguez Zapatero, to the Twenty-fourth Spanish-Portuguese Summit in Zamora. Also present and holding sectorial meetings with their counterparts are the ministers for Science and Innovation; Culture; Defence; Economy and Finance; Education; Social Policy and Sport; Public Works; Industry, Tourism and Trade; Interior; Justice; Environment and Rural and Marine Affairs; Health and Consumer Affairs; and Labour and Immigration. Moratinos discusses aspects of bilateral relations and the current international situation with the Portuguese Minister for Foreign Affairs, Luis Amado. The Ministers of Defence for Spain and Portugal, Carme Chacón and Nuno Severiano Teixeira respectively, subscribe to a Declaration of Intentions whereby a study commission is to be set up to initiate the process of an academic exchange of officers with the aim of reinforcing the interoperability of the armed forces. Moreover, Chacón and Teixeira pledge to work together in the spheres of armament and the defence industries with a view to initiating cooperation in the aeronautic domain with a single packet including EC135 helicopters and the A400M aircraft, as well as cooperation in naval programmes, in the future long-term restructuring of the European naval sector.

**23.01.09**

### 6. Libya

King Juan Carlos makes an official visit to Libya, accompanied by the Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos. The king meets the Libyan leader, Muammar al-Gaddafi, with the aim of strengthening bilateral relations between the two countries. Moratinos also has a meeting with his Libyan counterpart, Mohammed Abdel-Rahman Shalgam.

29.01.09

**7. Israel / Palestinian National Authority**

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, appears by his own petition before the Foreign Affairs Commission of the Spanish Parliament to report on the situation in the Middle East. At the request of several parliamentary groups, the Minister explains the position of the Government and its diplomatic initiatives *vis-à-vis* the crisis situation in the Gaza Strip. The Government condemns both the Hamas missile strikes and the Israeli responses, which it deems disproportionate. Moratinos calls for reconciliation of the different Palestinian factions under the banner of international legitimacy and for an opening up of the Gaza Strip border crossings, while also reiterating his opposition to a military solution to the conflict.

30.01.09

**8. China**

King Juan Carlos formally receives the Prime Minister of the People's Republic of China, Wen Jiabao, who is making an official visit to Spain. Wen Jiabao attends the audience accompanied by the Spanish Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, and the Chinese Foreign Affairs Minister, Yang Jiechi. At the meeting between the Spanish Prime Minister, José Luis Rodríguez Zapatero, and the Chinese Prime Minister, both leaders coincide in rejecting protectionist policies as a response to the present worldwide economic crisis. The Chinese economy, heavily dependent on exports, is hit by the decline in consumption in western countries. During the visit, twelve agreements are also signed with a view to fostering trade relations, which show a deficit for Spain.

**FEBRUARY**

12.02.09

**9. European Union / Spanish Presidency 2010**

The Prime Minister, José Luis Rodríguez Zapatero, announces the priorities of the Spanish Presidency of the European Union, which is slated for the first half of 2010. Zapatero indicates that the priorities are giving impetus to a new economic model; reaffirmation and deepening of commitment in a social and solidary Europe; and adaptation of Europe to a multipolar world wherein it would speak "with one sole voice". Other priorities are EU-NATO relations, the move towards a Common Security and Defence Policy (CSDP) for the EU, a common immigration policy, and achieving an effective moratorium on the death penalty by 2015.

13.02.09

**10. Cooperation for Development**

The Council of Ministers approves the new Master Plan for Spanish Cooperation 2009-2012, thereby pledging to reach the goal of 0.7% of GDP assigned to development aid by 2012. With the new Plan, the Spanish Cooperation sector embarks on a period in which it will need to redouble its efforts to meet the Millennium Development Goals (MDGs) by 2015, while simultaneously confronting such global challenges

as climate change, the planet-wide food emergency and the financial crisis. The Plan consolidates the core commitments of the previous cycle, for example basic social services (education, health, water and sanitation), gender in development, democratic governance, culture and development, and constructing peace. It also gives renewed thrust to such emerging priorities as rural development, the struggle against hunger, the environment, combating climate change, habitat, science, technology and innovation, participation of the private sector and offering decent work opportunities so as to generate a pattern of inclusive growth, along with considerations of coherent migration and development policies. A first group of countries with wide-ranging cooperation associations are included in the Plan: Honduras, Nicaragua, El Salvador, Guatemala, Haiti, Paraguay, Bolivia, Peru, Ecuador, Dominican Republic, Morocco, Mauritania, Algeria, Palestinian Territories, the Sahawari Republic, Ethiopia, Mali, Mozambique, Senegal, Cape Verde, Niger, Philippines and Vietnam.

16.02.09

**11. European Union / Spanish Presidency 2010**

The Governments of Spain, Belgium, and Hungary deliver to the European Commission the draft of the programme that the three countries propose to apply during their consecutive presidencies of the Council of the European Union, from 1 January 2010 to 1 July 2011. The three-sided accord guarantees continuity of the general lines of EU priorities for 18 months so as to avoid the possibility of changes every six months according to the preferences of the country occupying the presidency. The three countries state that they are committed to acting at the European level so as to curtail the effects of the economic and financial crisis and pledge to contribute towards laying solid foundations for a relaunching of European economies within a framework of revised rules and measures that respond to present and future challenges, so as to attain a sustainable model of growth.

19.02.09

**12. United States**

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, accompanies the Spanish monarchs on their visit to the State of Florida where they are received by the Spanish ambassador to the United States, Jorge Dezcallar, and the mayor of Pensacola, Mike Wiggins, and other dignitaries. In Pensacola, King Juan Carlos and Queen Sofia attend events commemorating the 450th anniversary of the founding of the encampment of Puerto de Santa María by Tristán de Luna y Arellano. In Miami, the monarchs preside over the opening session of a business meeting on renewable energies. Moreover, the King and Moratinos meet with General James Jones, National Security Adviser of the United States, who is representing President Obama at the encounter. The monarchs have previously visited Trinidad and Tobago and Colombia.

**13. Foreign Policy / Asia**

The Secretary of State for Foreign Affairs, Ángel Losada, presents before the Senate Foreign Affairs Commission, and at his own petition, the Asia-Pacific Plan 3 for the period 2009

– 2012. The three aims of the Plan are to keep increasing Spanish presence and visibility in Asia; to consolidate the advances made by the previous legislature; and to seek new ways and scenarios to enhance the image and activities of Spain in the region. The Plan supports initiatives of business and investment in the region, scientific and technological cooperation, and cooperation for development. The struggle against illegal immigration, drug-trafficking and piracy on the seas, collaboration in peace processes, protection of human rights and nuclear non-proliferation are other areas of Spanish policy in Asia, which upholds the processes of regional integration in the zone.

**24.02.09**

**14. United States**

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, meets the US Secretary of State, Hillary Clinton in Washington. The main items on the international and bilateral agenda are discussed at the meeting with a view to closer cooperation between the two allied countries in their spheres of mutual interest and Moratinos also expresses Spain's willingness to accept prisoners from Guantánamo. The Spanish diplomat is the fifth European Foreign Affairs minister to meet the Secretary of State, after those of the United Kingdom, France, Germany and the Czech Republic.

**MARCH**

**01.03.09**

**15. European Union**

The Prime Minister attends the European Council meeting in Brussels. Economic issues are discussed, focusing on the impact of the measures taken for sustaining the financial system with a view to the coming European Council meeting in London on 19 March and the G20 Summit in London on 2 April. Zapatero expresses his satisfaction at the good level of discussion, cooperation and coordination and at the commitment and unity of the European Union governments in the face of the crisis.

**03.03.09**

**16. The Russian Federation**

The King and Queen of Spain, along with the Prince and Princess of Asturias, give a luncheon in honour of the President of the Russian Federation, Dmitry Medvedev, and his wife, on the occasion of their State visit to Spain. Medvedev is also received by the Prime Minister, José Luis Rodríguez Zapatero, in the Moncloa. Furthermore, the Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, lunches with his Russian counterpart, Sergei Lavrov, to discuss items on the bilateral agenda and current international issues. Established in the different meetings of the two delegations are: a strategic association covering political, economic, cultural, scientific, technical and educational relations; a memorandum on energy cooperation; a programme of joint actions in the domain of tourism in two years' time; an agreement on railway infrastructure; an accord permitting transit through Russian air space of Spanish military equipment and personnel participating in the stabilisation mission in Afghanistan; and a memorandum of understanding between the public prosecutor's offices of both countries.

**12.03.09**

**17. Germany**

The King and Queen of Spain and the Prince and Princess of Asturias offer a dinner in the Zarzuela Palace in honour of the German President, Horst Köhler, during his official visit to Spain on the occasion of the Fifth Spanish-German Forum. Discussed at this event, which brings together more than a hundred entrepreneurs and representatives of the highest institutions of both countries, are questions pertaining to European Union energy policy, EU transatlantic relations, Spanish-German cooperation in research matters and the economic and financial crisis.

**13.03.09**

**18. African Union**

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, meets the Chairperson of the African Union Commission, Jean Ping, in Madrid. At the meeting a Memorandum of Understanding is signed, this specifying Spain's contribution to the African Union in the coming years at a figure of 30 million euros. Also discussed at the meeting are matters pertaining to bilateral relations, the situation of Africa and the role of the African Union in the continent's future and in the resolution of conflicts. Jean Ping is subsequently received in an audience with King Juan Carlos.

**19.03.09**

**19. Kosovo / Peace Operations**

During her visit to the "España" Base in Istok, the Defence Minister, Carme Chacón, announces the phased return of Spanish troops deployed in Kosovo. She expresses her satisfaction at the work carried out by Spanish military personnel since 1999 and explains that the repatriation will be accomplished in stages, in coordination with the other allied countries in such a way that the Spanish troops will have returned to Spain before the end of summer. The NATO Secretary-General, Jaap de Hoop Scheffer, criticises Spain's decision, announcing that the withdrawal is in violation of the regular protocol of consultation between the allies, while also viewing the withdrawal as political precipitation without the optimal conditions for security yet being in place.

**20. European Union**

The Prime Minister, José Luis Rodríguez Zapatero, attends the European Council meeting of Heads of State or Government in Brussels accompanied by the Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos. Discussed, *inter alia*, in the working sessions are the European response to the present economic and financial situation, energy policy and the struggle against climate change, the prospects of the Lisbon Treaty, along with aspects of foreign policy and European security. After the meeting, the Prime Minister reports that Spain is to contribute 340 million euros towards the total of an EU-financed budgetary allocation of 5,000 million euros earmarked for energy projects over the period 2009 and 2010.



## APRIL

02.04.09

## 21. G20

The Prime Minister, José Luis Rodríguez Zapatero, attends the G20 Summit in London along with other leaders of the leading economic powers and key emerging countries. He expresses his satisfaction at the new agreement reached on fixing the bases of a new international financial order and at the creation of the new Financial Stability Board. The Prime Minister announces that Spain will contribute 4,000 million euros to support developing countries in need of financial aid. Before the Summit, he meets with Robert Zoellick, president of the World Bank, who stresses the role of Spain in development aid.

03.04.09

## 22. NATO

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, accompanies the Prime Minister, José Luis Rodríguez Zapatero, to the NATO Summit of Heads of State and Government, which is held in Strasbourg and Kehl to celebrate NATO's sixtieth anniversary. In the working sessions the political leaders discuss, *inter alia*, the Declaration on Alliance Security, elect the Prime Minister of Denmark, Anders Fogh Rasmussen, as the new NATO Secretary-General, and establish a new strategy for Afghanistan.

05.04.09

## 23. United States

The Prime Minister, José Luis Rodríguez Zapatero, has a meeting in Prague with the President of the United States, Barack Obama. This takes place under the auspices of the Informal Meeting of EU Heads of State and Government with the US President. Obama expresses his desire to consolidate and foster closer relations between the two countries, while Zapatero offers his Government's support to Obama in his endeavours to achieve a new world order in the struggle against poverty.

## 24. Turkey

Prime Minister Zapatero attends a High Level Turkish-Spanish meeting held in Istanbul, at which matters relating to domestic affairs, defence and renewable energies are discussed. Zapatero announces to the Turkish Prime Minister that Spain supports Turkey's candidature to enter the European Union, provided it satisfies the requisites stipulated. Travelling with the Prime Minister are the ministers of Interior; Foreign Affairs and Cooperation; Public Works; Industry, Tourism and Trade; and Equality. They sign a number of agreements with their Turkish counterparts on matters concerning organised crime and terrorism, human trafficking and illegal immigration.

06.04.09

## 25. Alliance of Civilizations

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, accompanies the Prime Minister, José Luis Rodríguez Zapatero, to the Second Forum of the UN Alliance of Civilizations, which is held in Istanbul (Turkey). The Forum deals with cultural barriers and tensions between cultures and

religion and examines the challenges to management of cultural diversity at a time of accelerated globalisation. Within the framework of the Forum, the Prime Minister meets with the UN Secretary General, Ban Ki-Moon, the Danish Prime Minister and future Secretary-General of NATO, Anders Fogh Rasmussen, and the Queen of Qatar, Mozah bint Nasser.

07.04.09

## 26. Defence / Kosovo

The Minister of Defence, Carme Chacón, appears at her own petition before the Defence Commission of the Parliament to report on the return of the Spanish military contingent deployed as part of the NATO-led peace-keeping force for Kosovo (KFOR). Chacón argues that the present situation of security and stability in Kosovo no longer requires a significant international military presence. She also defends the aim of the operations carried out by the Spanish contingent hitherto, but does not endorse the new tasks in which other allies are engaged aiming at the establishment and consolidation of new security and defence structures for an independent State of Kosovo, which Spain does not recognise.

22.04.09

## 27. India

The Prime Minister, José Luis Rodríguez Zapatero, receives in Madrid the President of India, Pratibha Patil. Analysed at the interview between the two leaders are measures undertaken to foster economic and trade relations between the two countries and the evolution of the international financial crisis. Also discussed is collaboration in anti-terrorism initiatives and in the use of renewable energies. Both leaders subscribe to three agreements of understanding: on renewable energies so as to encourage the development and use of these forms of energy, to satisfy energy needs and struggle against climate change; on agricultural cooperation; and on tourism, with the aim of fostering the tourist industries of both countries. Pratibha Patil is also received by the King and Queen of Spain and the Prince and Princess of Asturias.

27.04.09

## 28. France

The Prime Minister, José Luis Rodríguez Zapatero, receives in Madrid the French President, Nicolas Sarkozy, who is visiting Spain on the occasion of the 21<sup>st</sup> Spanish-French Bilateral Summit. Both countries agree on two Institutional Declarations, one on domestic security and the other on the Spanish presidency of the EU. Another four declarations are adopted in different sectors: science and innovation, infrastructure and transport, defence and security, and energy. Cooperation agreements are also signed between civil protection units of both countries and concerning sea routes. The Spanish Defence Minister, Carme Chacón, meets her French counterpart, Hervé Morin, to examine the progress being made in the international operations in which both countries jointly participate and other bilateral issues of mutual interest. Each of the two ministers subsequently signs bilateral agreements on technological cooperation against Improvised Explosive Devices (IED) and on the maintenance of Cougar and Superpuma helicopters. Along with the Ministers

of the Interior of Spain and France, Alfredo Pérez Rubalcaba and Michelle Alliot Marie respectively, Carme Chacón also subscribes to an agreement whereby members of the Military Emergency Units (UME) can engage in exchanges and courses with emergency and civil protection personnel in France.

**30.04.09**

### **29. Western Sahara**

Spain is a co-sponsor of the UN Security Council Resolution S/RES/1871 (2009) on the situation concerning Western Sahara and extending the mandate of the United Nations Mission for the Referendum in Western Sahara (MINURSO) until 30 April 2010. The text is unanimously approved. Other co-sponsors are the United States, the Russian Federation, France and the United Kingdom.

**MAY**

**04.05.09**

### **30. Estonia / Latvia / Lithuania**

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, accompanies the King and Queen on their State visit to Estonia, Latvia and Lithuania. In Tallinn, Estonia, the King has a meeting with the President, Toomas Hendrik Ilves, while Moratinos meets his counterpart, Urmas Paet. The Spanish delegation travels then to Latvia where they are received by the President, Valdis Zlaters and Moratinos meets the Foreign Affairs Minister, Maris Riekstins. Finally, the King and Queen travel with the Minister to Lithuania where they meet with the President, Valdas Adamkus, and other dignitaries of the country.

**05.05.09**

### **31. Defence**

The Minister of Defence, Carme Chacón, signs the Defence Policy Directive 1/2009, the aim of which is to determine the general lines of action and establish precise guidelines for a new cycle of Defence Planning. In general terms, the Directive establishes that the Plan must be implemented within the framework of consolidating joint action by the Armed Forces and Spain's participation in NATO and European Union planning. Moreover, the document includes an assessment of the strategic situation and economic juncture, while also defining the goals to be attained and the efforts required of the Armed Forces in this new cycle.

**14.05.09**

### **32. Cooperation for Development**

The Council of Ministers approves the Annual Plan for International Cooperation (PACI) 2009. The new Plan establishes Official Development Aid at a figure of 5,279.69 million euros, with a renewed commitment to development and setting Spanish development aid on the way towards fulfilling its commitments, which is to say reaching 0.56 per cent of GNI in 2010 and 0.70 per cent by 2012. Furthermore, PACI makes reference to preparations for the Spanish presidency of the European Union and the implementation of reforms to the Spanish Agency for International Development Cooperation.

**JUNE**

**9.06.09**

### **33. Latin America**

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, appears before the Senate Commission of Latin American Affairs to discuss Spanish foreign policy with regard to Latin America. Moratinos confirms that one of the priorities of the coming Spanish presidency of the EU is to give impetus to a strategic association with Latin America and the Caribbean, with an emphasis on energy and climate change as priority matters for the region.

**12.06.09**

### **34. Afghanistan / Peace Operations**

The Council of Ministers approves the sending of 532 more military personnel to Afghanistan. The greater part consists of the battalion which, with 450 members, is to be deployed at the beginning of June in order to guarantee the security of the elections of 20 August. They are to be joined by 70 troops stationed at the Kabul airport and 12 instructors for a battalion of the Afghan army. Spain will be responsible for the security of Kabul airport as of 1 October for a period of seven months, an operation for which the Government is mobilising 66 soldiers and four members of the Guardia Civil (Civil Guard).

**17.06.09**

### **35. Foreign Policy / Agenda**

The Minister for Foreign Affairs and Cooperation appears at his own petition before the Foreign Affairs Commission of the Parliament to report on the outcome and prospects of Spanish foreign policy. With regard to the international economic crisis, the minister highlights the presence of Spain at the heart of decision-making in coordinating economic measures, regulation and reform of the international finance markets. Moratinos also gives an account of the last NATO and EU-US summits, of the Second Forum of the Alliance of Civilizations and of the Presidency of the Council of Europe, while also discussing the approach to the future Spanish Presidency of the Council of Europe in 2010.

**18.06.09**

### **36. New Zealand / Australia**

The King and Queen, accompanied by the Minister for Science and Innovation, Cristina Garmendia, visit New Zealand and Australia with the aim of facilitating the implementation of Spanish business endeavours in these countries, especially in the domains of infrastructure, defence materials, renewable energies and the naval industry. During the Singapore stopover the Minister Mentor, Lee Kwan Yew, offers a dinner in honour of the Spanish monarchs. In New Zealand they sign three political accords besides opening up several lines of scientific cooperation. The treaties signed recognise the right of citizens of both countries to vote in municipal elections in the country of residence and authorise job contacts during tourist visits. In Australia, the King and Queen open a centre of the Cervantes Institute and a Business Forum with a view to supporting bilateral trade exchanges. On the return journey they stop over in Amman where they are received by King Abdullah of Jordan, with whom discuss a number of current international issues.



**37. European Union**

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, accompanies the Prime Minister to the European Council meeting of Heads of State or Government in Brussels. Among other matters, the working sessions deal with institutional questions, the adoption of measures in response to the economic and financial situation, energy policy and the struggle against climate change, along with the prospects of the Lisbon Treaty. The ministers also support the re-election of José Manuel Durao Barroso as President of the European Commission and a new framework for EU financial supervision is established. Spain supports the initiative for confronting the problems related with illegal immigration that such countries as Cyprus, Malta, Italy and Greece might have, as well as the extension of the border management agency Frontex into the Eastern Mediterranean.

**22.06.09****38. ECOWAS**

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, accompanies the Prime Minister, José Luis Rodríguez Zapatero, on his trip to Nigeria where he is to participate in the first Summit between Spain and the Economic Community of West African States (ECOWAS) with the aim of consolidating Spain's presence in the region. Zapatero has a meeting with the President of Nigeria, Umaru Yar'Adua, in which they discuss matters pertaining to the international order, peace and security. Zapatero subsequently visits Togo, where he witnesses the National Assembly's approval of the abolition of the death penalty.

**30.06.09****39. United States / Defence**

The Defence Minister, Carme Chacón, begins her official visit to the United States accompanied by the Chief of Staff for Defence (JEMAD), General José Julio Rodríguez, and by the Secretary-General of Defence Policy, Luis Cuesta, among other dignitaries. During the visit, Chacón has a bilateral meeting with the United States Secretary of Defense, in which they discuss, among other matters, issues related with the situation in Afghanistan and the coming elections of 20 August, as well as the struggle against piracy off the coast of Somalia. The Minister also has a meeting in the White House with the National Security Adviser, James Jones, as well as other appointments with representatives of different study and research centres specialising in security and defence.

**JULY****06.07.09****40. Foreign Policy / Mediterranean**

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, is present at the constitution of the governing bodies of the Casa del Mediterráneo (Mediterranean House) in Alicante, the constitutive agreement for which was signed on 30 April. The aim of the Casa del Mediterráneo is to foster closer links between the different societies, cultures and peoples throughout the Mediterranean. Also present at the

event are representatives of institutions that comprise the public consortium of the institution: the Secretary of State for Foreign Affairs, Ángel Lossada, the Secretary of State for International Cooperation, Soraya Rodríguez, the Vice-President of the Generalitat (Government) of Valencia, Vicente Rambla, among other dignitaries. Yolanda Parrado Mancos is named director of the new institution.

**09.07.09****41. G8**

The Prime Minister, José Luis Rodríguez Zapatero, travels to the city of L'Aquila (Italy), to participate in the G8 (the world's seven most industrialised countries plus the Russian Federation) Summit on Food Security. Measures for confronting the global financial crisis, climate change and hunger in the world are analysed at the meeting. Zapatero announces Spain's contribution of 500 million more euros to development aid over the coming five years.

**AUGUST****02.08.09****42. Latin America**

The First Deputy Prime Minister, María Teresa Fernández de la Vega, initiates in Costa Rica a journey through Latin America in which she is also to visit Brazil, Paraguay and Colombia. Fernández de la Vega is accompanied by the Secretary of State for Latin America, Juan Pablo de Laiglesia, and the Secretary of State for International Cooperation, Soraya Rodríguez, the aim of the visit being to achieve closer relations and political, cultural, economic ties with these countries, along with enhanced collaboration in the field of cooperation. In Costa Rica, the Deputy Prime Minister meets the President, Óscar Arias, and the Secretary-General of the Organization of American States (OAS), José Miguel Insulza, in order to study the possibility of sending a high-level mission to Honduras with the aim of persuading the *de facto* Government to accept the San José Accord with a view to finding a peaceful solution to the country's political conflict. Moreover, Fernández de la Vega announces the resumption by the European Union of negotiations for a region-to-region Association Agreement with Central America.

**SEPTEMBER****10.09.09****43. Italy**

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, accompanies the Prime Minister, José Luis Rodríguez Zapatero, to the Sixteenth Spanish-Italian Summit, which is held on La Maddalena Island, Sardinia. Accompanying the Prime Minister are the Deputy Prime Minister, María Teresa Fernández de la Vega, and the ministers of Economy and Finance; Defence; Interior; Public Works; and Industry Tourism and Trade. At the Summit, both countries review the outlook for the Spanish EU Presidency in 2010, the coming G20 meeting in Pittsburgh, while also dealing with a number of matters on the bilateral and international agendas.

11.09.09

**44. France**

The Prime Minister, José Luis Rodríguez Zapatero, travels to France accompanied by the Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, in order to meet the French President, Nicolas Sarkozy. Analysed at the meeting are the priorities of the Spanish EU Presidency in 2010 and the proposals for the coming G20 Summit in Pittsburgh (United States). Also discussed are matters pertaining to the Mediterranean, the Middle East and Afghanistan. Zapatero thanks Sarkozy for France's collaboration in the struggle against terrorism.

14.09.09

**45. Russian Federation**

Invited by President Dmitry Medvedev, the Prime Minister, José Luis Rodríguez Zapatero, travels to the Russian Federation to participate in an international conference on "The Modern State and Global Security" which is held in the city of Yaroslavl. During the visit, Zapatero has a meeting with Medvedev in which both leaders undertake to strive for progress in relations between the Russian Federation and the European Union. They also discuss bilateral relations and the international agenda.

15.09.09

**46. Bolivia**

The Bolivian President, Evo Morales, makes his first official visit to Spain, where he meets the Spanish Prime Minister, José Luis Rodríguez Zapatero, in Madrid. The two leaders discuss bilateral relations and sign the cancellation of Bolivia's foreign debt with Spain, along with an agreement that permits the citizens of both countries to participate in the municipal elections of their country of residence. Zapatero conveys to Morales the priority status of Latin America on the agenda of Spain's Presidency of the EU as of 1 January 2010. Morales, accompanied by the Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, also has an audience with King Juan Carlos.

24.09.09

**47. UN**

The Prime Minister, José Luis Rodríguez Zapatero, speaks at the UN General Assembly in New York. He advocates the need to advance in the construction of global governance in order to overcome planet-wide challenges. Apart from the economic and financial crisis, he also identifies peace and world security, combating hunger and climate change, and the struggle against terrorism as challenges that require collective resolution. Zapatero also meets with the presidents of Argentina, Mexico and Brazil during his stay in New York.

25.09.09

**48. G20**

The Prime Minister, José Luis Rodríguez Zapatero, participates in the G20 Summit, which is held in Pittsburgh, United States. The Summit deals, *inter alia*, with the international economic crisis, the reinforcement and supervision of finance

markets, job creation, reform of the International Monetary Fund and energy efficiency. The final recommendations agreed upon by the Financial Stability Board offer tools for closer monitoring of the finance sector, including the option of making the variable compensation of senior management staff subject to clawback clauses in case of losses.

**OCTOBER**

13.10.09

**49. United States**

The Prime Minister, José Luis Rodríguez Zapatero, visits the United States accompanied by the Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, for a meeting with President Barack Obama in Washington. Both leaders uphold a more sustainable economy, security, peace in the international order and nuclear arms reduction. They also discuss the coming Spanish Presidency of the European Union, the situation in the Middle East and bilateral relations. Zapatero undertakes to work from the Spanish Presidency of the EU for nuclear arms reduction and also in support of the closure of Guantánamo. Obama pledges to work with Madrid in the struggle against terrorism, matters pertaining to Kosovo, improving relations with the Russian Federation and European integration.

14.10.09

**50. Middle East**

The Prime Minister, José Luis Rodríguez Zapatero, accompanied by the Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, initiates his tour of the Middle East in Syria, where he meets the Prime Minister, Muhammad Naji al-Otari and President Bashar Al-Assad. The leaders discuss bilateral relations and agree to intensify trade and business links in the spheres of energy, infrastructure, transport and the agriculture and food sector. In Israel, Zapatero meets the Prime Minister, Benjamin Netanyahu, with the aim of improving and strengthening bilateral relations and working for the peace process from the standpoint of the European Union. As a result of this meeting, they sign a joint agreement on technological research and development and Zapatero pledges to work to foster the peace process in the zone. Zapatero then travels to Ramala to meet the President of the Palestinian National Authority, Mahmoud Abbas. During the meeting, Zapatero expresses his desire to accelerate the process towards recognition of the Palestinian State, and also the commitment of the Spanish European Union Presidency to advance the peace process. In Jordan, Zapatero meets King Abdullah II and undertakes to foster bilateral relations and an increase in Spanish investment in the country. He subsequently travels to Lebanon where he meets with President Michel Suleiman, to whom he guarantees Spanish aid.

22.10.09

**51. Foreign Policy / Africa**

The Secretary of State for Foreign Affairs, Ángel Lossada, appears before the Senate Foreign Affairs Commission to report on the Africa Plan 2009 – 2012. The new Plan has adopted



a different regional focus on Sub-Saharan Africa with three transversal objectives – human rights, gender equality and environmental sustainability and adaptation to climate change – along with six general goals: support for the consolidation of democracy and construction of peace and security in the continent; the struggle against poverty; trade relations and investment; agreements with regard to immigration; reinforcing the role of Spain in Africa by means of multilateral and European approaches; establishing a Spanish institutional and political presence with Casa África (Africa House) and other forms of diplomacy.

**27.10.09**

**52. Italy**

The Tenth Spanish Italian Forum for Dialogue is held in Madrid, bringing together representatives from civil society in an annual meeting that has been held since 1999 with the venue alternating in each country. The aim of the Forum is to stimulate research on relevant themes for Spanish-Italian relations. This time, the matters discussed are: the international financial crisis and economic growth; the role of the business sector in Spain and Italy; the future of European integration from an Italian-Spanish standpoint; and the university, enterprise and the sustainable economy as shared challenges.

**29.10.09**

**53. European Union**

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, accompanies the Prime Minister, José Luis Rodríguez Zapatero, to attend the European Council meeting of Heads of State or Government in Brussels. Among other matters, the leaders discuss in their meetings are the following: the Lisbon Treaty and the institutional future of the European Union; financing energy policy and the struggle against climate change; the present economic and financial situation; and irregular immigration. Prior to the holding of the Council meeting, Zapatero and his counterparts from Belgium, Herman Van Rompuy, and from Hungary, Gordon Bajnai, present the general guidelines for the next three European presidencies.

**NOVEMBER**

**10.11.09**

**54. Alliance of Civilisations / UN**

The Alliance of Civilisations is given the political support of the UN General Assembly through the adoption by consensus of Resolution A/RES/64/14. The Resolution, an initiative of Spain and Turkey and co-sponsored by 96 countries and all the geographic spheres, recognises the work of the Alliance of Civilisations in promoting dialogue and cooperation between different cultures, civilisations and peoples, and encourages it to continue with its efforts and projects.

**29.11.09**

**55. Latin America**

Along with the King and Queen and the Prime Minister, José Luis Rodríguez Zapatero, the Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, attends the Nineteenth

Ibero-American Summit in Estoril, Portugal. The Summit brings together the leaders of the 22 countries of Latin America and is concerned with innovation and knowledge. As a result of the Summit, the Lisbon Declaration and a Programme of Action are signed, along with a number of communiqués on Honduras, the Alliance of Civilisations and climate change, among other issues. The King and Zapatero meet with the President of Brazil, Luiz Inácio Lula da Silva, to discuss the situation in Honduras and other questions.

**DECEMBER**

**11.12.09**

**56. European Union / Climate Change**

The Prime Minister, José Luis Rodríguez Zapatero, attends the European Council meeting of Heads of State or Government in Brussels. The twenty-seven EU leaders agree to contribute 2,400 million euros per year, of which Spain is to contribute 125 million to help developing countries adapt to the exigencies entailed in the struggle against climate change. A joint position is adopted *vis-à-vis* the Copenhagen Climate Change Summit, while the economic situation of the region is also analysed along with the strategy for confronting it. Zapatero meets the Permanent President of the European Council, Herman Van Rompuy, to prepare for the new stage of Spain's heading the EU. The website for the Spanish EU Presidency in 2010 is presented at the Summit.

**15.12.09**

**57. European Union**

The Prime Minister, José Luis Rodríguez, receives in the Moncloa the President of the European Council, Herman Van Rompuy. At the meeting the two leaders pool information concerning the content and working methods of the European Council, analyse the state of economic recovery and the employment situation, as well as the 2020 strategy for strengthening cooperation in these matters among the twenty-seven EU member states. King Juan Carlos receives Van Rompuy in an audience at which he is accompanied by the Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos.

**22.12.09**

**58. Foreign Policy / Agenda**

The Minister for Foreign Affairs and Cooperation, Miguel Ángel Moratinos, appears before the Parliament to report on foreign policy and joint security in matters pertaining to the Middle East and Cuba. One of the priorities of the Spanish Presidency of the European Union is the position of Europe as a global actor, a framework that includes the peace process in the Middle East and advancing bilateral relations between the EU and the Government of Cuba.

**30.12.09**

**59. Foreign Policy / Agenda**

The Prime Minister, José Luis Rodríguez Zapatero, appears before the Council of Ministers to give an account of the Government's political activity and to present the Executive's goals for the coming year. Zapatero stresses that 2009 is a year of



consolidation of Spain's position in international relations and foreign policy. With regard to the rotating Presidency of the Council of the European Union, the Prime Minister aspires to achieve a strengthening of the EU through application of the Lisbon Treaty, and a reinforced positioning of the twenty-seven member states in the international context, besides making progress with economic recovery.

Note: This is a selection from the more than 400 news items in the chronology of Spanish foreign policy included in the Anuario Internacional CIDOB (CIDOB International Yearbook) 2010.

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# Spanish foreign trade

## I. BY REGIONS

	Imports				Exports			
	2008		2009		2008		2009	
	Thousand €	%	Thousand €	%	Thousand €	%	Thousand €	%
EUROPEAN UNION	157.020.904	55.4	120.775.742	57.9	128.597.851	68.0	107.664.140	68.0
EFTA	4,998,026	1.8	4,637,500	2.2	3,525,859	1.9	3,496,033	2.2
OTHERS EUROPE	12,829,389	4.5	8,288,692	4.0	8,887,300	4.7	6,511,483	4.1
OTHER INDUSTRIALIZED COUNTRIES	18,744,641	6.6	12,988,938	6.2	10,998,542	5.8	8,660,026	5.5
LATIN AMERICA	14,032,307	5.0	9,415,244	4.5	9,136,343	4.8	7,542,659	4.8
OTHERS AMERICA	1,399,100	0.5	1,431,768	0.7	248,059	0.1	315,667	0.2
NORTH AFRICA	14,684,072	5.2	10,188,535	4.9	7,432,015	3.9	6,937,970	4.4
SUBSAHARIAN AFRICA	11,843,320	4.2	6,521,582	3.1	2,725,553	1.4	2,349,815	1.5
MIDDLE EAST	12,453,239	4.4	8,006,146	3.8	4,673,740	2.5	3,949,483	2.5
ASEAN	5,817,292	2.1	4,624,560	2.2	1,410,954	0.7	1,663,164	1.1
ASIA AND OCEANIA	29,563,953	10.4	20,898,562	10.0	4,688,470	2.5	4,481,161	2.8
OTHERS/NOT CLASSIFIED	1,515	0.0	659,523	0.3	6.903.166	3.6	4.682.671	3.0
<b>TOTAL WORLD</b>	<b>283.387.758</b>	<b>100</b>	<b>208.436.792</b>	<b>100</b>	<b>189.227.852</b>	<b>100</b>	<b>158.254.272</b>	<b>100</b>

Source: DataComex (on line): Statistics of Spanish foreign trade.  
 Madrid: Ministry of Industry, Tourism and Trade. Secretariat of State for Tourism and Trade  
 <[http://datacomex.comercio.es/principal\\_comex\\_es.aspx](http://datacomex.comercio.es/principal_comex_es.aspx)>. [Data from: 16.03.10].

Produced by: CIDOB

## II. BY COUNTRIES

(Thousand €)

	Imports		Exports	
	2008	2009	2008	2009
	Austria	2,462,021	1,725,344	1,457,839
Belgium	7,122,755	5,465,165	5,660,607	4,352,830
Bulgaria	284,414	341,876	298,176	355,233
Cyprus	39,433	8,427	323,293	221,297
Czech Republic	1,844,823	1,704,953	1,475,239	1,264,571
Denmark	2,076,579	1,776,560	1,417,551	879,466
Estonia	50,312	70,759	107,077	65,718
Finland	2,088,532	1,133,527	588,693	448,860
France	31,472,018	25,055,178	34,490,973	30,200,686
Germany	39,508,924	29,914,005	19,897,144	17,570,310
Greece	409,137	331,899	2,583,487	1,764,529
Hungary	1,659,139	1,597,477	1,078,048	745,117
Ireland	4,202,939	3,851,511	891,621	571,328
Italy	21,784,992	14,898,371	15,177,289	12,951,288
Latvia	272,473	89,621	112,696	79,678
Lithuania	410,419	198,532	276,400	160,278
Luxembourg	462,010	242,113	232,022	199,046
Malta	70,025	72,711	118,761	160,358
Netherlands	10,766,253	8,912,847	5,936,685	4,731,338
Poland	2,672,828	2,411,612	2,716,378	2,493,711
Portugal	9,303,591	7,253,439	16,719,537	14,456,416
Romania	753,298	788,654	1,055,249	670,701
Slovakia	999,172	908,003	471,345	401,001
Slovenia	273,982	183,063	491,431	371,571
Sweden	3,005,557	2,093,304	1,638,931	1,224,636
United Kingdom	13,025,278	9,746,791	13,381,379	9,984,232
<b>TOTAL EU</b>	<b>157,020,904</b>	<b>120,775,742</b>	<b>128,597,851</b>	<b>107,664,140</b>

	Imports		Exports	
	2008	2009	2008	2009
Iceland	140,895	145,587	34,811	23,115
Liechtestein	37,030	25,949	4,308	3,912
Norway	1,972,281	1,738,520	988,129	800,316
Switzerland	2,847,820	2,727,444	2,498,611	2,668,690
<b>TOTAL EFTA</b>	<b>4,998,026</b>	<b>4,637,500</b>	<b>3,525,859</b>	<b>3,496,033</b>
Albania	16,888	21,738	43,221	59,426
Andorra	54,071	37,759	895,208	783,540
Belarus	408,677	135,711	71,625	57,492
Bosnia-Herzegovina	14,560	19,164	41,460	43,867
Croatia	58,994	46,940	288,114	192,128
Feroe islads (Denmark)	38,747	30,579	2,444	1,540
Fyrom	66,347	39,313	27,101	28,957
Gibraltar (United Kingdom)	9,921	21,406	1,078,759	922,803
Kosovo	219	1,528	6,634	7,858
Moldavia	2,887	3,208	16,182	17,686
Montenegro	1,320	884	24,552	19,584
Russian Federation	7,493,034	4,588,308	2,836,909	1,477,424
San Marino	9,842	5,134	11,161	6,406
Serbia	56,254	122,025	129,868	106,811
Turkey	3,697,969	2,632,693	3,006,399	2,597,335
Ukraine	899,572	582,253	407,563	188,606
Vatican City	87	49	100	20
<b>TOTAL OTHERS EUROPE</b>	<b>12,829,389</b>	<b>8,288,692</b>	<b>8,887,300</b>	<b>6,511,483</b>
Australia	781,125	421,448	1,036,748	832,766
Canada	1,416,723	818,929	832,820	735,036
Japan	5,120,909	3,120,692	1,457,582	1,217,188
New Zealand	142,726	118,055	127,024	71,542
United States	11,283,158	8,509,814	7,544,368	5,803,494
<b>TOTAL OTHER INDUSTRIALIZED COUNTRIES</b>	<b>18,744,641</b>	<b>12,988,938</b>	<b>10,998,542</b>	<b>8,660,026</b>
Argentina	2,376,064	1,360,797	700,731	601,510
Bolivia	50,253	37,924	35,209	34,379
Brazil	3,129,125	2,251,489	1,641,123	1,339,282
Chile	1,258,873	918,725	611,607	673,491
Colombia	504,624	391,935	403,310	314,698
Costa Rica	96,439	77,457	96,529	78,029
Cuba	146,366	118,224	776,811	467,915
Dominican Republic	173,167	118,437	350,020	195,434
Equador	396,198	329,369	199,670	183,979
El Salvador	70,995	60,693	44,091	32,892
Guatemala	50,248	48,251	115,840	87,418
Honduras	38,709	32,654	56,172	43,259
Mexico	3,201,531	1,884,746	2,806,502	2,453,281
Nicaragua	42,141	39,792	41,573	28,301
Panama	69,379	47,582	218,449	162,252
Paraguay	148,089	39,729	30,218	27,570
Peru	777,035	523,550	253,834	197,504
Uruguay	174,382	146,902	106,484	93,071
Venezuela	1,328,689	986,988	648,170	528,394
<b>TOTAL LATIN AMERICA</b>	<b>14,032,307</b>	<b>9,415,244</b>	<b>9,136,343</b>	<b>7,542,659</b>
Algeria	6,431,513	3,786,499	2,162,944	2,089,884
Egypt	1,575,346	1,439,379	665,964	831,742
Libya	3,140,789	2,153,461	248,294	271,739
Morocco	2,823,088	2,380,064	3,663,640	3,081,193
Tunisia	713,336	429,132	691,173	663,412
<b>TOTAL NORTH AFRICA</b>	<b>14,684,072</b>	<b>10,188,535</b>	<b>7,432,015</b>	<b>6,937,970</b>

	Imports		Exports	
	2008	2009	2008	2009
Angola	1,219,233	580,942	483,826	354,750
Benin	296	505	47,556	42,142
Bissau Guinea	5	422	3,237	4,200
Botswana	428	1,261	3,540	39,033
Burkina Faso	624	1,074	24,323	22,066
Burundi	211	148	1,200	1,591
Cameron	817,630	381,086	46,192	43,499
Cape Verde	15,144	18,002	43,363	31,658
Central African Republic	4,664	1,397	8,689	1,914
Chad	822	578	3,285	3,599
Comoros	62	24	2,306	1,208
Congo	71,422	72,767	44,841	33,001
Côte d'Ivoire	210,154	160,944	102,019	100,784
Democratic Republic of Congo	4,661	2,600	18,419	17,355
Djibouti	159	131	6,933	4,988
Equatorial Guinea	1,886,833	458,156	144,630	190,405
Eritrea	1	0	627	858
Ethiopia	9,496	5,356	22,048	29,640
Gabon	255,913	226,419	38,101	26,508
Gambia	1,622	177	9,757	10,617
Ghana	69,777	62,400	88,300	80,024
Guinea	164,071	157,987	70,643	31,505
Kenya	37,017	23,525	46,718	43,301
Lesotho	37	0	153	104
Liberia	1,373	1,935	28,601	29,816
Madagascar	33,375	26,166	16,287	15,815
Malawi	8,793	4,846	1,533	617
Mali	1,983	1,151	22,115	23,322
Mauritania	124,637	77,497	85,902	53,468
Mauritius	52,166	48,349	43,658	39,136
Mozambique	199,373	132,329	23,770	16,408
Namibia	176,230	161,259	15,036	11,659
Niger	677	1,081	4,990	4,964
Nigeria	4,692,931	2,889,568	239,357	217,042
Rwanda	281	3	6,609	16,777
Sao Tome and Principe	85	8	139	1,431
Senegal	53,496	38,851	144,682	113,735
Seychelles	10,541	14,355	65,630	48,727
Sierra Leone	2,517	2,156	7,498	10,965
Somalia	0	35	41	125
South Africa	1,583,094	861,887	648,250	552,069
Sudan	4,048	778	22,507	26,870
Swazilandia	12,346	15,249	609	475
Tanzania	26,406	26,635	18,242	17,905
Togo	3,734	8,580	45,548	17,619
Uganda	31,082	36,115	10,240	7,523
Zambia	15,787	7,235	2,565	3,423
Zimbabwe	34,110	8,017	2,028	891
Dependent territories	3,973	1,596	9,010	4,283
<b>TOTAL SUBSAHARIAN AFRICA</b>	<b>11,843,320</b>	<b>6,521,582</b>	<b>2,725,553</b>	<b>2,349,815</b>
Armenia	12,754	9,000	16,753	10,528
Azerbaijan	676,000	352,901	23,845	22,078
Bahrain	96,978	33,575	68,991	70,173
Georgia	36,771	69,250	33,292	16,147
Iran	3,112,719	2,027,508	466,587	442,988



	Imports		Exports	
	2008	2009	2008	2009
Iraq	1,227,633	798,215	27,269	51,890
Israel	846,041	702,204	773,630	609,562
Jordan	31,014	11,583	123,872	119,700
Kuwait	243,802	227,398	197,705	149,413
Lebanon	23,859	14,911	195,014	203,858
Oman	69,520	257,968	90,787	61,446
Palestina	9	10	3,576	895
Qatar	1,410,203	855,945	267,332	183,646
Saudi Arabia	4,202,647	2,371,798	972,353	882,025
Syria	206,766	189,455	206,186	181,928
United Arab Emirates	245,160	80,245	1,177,362	918,987
Yemen	11,363	4,180	29,186	24,219
<b>TOTAL MIDDLE EAST</b>	<b>12,453,239</b>	<b>8,006,146</b>	<b>4,673,740</b>	<b>3,949,483</b>
Brunei	102	13	7,981	1,350
Cambodia	119,896	115,812	2,637	1,661
Indonesia	1,737,204	1,738,901	199,015	198,469
Lao People's Democratic Republic	5,795	4,479	366	472
Malaysia	782,063	461,776	241,905	357,488
Myanmar	37,601	32,357	2,593	3,535
Philippines	253,690	126,850	136,350	129,154
Singapore	417,433	334,439	376,657	605,514
Thailand	1,378,598	891,228	337,149	251,579
Viet Nam	1,084,910	918,705	106,301	113,942
<b>TOTAL ASEAN</b>	<b>5,817,292</b>	<b>4,624,560</b>	<b>1,410,954</b>	<b>1,663,164</b>
Afghanistan	346	376	7,671	21,986
Bangladesh	557,771	590,615	59,811	49,297
Bhutan	1	2	32	65
China	20,492,570	14,454,219	2,152,731	1,989,357
Democratic People's Republic of Korea	3,776	3,902	17,085	1,434
Fiji	2,208	5	437	683
Hong Kong (China)	462,942	280,262	578,674	520,108
India	2,354,051	1,837,805	768,370	796,913
Kazakhstan	681,499	264,942	63,736	53,369
Kiribati	12	14	2	0
Kyrgyzstan	114	848	2,366	1,915
Macao (China)	23,681	3,975	6,722	5,528
Maldives	2,575	2,759	1,338	1,025
Mongolia	236	78	5,302	1,338
Nepal	3,706	2,697	3,327	2,298
Pakistan	378,912	335,209	91,937	92,236
Papua New Guinea	106,299	86,753	703	2,727
Republic of Korea	2,689,897	1,820,325	569,521	572,088
Samoa	3	0	1,659	174
Solomon Islands	16,041	11,343	604	26
Sri Lanka	72,322	60,765	26,559	11,855
Taiwan	1,524,655	1,057,785	274,551	291,151
Tajikistan	196	12	588	885
Timor-Leste	121	76	139	160
Tonga	0	103	2	1
Turkmenistan	78,037	9,662	5,986	17,534
Tuvalu	0	0	11	0
Uzbekistan	4,344	2,254	9,656	9,997
Vanuatu	3	592	1,615	7,021
Others/Dependent territories	107,635	71,184	37,335	29,990
<b>TOTAL ASIA AND OCEANIA</b>	<b>29,563,953</b>	<b>20,898,562</b>	<b>4,688,470</b>	<b>4,481,161</b>

Source: DataComex [on line]: Statistics of Spanish foreign trade.  
 Madrid: Ministry of Industry, Tourism and Trade. Secretariat of State for Tourism and Trade  
 <[http://datacomex.comercio.es/principal\\_comex\\_es.aspx](http://datacomex.comercio.es/principal_comex_es.aspx)>. [Data from: 03.16.10].

Produced by: CIDOB

## III. RANKING OF MAIN COUNTRIES (PROVIDER/CLIENT) AND TRADE QUOTA PERCENTAGE

Imports 2009					Exports 2009				
(*)			Thousand €	%	(*)			Thousand €	%
1	1	Germany	29,914,005	14.35	1	1	France	30,200,686	19.08
2	2	France	25,055,178	12.02	2	2	Germany	17,570,310	11.10
3	3	Italy	14,898,371	7.15	3	3	Portugal	14,456,416	9.13
4	4	China	14,454,219	6.93	4	4	Italy	12,951,288	8.18
5	5	United Kingdom	9,746,791	4.68	5	5	United Kingdom	9,984,232	6.31
7	6	Netherlands	8,912,847	4.28	6	6	United Sates	5,803,494	3.67
6	7	United States	8,509,814	4.08	7	7	Netherlands	4,731,338	2.99
8	8	Portugal	7,253,439	3.48	8	8	Belgium	4,352,830	2.75
10	9	Belgium	5,465,165	2.62	9	9	Morocco	3,081,193	1.95
9	10	Russian Federation	4,588,308	2.20	14	10	Switzerland	2,668,690	1.69
14	11	Ireland	3,851,511	1.85	10	11	Turkey	2,597,335	1.64
11	12	Algeria	3,786,499	1.82	13	12	Poland	2,493,711	1.58
12	13	Japan	3,120,692	1.50	12	13	Mexico	2,453,281	1.55
13	14	Nigeria	2,889,568	1.39	17	14	Algeria	2,089,884	1.32
22	15	Switzerland	2,727,444	1.31	16	15	China	1,989,357	1.26
16	16	Turkey	2,632,693	1.26	15	16	Greece	1,764,529	1.11
25	17	Poland	2,411,612	1.16	11	17	Russian Federation	1,477,424	0.93
23	18	Morocco	2,380,064	1.14	23	18	Austria	1,339,941	0.85
15	19	Saudi Arabia	2,371,798	1.14	19	19	Brazil	1,339,282	0.85
19	20	Brazil	2,251,489	1.08	21	20	Czech Republic	1,264,571	0.80
18	21	Libya	2,153,461	1.03	18	21	Sweden	1,224,636	0.77
21	22	Sweden	2,093,304	1.00	20	22	Japan	1,217,188	0.77
20	23	Iran	2,027,508	0.97	25	23	Gibraltar (United Kingdom)	922,803	0.58
17	24	Mexico	1,884,746	0.90	24	24	United Arab Emirates	918,987	0.58
28	25	India	1,837,805	0.88	30	25	Saudi Arabia	882,025	0.56

(\*) Ranking in 2008

Source: DataComex (on line): Statistics of Spanish foreign trade.

Madrid: Ministry of Industry, Tourism and Trade. Secretariat of State for Tourism and Trade

<[http://datacomex.comercio.es/principal\\_comex\\_es.aspx](http://datacomex.comercio.es/principal_comex_es.aspx)>. [Data from: 16.03.10].

Produced by: CIDOB







# Foreign direct investment

## I. FOREIGN DIRECT INVESTMENT IN SPAIN BY AREAS

	2008			2009		
	Gross		Net	Gross		Net
	Thousand €	%	Thousand €	Thousand €	%	Thousand €
EU	28,070,193	95.81	24,731,238	7,107,962	60.70	5,691,245
EFTA	407,037	1.39	373,750	201,264	1.72	164,007
OTHERS EUROPE	19,818	0.07	19,612	22,249	0.19	21,720
OTHER INDUSTRIALIZED COUNTRIES	207,498	0.71	-54,207	314,799	2.69	293,040
LATIN AMERICA	165,864	0.57	138,601	462,516	3.95	397,292
OTHERS AMERICA	16,910	0.06	9,248	17,748	0.15	13,090
NORTH AFRICA	140,542	0.48	140,534	10,195	0.09	10,108
SUBSAHARIAN AFRICA	1,981	0.01	-5	2,528	0.02	-44,308
MIDDLE EAST	17,427	0.06	17,101	24,667	0.21	24,635
ASEAN	1,527	0.01	1,526	385	0.00	184
ASIA AND OCEANIA	40,853	0.14	40,229	68,916	0.59	68,859
TAX HAVENS	209,132	0.71	172,748	3,477,606	29.70	3,387,519
<b>WORLD TOTAL</b>	<b>29,298,782</b>	<b>100</b>	<b>25,590,375</b>	<b>11,710,835</b>	<b>100</b>	<b>10,027,391</b>

Direct investments in marketable securities included.  
Do not include investments through Foreign Securities Holding Entities.  
Net investment is gross investment minus disinvestment.  
Source: Foreign investments registry.  
[[http://datainvex.comercio.es/principal\\_invex.aspx](http://datainvex.comercio.es/principal_invex.aspx). Data from 27.04.2010]

Produced by: CIDOB

## II. FOREIGN DIRECT INVESTMENT IN SPAIN BY COUNTRIES

(thousand €)

	2008		2009	
	Gross	Net	Gross	Net
Austria	29,217	-12,927	28,127	25,157
Belgium	139,079	136,159	11,959	-57,789
Bulgaria	12	6	100	100
Cyprus	12,782	12,775	6,359	6,358
Czech Republic	1,573	1,382	1,427	1,425
Denmark	91,903	-774,545	15,834	15,352
Estonia	229	229	51	50
Finland	8,591	8,198	1,386	93
France	2,253,472	2,100,760	1,133,124	1,035,775
Germany	7,737,802	7,489,396	478,131	368,543
Greece	2,844	2,844	1,023	940
Hungary	20	19	2,256	2,252
Ireland	13,755	11,928	8,986	7,654
Italy	275,035	-106,135	402,058	330,825
Latvia	10	10	28	-152
Lithuania	55	55	6	6
Luxembourg	1,281,112	1,094,016	1,218,826	1,064,717
Malta	17,719	17,719	41,452	40,957
Netherlands	2,609,871	1,799,979	2,616,470	2,228,730
Poland	38,071	35,847	30,824	30,824
Portugal	228,775	198,864	354,711	346,796
Romania	587	577	91	91
Slovakia	13,914	13,914	5,753	5,753
Slovenia	2,360	2,360	100	95
Sweden	80,233	-452,785	258,234	238,739
United Kingdom	13,231,172	13,150,593	490,646	-2,046
<b>TOTAL EU</b>	<b>28,070,193</b>	<b>24,731,238</b>	<b>7,107,962</b>	<b>5,691,245</b>

	2008		2009	
	Gross	Net	Gross	Net
Iceland	495	495	6	6
Norway	10,630	10,611	7,475	-2,672
Switzerland	395,912	362,644	193,783	166,673
<b>TOTAL EFTA</b>	<b>407,037</b>	<b>373,750</b>	<b>201,264</b>	<b>164,007</b>
Albania	6	6	0	0
Belarus	58	58	0	0
Bosnia-Herzegovina	130	130	0	0
Croatia	2,869	2,869	0	0
Fyrom	0	0	3	3
Moldavia	1	1	0	0
Russian Federation	7,514	7,310	11,527	11,003
Serbia and Montenegro	0	-2	6	6
Turkey	9,229	9,229	7,430	7,425
Ukraine	11	11	3,283	3,283
<b>TOTAL OTHERS EUROPE</b>	<b>19,818</b>	<b>19,612</b>	<b>22,249</b>	<b>21,720</b>
Australia	5,590	5,583	11,723	11,720
Canada	4,429	4,427	18,881	17,922
Japan	24,379	17,873	53,237	51,003
New Zealand	1,175	1,172	23	20
United States	171,925	-83,262	230,935	212,375
<b>TOTAL OTHER INDUSTRIALIZED COUNTRIES</b>	<b>207,498</b>	<b>-54,207</b>	<b>314,799</b>	<b>293,040</b>
Argentina	3,342	326	57,616	6,552
Bolivia	37	34	12	12
Brazil	7,649	875	7,474	7,232
Chile	3,516	3,389	13,386	11,262
Colombia	5,555	5,533	1,797	1,745
Costa Rica	8,099	7,456	1,643	-244
Cuba	770	770	3	-2
Dominican Republic	631	-9,089	831	803
Equador	857	855	13	12
El Salvador	2	2	0	0
Guatemala	1,162	1,162	0	0
Mexico	83,573	77,552	86,816	78,090
Nicaragua		0		0
Paraguay	10	10	1,117	1,117
Peru	2,125	2,112	2,608	2,540
Uruguay	42,116	41,839	272,448	271,543
Venezuela	6,420	5,775	16,752	16,630
<b>TOTAL LATIN AMERICA</b>	<b>165,864</b>	<b>138,601</b>	<b>462,516</b>	<b>397,292</b>
Algeria	7	5	21	18
Egypt	40,413	40,410	2,895	2,895
Libya	100,001	100,001	250	250
Morocco	119	116	4,476	4,392
Tunisia	2	2	2,553	2,553
<b>TOTAL NORTH AFRICA</b>	<b>140,542</b>	<b>140,534</b>	<b>10,195</b>	<b>10,108</b>
Angola	133	133	32	32
Burkina Faso	76	76	0	0
Cameroon	1	1	3	3
Equatorial Guinea	97	97	2,002	2,002
Guinea	0	0	2	2
Kenya	0	0	249	231
Mozambique	4	4	1	1
Namibia	0	0	2	2
Nigeria	0	0	0	0
Senegal	1,083	-903	0	0
South Africa	587	587	237	-46,581
<b>TOTAL SUBSAHARIAN AFRICA</b>	<b>1,981</b>	<b>-5</b>	<b>2,528</b>	<b>-44,308</b>

	2008		2009	
	Gross	Net	Gross	Net
Armenia	3	3	0	0
Azerbaijan	0	0	3	2
Georgia	3	3	5	5
Iran	88	87	128	128
Iraq	2	2	0	0
Israel	8,514	8,189	19,520	19,489
Kuwait	4,077	4,077	0	0
Oman	0	0	2	2
Qatar	93	93	2	2
Saudi Arabia	4,482	4,482	5,004	5,004
Syria	165	165	3	3
<b>TOTAL MIDDLE EAST</b>	<b>17,427</b>	<b>17,101</b>	<b>24,667</b>	<b>24,635</b>
Malaysia	0	0	300	300
Philippines	1,527	1,526	82	-112
Thailand	0	0	0	-7
Viet Nam	0	0	3	3
<b>TOTAL ASEAN</b>	<b>1,527</b>	<b>1,526</b>	<b>385</b>	<b>184</b>
Bangladesh	0	0	4	4
China	1,047	1,039	2,643	2,587
India	34,804	34,804	15,345	15,344
Kazakhstan	40	-20	42	42
Pakistan	12	9	12	12
Republic of Korea	3,349	3,349	50,207	50,207
Taiwan	1,597	1,044	659	659
Uzbekistan	0	0	4	4
Oceania (Other countries and territories)	4	4	0	0
<b>ASIA AND OCEANIA</b>	<b>40,853</b>	<b>40,229</b>	<b>68,916</b>	<b>68,859</b>
Andorra	63,019	50,103	23,957	21,641
Anguilla	404	401	0	0
Antigua and Barbuda	762	762	130	130
Aruba	0	0	0	-3
Bahamas	53	53	290	290
Bahrain	557	557	0	0
Barbados	3	3	0	0
Bermuda	0	-257	1,922	1,852
British Virgin Islands	26,483	20,648	40,862	37,317
Brunei	120	120	0	0
Cayman Islands	4,350	3,338	10	-2,111
Gibraltar	12,657	6,046	6,122	3,906
Guernsey	3,086	1,584	5,577	2,512
Hong Kong	544	544	1,113	1,068
Isle of Man	1,294	1,141	3,055	3,036
Jersey Islands	6,266	5,436	2,640	2,640
Jordan	60	30	125	125
Lebanon	31	27	6	6
Liberia	0	0	302	251
Liechtenstein	27,918	26,396	14,636	-53,881
Monaco	2,943	2,525	6,441	6,425
Netherlands Antilles	3,712	3,712	760	759
Panama	32,235	26,959	40,276	32,174
San Marino	700	700	5,153	5,153
Seychelles	1,619	1,616	5,068	5,068
Singapore	17,042	17,042	117	117
United Arab Emirates	3,274	3,262	3,319,044	3,319,044
<b>TOTAL TAX HAVENS</b>	<b>209,132</b>	<b>172,748</b>	<b>3,477,606</b>	<b>3,387,519</b>

Source: Foreign Investment Registry  
[\[http://datainvex.comercio.es/principal\\_invex.aspx\]](http://datainvex.comercio.es/principal_invex.aspx), Data From 27.04.2010]

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**III. FOREIGN DIRECT INVESTMENT IN SPAIN.  
RANKING OF GROSS FOREIGN DIRECT INVESTMENT IN SPAIN, BY COUNTRY OF ORIGIN (2009)**

(*)		Thousand €	%
50	1 United Arab Emirates	3,319,044	28.34
3	2 Netherlands	2,616,470	22.34
5	3 Luxembourg	1,218,826	10.41
4	4 France	1,133,124	9.68
1	5 United Kingdom	490,646	4.19
2	6 Germany	478,131	4.08
7	7 Italy	402,058	3.43
8	8 Portugal	354,711	3.03
16	9 Uruguay	272,448	2.33
14	10 Sweden	258,234	2.21
9	11 United States	230,935	1.97
6	12 Switzerland	193,783	1.65
13	13 Mexico	86,816	0.74
49	14 Argentina	57,616	0.49
24	15 Japan	53,237	0.45

\* Ranking in 2008.  
Source: Foreign Investment Registry.  
[[http://datainvex.comercio.es/principal\\_invex.aspx](http://datainvex.comercio.es/principal_invex.aspx). Data from: 04.27.2010].

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## IV. SPANISH FOREIGN DIRECT INVESTMENT BY AREAS

	2008			2009		
	Gross		Net	Gross		Net
	Thousand €	%	Thousand €	Thousand €	%	Thousand €
EU	15,474,348	46.89	9,681,081	5,340,153	38.95	2,249,154
EFTA	383,713	1.16	-6,479	549,848	4.01	456,715
OTHERS EUROPE	1,002,036	3.04	1,001,652	374,947	2.73	352,067
OTHER INDUSTRIALIZED COUNTRIES	7,687,866	23.29	7,495,624	5,143,823	37.52	4,890,695
LATIN AMERICA	6,256,930	18.96	5,009,997	1,778,939	12.98	-83,419
NORTH AFRICA	719,193	2.18	708,984	100,246	0.73	76,689
SUBSAHARIAN AFRICA	24,817	0.08	13,609	59,170	0.43	31,584
MIDDEL EAST	22,780	0.07	22,780	11,056	0.08	11,056
ASEAN	31,457	0.10	-139,813	23,330	0.17	23,330
ASIA AND OCEANIA	395,320	1.20	393,469	120,497	0.88	117,901
TAX HAVENS	1,004,412	3.04	759,407	207,275	1.51	109,651
OTHERS/NOT CLASSIFIED	121	0.00	121	28	0.00	-1,946
<b>WORLD TOTAL</b>	<b>33,002,993</b>	<b>100</b>	<b>24,940,432</b>	<b>13,709,312</b>	<b>100</b>	<b>8,233,477</b>

Direct investments in marketable securities included.

Do not include investments through Foreign Securities Holding Entities.

Net investment is gross investment minus disinvestment.

Source: Foreign investments registry.

[[http://datainvex.comercio.es/principal\\_invex.aspx](http://datainvex.comercio.es/principal_invex.aspx). Data from 27.04.2010]

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## V. SPANISH FOREIGN DIRECT INVESTMENT BY COUNTRIES

(thousand €)

	2008		2009	
	Gross	Net	Gross	Net
Austria	695,936	672,387	23,344	-69,049
Belgium	839,379	817,713	7,387	-55,846
Bulgaria	31,263	31,250	29,400	27,900
Cyprus	0	0	0	0
Czech Republic	31,249	30,112	9,692	9,537
Denmark	28,618	25,060	672	-93,267
Estonia	632	632	0	0
Finland	1,325	1,325	0	-58,527
France	1,011,338	-1,465,568	385,432	185,161
Germany	226,700	211,726	72,466	-277,202
Greece	1,121,161	1,109,861	32,746	32,746
Hungary	92,623	23,195	57,920	57,625
Ireland	8,977	5,227	442,580	442,580
Italy	660,020	-59,690	243,790	85,898
Latvia	3	3	3	3
Lithuania	2,317	2,317	0	0
Luxembourg	313,977	264,347	271,684	-364,268
Malta	121,810	121,295	121,222	121,222
Netherlands	3,915,072	3,826,456	295,743	-97,294
Poland	149,432	114,659	98,731	46,880
Portugal	1,127,977	648,767	379,792	-36,553
Romania	95,316	95,091	29,944	1,040
Slovakia	5,522	5,522	4,635	4,635
Slovenia	88	88	0	0
Sweden	18,906	-2,785	17,696	17,578
United Kingdom	4,974,707	3,202,091	2,815,274	2,268,355
<b>TOTAL UE</b>	<b>15,474,348</b>	<b>9,681,081</b>	<b>5,340,153</b>	<b>2,249,154</b>

	2008		2009	
	Gross	Net	Gross	Net
Iceland	0	0	0	-3
Norway	56,733	47,831	87,197	-3,577
Switzerland	326,980	-54,310	462,651	460,295
<b>TOTAL EFTA</b>	<b>383,713</b>	<b>-6,479</b>	<b>549,848</b>	<b>456,715</b>
Croatia	3,012	3,012	6	6
Fyrom	0	0	153	153
Montenegro	21	21	0	0
Russian Federation	203,612	203,612	174,949	174,863
Serbia	2,310	2,310	4,000	4,000
Turkey	789,729	789,379	187,358	164,565
Ukraine	3,352	3,318	8,481	8,480
<b>TOTAL OTHERS EUROPE</b>	<b>1,002,036</b>	<b>1,001,652</b>	<b>374,947</b>	<b>352,067</b>
Australia	17,297	17,297	25,004	23,761
Canada	76,363	69,229	227,759	227,759
Japan	32,489	30,430	3,593	-168,406
New Zealand	9,595	9,595	0	0
United States	7,552,122	7,369,073	4,887,467	4,807,581
<b>TOTAL OTHER INDUSTRIALIZED COUNTRIES</b>	<b>7,687,866</b>	<b>7,495,624</b>	<b>5,143,823</b>	<b>4,890,695</b>
Argentina	525,453	494,589	72,987	61,351
Bolivia	118	-50,536	0	0
Brazil	969,661	421,699	962,218	874,515
Chile	140,883	36,785	57,100	-152,254
Colombia	216,253	213,522	31,015	-93,716
Costa Rica	56,411	52,663	7,535	5,035
Cuba	0	0	0	-558
Dominican Republic	31,441	19,319	1,966	1,966
Equador	55,818	23,678	307,750	307,750
El Salvador	249	249	24	23
Guatemala	13,733	13,290	4,558	-42,763
Honduras	5,000	5,000	8	8
Mexico	3,421,699	3,046,358	276,926	228,516
Nicaragua	0	0	0	-4,700
Paraguay	2,635	2,635	18	18
Peru	587,779	501,602	25,902	-305,576
Uruguay	228,486	227,873	14,128	-136,071
Venezuela	1,311	1,271	16,804	-826,963
<b>TOTAL LATIN AMERICA</b>	<b>6,256,930</b>	<b>5,009,997</b>	<b>1,778,939</b>	<b>-83,419</b>
Algeria	69,709	69,709	5,022	5,022
Egypt	21,342	21,342	36,480	36,480
Libya	293	293	45	45
Morocco	563,961	553,761	48,175	24,618
Tunisia	63,888	63,879	10,524	10,524
<b>TOTAL NORTH AFRICA</b>	<b>719,193</b>	<b>708,984</b>	<b>100,246</b>	<b>76,689</b>
Angola	1,445	1,445	0	0
Cape verde	6	-7,806	4,000	-500
Equatorial Guinea	15	15	46	-15
Mauritius	0	0	1	1
Gambia	0	0	0	0
Guinea	0	0	5,000	5,000
Kenya	650	650	0	0
Mauritania	0	0	564	561
Mozambique	0	0	0	0
Namibia	18,490	18,490	7,016	7,016
Nigeria	0	0	365	365
Senegal	7	7	8	-992
Sierra Leone	0	0	12	-10
South Africa	4,204	808	42,158	20,158
<b>TOTAL SUBSAHARIAN AFRICA</b>	<b>24,817</b>	<b>13,609</b>	<b>59,170</b>	<b>31,584</b>

	2008		2009	
	Gross	Net	Gross	Net
Iran	58	58	0	0
Israel	57	57	0	0
Kuwait	1,949	1,949	0	0
Lebanon	0	0	108	108
Qatar	0	0	0	0
Saudi Arabia	20,530	20,530	10,948	10,948
Syria	175	175	0	0
Yemen	11	11	0	0
<b>TOTAL MIDDLE EAST</b>	<b>22,780</b>	<b>22,780</b>	<b>11,056</b>	<b>11,056</b>
Indonesia	165	165	1,972	1,972
Malaysia	30,625	30,625	20,841	20,841
Philippines	10	-171,260	517	517
Thailand	500	500	0	0
Viet Nam	157	157	0	0
<b>TOTAL ASEAN</b>	<b>31,457</b>	<b>-139,813</b>	<b>23,330</b>	<b>23,330</b>
Bangladesh	0	0	0	0
Brunei	242	242	0	0
China	96,147	94,296	69,449	67,248
India	215,299	215,299	12,426	12,426
Kazakhstan	2	2	0	0
Mongolia	0	0	0	0
Pakistan	0	0	0	0
Republic of Korea	43,591	43,591	36,342	35,947
Samoa	0	0	0	0
Sri Lanka	737	737	557	557
Taiwan	6,225	6,225	1,211	1,211
Uzbekistan	33,077	33,077	485	485
Oceania (Other countries and territories)	0	0	27	27
<b>ASIA AND OCEANIA</b>	<b>395,320</b>	<b>393,469</b>	<b>120,497</b>	<b>117,901</b>
Andorra	2,430	879	2,821	2,821
Bahrain	88	88	0	0
Bermuda	85	85	0	0
British Virgin Islands	0	-144	2,578	2,578
Cayman Islands	32,485	-96,512	7,508	-82,416
Falkland Islands	0	0	0	0
Ghana	0	0	2,631	2,631
Gibraltar	18,705	18,705	26,500	26,500
Guernsey	13,834	13,834	24	24
Hong Kong	738,093	738,093	46,824	46,824
Isle of Man	0	-1,323	0	0
Jamaica	73	73	0	0
Jersey Islands	111,164	-158	0	0
Jordan	0	0	1,588	1,588
Liberia	0	0	3,500	3,500
Liechtenstein	49,636	49,636	0	0
Netherlands Antilles	0	-3	0	0
Panama	26,087	24,422	78,350	70,650
Saint Lucia	0	0	0	0
Singapore	1,690	1,690	0	0
Turks and Caicos Islands	0	0	0	0
United Arab Emirates	10,042	10,042	34,951	34,951
<b>TOTAL TAX HAVENS</b>	<b>1,004,412</b>	<b>759,407</b>	<b>207,275</b>	<b>109,651</b>

Source: Foreign Investment Registry.  
[[http://datainvex.comercio.es/principal\\_invex.aspx](http://datainvex.comercio.es/principal_invex.aspx). Data from 27.04.2010]

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**VI. SPANISH FOREIGN DIRECT INVESTMENT.  
RANKING OF SPANISH GROSS FOREIGN DIRECT INVESTMENT, BY COUNTRIES (2009)**

(*)		Thousand €	%
1	1 United States	4,887,467	35.65
2	2 United Kingdom	2,815,274	20.54
8	3 Brazil	962,218	7.02
17	4 Switzerland	462,651	3.37
58	5 Ireland	442,580	3.23
7	6 France	385,432	2.81
5	7 Portugal	379,792	2.77
36	8 Equador	307,750	2.24
3	9 Netherlands	295,743	2.16
4	10 Mexico	276,926	2.02
18	11 Luxembourg	271,684	1.98
13	12 Italy	243,790	1.78
31	13 Canada	227,759	1.66
10	14 Turkey	187,358	1.37
23	15 Russian Federation	174,949	1.28

\* Ranking in 2008.  
Source: Foreign Investment Registry.  
[[http://datainvex.comercio.es/principal\\_invex.aspx](http://datainvex.comercio.es/principal_invex.aspx). Data from: 04.27.2010].

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# Spanish development cooperation in 2008

Continuing along the lines of the growth trend initiated in 2004, Spain made the greatest economic effort in its history in 2008, bringing the volume of its Official Development Assistance (ODA) to 0.45% of its Gross National Income (GNI), which was 0.08% above the previous year (0.37%). This meant that, with respect to this indicator, Spain advanced three positions to be situated in eighth place in the OECD Development Assistance Committee (DAC) ranking of countries and ahead of such countries as France, Finland and Austria. Despite such a significant upwards leap, the advance is still not sufficient to reach the 0.5% promised at the Monterrey Summit in 2002.

In terms of volume of resources, and for the year 2008, Spain comes after the United States as the country that has most increased its contributions, reaching the sum of 4,761.7 million euros<sup>1</sup> (747.6 million less than initially envisaged), a figure that is 26.8% higher than that for 2007. This amount enables Spain to retain its seventh position in the list of DAC countries and fifth place among the main donor countries of the EU (see Table I of the Annex on ODA in the DAC in this *Yearbook*).

However, besides ODA there are other mechanisms through which the richer countries can have an influence in the poorer ones. One may find a commendable attempt to synthesise the multidimensional character of these factors in the Commitment to Development Index (CDI), which has been produced on an annual basis since 2003 by the Washington-based Center for Global Development. Hence, besides considering both the quantity and quality of assistance given, the CDI also takes into account other public policies that have a crucial impact on the development of target countries, for example the degree of access offered to their exports; promotion of responsible direct foreign investment; facilities for the immigrant population from these countries; commitment to the struggle against climatic change; support for missions of peace and security; and diffusion of and access to technology and innovation.

In its most recent edition, with data referring to 2008 and including 22 countries (see Graph VIII of the Annex on the DAC's follow-up of ODA in this *Yearbook*), the Nordic countries (The Netherlands, Sweden and Norway) head the list. In contrast, South Korea, Japan and Italy are at the bottom. Spain occupies twelfth place, a position that is explained by the benefits offered in its migration policies (where very positive rating is given for the large migratory flows from the South in recent years) although these are counterbalanced by Spain's low-level involvement in peace and stabilisation missions.

Spanish net ODA<sup>2</sup> is divided between the 30.1% that is channelled through multilateral aid and the 69.9% in bilateral aid.<sup>3</sup> Gross ODA contributions to multilateral development agencies have grown, in comparison with the previous year, by 23.7% and exceed 2,800 million euros, which reveals a clear commitment to this instrument. Also notable is the increase in contributions to multilateral financial organisms in general and, in particular, the Inter-American Development Bank (IDB) and the African Development Bank. These two banks concentrate almost the entirety of resources earmarked for regional development banks (68.0% and 22.5% respectively). Noteworthy here is the contribution to the IDB, which received approximately 300 million euros more last year as part of the recently created Cooperation Fund for Water and Sanitation (see Table I and Table II of the present Annex).

With regard to non-financial multilateral organisms, in 2008 the United Nations Development Programme (UNDP) received 250 million euros less than the previous year. This is due to the creation of the UNDP/Spain Millennium Development Goals Achievement Fund, through which 528 million euros were channelled in 2007, and 200 million in 2008. Nevertheless, the UNDP continues to be the chief recipient among organisms of this nature, with 26.3%, followed by the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATIM) with 7.7%, the United Nations International Children's Emergency Fund (UNICEF) with 7.2%, the World Food Programme (WFP) with 6.7%, and the United Nations Development Fund for Women (UNIFEM) with 5.9% (see Table III of the Present Annex).

Net repayable bilateral aid<sup>4</sup> doubled with regard to 2007. Under this heading, credits from the Development Assistance Fund (DAF) had greater relative presence in 2008 in reaching 4% of total net ODA for Spain by comparison with the 2.14% of the previous year, pending the reform that was scheduled to begin at the end of 2009. In accordance with the document of the Spanish Annual Follow-up Plan for International Cooperation (PACI) 2008, this increase is due to a change in one of the accounting criteria, which now include operations approved in the Interministerial Commission for the Development Assistance Fund and which were programmed for updating in 2008. Notwithstanding the commitments made with the DAC, the financing of development projects in Africa and for the provision of Basic Social Services in Latin America is maintained by means of this instrument. The geographic distribution of DAF credits tends, first, to countries of medium-high per capita income (53.9% of the total)



and, second, to less advanced countries (31.4%). The resources transferred by the Microcredit Concession Fund to developing countries amounted to the highest level of their history, increasing by 66% over the previous year, although their presence in the total net ODA was diminished.

As for international debt relief operations, within the framework of non-repayable bilateral aid the funds paid out rose to a figure of 236.7 million euros (which represents 5% of net ODA). Notable here is phase three of the debt relief programme for Iraq and the CELGUSA debt liquidation operation in Guatemala, these being financial operations that have been written off decades after the fact, and that jointly represent an ODA of 210 million euros (see Table I and Table X of the present Annex). Bilateral aid in programmes and projects, along with donations channelled through NGOs for Development, have increased over the previous year, representing 14.9% and 13.4% respectively of total net ODA (in the latter case, humanitarian aid and development awareness projects are not included). ODA earmarked for humanitarian action also rose considerably in comparison with 2007 and that which is channelled bilaterally, including donations carried out by or in cooperation with multilateral development agencies, went up to 75.9%. Finally, ODA going to development awareness and education programmes also rose (by 20.2%), although the participation of this instrument in the total net ODA as a whole dropped slightly to be situated at 1.2% (see Table I of the present Annex).

Of the total of net Spanish ODA, 87% is implemented through the central Administration, 13% through the decentralised Administration, and 0.2% through universities. Within the Spanish State Administration, the Ministry of Foreign Affairs and Cooperation heads the list in terms of the volume of resources managed (2,446.3 million euros or 51.4% of the total) of which the Spanish Agency for International Development Cooperation is responsible for 38.9%, with a relative weight in the totality of net Spanish ODA of 19.3%. By order of importance, it is followed by the Ministry of Economy and Finance, which manages almost 30% (1,402.1 million euros) and the Ministry of Industry, Tourism and Trade with 198.1 million euros (4% of the total). The Ministry of Defence is losing ground in matters of cooperation for development and its participation in Spanish ODA has dropped from 0.38% to 0.25% in one year (see Table IV and Table VIII of the present Annex).

Decentralised Spanish cooperation for development, which is to say that carried out by the Autonomous Communities and local entities, continues to expand and the volume of resources here rose by 100 million euros with respect to 2007, some 20% more in one year. Nevertheless, the relative participation of this sector in net Spanish ODA has dropped, from 13.6% in 2007 to 12.9% in 2008. In absolute terms, the ODA ranking for the Autonomous Communities is once again headed by Andalusia, contributing an ODA that represents more than 20% of the total in this category. It is followed, some way behind, by the Valencia Community and Catalonia, with 13.9% and 13.5% of the total respectively. Navarra still tops the list in terms of ODA per capita (33.3 euros), also ousting the Balearic Islands from first place when it comes to percentage of the overall budget. These two communities respectively assign 0.48% and 0.47% of their

budget to ODA and are closely followed by the Valencia Community (0.46%). This latter Autonomous Community, moreover, is notable for the significant increase in resources earmarked for cooperation over the year of 2008 (34 million euros, which doubles its contribution in relation with its budget). Another Autonomous Community that has significantly increased the volume of its ODA is the Basque Country (an increase of 39%), followed by Madrid (almost 26%), Aragon (approximately 20%) and Andalusia (a little over 18%). In contrast, several Autonomous Communities have reduced their aid flows, notable here being Castile and Leon with almost 27% less, followed by Asturias, Extremadura, La Rioja, Galicia, Cantabria and, finally, the Balearic Islands. Also noteworthy is the fact that, one year more, the percentage assigned by the Autonomous Communities for ODA has stayed stable at 0.27% (see Table VII of the present Annex).

Cooperation for development from local entities (town and city councils, regional councils, and the administration and councils of the islands) is situated at 148.8 million euros, representing 3.1% of Spanish ODA. Despite the increase in the volume of resources assigned for ODA in 2007, participation in Spanish ODA as a whole has been reduced. The Madrid City Council continues to be the leading donor on the local scale with over 19 million euros, followed at a considerable distance by the Barcelona City Council with almost 8 million euros. Unlike the Autonomous Communities, several local entities have exceeded 0.7% in terms of their budget, notable amongst these being Vitoria-Gasteiz, Pamplona, Gijón and Burgos.

In 2008 the volume of net ODA from universities dropped by more than 2.21 million euros, while their participation in Spanish ODA as a whole also fell from 0.3% to 0.2%. Once again, the Complutense University of Madrid has made the greatest economic effort.

With regard to the division by sector of gross ODA (see Table IX of the present Annex), the part assigned for financing activities under the heading of infrastructure and social services represents 45.5% of the total. Within this group, although the sub-sector of government and civil society remains at the top of the list with a relative presence of 11.2%, ODA fell slightly with regard to 2007. By contrast, sub-sectors such as education (8.8%), health (6.6%), population and reproductive health (3.6%), and water supply and purification (9.1%) increased in their relative importance. The latter is the area that has seen the biggest increase, from 185.4 million euros in 2007 to 451.9 million in 2008, this being due, in great part, to the contributions of the Cooperation Fund for Water and Sanitation. The sector pertaining to economic infrastructure and services remains practically the same (about 12%).

Latin America continues to be the leading geographic destination of Spanish aid in 2008, accounting for 30.9% of the total of net ODA, followed by Sub-Saharan Africa with 22.3%. Closing the list are the Mediterranean area (11.4%), Asia-Pacific (9.9%) and Europe (5.1%). The main modality used in the case of Latin America is bilateral aid (including that channelled through multilateral organisations), so that the multilateral type has become virtually residual. By contrast, for Sub-Saharan Africa, the aid channelled bilaterally is comparable with that distributed through multilateral organisms. Countries with medium-low per capita income continue to be those

that receive most of the Spanish ODA and Guatemala, with 177.4 million euros, is the country that receives most, followed by Peru (91.1 million) and Iraq (89.5 million). Nonetheless, it should be pointed out that Guatemala received considerable portions of repayable aid (debt operations factored in as ODA, as reflected in Table V and Table X of the present Annex).

At the international level, 2008 was marked by the food crisis and the beginning of a series of G-20 meetings with the aim of dealing with the world economic crisis that, without a doubt, has had serious repercussions on the system of financing for development. Also to be highlighted is the Third High Level Forum on Aid Effectiveness, which was held in Accra in September and the approval of the Accra Agenda for Action. This programme includes, for the first time, decentralised public agents and civil society and represents a significant step forward towards the application of the Paris Declaration. Besides being an active participant in this Forum, Spain participated in a number of intricate debates in 2008 on how to bring about a proper division of labour among donors in the field, with the aim of responding to the EU Code of Conduct. Spain has also set up a working group on aid effectiveness and quality, this consisting of the Secretary of State for International Cooperation (SECI), the Office of Development Planning and Policy Evaluation (DGPOLDE) and the Spanish Agency for International Development Cooperation (AECID).

The High-Level Event on the Millennium Development Goals (MDG), held in New York in September, marked the beginning of the second half of the way towards achieving these goals. Finally, also held in 2008 but without outstanding results, were the High-Level Conference on World Food Security: the Challenges of Climate Change and Bioenergy, which was organised by the United Nations Food and Agriculture Organisation (FAO), and the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus.

In the national domain, 2008 closed the cycle of the Second Master Plan for Spanish Cooperation 2005 – 2008, while the preparatory work and process of dialogue, consultation and debate were initiated with all the political agents and actors in the field of cooperation in order to draw up the Third Master Plan 2009-2012, which was finally approved by the Council of Ministers on 13 February 2009. For the first time, the new Master Plan starts out from a prior assessment of cooperation and incorporates the lessons learned and recommendations of the DAC peer review of November 2007. This document represents a serious and determined commitment to development policies and to the international agenda for aid effectiveness. Furthermore, it should be pointed out that it is envisaged that a new Law on Development Cooperation will be drafted for the period covered by the new Master Plan.

Among other things, 2008 is also characterised by the initiation of reforms to the Spanish Agency for International Development Cooperation (AECID), arising from the Royal Decree 1403/2007, by means of which it will be given a new structure, and by the creation of the Government Executive Committee on Development Cooperation, the aim of which is to ensure coordination between the different ministries in the field. Also drawn up was the Education Strategy Paper for Spanish Development Cooperation, which was presented to all the Autonomous Com-

munities and civil society organisations. Presented, too, and now in force is the Sectorial Strategy for Humanitarian Action, while a Humanitarian Action Office has been established within the Spanish Agency for International Development Cooperation (AECID), and a Logistical Centre of more than 800 m<sup>2</sup> has been opened in Panama for storage purposes, thus reducing transport costs and speeding up the response in case of humanitarian emergencies. Finally, a multilateral strategy has been adopted, this establishing a new, more inclusive, and more effective form of multilateralism with a view to accomplishing the Millennium Development Goals.

The Cooperation Fund for Water and Sanitation in Latin America, which was announced by the Prime Minister José Luis Rodríguez Zapatero at the Seventeenth Ibero-American Summit of 2007, also consolidated in 2008 through the creation of a Fund Office within the Spanish Agency for International Development Cooperation (AECID) itself, this being tasked with managing the initiative. This Fund, for which the Spanish Government and the IDB signed a memorandum of understanding on 29 October 2008, has at its disposal approximately 1,500 million dollars. The first 300 were paid out during the financial year. Spain is receiving a severe battering from the international economic crisis and this has obliged revision of the goals for 2010 (see Table I of the following Annex on the Annual Follow-up Plan for International Cooperation (PACI)). The forecast is that the volume of ODA will be very similar to that initially established for 2009, amounting to some 5,264.6 million euros, which represents 0.51% of Gross National Income (GNI). Also envisaged is a notable increase in multilateral cooperation, as a result of an increase in funds channelled through the European Union, these representing an additional 100 million euros. There has also been an increase in the funds destined for international debt relief operations (more than 38%), while bilateral ADO for development awareness programmes and education is of a similar amount to that for 2008, after a year marked by a considerable downswing. As a result of reforms to the Development Assistance Funds in 2009 and 2010, a new allocation is envisaged for 2010, amounting to 550 million euros, or over 10% of total aid. As for the forecast by sector, that of Infrastructure and Social Services (which, among other headings, includes basic social services) will comprise 38.7% of gross Spanish ODA in 2010. Geographically speaking, Sub-Saharan Africa moves ahead of Latin America in terms of volume (see the tables in the following annex on PACI).

## Notes

1. Equivalent to 6,866.8 million dollars.
2. Net ODA refers to the total amount laid out, excepting reimbursement of borrowed capital and without counting interest payments.
3. Coming under this heading, bilateral donations carried out by or in cooperation with multilateral development agencies are also taken into account.
4. Net repayable bilateral aid covers flows of direct assistance to the recipient country in the form of credits of a concessional nature.



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**I. FOLLOW-UP OF THE SPANISH NET ODA BY INSTRUMENTS 2008**

(€)

Instruments	Projections (1)	Payments (2)	%	Deviation (3=2-1)	% Deviation (3/1)
Contributions to the EU	739,063,818	718,712,913	15.1	-20,350,905	-2.8
Multilateral Financial Organizations	542,551,702	373,125,830	7.8	-169,425,872	-31.2
Multilateral Non-Financial Organizations	987,669,874	339,967,170	7.1	-647,702,704	-65.6
<b>TOTAL MULTILATERAL ODA</b>	<b>2,269,285,393</b>	<b>1,431,805,913</b>	<b>30.1</b>	<b>-837,479,481</b>	<b>-36.9</b>
FAD Credits	157,525,911	191,221,926	4.0	33,696,015	21.4
Microcredits	84,307,174	66,311,322	1.4	-17,995,852	-21.3
Other credits		-10,863	-0.0	-10,863	
<b>REIMBURSABLE BILATERAL NET COOPERATION</b>	<b>241,833,085</b>	<b>257,522,385</b>	<b>5.4</b>	<b>15,689,300</b>	<b>6.5</b>
Debt operations	444,780,000	236,776,338	5.0	-208,003,662	-46.8
Contributions through multilateral organizations <sup>1</sup>	671,428,226	1,141,859,561	24.0	470,431,335	70.1
Programs and projects <sup>1</sup>	829,870,783	708,858,992	14.9	-121,011,791	-14.6
Contributions and subsidies to DNGOs <sup>1</sup>	784,662,411	635,920,209	13.4	-148,742,202	-19.0
<b>NON-REIMBURSABLE BILATERAL COOPERATION</b>	<b>2,730,741,420</b>	<b>2,723,415,100</b>	<b>57.2</b>	<b>-7,326,320</b>	<b>-0.3</b>
Bilateral humanitarian action	225,957,059	289,682,514	6.1	63,725,455	28.2
Education for development and social awareness	41,473,042	59,266,325	1.2	17,793,283	42.9
<b>TOTAL BILATERAL NET ODA</b>	<b>3,240,004,606</b>	<b>3,329,886,324</b>	<b>69.9</b>	<b>89,881,718</b>	<b>2.8</b>
<b>TOTAL NET ODA</b>	<b>5,509,290,000</b>	<b>4,761,692,238</b>	<b>100.0</b>	<b>-747,597,762</b>	<b>-13.6</b>
<b>% GDP</b>	<b>0.50%</b>	<b>0.45%</b>		<b>-0.05%</b>	

1. Humanitarian action and education for development and social awareness not included.

Source: Follow-up of the 2008 Annual International Cooperation Plan (PACI) of the Spanish Ministry of Foreign Affairs and Cooperation  
Produced by: CIDOB

## II. SPANISH ODA CONTRIBUTIONS TO MULTILATERAL FINANCIAL ORGANIZATIONS 2008

	Million €	%
International Development Association (IDA)	236.8	29.7%
Other contributions to the World Bank Group	84.3	10.6%
<b>WORLD BANK GROUP</b>	<b>321.1</b>	<b>40.2%</b>
African Development Bank (AfDB)	104.4	13.1%
Asian Development Bank (AsDB)	29.6	3.7%
Inter-American Development Bank (IADB)	314.8	39.5%
Central American Bank for Economic Integration (CABEI)	10.7	1.3%
European Bank for Reconstruction and Development (EBRD)	3.5	0.4%
Other contributions to regional banks and special funds	0.0	0.0%
<b>REGIONAL BANKS AND SPECIAL FUNDS</b>	<b>463.1</b>	<b>58.0%</b>
<b>INTERNATIONAL MONETARY FUND (IMF)</b>	<b>13.6</b>	<b>1.7%</b>
<b>TOTAL</b>	<b>797.8</b>	<b>100.0%</b>

Source: Follow-up of the 2008 Annual International Cooperation Plan (PACI) of the Spanish Ministry of Foreign Affairs and Cooperation. Produced by: CIDOB

## III. SPANISH ODA CONTRIBUTION TO MULTILATERAL NON-FINANCIAL ORGANIZATIONS 2008

	Million €	% Distribution
<b>UNITED NATIONS</b>	<b>909.6</b>	<b>72.2</b>
United Nations Development Programme (UNDP)	331.5	26.3
United Nations Children's Fund (UNICEF)	90.5	7.2
World Food Programme (WFP)	84.2	6.7
United Nations Development Fund for Women (UNIFEM)	74.1	5.9
Food and Agriculture Organization of the United Nations (FAO)	46.6	3.7
United Nations Population Fund (FNUAP)	36.7	2.9
United Nations Central Emergency Response Fund (CERF)	30.0	2.4
World Health Organization (WHO)	25.2	2.0
United Nations High Commissioner for Refugees (UNHCR)	22.9	1.8
United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA-OOPS)	17.7	1.4
United Nations Educational, Scientific and Cultural Organization (UNESCO)	15.4	1.2
United Nations Human Settlements Programme (UN-HABITAT)	13.2	1.0
United Nations Environment Programme (UNEP)	12.7	1.0
United Nations Programme on HIV/AIDS (UNAIDS)	10.5	0.8
United Nations Development Group (UNDG)	10.0	0.8
Other contributions to the United Nations system	88.4	7.0
<b>OTHER MULTILATERAL INSTITUTIONS</b>	<b>351.1</b>	<b>27.8</b>
Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM)	97.6	7.7
Education for All - Fast-track Initiative (FTI)	61.3	4.9
Global Alliance for Vaccines and Immunisation (GAVI)	29.0	2.3
Organization of Ibero-American States for the Education, Science and Culture (OEI)	28.0	2.2
Pan American Health Organization (PAHO)	17.2	1.4
International Drug Purchase Facility (UNITAID)	15.0	1.2
International Committee of the Red Cross (CICR)	14.5	1.2
Economic Community Of West African States (ECOWAS)	10.1	0.8
Other multilateral contributions	78.4	6.2
<b>TOTAL ODA</b>	<b>1,260.7</b>	<b>100.0</b>

Source: Follow-up of the 2008 Annual International Cooperation Plan (PACI) of the Spanish Ministry of Foreign Affairs and Cooperation. Produced by: CIDOB

	Reimbursable bilateral net ODA		Non-reimbursable bilateral net ODA		Total ODA (1+2+3)
	FAD and microcredits (1)		Debt operations (2)	Other donations <sup>1</sup> (3)	
Angola	-6,902,341		0	16,309,149	9,406,807
Benin	0		0	1,394,736	1,394,736
Botswana	0		0	0	0
Burkina Faso	-1,179,122		185,944	3,034,555	2,041,377
Burundi	0		0	1,305,790	1,305,790
Cape Verde	1,104,215		0	12,912,326	14,016,541
Cameroon	2,970,797		0	5,768,552	8,739,349
Chad	-739,096		0	8,294,160	7,555,064
Central African Republic	0		0	1,490,223	1,490,223
Comoros	0		0	37,361	37,361
Congo	0		0	474,402	474,402
Côte d'Ivoire	0		0	3,624,971	3,624,971
Democratic Republic of the Congo	-2,749,942		0	29,965,165	27,215,223
Djibouti	0		0	390,416	390,416
Equatorial Guinea	0		0	9,560,240	9,560,240
Eritrea	0		0	1,215,723	1,215,723
Ethiopia	0		0	41,975,662	41,975,662
Gabon	0		0	309,219	309,219
Gambia	0		0	1,523,042	1,523,042
Ghana	9,635,910		0	1,510,418	11,146,328
Guinea	0		0	2,001,872	2,001,872
Guinea-Bissau	0		0	11,336,051	11,336,051
Kenya	728,301		0	26,040,059	26,768,360
Lesotho	0		0	1,060,149	1,060,149
Liberia	0		0	16,839,371	16,839,371
Madagascar	0		0	10,101,481	10,101,481
Malawi	0		21,874	1,986,672	2,008,546
Mali	0		0	21,596,471	21,596,471
Mauritius	0		0	0	0
Mauritania	3,920,081		1,205,464	18,527,742	23,653,287
Mozambique	3,885,840		0	50,507,083	54,392,923
Namibia	1,834,521		0	8,607,973	10,442,494
Niger	0		0	16,623,047	16,623,047
Nigeria	0		0	17,622,553	17,622,553
Rwanda	0		0	17,238,334	17,238,334
Sao Tome and Principe	-781,793		310,596	1,559,550	1,088,353
Senegal	268,331		13,735,905	26,986,711	40,990,947
Seychelles	0		0	0	0
Sierra Leone	0		0	2,327,139	2,327,139
Somalia	0		0	10,132,380	10,132,380
South Africa	0		0	429,406	429,406
Sudan	0		0	26,122,219	26,122,219
Swaziland	0		0	1,854	1,854
Tanzania	-666,496		0	2,997,385	2,330,889
Togo	0		0	2,388,845	2,388,845
Uganda	-1,516,236		415,719	9,048,061	7,947,544
Zambia	0		0	695,541	695,541
Zimbabwe	0		0	3,319,884	3,319,884
Sub-Saharan Africa unspecified	0		0	34,007,793	34,007,793
<b>TOTAL SUB-SAHARAN AFRICA</b>	<b>9,812,971</b>		<b>15,875,502</b>	<b>481,201,734</b>	<b>506,890,207</b>

IV. SPANISH BILATERAL NET ODA ALLOCATION BY COUNTRIES 2008

(€)

	Reimbursable bilateral net ODA		Non-reimbursable bilateral net ODA		Total ODA (1+2+3)
	FAD and microcredits (1)	Debt operations (2)	Other donations <sup>1</sup> (3)		
Afghanistan	0	0	49,768,869	49,768,869	
Armenia	0	0	482,698	482,698	
Azerbaijan	0	0	250,000	250,000	
Georgia	0	0	1,866,128	1,866,128	
Kazakhstan	0	0	44,378	44,378	
Kyrgyzstan	0	0	2,295,416	2,295,416	
Tajikistan	0	0	1,729,456	1,729,456	
Turkmenistan	0	0	0	0	
Uzbekistan	0	0	250,000	250,000	
Central Asia unspecified	0	0	0	0	
<b>TOTAL CENTRAL ASIA</b>	<b>0</b>	<b>0</b>	<b>56,686,943</b>	<b>56,686,943</b>	
Bangladesh	-294,750	0	6,841,637	6,546,887	
Bhutan	0	0	0	0	
India	-128,595	0	9,863,142	9,734,547	
Maldives	0	0	0	0	
Myanmar	0	0	6,371,555	6,371,555	
Nepal	0	0	1,972,688	1,972,688	
Pakistan	0	0	2,275,108	2,275,108	
Sri Lanka	13,246,515	0	4,798,158	18,044,673	
South Asia unspecified	0	0	375,000	375,000	
<b>TOTAL SOUTH ASIA</b>	<b>12,823,170</b>	<b>0</b>	<b>32,497,287</b>	<b>45,320,457</b>	
Cambodia	0	0	8,185,827	8,185,827	
China	23,513,013	0	6,300,627	29,813,640	
Democratic People's Republic of Korea	0	0	239,723	239,723	
Indonesia	107,301	0	6,445,127	6,552,428	
Lao People's Democratic Republic	0	0	141,623	141,623	
Malaysia	0	0	0	0	
Mongolia	1,691	0	2,804,840	2,806,531	
Philippines	-2,213,151	0	26,692,211	24,479,061	
Thailand	0	0	42,312	42,312	
Timor-Leste	0	0	9,680,721	9,680,721	
Viet Nam	10,699,912	0	23,599,095	34,299,007	
East Asia unspecified	0	0	7,743,073	7,743,073	
<b>TOTAL EAST ASIA</b>	<b>32,108,766</b>	<b>0</b>	<b>91,875,180</b>	<b>123,983,946</b>	
Federated States of Micronesia	0	0	0	0	
Fiji	0	0	0	0	
Palau	0	0	0	0	
Papua New Guinea	0	0	0	0	
Samoa	0	0	0	0	
Solomon Islands	0	0	214,000	214,000	
Tonga	0	0	0	0	
Vanuatu	0	0	20,854	20,854	
Oceania unspecified	0	0	666,667	666,667	
<b>TOTAL OCEANIA</b>	<b>0</b>	<b>0</b>	<b>901,521</b>	<b>901,521</b>	
<b>TOTAL ASIA-PACIFIC</b>	<b>44,931,936</b>	<b>0</b>	<b>181,960,931</b>	<b>226,892,867</b>	



	Reimbursable bilateral net ODA		Non-reimbursable bilateral net ODA		Total ODA (1+2+3)
	FAD and microcredits (1)		Debt operations (2)	Other donations <sup>1</sup> (3)	
Iran	224,163		0	253,667	477,830
Iraq	0		85,466,548	3,989,573	89,456,120
Jordan	2,500,000		0	6,268,835	8,768,835
Lebanon	0		0	35,918,674	35,918,674
Oman	0		0	0	0
Palestinian Territories	0		0	68,927,467	68,927,467
Saudi Arabia	0		0	0	0
Syria	0		0	5,163,120	5,163,120
Yemen	0		0	1,313,198	1,313,198
Middle East unspecified	0		0	24,714,152	24,714,152
<b>TOTAL MIDDLE EAST</b>	<b>2,500,000</b>		<b>85,466,548</b>	<b>146,295,019</b>	<b>234,261,566</b>
Algeria	39,355,587		0	5,148,475	44,504,061
Egypt	4,023,089		0	6,812,797	10,835,886
Libya	0		0	3,708	3,708
Morocco	31,527,784		0	49,835,081	81,362,865
Tunisia	7,725,788		0	3,500,232	11,226,020
Western Sahara Population	0		0	23,884,784	23,884,784
Maghreb unspecified	0		0	300,000	300,000
North Africa unspecified	0		0	6,178,065	6,178,065
<b>TOTAL NORTH AFRICA</b>	<b>82,632,248</b>		<b>0</b>	<b>95,663,142</b>	<b>178,295,389</b>
Mediterranean unspecified	0		0	0	0
<b>TOTAL MIDDLE EAST AND NORTH AFRICA</b>	<b>85,356,411</b>		<b>85,466,548</b>	<b>242,211,828</b>	<b>413,034,787</b>
Antigua and Barbuda	0		0	0	0
Barbados	0		0	108,235	108,235
Belize	0		0	1,840	1,840
Costa Rica	-1,364,709		0	12,096,053	10,731,343
Cuba	0		0	31,773,588	31,773,588
Dominica	0		0	0	0
Dominican Republic	-14,546,157		0	36,803,396	22,257,239
El Salvador	7,151,700		0	50,821,310	57,973,011
Grenada	0		0	0	0
Guatemala	-17,139		124,331,800	53,080,489	177,395,150
Haiti	0		0	31,545,198	31,545,198
Honduras	22,070,421		8,618,251	50,813,606	81,502,278
Jamaica	0		0	1,402,494	1,402,494
Mexico	-25,825,185		0	15,376,936	-10,448,250
Nicaragua	16,281,887		2,484,238	68,137,724	86,903,850
Panama	-1,253,625		0	6,408,885	5,155,260
Saint Lucia	0		0	0	0
Saint Vincent and the Grenadines	0		0	0	0
Trinidad and Tobago	0		0	0	0
North and Central America and the Caribbean unspecified	-2,968,828		0	16,525,657	13,556,829
<b>TOTAL NORTH AND CENTRAL AMERICA AND THE CARIBBEAN</b>	<b>-471,636</b>		<b>135,434,289</b>	<b>374,895,412</b>	<b>509,858,066</b>



## IV. SPANISH BILATERAL NET ODA ALLOCATION BY COUNTRIES 2008

(€)

	Reimbursable bilateral net ODA		Non-reimbursable bilateral net ODA		Total ODA (1+2+3)
	FAD and microcredits (1)	Debt operations (2)	Other donations <sup>1</sup> (3)		
Argentina	9,965,602	0	10,604,055	20,569,656	
Bolivia	-1,586,219	0	66,060,797	64,474,578	
Brazil	0	0	25,528,876	25,528,876	
Chile	0	0	4,949,796	4,949,796	
Colombia	5,407,986	0	53,499,156	58,907,143	
Equador	7,980,033	0	52,957,157	60,937,190	
Guyana	0	0	54,167	54,167	
Paraguay	645,418	0	15,322,052	15,967,470	
Peru	12,310,091	0	78,843,737	91,153,827	
Surinam	0	0	0	0	
Uruguay	-3,017,002	0	9,509,189	6,492,186	
Venezuela	1,050,077	0	9,684,152	10,734,229	
South America unspecified	2,100,000	0	20,382,343	22,482,343	
<b>TOTAL SOUTH AMERICA</b>	<b>34,855,986</b>	<b>0</b>	<b>347,395,475</b>	<b>382,251,461</b>	
America unspecified	0	0	477,638,361	477,638,361	
<b>TOTAL LATIN AMERICA</b>	<b>34,384,348</b>	<b>135,434,289</b>	<b>1,199,929,250</b>	<b>1,369,747,886</b>	
Albania	7,228,145	0	4,508,823	11,736,968	
Belarus	0	0	91,312	91,312	
Bosnia-Herzegovina	22,864,272	0	6,532,178	29,396,450	
Croatia	0	0	652,584	652,584	
Kosovo (Serbia)	0	0	752,551	752,551	
Macedonia (TFYR)	755,574	0	2,067,534	2,823,109	
Moldova	0	0	1,249,100	1,249,100	
Montenegro	0	0	82,595	82,595	
Serbia	7,000,000	0	4,309,809	11,309,809	
Turkey	61,672,368	0	2,181,116	63,853,483	
Ukraine	0	0	182,399	182,399	
Europe unspecified	0	0	20,889,798	20,889,798	
<b>TOTAL EUROPE</b>	<b>99,520,359</b>	<b>0</b>	<b>43,499,798</b>	<b>143,020,157</b>	
<b>TOTAL AFRICA UNSPECIFIED</b>	<b>0</b>	<b>0</b>	<b>90,981,966</b>	<b>90,981,966</b>	
<b>TOTAL ASIA UNSPECIFIED</b>	<b>0</b>	<b>0</b>	<b>46,300,460</b>	<b>46,300,460</b>	
<b>TOTAL DC UNSPECIFIED</b>	<b>-16,472,777</b>	<b>0</b>	<b>549,490,770</b>	<b>533,017,993</b>	
<b>TOTAL SPANISH BILATERAL NET ODA</b>	<b>257,533,248</b>	<b>236,776,338</b>	<b>2,835,576,738</b>	<b>3,329,886,324</b>	

1. Bilateral ODA by OMUDES (Multilateral Development Institutions) included.  
 Source: Follow-up of the 2008 Annual International Cooperation Plan (PACI) of the Spanish Ministry of Foreign Affairs and Cooperation.

Produced by: CIDOB



### V. SPANISH NET ODA DISTRIBUTION BY CATEGORIES AND FINANCING ORGANIZATIONS 2008

	Cooperation for development		Humanitarian action		Education for development and social awareness		Total net ODA		
	Bilateral (2)		Bilateral (4)		Bilateral (6)		Bilateral (2+4+6)		
	Multilateral (1)	Euro (1)	Multilateral (3)	Euro (2)	Multilateral (5)	Euro (3)	Multilateral (1+3+5)	Euro (1+2+3+4+5+6)	
General Administration of the State	1,323,157,801	2,446,726,454	105,501,674	244,893,312	3,146,439	15,293,263	1,431,805,914	2,706,913,029	4,138,718,944
Autonomous Communities Cooperation	0	393,354,361	0	36,892,205	0	34,462,593	0	464,709,159	464,709,158
Local Cooperation	0	131,346,487	0	8,568,724	0	8,860,290	0	148,775,501	148,775,501
Universities	0	8,767,796	0	70,660	0	650,178	0	9,488,634	9,488,634
<b>TOTAL NET ODA</b>	<b>1,323,157,801</b>	<b>2,980,195,098</b>	<b>105,501,674</b>	<b>290,424,901</b>	<b>3,146,439</b>	<b>59,266,324</b>	<b>1,431,805,914</b>	<b>3,329,886,323</b>	<b>4,761,692,238</b>
<b>TOTAL GENERAL NET ODA</b>	<b>4,303,352,899</b>	<b>395,926,575</b>	<b>62,412,764</b>						

Source: Follow-up of the 2008 Annual International Cooperation Plan (PACI) of the Spanish Ministry of Foreign Affairs and Cooperation.

Produced by: CIDOB

### VI. SPANISH ODA DISTRIBUTION BY GEOGRAPHIC REGIONS 2008

	Multilateral ODA		Bilateral gross ODA		Reimbursement		Total net ODA	
	Euro (1)		Euro (2)		Euro (3)		Euro (1+2+3)	
	Euro (1)	%	Euro (2)	%	Euro (3)	%	Euro (1+2+3)	%
Sub-Saharan Africa	553,954,440	38.7	526,593,518	15.0	-19,703,311	10.8	1,060,844,647	22.3
Latin America	102,451,344	7.2	1,447,698,134	41.2	-77,950,248	42.6	1,472,199,230	30.9
Asia-Pacific	244,200,841	17.1	272,825,992	7.8	-45,933,125	25.1	471,098,708	9.9
Europe	101,912,612	7.1	143,710,503	4.1	-690,346	0.4	244,932,769	5.1
Mediterranean	130,645,726	9.1	434,897,014	12.4	-21,862,227	11.9	543,680,513	11.4
Africa unspecified	30,045,349	2.1	90,981,966	2.6	0	0.0	121,027,315	2.5
Asia unspecified	6,702,933	0.5	46,300,460	1.3	0	0.0	53,003,393	1.1
DC unspecified	261,892,667	18.3	549,943,750	15.7	-16,925,757	9.2	794,910,660	16.7
<b>TOTAL ODA</b>	<b>1,431,805,912</b>	<b>100.0</b>	<b>3,512,951,337</b>	<b>100.0</b>	<b>-183,065,014</b>	<b>100.0</b>	<b>4,761,692,235</b>	<b>100.0</b>

Source: Follow-up of the 2008 Annual International Cooperation Plan (PACI) of the Spanish Ministry of Foreign Affairs and Cooperation.

Produced by: CIDOB

## VII. ODA OF THE AUTONOMOUS COMMUNITIES 2008

	Euro	%	Euro/per cap.	% ODA/Budget <sup>1</sup>
Andalusia	96,775,351	20.8	11,80	0.30
Aragon	9,610,565	2.1	7,24	0.17
Asturias	11,776,201	2.5	10,90	0.30
Balearic Islands	15,594,107	3.4	14,54	0.47
Canary Islands	18,746,030	4.0	9,03	0.25
Cantabria	5,116,708	1.1	8,79	0.21
Castile-La Mancha	40,341,400	8.7	15,77	0.39
Castile and León	10,333,747	2.2	5,06	0.12
Catalonia	62,827,889	13.5	8,53	0.22
Extremadura	9,087,860	2.0	8,28	0.16
Galicia	9,873,774	2.1	3,55	0.09
La Rioja	4,078,224	0.9	12,84	0.31
Madrid	38,979,100	8.4	6,22	0.21
Murcia	5,130,756	1.1	3,60	0.11
Navarre	20,699,796	4.5	33,37	0.48
Basque Country	40,837,201	8.8	18,93	0.41
Valencia	64,815,651	13.9	12,89	0.46
Ceuta	0	0.0	0,00	0.00
Melilla	84,800	0.0	1,19	0.04
<b>TOTAL ODA AACC</b>	<b>464,709,158</b>	<b>100.0</b>		
<b>AVERAGE</b>			<b>10,07</b>	<b>0.27</b>

<sup>1</sup>. ODA disbursement according the general budget of each autonomous community.  
Source: Follow-up of the 2008 Annual International Cooperation Plan (PACI) of the Spanish Ministry of Foreign Affairs and Cooperation

Produced by: CIDOB

## VIII. SPANISH NET ODA DISTRIBUTION BY FINANCING ORGANIZATIONS 2008

Ministries	Euro	%
Public Administrations	401,203	0.0
Foreign Affairs and Cooperation	2,446,261,687	51.4
Science & Technology	11,914,628	0.3
Culture	1,553,930	0.0
Defence	12,019,883	0.3
Economic and Finance Affairs	1,402,127,223	29.4
Education, Social Policy and Sport	6,836,050	0.1
Public Works	1,294,504	0.0
Equality	2,143,719	0.0
Industry, Tourism and Trade	198,115,785	4.2
Interior	4,409,681	0.1
Justice	35,150	0.0
Environment	15,069,099	0.3
Health and Consumer Affairs	1,701,589	0.0
Labour & Migration Affairs	34,615,433	0.7
Housing	205,601	0.0
Other Public Offices	13,779	0.0
<b>TOTAL GENERAL ADMINISTRATION OF THE STATE</b>	<b>4,138,718,944</b>	<b>86.9</b>
<b>AUTONOMOUS COMMUNITIES</b>	<b>464,709,158</b>	<b>9.8</b>
<b>LOCAL ENTITIES</b>	<b>148,775,501</b>	<b>3.1</b>
<b>UNIVERSITIES</b>	<b>9,488,634</b>	<b>0.2</b>
<b>TOTAL NET ODA</b>	<b>4,761,692,238</b>	<b>100.0</b>

Source: Follow-up of the 2008 Annual International Cooperation Plan (PACI) of the Spanish Ministry of Foreign Affairs and Cooperation.

Produced by: CIDOB

## IX. SPANISH ODA ALLOCATION PER DAC SECTORS 2008

	Multilateral ODA		Bilateral Gross ODA		Total gross ODA	
	Euro (1)	%	Euro (2)	%	Euro (1)+(2)	%
<b>I. ALLOCATED CONTRIBUTIONS BY SECTOR</b>						
<b>100 SERVICES AND SOCIAL INFRASTRUCTURES</b>	<b>622,804,604</b>	<b>43.5</b>	<b>1,627,320,862</b>	<b>46.3</b>	<b>2,250,125,466</b>	<b>45.5</b>
110 Education	81,669,827	5.7	354,241,523	10.1	435,911,350	8.8
120 Health	130,195,692	9.1	195,523,598	5.6	325,719,290	6.6
130 Population and reproductive health	101,075,983	7.1	78,804,585	2.2	179,880,568	3.6
140 Water supply and sanitation	51,805,173	3.6	400,084,493	11.4	451,889,666	9.1
150 Government and civil society	182,447,749	12.7	369,883,394	10.5	552,331,142	11.2
160 Other services and social infrastructures	75,610,181	5.3	228,783,269	6.5	304,393,451	6.2
<b>200 ECONOMIC INFRASTRUCTURE AND SERVICES</b>	<b>206,949,978</b>	<b>14.5</b>	<b>372,774,102</b>	<b>10.6</b>	<b>579,724,081</b>	<b>11.7</b>
210 Transport and storage	129,522,460	9.0	147,302,752	4.2	276,825,212	5.6
220 Communications	6,311,090	0.4	11,016,509	0.3	17,327,599	0.4
230 Energy generation and supply	49,870,614	3.5	80,294,463	2.3	130,165,077	2.6
240 Banking and financial services	10,645,507	0.7	101,550,878	2.9	112,196,385	2.3
250 Business and other services	10,600,307	0.7	32,609,500	0.9	43,209,807	0.9
<b>300 PRODUCTIVE SECTORS</b>	<b>96,623,063</b>	<b>6.7</b>	<b>188,284,661</b>	<b>5.4</b>	<b>284,907,724</b>	<b>5.8</b>
311 Agriculture	50,760,307	3.5	106,230,199	3.0	156,990,506	3.2
312 Silviculture	3,847,875	0.3	2,618,239	0.1	6,466,114	0.1
313 Fishing	1,975,200	0.1	28,190,173	0.8	30,163,373	0.6
321 Industry	13,807,404	1.0	21,428,409	0.6	35,235,813	0.7
322 Mining	3,828,576	0.3	514,352	0.0	4,342,928	0.1
323 Construction	7,566	0.0	14,877,231	0.4	14,884,797	0.3
331 Trade	21,432,413	1.5	4,208,550	0.1	25,640,962	0.5
332 Tourism	963,722	0.1	10,217,508	0.3	11,181,230	0.2
<b>400 MULTISECTOR</b>	<b>82,021,330</b>	<b>5.7</b>	<b>249,256,343</b>	<b>7.1</b>	<b>331,277,673</b>	<b>6.7</b>
410 Environmental protection	26,358,568	1.8	117,688,951	3.4	144,047,519	2.9
430 Others multisector	55,662,762	3.9	131,567,392	3.7	187,230,154	3.8
<b>II. NON-ALLOCATED CONTRIBUTIONS BY SECTOR</b>						
<b>500 GOODS SUPPLY AND GENERAL ASSISTANCE FOR PROGRAMMES</b>	<b>125,871,513</b>	<b>8.8</b>	<b>75,215,359</b>	<b>2.1</b>	<b>201,086,872</b>	<b>4.1</b>
510 Support to the general budget	104,013,228	7.3	17,510	0.0	121,523,228	2.5
520 Food aid for development/ Food security assistance	21,858,284	1.5	57,705,359	1.6	79,563,643	1.6
530 Other assistance on goods supplier	0	0.0	0	0.0	0	0.0
<b>600 ACTION RELATING TO DEBT</b>	<b>44,677,709</b>	<b>3.1</b>	<b>249,681,632</b>	<b>7.1</b>	<b>294,359,342</b>	<b>6.0</b>
<b>700 EMERGENCY ASSISTANCE</b>	<b>105,501,674</b>	<b>7.4</b>	<b>298,758,235</b>	<b>8.5</b>	<b>404,259,908</b>	<b>8.2</b>
720 Other emergency and catastrophe assistance	81,268,545	5.7	199,132,842	5.7	280,401,386	5.7
730 Reconstruction assistance	21,289,735	1.5	84,403,461	2.4	105,693,196	2.1
740 Disaster prevention	2,943,394	0.2	15,221,933	0.4	18,165,326	0.4
<b>910 ADMINISTRATIVE COSTS OF DONORS</b>	<b>44,193,100</b>	<b>3.1</b>	<b>141,688,262</b>	<b>4.0</b>	<b>185,881,362</b>	<b>3.8</b>
<b>920 SUPPORT TO DNGO</b>	<b>37,175</b>	<b>0.0</b>	<b>12,572,633</b>	<b>0.4</b>	<b>12,609,808</b>	<b>0.3</b>
<b>930 SUPPORT TO REFUGEES IN DONOR COUNTRIES</b>	<b>162,666</b>	<b>0.0</b>	<b>28,038,902</b>	<b>0.8</b>	<b>28,201,568</b>	<b>0.6</b>
<b>998 UNSPECIFIED</b>	<b>102,963,102</b>	<b>7.2</b>	<b>269,360,347</b>	<b>7.7</b>	<b>372,323,448</b>	<b>7.5</b>
<b>TOTAL ODA</b>	<b>1,431,805,913</b>	<b>100</b>	<b>3,512,951,337</b>	<b>100</b>	<b>4,944,757,251</b>	<b>100</b>

Source: Follow-up of the 2008 Annual International Cooperation Plan (PACI) of the Spanish Ministry of Foreign Affairs and Cooperation.

Produced by: CIDOB

**X. TOP-25 COUNTRY ALLOCATION OF BILATERAL NET SPANISH ODA 2008**

(€)

	FAD and microcredits (1)	Debt operations (2)	Other donations (3)	Total bilateral net ODA (1+2+3)	%
1 Guatemala	-17,139	124,331,800	53,080,489	177,395,150	5.3
2 Peru	12,310,091	0	78,843,737	91,153,827	2.7
3 Iraq	0	85,466,548	3,989,573	89,456,120	2.7
4 Nicaragua	16,281,887	2,484,238	68,137,724	86,903,850	2.6
5 Honduras	22,070,421	8,618,251	50,813,606	81,502,279	2.4
6 Morocco	31,527,784	0	49,835,081	81,362,865	2.4
7 Palestinian Territories	0	0	68,927,467	68,927,467	2.1
8 Bolivia	-1,586,219	0	66,060,797	64,474,578	1.9
9 Turkey	61,672,368	0	2,181,116	63,853,483	1.9
10 Ecuador	7,980,033	0	52,957,157	60,937,190	1.8
11 Colombia	5,407,986	0	53,499,156	58,907,143	1.8
12 El Salvador	7,151,700	0	50,821,310	57,973,011	1.7
13 Mozambique	3,885,840	0	50,507,083	54,392,923	1.6
14 Afghanistan	0	0	49,768,869	49,768,869	1.5
15 Algeria	39,355,587	0	5,148,475	44,504,061	1.3
16 Ethiopia	0	0	41,975,662	41,975,662	1.3
17 Senegal	268,331	13,735,905	26,986,711	40,990,947	1.2
18 Lebanon	0	0	35,918,674	35,918,674	1.1
19 Viet Nam	10,699,912	0	23,599,095	34,299,007	1.0
20 Cuba	0	0	31,773,588	31,773,588	1.0
21 Haiti	0	0	31,545,198	31,545,198	0.9
22 China	23,513,013	0	6,300,627	29,813,640	0.9
23 Bosnia-Herzegovina	22,864,272	0	6,532,178	29,396,450	0.9
24 Dem. Rep. of Congo	-2,749,942	0	29,965,165	27,215,223	0.8
25 Kenya	728,301	0	26,040,059	26,768,360	0.8
<b>TOTAL TOP-25</b>	<b>261,364,226</b>	<b>234,636,742</b>	<b>965,208,597</b>	<b>1,461,209,565</b>	<b>43.9</b>
REST OF THE WORLD	-3,830,978	2,139,596	1,870,368,141	1,868,676,759	56.1
<b>TOTAL BILATERAL NET ODA</b>	<b>257,533,248</b>	<b>236,776,338</b>	<b>2,835,576,738</b>	<b>3,329,886,324</b>	<b>100.0</b>

Source: Follow-up of the 2008 Annual International Cooperation Plan (PACI) of the Spanish Ministry of Foreign Affairs and Cooperation.

Produced by: CIDOB





# Annual International Cooperation Plan (PACI) 2010

## I. COMPARISON OF SPANISH ANNUAL INTERNATIONAL COOPERATION PLANS 2009-2010

(net ODA by instruments)

Instruments	Net ODA 2009		Net ODA 2010	
	Euros	%	Euros	%
Contributions to the EU	721,102,447	13.7	821,450,000	15.6
Multilateral financial organizations	319,860,313	6.1	344,375,139	6.5
Multilateral non-financial organizations	306,619,240	5.8	282,061,458	5.4
<b>TOTAL MULTILATERAL ODA (1)</b>	<b>1,347,582,000</b>	<b>25.5</b>	<b>1,447,886,597</b>	<b>27.5</b>
FAD credit	214,183,441	4.1	230,857,306	4.4
Microcredits	103,494,437	2.0	101,164,722	1.9
FAD cooperation <sup>1</sup>			555,230,000	10.5
<b>NET REIMBURSABLE BILATERAL COOPERATION</b>	<b>317,677,878</b>	<b>6.0</b>	<b>887,252,028</b>	<b>16.9</b>
Debt operations	186,200,000	3.5	257,294,751	4.9
Programs and projects <sup>2,3</sup>	2,250,693,358	42.6	1,652,841,240	31.4
DNGO subsidies <sup>3</sup>	821,133,402	15.6	693,910,484	13.2
<b>NON-REIMBURSABLE BILATERAL COOPERATION</b>	<b>3,258,026,760</b>	<b>61.7</b>	<b>2,604,046,475</b>	<b>49.5</b>
<b>BILATERAL HUMANITARIAN ASSISTANCE</b>	<b>322,680,892</b>	<b>6.1</b>	<b>262,319,641</b>	<b>5.0</b>
<b>EDUCATION FOR DEVELOPMENT AND SOCIAL AWARENESS</b>	<b>33,726,251</b>	<b>0.6</b>	<b>63,107,103</b>	<b>1.2</b>
<b>TOTAL BILATERAL NET ODA (2)</b>	<b>3,932,111,781</b>	<b>74.5</b>	<b>3,816,725,247</b>	<b>72.5</b>
<b>TOTAL NET ODA (1+2)</b>	<b>5,279,693,781</b>	<b>100.0</b>	<b>5,264,611,843</b>	<b>100.0</b>
<b>% GDP</b>		<b>0.50</b>		<b>0.51</b>

<sup>1</sup> Approval still pending by the Chamber of Deputies.

<sup>2</sup> Bilateral ODA distributed by Trust funds and multilateral contributions (Fund of Water and Sanitation-FAS included) and other programs and bilateral projects.

<sup>3</sup> Humanitarian assistance, education for development and social awareness not included.

Source: Data from PACI 2009 and PACI 2010 of the Spanish Ministry of Foreign Affairs and Cooperation.

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## II. BILATERAL GROSS ODA DISTRIBUTION BY GEOGRAPHIC REGIONS 2010

(€)

Geographic region	Multilateral ODA (1)	Gross Bilateral ODA (2)	Total Gross ODA (1+2)	%
1.1. North and Central America and the Caribbean	43,953,509	413,048,168	457,001,677	8.4
1.2. South America	56,849,440	337,018,449	393,867,889	7.2
1.3. Latin America, unspecified	34,355,559	385,438,651	419,794,210	7.7
<b>1. TOTAL LATIN AMERICA</b>	<b>135,158,509</b>	<b>1,135,505,268</b>	<b>1,270,663,776</b>	<b>23.2</b>
2.1. North Africa	67,913,405	215,338,343	283,251,748	5.2
2.2. Middle East	69,466,857	70,035,956	139,502,813	2.6
2.3. Mediterranean, unspecified	5,000,000	4,531,473	9,531,473	0.2
<b>2. TOTAL MEDITERRANEAN</b>	<b>142,380,262</b>	<b>289,905,772</b>	<b>432,286,035</b>	<b>7.9</b>
<b>3. TOTAL SUB-SAHARAN AFRICA</b>	<b>306,744,521</b>	<b>990,124,866</b>	<b>1,296,869,388</b>	<b>23.7</b>
4.1. Central Asia	32,467,859	19,393,253	51,861,113	0.9
4.2. South Asia	28,149,044	29,570,918	57,719,962	1.1
4.3. East Asia	31,383,652	137,898,548	169,282,200	3.1
4.4. Oceania	6,932,505	1,116,470	8,048,975	0.1
<b>4. TOTAL ASIA-PACIFIC</b>	<b>98,933,060</b>	<b>187,979,189</b>	<b>286,912,249</b>	<b>5.2</b>
<b>5. TOTAL EUROPE</b>	<b>105,369,708</b>	<b>106,752,478</b>	<b>212,122,186</b>	<b>3.9</b>
6.1. Africa, unspecified	53,929,815	53,227,815	107,157,630	2.0
<b>6. TOTAL AFRICA (2.1+3+6.1)</b>	<b>428,587,741</b>	<b>1,258,691,024</b>	<b>1,687,278,766</b>	<b>30.8</b>
7.1. Asia, unspecified	35,964,657	6,521,826	42,486,483	0.8
<b>7. TOTAL ASIA (2.2+4.1+4.2+4.3+7.1)</b>	<b>197,432,069</b>	<b>263,420,501</b>	<b>460,852,570</b>	<b>8.4</b>
8. DEVELOPING COUNTRIES (DC), unspecified	569,406,065	1,252,350,134	1,821,756,198	33.3
<b>TOTAL GROSS ODA</b>	<b>1,447,886,597</b>	<b>4,022,367,348</b>	<b>5,470,253,946</b>	<b>100.0</b>

Source: Data from PACI 2010 of the Spanish Ministry of Foreign Affairs and Cooperation.

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Ministries	Cooperation for development					%
	Multilateral ODA (1)	Bilateral reimbursable net ODA (2)	Bilateral ODA through international organizations (3)	Other bilateral contributions <sup>1</sup> (4)	Subtotal cooperation for development (1+2+3+4)	
Foreign Affairs and Cooperation	259,397,435	656,394,722	512,295,090	1,090,625,997	2,518,713,243	52.3
Science & Technology	0	0	1,349,000	11,316,136	12,665,136	0.3
Culture	0	0	0	1,260,000	1,260,000	0.0
Defence	0	0	0	11,307,440	11,307,440	0.2
Economic and Finance Affairs	1,045,361,862	0	86,328,120	257,612,271	1,389,302,253	28.9
Education, Culture & Sports	2,888,297	0	1,015,000	1,901,462	5,804,759	0.1
Public works	821,636	0	919,000	1,457,000	3,197,636	0.1
Equality	348,690	0	0	2,131,155	2,479,845	0.1
Industry, Tourism and Trade	435,180	230,857,306	1,870,000	1,120,771	234,283,257	4.9
Interior	0	0	0	7,281,500	7,281,500	0.2
Justice	20,000	0	0	0	20,000	0.0
Environment	11,848,828	0	2,565,000	0	14,413,828	0.3
Territorial Policy	0	0	0	0	0	0.0
Prime Minister's Office	0	0	0	554,800	554,800	0.0
Health and Social Policy	0	0	263,100	548,000	811,100	0.0
Labour & Migration Affairs	201,392	0	9,250	33,982,719	34,193,361	0.7
Housing	0	0	150,000	0	150,000	0.0
Other Public Offices	0	0	0	175,612	175,612	0.0
<b>TOTAL GENERAL ADMINISTRATION OF THE STATE</b>	<b>1,321,323,320</b>	<b>887,252,027</b>	<b>606,763,560</b>	<b>1,421,274,862</b>	<b>4,236,613,769</b>	<b>88.0</b>
AUTONOMOUS COMMUNITIES	250,000	0	4,899,237	427,557,911	432,707,148	9.0
LOCAL ENTITIES	0	0	0	134,783,110	134,783,110	2.8
UNIVERSITIES	0	0	0	8,767,796	8,767,796	0.2
<b>TOTAL NET ODA</b>	<b>1,321,573,320</b>	<b>887,252,027</b>	<b>611,662,797</b>	<b>1,992,383,678</b>	<b>4,812,871,822</b>	<b>100.0</b>

<sup>1</sup>. Debt operations and bilateral programs and projects.

Source: Data from PACI 2010 of the Spanish Ministry of Foreign Affairs and Cooperation.

DAC Sector	Multilateral ODA	%
<b>I. DISTRIBUTABLE CONTRIBUTIONS BY SECTOR</b>	<b>667,812,820</b>	<b>46.1</b>
100 Social and administrative infrastructure	386,402,899	26.7
200 Economic infrastructure	122,885,885	8.5
300 Productive sectors	87,761,095	6.1
400 Multisector	70,762,940	4.9
<b>II. NON-DISTRIBUTABLE CONTRIBUTIONS BY SECTOR</b>	<b>780,073,778</b>	<b>53.9</b>
500 Goods supply and general assistance for programs	82,955,753	5.7
600 Action relating to debt	2,237,991	0.2
700 Emergency assistance	122,717,068	8.5
910 Administrative costs of the donor	47,277,256	3.3
920 Contributions to NGOs	42,489	0.0
930 Refugees in donor countries	0	0.0
998 Other and unspecified	524,843,220	36.2
<b>TOTAL GROSS ODA</b>	<b>1,447,886,597</b>	<b>100.0</b>

Source: Data from PACI 2010 of the Spanish Ministry of Foreign Affairs and Cooperation.



**III. SPANISH NET ODA DISTRIBUTION BY INSTRUMENTS, CATEGORIES AND FINANCIAL MEANS** 2010  
(€)

Multilateral ODA (5)	Humanitarian assistance					Education for development and social awareness		Total net ODA (1+2+3+4+5+6+7+8)	
	Bilateral reimbursable net ODA (6)	Bilateral ODA through international organizations (7)	Other bilateral contributions <sup>1</sup> (8)	Subtotal humanitarian assistance (5+6+7+8)	%	Subtotal education for development and social awareness	%		%
15,350,000	0	184,983,333	26,021,581	226,354,914	58.8	12,163,307	18,2	<b>2,757,231,465</b>	<b>52.4</b>
0	0	0	0	0	0.0	0	0,0	<b>12,665,136</b>	<b>0.2</b>
0	0	0	0	0	0.0	0	0,0	<b>1,260,000</b>	<b>0.0</b>
0	0	0	0	0	0.0	0	0,0	<b>11,307,440</b>	<b>0.2</b>
107,367,068	0	0	0	107,367,068	27.9	3,596,210	5,4	<b>1,500,265,530</b>	<b>28.5</b>
0	0	0	0	0	0.0	0	0,0	<b>5,804,759</b>	<b>0.1</b>
0	0	0	0	0	0.0	0	0,0	<b>3,197,636</b>	<b>0.1</b>
0	0	0	0	0	0.0	0	0,0	<b>2,479,845</b>	<b>0.0</b>
0	0	0	0	0	0.0	0	0,0	<b>234,283,257</b>	<b>4.5</b>
0	0	0	0	0	0.0	0	0,0	<b>7,281,500</b>	<b>0.1</b>
0	0	0	0	0	0.0	0	0,0	<b>20,000</b>	<b>0.0</b>
0	0	0	0	0	0.0	0	0,0	<b>14,413,828</b>	<b>0.3</b>
0	0	0	0	0	0.0	0	0,0	<b>0</b>	<b>0.0</b>
0	0	0	0	0	0.0	0	0,0	<b>554,800</b>	<b>0.0</b>
0	0	0	0	0	0.0	0	0,0	<b>811,100</b>	<b>0.0</b>
0	0	0	0	0	0.0	0	0,0	<b>34,193,361</b>	<b>0.6</b>
0	0	0	0	0	0.0	0	0,0	<b>150,000</b>	<b>0.0</b>
0	0	0	0	0	0.0	0	0,0	<b>175,612</b>	<b>0.0</b>
<b>122,717,068</b>	<b>0</b>	<b>184,983,333</b>	<b>26,021,581</b>	<b>333,721,982</b>	<b>86.7</b>	<b>15,759,517</b>	<b>23,6</b>	<b>4,586,095,267</b>	<b>87.1</b>
0	0	0	42,451,145	42,451,145	11.0	41,201,501	61,8	<b>516,359,794</b>	<b>9.8</b>
0	0	0	8,792,921	8,792,921	2.3	9,092,116	13,6	<b>152,668,147</b>	<b>2.9</b>
0	0	0	70,660	70,660	0.0	650,178	1,0	<b>9,488,634</b>	<b>0.2</b>
<b>122,717,068</b>	<b>0</b>	<b>184,983,333</b>	<b>77,336,308</b>	<b>385,036,708</b>	<b>100.0</b>	<b>66,703,312</b>	<b>100,0</b>	<b>5,264,611,843</b>	<b>100.0</b>

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**IV. SPANISH BILATERAL GROSS ODA PER DAC SECTORS** 2010  
(€)

Bilateral gross ODA	%	Total gross ODA distributable	%
<b>2,650,426,582</b>	<b>65.9</b>	<b>3,318,239,402</b>	<b>60.7</b>
1,727,940,010	43.0	2,114,342,909	38.7
367,586,814	9.1	490,472,699	9.0
333,394,419	8.3	421,155,514	7.7
221,505,340	5.5	292,268,280	5.3
<b>1,371,940,766</b>	<b>100.0</b>	<b>2,152,014,544</b>	<b>39.3</b>
31,230,749	0.8	114,186,502	2.1
263,307,222	6.5	265,545,213	4.9
262,319,641	6.5	385,036,708	7.0
94,307,342	2.3	141,584,598	2.6
27,535,806	0.7	27,578,296	0.5
23,177,539	0.6	23,177,539	0.4
670,062,468	16.7	1,194,905,688	21.8
<b>4,022,367,348</b>	<b>100</b>	<b>5,470,253,946</b>	<b>100.0</b>

Produced by: CIDOB



Groups	Education (1)	Health and reproductive health (2)	Water (3)	Government and civil society <sup>1</sup> (4)	Gender equality institutions (5)	Other infrastructures and social services (6)
<b>GROUP A: WIDE ASSOCIATION</b>						
Algeria	2.1	0.5	0.0	1.7	0.9	1.4
Bolivia	28.5	10.5	4.9	14.8	2.1	10.9
Cape Verde	5.6	2.0	2.3	24.4	2.4	6.7
Dominican Republic	32.7	10.2	3.9	13.0	1.3	12.5
El Salvador	10.7	9.9	6.2	28.7	4.1	12.2
Ecuador	13.1	8.1	6.2	12.2	2.2	9.2
Etiopía	4.1	38.7	2.1	0.2	2.9	42.6
Guatemala	24.3	12.0	6.0	16.4	5.0	7.1
Haiti	43.9	3.8	13.0	11.9	4.2	3.7
Honduras	30.6	12.4	8.1	25.1	2.0	13.9
Mali	10.1	29.6	8.2	6.5	0.9	24.4
Mauritania	2.3	17.6	10.4	14.0	0.2	13.6
Morocco	12.2	4.9	3.2	4.8	1.2	9.8
Mozambique	28.7	31.4	1.1	9.4	1.1	12.6
Nicaragua	10.5	12.1	8.7	10.5	3.5	7.6
Niger	18.4	38.7	13.1	6.0	3.9	9.0
Palestinian Territories	28.1	6.8	1.8	43.9	0.5	9.7
Paraguay	27.9	5.8	9.4	7.7	4.3	17.2
Peru	15.7	8.6	5.8	11.2	4.8	9.9
Philippines	14.0	21.8	6.7	4.3	1.7	7.8
Senegal	13.3	23.9	2.4	5.8	0.7	23.5
Viet Nam	15.1	2.9	3.4	0.0	5.5	10.7
Western Sahara population	6.6	14.7	5.2	4.8	0.6	43.4
<b>Average group A</b>	<b>17.3</b>	<b>14.2</b>	<b>5.7</b>	<b>12.1</b>	<b>2.4</b>	<b>13.9</b>
<b>GROUP B: FOCUSED ASSOCIATION</b>						
Afghanistan	7.0	17.0	0.0	22.9	1.8	2.7
Angola	18.2	37.1	8.4	11.8	0.0	1.6
Bangladesh	22.9	53.6	0.0	0.0	0.0	22.8
Cambodia	12.4	14.1	0.0	27.6	11.9	13.4
Colombia	12.6	5.7	2.0	30.6	3.3	10.7
Dem. Rep. of Congo	19.5	30.5	10.1	15.3	1.1	8.2
Equatorial Guinea	23.8	64.2	0.0	3.1	0.0	6.4
Gambia	52.1	21.1	0.4	7.7	11.6	0.0
Guinea	6.1	44.4	0.0	15.9	0.0	25.0
Guinea Bissau	8.9	22.1	3.7	35.2	0.0	8.0
Iraq	0.0	9.0	0.0	51.6	19.4	19.7
Lebanon	4.9	1.9	2.7	64.8	0.0	8.5
Sudan	0.4	31.3	0.0	42.5	0.0	22.2
Timor-Leste	25.5	15.1	0.0	32.6	0.5	0.0
<b>Average group B</b>	<b>15.3</b>	<b>26.2</b>	<b>2.0</b>	<b>25.8</b>	<b>3.5</b>	<b>10.7</b>
<b>GROUP C: ASSOCIATION FOR THE CONSOLIDATION OF THE ACHIEVEMENTS FOR DEVELOPMENT</b>						
Argentina	10.6	67.0	0.3	3.5	1.4	11.9
Brazil	32.9	6.6	4.6	14.1	3.1	21.5
Costa Rica	17.0	15.5	3.3	30.7	1.9	11.0
Cuba	10.0	13.7	6.8	4.9	0.5	21.8
Egypt	8.4	0.0	27.1	4.0	0.0	8.5
Jordan	16.6	2.1	4.7	11.0	3.0	11.9
Mexico	19.3	9.2	1.5	19.9	3.0	21.5
Namibia	14.7	15.8	23.0	12.8	2.9	3.4
Panama	10.6	2.0	0.0	16.8	0.2	16.0
Syria	29.4	19.8	16.5	2.6	0.0	11.4
Tunisia	2.4	1.6	0.1	0.7	0.9	12.7
Uruguay	4.9	1.5	0.0	8.1	3.5	69.4
Venezuela	9.5	7.3	11.3	4.0	1.9	43.8
<b>Average group C</b>	<b>14.3</b>	<b>12.5</b>	<b>7.6</b>	<b>10.2</b>	<b>1.7</b>	<b>20.4</b>

<sup>1</sup>. Gender equality institutions not included.

Source: Data from PACI 2010 of the Spanish Ministry of Foreign Affairs and Cooperation.

V. SPANISH ODA DISTRIBUTION PER SECTORS OF ACTION IN ASSOCIATED COUNTRIES 2010

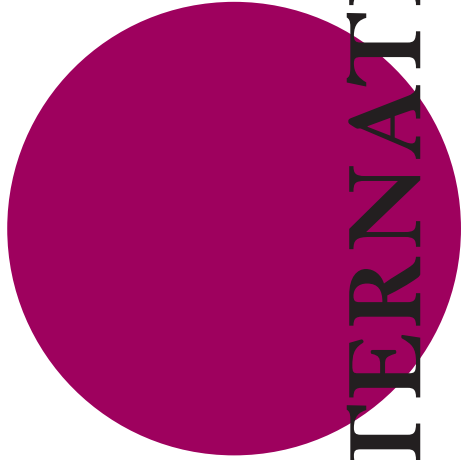
(%)

Infrastructures and social services (1+2+3+4+5+6)	Infrastructures and economic services	Productive sectors	Environmental protection (7)	Other multisector actions (8)	Multisector (7+8)
6.6	89.7	2.4	0.7	0.6	1.3
71.7	10.8	10.0	3.6	4.0	7.5
43.5	12.2	14.0	27.5	2.7	30.3
73.5	6.3	14.4	1.7	4.0	5.8
71.7	18.4	4.6	2.4	3.0	5.3
51.0	21.6	12.2	4.6	10.6	15.2
90.5	3.4	5.3	0.0	0.8	0.8
70.8	0.8	14.5	2.4	11.6	14.0
80.5	0.0	12.2	3.6	3.6	7.3
92.1	0.6	3.0	0.8	3.5	4.3
79.8	0.0	7.7	0.0	12.5	12.5
58.0	20.8	16.0	2.1	3.1	5.2
36.0	50.3	8.7	3.1	1.9	5.0
84.3	10.4	3.0	0.5	1.8	2.3
52.8	7.4	13.4	7.3	19.0	26.3
89.1	0.7	9.0	1.1	0.0	1.1
90.9	0.6	4.3	3.9	0.3	4.2
72.3	9.5	3.0	6.7	8.6	15.3
55.9	20.3	13.8	4.2	5.8	10.1
56.3	12.0	11.3	13.6	6.7	20.4
69.7	4.4	17.0	0.4	8.5	8.9
37.6	48.7	2.0	2.3	9.4	11.6
75.3	11.4	12.0	0.1	1.2	1.3
<b>65.6</b>	<b>15.7</b>	<b>9.3</b>	<b>4.0</b>	<b>5.4</b>	<b>9.4</b>
51.4	0.0	48.5	0.0	0.1	0.1
77.0	0.0	19.6	0.0	3.4	3.4
99.3	0.0	0.7	0.0	0.0	0.0
79.4	0.0	12.4	7.9	0.3	8.2
64.9	22.0	7.2	3.7	2.1	5.8
84.7	0.3	8.3	1.5	5.2	6.6
97.6	0.3	0.9	0.0	1.1	1.1
92.9	0.8	6.4	0.0	0.0	0.0
91.4	0.0	8.6	0.0	0.0	0.0
77.9	0.1	15.7	0.8	5.5	6.3
99.7	0.0	0.3	0.0	0.0	0.0
82.8	0.0	15.7	0.0	1.5	1.5
96.4	0.0	0.0	0.0	3.6	3.6
73.7	0.0	10.4	0.0	15.9	15.9
<b>83.5</b>	<b>1.7</b>	<b>11.1</b>	<b>1.0</b>	<b>2.8</b>	<b>3.8</b>
94.7	0.2	1.0	2.6	1.5	4.1
82.8	0.2	6.5	3.6	6.8	10.4
79.4	12.4	4.9	0.4	2.9	3.3
57.7	11.4	20.2	6.3	4.5	10.8
47.9	38.7	8.6	0.0	4.8	4.8
49.3	29.6	12.0	8.2	0.8	9.0
74.3	6.1	3.9	3.4	12.2	15.6
72.5	17.9	5.5	0.0	4.1	4.1
45.6	44.4	0.0	6.0	4.0	10.0
79.8	2.2	18.0	0.0	0.0	0.0
18.4	52.2	3.2	1.5	24.7	26.2
87.4	0.3	1.2	3.2	7.8	11.1
77.9	0.7	1.4	17.3	2.7	20.0
<b>66.7</b>	<b>16.6</b>	<b>6.6</b>	<b>4.0</b>	<b>5.9</b>	<b>10.0</b>

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# INTERNATIONAL FRAMEWORK



# A World in transition: 1989-2009

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If we were to write a brief list of world events in 2009, it might include: the North Korean and Iranian governments continuing with their own highly destabilizing nuclear programmes; fears of state failure in Pakistan; increasing violence in Afghanistan; and the United States announcing an increase in its troop numbers there. Presumably, it would also have to include pirates cruising the Indian Ocean hijacking ships; the cycle of violence in Israel and Palestine showing no sign of abating; China's continuing rise; Putin and Medvedev's attempts to define the role of post-communist Russia in the international system; and Europe's different, but equally difficult search for a new role in the world. Finally, of course, 2009 would of necessity have to include what many would probably regard as the two most crucial events of all: Barack Obama's first year in office as US President, and the entirely new phenomenon of leaders around the world being forced to come to terms with the near meltdown of the international financial system the year before. Indeed, these two events alone would suggest that 2009 was a year like no other – one that pundits and writers might look back upon in twenty years time and claim was of critical and transitional importance in the long history of the twenty first century.

But possibly the most important event of 2009 was not one that did happen, but rather one that occurred twenty years previously when communism collapsed in Eastern Europe, and the Berlin Wall fell. In other words, the end of the Cold War. Of course, for most young students today this event must feel as distant as British rule in

India and as remote as the First World War. Certainly, for those born into a very different kind of world after 1989, the Cold War with its peculiar ideological logics and odd strategic imperative has to seem very bizarre indeed. However, as I will argue in this lengthy survey of the last two decades spanning the period between 1989 and 2009, it is almost impossible to make sense of the world we now inhabit today without looking at the Cold War and the way in which it ended. Indeed, the central thesis of this essay is that the world we have known since 1989 and the unfolding events of 2009 themselves – in Afghanistan and the Middle East, as much as in Russia, the United States and Europe – are directly and indirectly the by-product of a conflict that concluded peacefully and quite unexpectedly twenty years ago.

This survey thus provides a broad overview of the two decades following the end of Cold War in 1989. It is divided into three main sections. Section one begins with the unanticipated end of the cold war itself. Section two goes on to discuss some – though by no means all - of the main trends of the 1990s with a special focus on the United States, Europe, Russia and East Asia. The remainder of the chapter then looks at the so-called 'war on terror' (including the reasons for the war in Iraq) followed by a discussion of the longer term geopolitical implications of the world economic crisis.

Three broad theses will be advanced in this chapter. The first is that even if we speak of the world after 1989 as being 'post-cold war', we should never understate the extent to which this world was shaped – and continues to be influenced – by the way the cold war ended and the many problems and opportunities it left behind. Indeed, as we shall see, threats such as religiously-inspired terrorism – which showed no signs of withering away in 2009 – owed a great deal to the manner in which the cold war terminated two decades ago.

The second relates to US primacy and notes that even though one of the more obvious structural features of the post-cold war international system has been a renewed US hegemony – some have even talked of a new American empire – this new position of strength has not easily translated into a coherent foreign policy. This was true for Clinton in the 1990s. It was truer still for George W. Bush after 2000. And it remained true for Obama when he finally took over in 2009. Indeed, as nearly all writers noted when Obama formally became President in January, he probably faced more challenges than any other President over the past fifty years.

The third thesis is that new challenges to the status quo – and there are several, from terrorism, the spread of nuclear weapons and growing instability in the Middle East – still look unlikely to destroy the underlying pillars supporting globalization. However, one thing might: the economic crisis that tore through the world's financial system in 2008 leaving several major problems behind in its wake. The longer term consequences of the first major crisis of capitalism since the 1930s remain to

be seen. But even the most optimistic of analysts in 2009 had to concede that the world had turned an important geopolitical corner as a result, and that the world over the next ten years was likely to be a good deal more disturbed than it had been for the last ten. Interesting and potentially very dangerous times lay ahead.

### The end of the Cold War

When major wars end they invariably pose enormous problems for those whose task it is to make the peace. This was true following the First World War in 1919. It was more obviously the case in 1945 when the Second World War concluded. And it was true once again when the last of the great 'wars' of the twentieth century – the cold war – finally wound down in 1989. But what was the cold war and how did its end impact on the international system?

The cold war was the by-product of the Second World War that left the international order divided between two great superpowers, both with formidable capabilities – the United States much more so than the USSR – and both representing rival social systems, one socialist, the other capitalist. This rivalry began in Europe when the USSR refused to withdraw from those countries it had originally liberated from Nazism. However, it soon assumed a global character as it shifted to Asia and the wider 'Third World'. Here the real costs of the competition were felt most acutely in terms of lives lost (nearly twenty five million), development strategies thwarted and democratic aspirations compromised. Elsewhere the results were quite different. Indeed, amongst the great capitalist powers themselves, the cold war created a degree of unity and cohesion that the world had not witnessed for at least two generations. For this reason many came to view the bipolar system after 1947 as not merely the expression of a given international reality, but something that might be viewed as desirable too. Certainly realists like Kenneth Waltz came to regard the new international system, in which there were two coherent blocs under the tutelage of a single great power, and two superpowers balancing the imperial aspirations of the other, as more likely to produce stability and order than any of the possible theoretical alternatives.

The cold war should thus be regarded less as a war in the conventional sense – significantly the USSR and the United States never directly engaged in armed hostilities – and more a managed rivalry. This in the main is how policy-makers came to view the relationship; indeed, many came to accept in private (even if it could not be said in public) that their rival had legiti-

mate security concerns that the other should recognize. This in turn helps explain why the cold war remained 'cold'. It also helps explain why the superpowers acted with such caution for the greater part of the cold war era. In fact, given the very real fear of outright nuclear war, the shared aim of the two superpowers was not so much to destroy the other – though a few on both sides occasionally talked in such terms – but more to maintain the peace by containing the ambitions of the other.

All systems operate by rules and the cold war was no different. One can thus imagine the enormous shock waves produced by the collapse of this system in 1989. Hardly anybody had predicted such a development. Even fewer believed it could ever happen peacefully. Nor had most policy-makers planned for it. Indeed, one of the more remarkable achievements of policy-makers in the crucial years between 1989 and 1991 was the speed with which they managed to catch up with developments they had neither anticipated nor much looked forward to. At the end of the day however, one policy-maker more than any other played the most crucial role in ensuring the peaceful transition from one relatively stable order to another: Mikhail Gorbachev. No doubt others will insist that others like Reagan, Bush, Mitterrand and Kohl performed their parts on this particularly important stage too. But without Gorbachev first

opening the way to change, and then refusing to close the door of change down through force – like his predecessors – he helped transform the world.

*"The United States during the 1990s  
– and obviously before September 2001 –  
remained a superpower without a mission"*

### The United States: hegemon in a world without balance?

If the cold war period was marked by a clear and sharp divide between opposing socio-economic systems, the post-cold war order could readily be characterized as one where states were compelled to play by a single set of rules within an increasingly integrated world economy. The term most frequently used to describe this new order was globalization, a notion that had barely been used before 1989, but now came to be employed more regularly to define an apparently new system of international relations where, according to one reading, markets would come to matter more than states (a much exaggerated thesis) and boundaries and frontiers rendered increasingly porous – almost meaningless – by the sheer volume of cross-border activity.

Globalization however was not the only obvious by-product of communism's collapse and the opening up previously closed planned economies. In terms of the distribution of power, the most significant consequence was what appeared to some as being the triumph of the United States over its main rival and the emergence of



what came to be defined as a new ‘unipolar’ world system. This was not something that at first seemed likely. However, as events began to unfold – most notably following America’s stunning military victory over Iraq and the collapse of the USSR in 1991 – it soon became obvious that the new world order that was unfolding was one in which the United States held an especially privileged position. Certainly, as the 1990s unfolded all of the most obvious indicators of power – hard and soft – all seemed to point to only one conclusion: that there was now only one serious global player left standing internationally. Indeed, by the turn of the century the popular view now was that the US had been transformed from a mere superpower (its designation until 1989) into what the French foreign minister Hubert Vedrine in 1998 termed a ‘hyper power’.

This new global conjuncture raised a series of important questions. The most central was how long could this position of primacy actually endure? There was no easy answer. Most realists, unsurprisingly, took it as read that other great powers would in time emerge to balance the United States. Others believed that because it enjoyed special advantage in nearly every sphere, the new US hegemony would last well into the twenty-first century. This in turn fed into a second debate concerning the exercise of US power under conditions of unipolarity. American liberals tended to advise restraint and the embedding of US power into international institutions as the most effective and acceptable way of it exercising global hegemony. Others, of a more nationalist persuasion, argued against such constraint. The USA, they insisted, had the power. It had always used it wisely in the past. And there was no reason to suspect it would not use it wisely again in the future.

For a period however the inclination of most US foreign policy makers (especially during the Clinton years) was towards restraint. In fact, in spite of its great power advantage, there was no clear indication during the 1990s that the United States was especially enthusiastic to project its power with any serious purpose; indeed, according to some commentators, it was difficult to know what its purpose was any longer other to spread democracy and promote globalization. The United States may have possessed vast capabilities, and various American writers may have waxed lyrical about this new ‘Rome on the Potomac’. But there appeared to be no real desire in a post-cold war environment of expending American blood and treasure in foreign adventures. The United States after the cold war was thus a most curious hegemon. On the one hand, its power seemed to be unrivalled; on the other, it seemed to have very little idea about how to use this power or whether it really had to. The end of the cold war and the disappearance of the Soviet threat may have rendered the USA more powerful. But it also made it a very reluctant warrior. In a very important sense the United States during the 1990s – and obviously before September 2001 – remained a superpower without a mission.

## Europe: a work in progress

If for the United States the biggest post-cold war problem was how to develop a coherent global policy in a world where there was no single major threat to its interests, then for Europeans the main issue was how to manage the new enlarged space that had been created as a result of the events in 1989. Indeed, while more triumphant Americans would continue to proclaim that it was they who had actually won the cold war in Europe, it was Europeans who were the real beneficiaries of what had taken place in the late 1980s. There were sound reasons for thinking thus.

First, a continent that had once been divided was now whole again. Germany had also been peacefully united. The states of Eastern Europe had achieved one of the most important of international rights: the right of self-determination. Finally, the threat of serious war with potentially devastating consequences for Europe had been eliminated. Naturally, the transition from one order to another was not going to happen without certain costs being borne, most notably by those who would now have to face up to life under competitive capitalism. Nor was the collapse of communism in some countries an entirely bloodless affair, as events in former Yugoslavia (1990–9) revealed only too tragically. That said, Europe – an enlarged Europe – still had much to look forward to.

But what kind of Europe would it be? To this there was more than one kind of answer, with some, especially the French, believing it should now develop its own specific European security arrangements (an optimism that soon foundered on the killing fields of Bosnia), and others that it should remain closely tied to the United States – a view most forcefully expressed by the new elites of Central Europe themselves. Europeans could not agree either about what kind of Europe they preferred. There were genuine federalists who sought an ever deeper Union that would fulfill the European dream while being able to balance the powerhouses of the United States and Japan. There were others who feared such a development and, marching under the traditional banner of sovereignty, managed to play the Eurosceptic card with some success among ordinary Europeans, who seemed more critical of the European project than the elites in Brussels themselves. Finally, Europeans divided over economics, with a clear line being drawn between *dirigistes*, who favoured greater state involvement in the management of a specifically European social model, and free marketers – led by the British – who argued that under conditions of global competition such a protected system was simply not sustainable and that thoroughgoing economic reform was essential.

While many in ‘old’ Europe debated Europe’s future, policy-makers themselves were confronted with the more concrete issue of how to bring the ‘East’ back into the ‘West’, a process that went under the general head-

ing of enlargement. In terms of policy outcome, the strategy scored some notable successes. Indeed, by 2009 the European Union had grown to become 27 members (and NATO to 26). In the process, the two bodies also changed their club-like character, much to the consternation of some older members who found the new entrants to be as much trouble as asset. In fact, according to critics, enlargement had proceeded so rapidly that the essential core meaning of both organizations had been lost. The EU in particular, it was now argued by some, had been so keen to enlarge that it had lost the will to integrate. Still, it was difficult not to be impressed by the capacity of institutions that had helped shape part of Europe during the cold war being employed now in quite new roles to help manage the relatively successful (though never easy) transition from one kind of European order to another. For those realists who had earlier disparaged the part institutions might play in preventing anarchy in Europe, the important roles played by the EU and NATO seemed to prove that institutions were essential.

Institutions alone, though, did not provide a ready answer to what Europe ought or ought not to be doing in a world system. Here again there was more than one European view. Hence several analysts continued to feel that Europe was bound to remain a largely ‘civilian power’, spreading its own values and acting as example, but should not become a serious military actor. Others took a more robust view. Europe’s growing weight in the world-economy, they felt, its inability to act as a united organization in former Yugoslavia, not to mention the great capabilities gap that was rapidly opening up between itself and the United States, all compelled Europe to think more seriously about hard power. The result was the birth of the European Security and Defence Policy in 1998, followed by a series of other moves that culminated with the publication of the *European Security Strategy (ESS)* in 2003 (EC 2003). Viewing security in broadly globalist terms, where open borders and disturbing events in far away places – especially poor ones – were bound to spew up their consequences on Europe’s shores, Europe, it argued, was compelled by the logic of interdependence to engage far more seriously with international affairs.

Defining a new international role for the EU however did not by itself create the instruments or the capabilities for fulfilling this role. Europeans may have wished for a stronger Europe – though by no means all Europeans thought in this way. However, there was marked reluctance by most states to hand over serious security powers to Brussels. Even the final passage of the Lisbon Treaty in late 2009 which advocated (amongst other things) the creation of new posts that would give the EU more voice on the world stage only passed after much

controversy; even then, it was still not clear whether the new foreign policy positions would make for a stronger European role in world affairs. Europe may have travelled a long way since the end of the cold war in 1989. As its many supporters pointed out, how could one judge a project to have been a failure or in crisis when by the end of the first decade of the 21<sup>st</sup> century it had more members than ever, its own functioning currency, and a greater presence abroad than ever before. However, there were still many obstacles to be overcome before Europe could finally (if ever) realize its full global potential. It remained, as it had been since the end of the cold war, a ‘work in progress’.

### Russia: from Yeltsin to Putin and Medvedev

One of the many problems facing the new Europe after the cold war was how to define its relationship with post-communist Russia, a country confronting several degrees of stress after 1991 as it began to travel the road that would one day move it (hopefully) from what it had once been – a superpower with a planned economy and a formal Marxist ideology – to what it might one day become – democratic, liberal, and market-oriented. As even the most sanguine of Europeans accepted, none of this was ever going to be easy for a state that had had the same system for nearly three quarters of a century.

And so it proved during the 1990s, an especially painful decade during which Russia moved from being what it had once been before – superpower that could effectively challenge the United States – to a declining power with diminishing economic and ideological assets. Nor was there much by way of economic compensation. On the contrary, as a result of its speedy adoption of Western-style privatization, Russia experienced something close to a 1930s-style depression, with industrial production plummeting, living standards falling, and whole regions once devoted to cold war military production experiencing free fall. President Boris Yeltsin’s foreign policy meanwhile did little to reassure many Russians. Indeed, his decision to get close to Russia’s old capitalist enemies gave the distinct impression that he was selling out to the West. This may have made him a hero outside Russia. However, to many ordinary Russians it seemed as if he (like his predecessor Gorbachev) was conceding everything and getting very little in return. Nationalists and old communists, of whom there were still a significant number, were especially scathing. Yeltsin and his team, they argued, had not only given away Russia’s assets at knock-down prices to a new class of oligarchs, but he was also trying to turn Russia into a Western de-

*“The EU in particular, it was now argued by some, had been so keen to enlarge that it had lost the will to integrate”*

pendency. In short, he was not standing up for Russia's national interest.

Whether his successor Vladimir Putin had a clear vision for Russia when he took over the presidency matters less than the fact that having assumed office he began to stake out very different positions. These included a greater nationalism at home, a much clearer recognition that the interests of Russia and those of the West would not always be one and the same, and what turned into a persistent drive to ensure that the Russian economy – and Russia's huge natural resources – served the purposes of the state and not just the so-called oligarchs. Nor did Putin (or his successor Medvedev) win many friends in the West with his brutal policies towards Chechnya and self-evident disdain towards human rights. Taken together none of this actually led to what some at the time persisted in calling – very loosely – a 'new' cold war. What it did mean, though, was that the West could no longer regard Russia as for ever being what it had earlier hoped it would become: a 'strategic partner' engaged in a simple transition towards 'normal' liberal democracy. Certainly, the West could no longer assume that Russia would for ever be in a state of almost irreversible decline. With almost unlimited supplies of oil and gas at its command, and with a leadership that look determined to defend Russia's interests, Russia on the surface at least no longer looked like the 'sick man' of Europe.

Still the West had much less to fear now than it had during the cold war proper. Russia, after all, was not the USSR. Economic reform had made it dependent on western markets. And ideologically, the new Russia hardly represented a serious global rival. To this degree there was much less for the West to be concerned about. In fact, according to many Russians, it was not the West that should fear Russia, but rather Russia which should be concerned about the subversive machinations of the West in general and the United States in particular as both tried to extend their economic and strategic ties with Russia's once loyal allies in what Moscow continued to view as its own backyard. Having lost the three Baltic republics to the West, Russia was clearly determined to ensure that it would not lose Ukraine or Georgia. On this there could be no compromise. If Russia was to retain any claim to still being a major power in world politics it could not permit what it saw as western meddling in its sphere of influence. The scene was thus set for further conflict. In Ukraine this took the form of growing economic pressure. Towards Georgia the policy was more aggressive still as Georgia flirted openly with NATO. By 2006 relations had become tense. By 2007 extremely bad. And by 2008 quite appalling – reaching a tragic impasse in August when Russia and Georgia actually went to war with each other. Given Russia's overwhelming military superiority the outcome of the conflict was a foregone conclusion. Equally predictable was the negative impact the war had on western and American opinion. Indeed, in the US especially, the war was viewed by many as a major turning-point that signalled

the beginning of a long drawn out competition between the democratic West and authoritarian Russia.

Thus by the beginning of 2009 the international outlook looked grim. Admittedly President Obama promised to 'reset the button' on the Russia-America relationship when he assumed office. There were also important areas where the United States and the European Union could find common purpose. However, no amount of fine diplomacy or soothing words could completely restore the trust that had been lost. A problematic future therefore beckoned; the heavy hand of the past it seemed continued to influence what was bound to remain a highly complex relationship between Russia and the West.

### East Asia: primed for rivalry?

If history continued to play a crucial role in shaping modern Western images of post-Soviet Russia – and Russian images of the West – then the past also played an equally important part in defining the international relations of East Asia; and a most bloody past it had been since the Second World War punctuated by several devastating wars, a host of revolutionary insurgencies, authoritarian rule (nearly everywhere), and revolutionary extremism (most tragically in Cambodia). The contrast with the post-war European experience could not have been more pronounced. In fact, scholars of International Relations have been much taken with the comparison, pointing out that whereas Europe managed to form a new liberal security community during the cold war which served it well after 1989, East Asia did not. In part this was the result of the formation of the EU and the creation of NATO (organizations of which there were no equivalent in Asia). But it was also because Germany managed to effect a serious reconciliation with its immediate neighbours while Japan (for largely internal reasons) did not.

Nor did the end of the cold war do much to bring about a speedy resolution of these various issues. In fact, whereas the end of the cold war in Europe transformed the continent dramatically, this was much less true in East Asia where powerful communist parties continued to rule – in China, North Korea, and Vietnam – and at least two outstanding territorial disputes (one less important one between Japan and Russia, and a potentially far more dangerous one between China and Taiwan) continued to threaten the security of the region.

For all these reasons, it was taken as given during the early 1990s that far from being primed for peace, East Asia was still ripe for new rivalries. This was not a view shared by every commentator however. In fact, as events began to unfold, this uncompromisingly tough-minded 'realist' perspective came under sustained criticism. This did not deny the possibility of future disturbances: how could one argue otherwise given Korean division, North



Korea's nuclear programme, and China's claim to Taiwan? But it did suggest that the region was not quite the powder keg painted by certain scare-mongers in the wake of the end of the cold war. There were several reasons why.

The first and most important reason was the great economic success experienced by the region itself. The sources of this have been much debated, with some suggesting that the underlying reasons were cultural (Asian values), others that it was directly economic (cheap labour plus plentiful capital), and a few that it was the by-product of the application of a non-liberal model of development employing the strong state to drive through rapid economic development from above. Some have also argued that the United States played a crucial role by opening its market to East Asian goods while providing the region with critical security on the cheap. Whatever the cause or combination of causes, the simple fact remains that East Asia by 2009 had become the third powerhouse in the global economy, accounting for nearly 25 per cent of world GDP.

Second, though many states in East Asia might have had powerful memories of past conflicts, these were beginning to be overridden in the 1990s by a growth in regional trade and investment. Indeed, though East Asia carried much historical baggage (some of this deliberately exploited by political elites in search of legitimacy), economic pressures and material self-interest appeared to be driving countries in the region together rather than apart. The process of East Asian economic integration may have been slow to develop (ASEAN was only formed in 1967). Nor was integration accompanied by the formation of anything like the European Union. However, once regionalism began to take off during the 1990s it showed no signs of slowing down.

A third reason for optimism lay with Japan. Here, in spite of an apparent inability to unambiguously apologize for past misdeed and atrocities – a failure that cost it dear in terms of soft power influence in the region – its policies could hardly be characterized as disturbing. On the contrary, having adopted its famous peace constitution in the 1950s and renounced the possibility of ever acquiring nuclear weapons (Japan was one of the strongest upholders of the original Non-Proliferation Treaty), Japan demonstrated no interest at all in upsetting its suspicious neighbours by acting in anything other than a benign manner. Furthermore, by spreading its not inconsiderable largesse in the form of aid and large-scale investment, it went some of the way in fostering better international relations in the region. Even its old rival China was a significant beneficiary, and by 2009 several thousand Japanese companies were operating on the Chinese mainland.

***"In the US especially, the war between Russia and Georgia was viewed by many as a major turning-point that signalled the beginning of a long drawn out competition between the democratic West and authoritarian Russia"***

This leads us then to China itself. Much has been written about 'rising China', especially by certain pessimists who argue – in classical fashion – that when new powerful states emerge on to the international stage they are bound to disturb the peace. China may look benign now they agree; that however, is not how things will look in a few years time – once it has risen. Again, though, there may be more cause for guarded optimism, in large part because China itself has adopted policies (both economic and military) whose purpose clearly is to reassure its neighbours that it can rise peacefully and thus effectively prove the pessimists wrong. It has also translated these reassuring words into concrete policies by supporting regional integration, exporting its not inconsiderable capital to other countries in East Asia, and working as a responsible rather than a spoiler inside regional multilateral institutions. Certainly, such policies are beginning to bear fruit, with once sceptical neighbours—even possibly Japan—increasingly now viewing China as a benign instrument of development rather than threat.

In the end though, all strategic roads in China (and for East Asia as a whole) lead to the one state whose presence in the region remains critical: the United States of America. Though theoretically opposed to a unipolar world in which there is only one significant global player, the new Chinese leadership has pursued a most cautious policy towards the USA. No doubt some Americans will continue to be wary of a state run by the Communist Party whose human rights record can hardly be described as exemplary. However, so long as China continues to act in a cooperative fashion, of band-wagoning rather than balancing, there is every chance that relations will continue to prosper – as Obama certainly hoped they would when he went out of his way during his first year in office to reassure China of America's benign intentions.

But there is no guaranteeing the long-term outcome. With growth rates running at something like 10 per cent per annum, with its apparently insatiable demand for overseas raw materials, and enormous dollar reserves at its disposal, China has already changed the terms of the debate about the future of international politics. For some time to come, it may well remain what one observer has called a 'colossus with a feet of clay', overly dependent on foreign investment and still militarily light years behind the United States. But even such a colossus presents a set of challenges that simply did not exist in the much simpler days of the cold war. Indeed, one of the great policy questions facing the West in the second decade of the twenty first century is how to devise policies that will accommodate China but without betraying its own core values. Of thing we can be certain though: China as a rising capitalist power now playing

by the rules of the market may turn out to be more of a challenge to the West than China the communist power in those far-off days when it denounced the imperialists across the ocean and called upon Asians to drive the Yankees out of the region.

### The war on terror: from 9/11 to Iraq

If the end of the cold war marked one of the great turning-points of the late twentieth century, September 11 was a reminder that the international order that had come into being as a result was not one that found ready acceptance everywhere. Bin Laden was no doubt motivated by far more than a distaste for globalization and American primacy. As his many would-be analysts have pointed out, his vision was one that pointed back to a golden age of Islam rather than forward to something modern. That said, his chosen method of attacking the United States using four planes, his use of video to communicate with followers, his employment of the global financial system to fund operations, and his primary goal of driving the United States out of the Middle East (whose control by the West was essential to the continued working of the modern international economy) could hardly be described as mediaeval. US policy-makers certainly did not regard him as some odd throw back to earlier times. Indeed, the fact that he threatened to use the most modern and dangerous weapons – namely weapons of mass destruction – to achieve his objectives, made him a very modern threat, one though that could not be dealt with by the kind of traditional means developed during the cold war. As the Bush Administration constantly reiterated, this new danger meant that old methods, such as containment and deterrence, were no longer relevant. If this was the beginning of a ‘new’ cold war, as some seemed to argue at the time, then it was one unlikely to be fought using policies and methods learned between 1947 and 1989.

The very peculiar character of this new non-state threat led by a man whose various pronouncements owed more to holy texts than anything else, made it difficult for some in the West to understand the true character of radical Islamic terrorism. A few in fact believed that the threat was more existential than serious, more functionally useful for the United States in its quest for global pre-eminence than actually genuine. Furthermore, as the controversial war on terror unfolded – first in Afghanistan and then in other parts of the world – few critics of a more radical persuasion began to wonder where the real danger actually lay. Indeed, as the United States began to flex its not inconsiderable military muscle and widened the war on terror to include Iraq, North Korea, and Iran, some began to turn their critical attention away from the original threat posed by radical Islamism towards the United States itself. In this way the original target of 9/11 was transformed from the early status of victim into the imperial source of most of the world’s unfolding problems.

The various controversies surrounding the Bush Administration’s responses to international terrorism should not, however, obscure one simple fact: the impact that 9/11 was to have upon both the United States and US foreign policy more generally. Most obviously, the new threat environment provided the United States with a fixed point of reference around which to organize its international affairs; and organize it did, in the shape of building close relations with those many states – Russia, India, and China perhaps being the more important – that were now prepared to join it in waging a global war against terror. 9/11 also compelled the United States to act in a far more assertive fashion abroad. Indeed, some of Bush’s more conservative supporters believed that one of the reasons for the attack on the USA in the first place was that it had not been assertive enough in the 1990s. Finally, in what some saw as a near revolution in US foreign policy, the Bush team seemed to abandon the defence of the status quo in the Middle East. 9/11, they argued, had changed the original formula whereby the United States turned a blind eye to autocratic regimes that existed in the region in exchange for cheap oil and stability. This was no longer enough, especially when it involved the USA doing deals with states like Saudi Arabia that produced the dangerous ideologies that had inspired those who had flown those planes on 9/11, or who directly or indirectly had given (and were still giving) aid and comfort to terrorists around the world.

In this way the intellectual ground was prepared for the war against Iraq in 2003. The war, though, still remains something of a conundrum. After all, Iraq had not been involved in 9/11, the regime itself was secular, and it shared the same goal as the United States in at least one respect: of seeking to contain the geopolitical ambitions of Islamic Iran. For all these reasons, different analysts have identified rather different factors to explain the war, ranging from the ideological influence exercised by the ‘neo-cons’ on President Bush, America’s close relationship with Israel, and America’s desire to control Iraq’s oil. No doubt all these things fed in to the final decision. However, one is still left with more questions than easy answers, with possibly the most credible answer being the less conspiratorial one that the United States went to war partly because it thought it would win fairly easily, partly because it got its intelligence wrong, and partly because it thought – rather unwisely – that building a new regime in Iraq would be just as easy as getting rid of the old one.

Whatever the original calculations made by those who planned this most controversial of all modern wars, it is by now clear that this so-called ‘war of choice’ was a strategic blunder that neither delivered stable democracy to Iraq nor inspired others in the region to undertake serious political reform. It has also had the doubly dangerous consequence of disturbing the whole of the Middle East, while making it possible for Iran to gain even greater influence in the region. Finally, as result of its action in Iraq, the United States and its allies have provided radical

Islamists around the world with a rallying point which they appear to have exploited with some skill. The bombings in London and Madrid were no doubt the result of many factors; however, few now believe they were entirely unconnected to what had been happening in the Middle East since 2003.

With or without Iraq, however, the West still confronted a challenge in the form of violent radical Islam, one that has not only fed off certain Western blunders and policies but draws strength from a set of cultural value and historical grievances that have made it very difficult to deal with effectively –without compromising what it meant to be part of the West. Herein, though, lay another problem: of how precisely to define this conflict. It was certainly not fashionable among some to characterize it as one between two different ‘civilizations’ (a term originally made popular by the American writer Samuel Huntington back in 1993). Nevertheless, there was something distinctly uncompromising about a conflict between those who on the one side supported democracy, pluralism, individualism, and a separation between state and church, and those on the other who preached intolerance and supported theocracy while calling for armed struggle and *jihad* against the unbeliever, the Zionists and their supporters in the West. Nor did there seem to any end in sight to this particular conflict. Motivated by a sense of the injustices done to Moslems around the world – most visibly the Palestinians – and spurred on by a vision of paradise in which there would always be a hallowed place for those who had died in the name of their faith, there would always be enough martyrs in the world to carry on the struggle against the enemy from Pakistan to the streets of Bradford, from Jakarta to the skies over Detroit.

*“Once sceptical neighbours  
–even possibly Japan– increasingly now  
viewing China as a benign instrument of  
development rather than threat”*

### The world economic crisis

In the midst of this ongoing ‘war’ against global terror two things happened that appeared to change world politics for ever: one was internal to the United States and involved the critical transition from one President who had been defined by 9/11 to a new leader who sought to change the terms of the debate about America’s role in the world; and the other was very directly linked to another great event in world politics – the near meltdown of the world’s financial system in 2008. These apparently unrelated events were, in fact, very closely connected. Thus as America began to grow weary of fighting an ethically problematic and highly costly war against a hydra-headed enemy abroad it turned to one of the few serious American politicians who had been most vocal in his opposition to the way in which the ‘war’ had been conducted (Barack

Obama had voted against the Iraq war and had for a long time called for the United States to abandon some of the more morally dubious means it had employed in combating terrorism). Then, as it confronted what looked like an economic catastrophe in the fall of 2008, Americans in their majority transferred their support away from one party (the republicans) who had hitherto seen ‘government’ as the problem, to another (the democrats) which accepted that if the United States was to avoid another great depression it would have to adopt a set of radical policies that did not shy away ideologically from using the state to save the market from itself. Barack Obama may have been no radical. However, he did promise a new start to a nation facing a very real and measureable crisis. Indeed, when Americans voted for the first black President in late 2008 – and did so in very large numbers – they did so less so out of confidence and more out of fear in the hope that he would restore America’s diminished standing abroad and bring back some sense of economic normality at home.

In large part Barack Obama succeeded in fulfilling his early and immediate promise. Thus within a year of his election in 2009 the prestige of the United States had never been higher (especially in Europe). On the home front meanwhile the financial system did at last begin to acquire some degree of stability (though only after the most unorthodox economic measures had been adopted). Still, there was no hiding the damage that had been done. Nor did there seem to be any quick ‘Obama fix’ to any one of the several problems still confronting the world’s most significant power. Indeed, in one area in particular – the Middle East – things seemed to get worse, in spite of Obama’s efforts in early 2009 to engage Iran, talk to the Palestinians and Israelis together, withdraw from Iraq, and build bridges to the Muslim public opinion. It very much looked as if it was easier in 2009 to talk about and promise change than actually bring it about. Indeed, one of the great problems he faced during his first year in office in 2009 was that many of the promises he made in the field of foreign policy all came close to foundering – without crashing completely – on the rocks of hard reality. Obama was undoubtedly talented and committed to doing international relations in a very different way to his predecessor. Yet, even a leader as capable and articulate as Obama could not bring about a new agreement covering global climate change (note here the failure at Copenhagen in December 2009), or compel the Russians to become more sensitive to western positions, or induce his allies in NATO to commit many more active troops to fighting on the ground in the escalating war in Afghanistan (what he termed a war of ‘necessity’ as distinct to the war of ‘choice’ in Iraq. Election promises were one thing: making the world a better or more secure place was something else altogether.

Nor could Obama's elevated rhetoric alter something that was fast becoming obvious to most observers in 2009: that the economic crisis itself had brought about a profound shift in the international order. Twenty years previously in 1989 communism had collapsed and American-style liberal capitalism had triumphed creating the conditions for a new world order. This had not made the 1990s perfectly peaceful. Nor had it eliminated danger. But it had provided the most stunning answer possible as to where the future might lay – namely with the West and the kind of economic system for so long associated with and championed by the United States. Now, with the unfolding of a crisis that was very much “made in America” by an American economic system that celebrated the hidden hand of the market over regulation and government direction, a corner had been turned, one that both weakened the global attractiveness of the American economic model as well as its capacity to act and solve global problems alone. This may have produced the necessary impetus leading to the election of a President of hope in the shape of Barack Obama. On the other hand, it could not but make the world a less stable place and America's position within it less secure.

In conclusion, nearly twenty years after the end of a cold war that had produced such high expectations – some of them illusory – the world in 2009 seemed to be facing a more uncertain future. One should not exaggerate, of course. In Europe, peace reigned. Great power war was not about to destroy the structure of the international system. The actual numbers being killed in wars around the world was on the decline. Globalization meanwhile continued to benefit more people than it disadvantaged. Still, in spite of these many obvious and positive features, the future contained many uncertainties, especially perhaps for the United States, a hegemon by any measure but one that fast seemed to be losing its capacity either to lead others or to solve the many challenges confronting it. It may be too soon to talk – as some are already beginning to – of the end of the American era, or (more dramatically) of the collapse of what some of late have been calling a ‘new’ American empire. It is certainly premature to predict somebody else's century replacing that of the United States. But only a few years after the collapse of its main ideological foe in the shape of the USSR, America no longer looked or sounded as self-confident as it once did when it appeared to be riding high during the glory days of the 1990s. Pundits have predicted the decline of the United States before – and been proved wrong. This time some believe they may be right. Perhaps another world order beckoned in 2009?

## Guide to further reading

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# Reviewing 2009: the year when illusions ended

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The first impulse, when writing a summary of the political-economic events of 2009, is to announce the definitive failure of capitalism, establishing a link with 1989, in a way that, if history, in Fukuyama (1989)'s sense, ended in that year, unbridled capitalism, which then stood as the prevailing system, collapsed twenty years after. Neither history ended with the fall of the Berlin Wall – as Hegel himself would agree –, nor capitalism vanished with the snowball effect triggered by the U.S. sub-prime crisis. Explanations are manifold and, even so, will never completely grasp the subtle weavings of our present reality, and the complex interactions they produce. No doubt, historians are ever more resorting to the scientific theories of complexity, to explain the present world context and its likely developments, Ferguson (2010).

I shall try to summarise trends and events in three major blocs. I first address the financial sector from a perspective where continuity rather than rupture is perceived. I then discuss the attempts at governance, in a somewhat wider vision than the sheer economic one, and whether 2009 means a watershed in terms of ways to cope with this issue, in its varied domains. This allows me to draw a sketch on the state of several world regions, where economic forces, if sometimes concealed by geopolitics, are key drivers of change. In a fifth section I close with some broad statements and a few prospects for the near future.

Without resisting to recourse to the mathematical analogies, the threading line is that we have entered into a

highly non-linear world; the linear, predictable outcomes so dearly construed by Cold War or U.S. hegemonic-capitalism strategists are over, multiple agents and abrupt changes – both in intensity and direction – seem to prevail as nowadays rules of the game. Trying to make this general statement less vapid is my goal in the next lines.

## The ungovernable world of finance

There is no need in reproducing the several steps that led to the crisis bluntly evident and widespread during 2009. Early announcements can be traced back to 2007, at least,<sup>1</sup> while unfettered use and development of derivatives was growing exponentially. As known, derivative products can be created nearly out of anything – from expected movements of the price of a share to a likely rainfall – and they produce a cascade of potential debts whose primary source quickly becomes unfathomable. If tied to loans or mortgages, they get twice more explosive. Notable among these are the CDS – Credit Default Swaps, which transfer to third, fourth, and so on ... partners, an initial, concrete debt; usually large sums, not infrequently related to government backed operations.

If derivatives distribute risk – what, in itself, is not bad –, they at the same time spread it to otherwise safe markets. Banks, financial *boutiques*, private enterprises, local governments, almost everybody connected in some way to the global financial system freely indulged in the use of derivatives, many linked to the sub-prime loans, given the extent and pervasiveness of U.S. finance. German state banks, for instance, were big buyers of mortgage-backed products, marketed by U.S. banks.

When the original risky loans started to collapse, the related derivatives went into default, and, like a castle of cards, those agents who held them in exaggerate proportions. The rest is well known, from banks to economies and governments in trouble, from the U.K. and the U.S. to newcomers like Dubai.

The first, overall reaction, was to blame the absence of control, in the advanced economies, of a large share of financial operations – those with derivatives naturally included – and menace culprits with neither rescue nor sympathy. This was the rhetoric around the first semester of the year and, indeed, countries with tougher banking regulations, like Brazil and Canada, coped reasonably well with the ill winds. The IMF, which was ready to hibernate for lack of prospective borrowers, rose back in glory, as a major player in the needed refurbishing of the international financial order.

But as the end of the year approached, and the crisis was however beginning to be contained, the innumerable working groups and special meetings dispensed less caustic communiqués and wild or conservative ideas to fix the system. Not much did happen though.

Two things seem important to understand, out of this sequence of events. First, by its very essence, of all sec-



tors in the economy, the financial system is the one most difficult to control. In its modern *Gestalt*, it needs continuous innovation, unending creation of new products and strategies that will make room for arbitrage, the essential characteristic allowing for quick and huge profits. As long as a new product becomes widely known, and its related market then functions in a more orderly fashion, it can remain as an option for the risk averter, but no longer qualifies as the top asset that will make fortunes sway hands.

The above implies that regulation is doomed to apply to a well defined circle within the sector, while the well-informed agents *outside the regulation perimeter* will be busy creating new products and act according to a fairly loose market discipline. Before the crisis, commercial banks lay in the core of the regulated circle, while investment banks, hedge funds, insurance companies and all sorts of asset managers made for a huge army of well-informed. As 2009 didactically showed, poor market discipline among the latter spilled over to the regulated, apparently safe circle, obliging governments to play an unusually active role to prevent catastrophe.

The area of the circle can, and very likely will, be enlarged; indirect controls may be attached to some outside; reverting this pattern looks impossible. Of course, the whole sector may be smothered and reduced to an improved, modern version of the old banking system, with not even sweeps allowed.<sup>2</sup> Though theoretically feasible, it is hard to believe this will happen, and the reason is simple: nobody wants it, or at least those who detain the power to do it don't.

The motives explaining this inner resistance to a drastic change are varied, but a main one is that the financial system, ironically, is the oxygen of the economy. Despite producing extra fat for the "well-informed" group, it supplies capital for the major needs of a global economy. If curbed in excess, this supply will dry up and we shall be back to a more autarchic environment, with less world-encompassing projects and a much reduced flow of goods, services, people and ... funds.

Discussing a new architecture for the financial system goes beyond the sheer financial narrative and must, eventually, encompass the whole functioning of the present world economy, its production system and its trade and investment dimensions. The cyclic change in the mood of the communiqués and resolutions, watched as 2009 went by, bears evidence on how this theme will essentially not be solved in the near future.

Moreover, after the initial bold U.S. and British decisions related to the first banks in trouble – and the boldest one was perhaps the Lehman Brothers' collapse, in

September 2008 – bailouts, out of the taxpayers' pockets, conspicuously entered stage, to rescue, in a more or less sophisticated way other agents in distress. As a subsidiary proof of the main argument above, financial units revealed themselves too big, too meshed with the global economy to subsume *así no más*. Their fall would precipitate that of factories, offices and small businesses; in other words, the loss of jobs and votes. No wonder, one of the new regulatory proposals under discussion advocates the splitting of the big banks, so that in a system made of smaller units, bad behaviour could be more easily punished with bankruptcy.

Indeed, concern with big banks or similar agents led to coining the acronym SIFI – Systemically Important Financial Institutions, but the real focus should be on the "SIFS" – Systemically Important Financial Sub-sectors, given the way how interconnectedness leverage of a given sub-sector can spread damage over numerous institutions, independently of their size.

Small fixes will be put in place. Some new regulations regarding derivatives trading will be enforced, trying to better control a greater number of them; there is even talk of abolishing or creating an array of conditions on CDS, rendering them practically unfeasible – as well as on the whole banking compound, notably in the Anglo-Saxon world. But the basic pattern of the system, as outlined here, will remain untouched, and its key characteristics largely unaffected. Innovation and accounting creativity will only be spurred again by the new constraints, and the financial sector will thrive on.

### The year when the governance void became clear

The financial crisis, together with the climate issue, brought out another relevant outcome in 2009. Already in 2008, and notably in its March 2009, London meeting, the G20 had gained visibility and tried to reassert itself as the *locus* where streamlining of the financial complex should be discussed. The group, as its half brother, the G8, that it intended to enlarge in a more democratic and realistic way, lacks however any degree of institutionalisation and, consequently, of clout. If the G8 made some sense, providing an informal, regular chat among the rulers – or so considered – of the world, to evaluate the overall state of affairs, the G20 is a club with debatable membership criteria, and goals artificially set.<sup>3</sup> During the year, following the subtle changes in the rhetoric about the measures to avert another crisis, the G20 progressively attenuated its statements as well as their scope. Regardless of enthusiastic work by some of its members, notably Brazil, and an ambitious (and unreal) agenda set forth in the Pittsburgh meeting, it became evident that, if one good idea coupled with a bunch of good intentions may come true in the following meetings, nothing very substantial should actually be expected.

**"The G20 is a club with debatable membership criteria, and goals artificially set"**

At the closing December lights, Copenhagen produced another telling example of the lack of proper forms of governance. The Climate Conference ended in a sad note; no combined effort on the global warming issue will be possible in the near future. As it dealt with a more specific problem, the Copenhagen failure helps us to raise a key point which lies behind such pseudo attempts, from fixing global finance to global climate, passing through all the G's one might prefer. In most of them, lack of governance should be read as lack of commitment. It is very easy to identify the major economies that would make a substantial difference, if seriously engaged in reducing their carbon emissions. In the same way as those with enough clout to radically change global financial rules are unwilling to do it, these big economies simply don't want to have their emissions potential capped. Their reasons vary, and it is not the purpose here to discuss their relative fairness; for the sake of my argument it merely suffices to state that they do not want.

Old Bretton Woods dinosaurs, like the World Bank and the IMF, waved from the door left ajar by the governance void, the former more modestly, the latter trying to impress a confused audience on its unique virtues, more than sufficient to transform it into the international lender of last resort. New protagonists, like the BRIC, also rehearsed a few steps together, in a better-than-expected meeting at Yekaterinburg, Russia, to be followed by a second one in Brasilia, Brazil, coming April 2010. Mr. Obama, in an everything but successful visit to China in November, tried to engage his counterpart into a G2 "world governing" alliance, but the dragon recoiled graciously.

All these attempts pay witness to the evident truth: a lack of governance and of means and forms to implement it. Resort to institutions like the IMF, for instance, requires, beforehand, that the IMF itself be reformed. From the relative power of its members – including out of proportion representations, like the European Union or Euro-land countries – to more modern accountancy procedures, a sizeable amount of work must be done, previous to confiding a new, major role to the Fund. A G2 is no substitute for a hegemon in sometimes imperceptible decline, or for a less persuasive G8, or the G20 Pirandello-characters trying to become an author.

With its numerous displays of subdued though deep disorder, 2009 may be considered a year in which illusions of harmonious governance of major international issues were buried without much alarm. Among the flare and glitz of heads of state getting together to provide the painfully expected solution, and the equivocal laughing faces in the group photographs, little was delivered.

Two other points added to the seriousness of the problem. The first relates to the World Trade Organisation – WTO. When it was created, after completion of the Uruguay Round, the WTO was hailed as the new shape of governance for world economic issues. A multilateral, rules-based organisation, with supranational powers and the ability to change domestic legislations, seemed to set

the mode for a new order. But, in spite of its one member/one vote democratic character, the WTO works through its member nations, which often reflect the will of their most powerful (trans-national) companies and production lobbies. The result, amid undeniably significant and positive accomplishments, is that an impasse has been reached. From one hand, pressures from different civil constituencies, not aligned below governments, have put in check this biting supranational power, seeing it more as a constraint to individual development policies rather than a guarantor of fair competition. On the other hand, the mutual concessions scheme, through which liberalisation moves on, showed its limits, set by the market shares acquired by the actual performers in the negotiations; concessions being now only possible at the margins. The irrelevance of the WTO attempts to move forward the paralysed Doha Round, during the whole year, can not be only attributed to the attention drawn by the financial crisis, it signals that even this mode of governance, once considered ideal, has perhaps become inadequate to our *tempi sconvolgenti*.

The second point should provide an answer to the one above, but rather stands as an unfortunate complement to it. The year also marked the continual neglect of the United Nations, perhaps the existing institution better qualified to take up most of the needed governance roles. Action remained basically concentrated in the reduced and biased version of the General Assembly, the Security Council, where a few powers insist to exert their will and vision of the world. The Council meetings and resolutions attracted the energy of the main players, turning a subsidiary entity into the focus of what should supposedly be a concerted action by 192 nations.

The financial crisis and the climate *imbroglio* thus showed that "competition, diffidence and glory" – to use Hobbes' words for the three main motivations for chaotic, savage behaviour, in his famous Leviathan – are still alive and well, and greater catastrophes will be needed to create the will to build up really effective governance structures: a non negligible lesson given by the past year.

## Regions: dry and wet

Financial crisis and recession set the tune. Those economies less damaged by the wide cracks in the financial buildings suffered through the contraction in the trade, investment and remittances flows. Poverty was to some extent forgotten and, though not properly measured yet, it is probably not wrong to say that, notwithstanding the sudden disappearance of some fortunes, inequality – within each economy – did not decrease. Trade continued to be deeply affected during the first half of the year, but the growing fragmentation of world production<sup>4</sup> and a certain recovery in commodities prices contributed to trigger a moderate recovery during the second semester.



The massive amounts of money states had to put in the financial sector raised the old question of the extent of public intervention in the economy and, together with it, the debate on the virtues of more regulation and control. It also brought back to fore Keynesian ideas to stimulate economic growth and spending, many times not very close to Lord Keynes' original conception. The G20 has been rich in proposals, ranging from the reduction in top executives' premiums to taxes on risky dealings.

Nobody denies that most issues at stake are not simple – in the case of a tax, where to apply its revenues? I have already stated my view regarding the financial sector. In a somewhat blunt synthesis, if looked at a historical perspective, those conflicts are not exactly new, being, in a cyclical movement, germane to the present times.

What can additionally be said is that the crisis, though appeared, did not find its end in 2009, and the huge expenditures made during the year will take a heavy toll of all economies affected. Inflation, unfortunately, is due to plague not only the developed western nations but emerging economies as well.

Without any attempt at a pervasive account, I now briefly overview selected developments in different world regions. My choice, unavoidably personal, tries to say a few sentences on those which were the main actors during the year. Southeast Asia, for instance, is a key region, but developments there, though relevant, were tied to the regional engine, China, and so less prominent to a synthetic world view. Nevertheless, I introduce in the regional debate an entity usually forgotten, that started to receive better awareness in 2009, as it will become ever more crucial in the coming decade – the oceans.

**"Greater catastrophes will be needed to create the will to build up really effective governance structures"**

### **The two western superpowers: the US and the EU**

For the U.S. it surely was a tough year, amidst a recession that, beyond the immense sums eventually transferred to cover the main financial gaps, obliged to orchestrate rescues to giants like General Motors, to avoid extra disruptive effects in the socio-economic fabric of the country. GDP fell by 2.4,<sup>5</sup> the strongest negative contribution coming from investment. However, if demand for foreign goods and services fell sharply, exports experienced a less pronounced drop.

A new president took over surrounded by great hopes and a wave of positive optimism. In spite of his straightforward and mostly constructive, open behaviour, one

year has not been enough time to show whether he will be able to enforce the changes the country needs and the world expects. Important issues in the domestic front, the debatable conditions both in Afghanistan and Iraq, and the complex plot in the Middle East, to which increasingly complex relations with China must be added, seem to have completely absorbed the new president's energies.

Private consumption fell by 0.6, and consumers are trying to learn how to live within their means; a great unknown given the U.S. culture of over-spending. This, together with serious fiscal sustainability issues and how the wave of write-offs will end are a few of the main problems left for 2010.

The EU suffered badly with the financial crisis, which enhanced the East-West divide among its members. GDP fall was 4.1, for the EU, and France, Italy, Spain, even Germany and particularly the U.K. were badly hit by the crisis. With the exception of Poland, the Eastern members received full impact, the Baltic countries experiencing a 20 percent fall in GDP! The U.K., Cyprus, Greece, Italy, Portugal and Spain turned the year in a most fragile condition. The euro, already under stress due to the balance of payment problems raised by the Eastern members, has been put to heavy pressure. Persistent asymmetries among the core members, high unemployment levels and the diverging evolution of government yields spreads have made for growing uncertainty on the currency, with no signal to diminish.

Consumed by the crisis management, the domestic governance of a common market with 27 members, and the internal strains to get full approval for the Treaty of Lisbon – something finally obtained, with great relief, just before December – the Commission pottered about along the year. Cherished items in the EU global agenda, like the environmental question, on which it tries to set a paradigm, did not progress much.

### **The odd North-American couple: Canada and Mexico**

Canada, thanks to its conservative banking legislation and its trade flows largely based on energy commodities, has fared moderately well. The country, though strictly respecting, and profiting from, its NAFTA commitments, is slowly trying to broaden its portfolio of closer trade partnerships, something it had always been totally free to do. However, its visceral ties with the U.S. announce that, maybe before the economic decisions, Ottawa must exert a psychological one. To potential partners in South America, pursuing such a line will be a welcome move.

Bleaker prospects lie for Mexico, in its peculiar position of a Spanish origin country striving among a largely Anglo-Saxon and economically developed continent. Before 2009, it had already been enduring fierce com-

petition from Chinese goods in its NAFTA markets, and an accompanying recession; both only increased last year. The drug question, something enmeshed with the political and social life of the country, has led to a debatable open war against the trafficking gangs, which is tearing the country apart. A country whose fate should be closely observed.

## The BRIC

But for Russia, the other trio sailed in not very rough seas during 2009. Though Brazil experienced practically zero growth (-0.2), India and China succeeded in achieving rates of 6.1 and 8.7, respectively. Brazil, perhaps for the first time in its history, was caught by an international crisis in very favourable macroeconomic conditions and, with a few episodes related to derivatives trading, the shock wave actually hit through the trade and investment flows. Public spending increased considerably, and the Treasury deficit is now a factor of worry.

In an interesting contrast, China managed to balance more public spending and domestic consumption – the latter nearly an international claim – with a (real or pretended) decrease in private savings. At the end of the year, the country was already close to the hungry consumer of commodities and goods it uses to be in the international markets. From its side, India pursued a growth path, heavily based on services exports but slowly including a growing and competitive manufacturing sector. The protected character of its economy, notably in the agricultural sector, also helped the country to survive practically unscathed.

Russia started the year poorly, to end in a more positive note. Expansion and improvements in its key energy sector are heavily dependent upon geopolitical configurations, leaving the economy hostage to the external scenario. The crisis then hit the country in full force, with a massive decline in exports. Developments in the domestic front were also adverse – with even the bursting of a real state bubble – and the economy posted one of the lowest growth rates in the world, for 2009: -7.9. Nevertheless, the government has come to realize the damage in a rather pragmatic way, and has been striving for more transparency, both in the external and internal sides. Attention to corruption and cluttering bureaucratic practices seems to have increased during 2009. Industrial output and retail trade are slowly recovering.

## Africa

It is not fair to pool the enormous diversity of this continent under a single heading. But, being perhaps the region with less linkages to the international financial sys-

tem, results were not too bad in the average, though the remittances shortage hit several countries. As regards investment, the growing Chinese presence – a phenomenon deserving more study – contributed to mitigate the overall worsening conditions. Perhaps the greatest economic impact will be in the form of neglect: worried with their own fate, most economies in other continents forgot Africa and its global problems. This was patent during 2009 and is doomed to continue, as recovery is slowly creeping back in the North.

## The Spanish-speaking South American countries

In a more or less similar way to Brazil, these nations were broadly caught by the crisis in a favourable moment of the macroeconomic cycle. This does not mean that impacts were not felt, through decreased commodities trade and, particularly in the smaller economies like Bolivia and Ecuador, through sharp drops in remittances. Intra-continental trade – Brazil included – suffered also, but helped to cushion an otherwise nastier shock. In fact, like Africa, the region is further from the modern, leveraged financial system, and this also made for the lesser impact. The more problematic country to be singled out is Argentina, whose economic conditions continued to deteriorate during the whole year, while Peru managed to achieve a 0.9 growth rate.

## Iran, Pakistan and Turkey

These three countries, neighbours in pairs, have been attracting considerable attention. Not very big as economies – Turkey is the largest and Pakistan the smallest one – they qualify as key actors not only in the Middle-East, but in the world as well. During 2009, their political and economic relevance seems to have been established for good. The latter, especially in the case of Iran and Turkey, is closely associated to their roles both as energy exporters and as strategic locations for allowing other supplies of these very goods.

Pakistan is setting increasingly close ties with China – formally started at least since October 2008, while Iran with India, though being also an important source of oil for China. Turkey, tired of the EU's ambiguous attitudes towards membership, assumed a more assertive position during the year, aiming at a political-economic regional leadership it might have.

In a March visit to Teheran, links with Iran were openly strengthened; in July, together with Austria, Bulgaria, Hungary and Romania, it signed the construction of the Nabucco pipeline, which will bring to Eastern Europe gas from Azerbaijan, diminishing the dependency from Russia.



## The Oceans<sup>6</sup>

A few thinkers – Kaplan (2009a, 2009b) being a good example - drew attention, during the year, to the complexities inherent to the caring of this ‘no man’s land (actually water!)’. In an as informal as efficient agreement, dating from the end of the Second World War, supervision and patrolling of this international public good has been assured by the U.S. Navy. For decades, and to the majority of nations, this has been close to a Pareto optimum: the U.S. Navy could fulfil, at a material cost, key strategic objectives of her country, with ample, unconstrained freedom, while all other countries had, at no cost, secure waters for their ships. But things have been changing of late and not only the costs of maintaining this universal guardianship are increasing – especially due to other involvements of the big power, beyond pressing domestic demands – as this free movement of the Navy is slowly starting to be contested. Contest can arise either by diffidence, with middle or aspiring powers being more aware of the need to look after their usually precious coasts, or by greater as-

sertiveness from larger nations. At the same time, piracy, fuelled by failed states, terrorist organisations or simply independent wild bunches, has been increasing. The Horn of Africa surroundings, especially off the coast of Somalia, was the stage of numerous and significant attacks to important vessels in 2009.

What has this to do in an economic survey of the past year ?

The major answer resides in that the greatest portion of international trade, and practically all that related to energy goods, goes by ship. Disturbances in the main trade routes will affect every corner of the globe. The Indian Ocean, encompassing the crucial Straits of Hormuz, Bab-el-Mandeb and Malacca – all three key trade routes, with different geographical and political characteristics – has been raised as a main example of an area where, with high probability, something explosive and disruptive will take place in the coming five to ten years. In 2009, China and India continued to enlarge and update their respective navies, clearly signalling that not only they will assume a larger portion of shared responsibility in the Indian, as foreign presences there will have their usefulness under strict scrutiny. Other areas, like the Mediterranean, or specific spots in the Atlantic, including the long and oil rich Brazilian and (eastern) Canadian coasts, may eventually be the source of ticklish incidents.

## Conclusions

In Shakespeare’s Macbeth, Act II, Scene III, Macduff, seeing the murdered king, cries out that ‘Confusion now have made its masterpiece!’. The crisis 2009 year was not host to any single major event, to notably increase the already existing confusion in the world order. Despite a gradual sequence of facts steadily contributing to chaos; no great king was assassinated. Therefore, I prefer to sum it up as a year in which confusion continued its ascending movement, symbolically triggered by the fall of the Berlin Wall.

We are experiencing the transition to a new paradigm and, in this process, a spell of poor governance, Hobbesian chaos is unavoidable. In a pessimistic outlook, 2009 could qualify as the year in which this chaos, with the help of the crisis, became dominant; in a less pessimistic mood, it was certainly a year during which many illusions simply died out.

The primrose path to capitalist happiness has not been resumed yet; in fact, it will never be. It is high time to start thinking and searching for new ideas, or really innovative ways to use old ones and institutions. In this effort, more realism may represent a wise beginning that will set the grounds for novel, more peaceful and equitable times.

## Notes

1. In early 2009, Richard Posner (2009) already fully discussed the “crisis of ’08” (and the title of his book was ‘A Failure of Capitalism’ ...).
2. By the sweeps mechanism, depositors are allowed to move their money from a standard account to an investment fund, bringing back each time only the amount needed to pay an incoming, specific debt. This simple mechanism, nowadays widespread, is fundamental to give investment funds scale for performing their various deals.
3. To do justice to the G20, it was created in 1999, incorporating the 11 biggest economies outside the G8 (the European Union is the odd twentieth member) and with the aim of being the forum for discussing global financial issues. It has a rotating presidency, held, in 2010, by the Republic of Korea (South Korea), meeting twice every year.
4. And of the accompanying offshore services as well (see, for instance, Gereffi and Fernandez-Stark (2010)).
5. All growth figures are in percentage.

***"The huge expenditures made during the year will take a heavy toll of all economies affected"***

6. I have been sharing with Carlos Ivan Simonsen Leal views on this topic. This brief passage – under my full responsibility – is an outcome of broader discussions.

\* The author is solely responsible for the opinions expressed here, which in no way engage any of the institutions he is affiliated to. Renato Flôres is also president of the Management Committee, Programme PEP (Poverty and Economic Policy), Canada; Member of the Scientific Board, CEPESE (Centre for the Study of Population, Society and the Economy), Portugal.

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# The evolution of the European integration process in 2009

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The year 2009 was again a turbulent one for the European Union (EU). On the one hand the Lisbon Treaty was finally implemented after it had been ratified by all of the 27 member states. Thus the Union completed an ongoing reform process after almost 10 years. On the other hand Europe was hit hard by the global financial and economic crisis, which led into a new discussion about the EU's capability to act under such circumstances. The current debate about alternative options to assist Greece, the member state that is actually most affected by the crisis, and new forms of economic governance in the Euro-zone are just two examples thereof. So it seems as if the EU is about to target restlessly the next reform step which will focus on deeper integration and that should be driven by the idea of differentiation, i.e. more economic coordination and cooperation by those member states that are willing and able to do so.

## The 2009 Elections

Despite the ratification process of the Lisbon Treaty and the financial crisis European politics also had their business-as-usual events, for instance the parliamentary elections early in June. Since the first direct election of the European Parliament (EP) in 1979, European elections have always been regarded as subordinate to national elections.<sup>1</sup> There are three key aspects in this respect: Firstly, many voters misused the EP elections as a pos-

sibility to penalise ruling national parties and politicians. The large increase in mandates for right-wing populist parties as in Austria, Hungary or the Netherlands is evidence thereof. Secondly, Europe is not a priority for most of the citizens and the campaigns are still dominated by national instead of European issues. Although almost all parties successively adopted a Europeanized approach by presenting common front-runners or joint rudimentary election manifestos. National or even regional politics are perceived as essentially more important than far-of Brussels. The third aspect is the effect of one's vote. While in national elections a definite constituency has a relatively high control over the government's composition, the EU the Commission and especially its president are chosen by the European Council and not by parliamentarians.

After the dramatically low turnout of only 45.5% of the electorate in 2004, the turnout fell again to 42.1% in 2009. Last year's elections resulted, even though otherwise predicted, in a quite stable number of mandates for conservative parties. Socialist and social democratic parties on the other hand lost about 20% of their seats. The two right-wing party-groups – European Conservatives and Reformists and the Independence-Democracy group – together gained 86 seats, 18 more than 2004. On the centre-left and left spectrum only the Greens won additional seats, while the Group of the European Left/Nordic Green Left lost nine seats.<sup>2</sup> So the EP will again have a centre-right majority and additionally a substantial increase in far-right members. Hence from the voters' perspective a solid economic and financial policy as a means to overcome the recent crisis has been given priority over social issues.

Nevertheless the low turnout reveals that the EU is still out of balance and that Europe needs to be brought closer to the citizens. Democratic participation has to be strengthened and an ample discourse about the Union's legitimacy is urgently needed. One important step on that account is the election of the president of the Commission by the EP based on the election outcome as stipulated in the Lisbon treaty. Thus, the next head of the Commission will be chosen by the parliament out of the winning party family and although she or he will again be nominated by the European Council, the voters have gained influence on this personnel decision.

## The Lisbon Treaty

Since the early days of integration, Europe has constantly deepened and widened the scope of integration. The EU now has the world's largest internal market, the Euro as robust common currency, a high level of legal and social protection for its citizens, and the Union is a central player in global politics. Yet, besides all accomplishments political agency and supranational legitimacy have unfortunately not been implemented as central categories in the EU's existence. Under the banner of the

'Méthode Monnet', European integration was a stop and go process, driven by contingency more than by strategy. The Single Market, the Monetary Union, environmental and security policies have all more or less been Europeanized lacking a systematic approach (Gasteyger, 2005; Judt, 2006; Weidenfeld, 2008).

None of the reforms since Maastricht in 1992 has been able to prepare the EU for the combined challenge of enlargement and the new global environment. The treaties constituted a patchwork where the functional differentiation of competences between the member states and the EU as well as within the Union's three pillars were re-arranged at haphazard. Hence the EU polity resembled a hotchpotch without any obvious structure and was prone to frazzle as enlargement and deepening were taking place. Neither the institutional set-up nor the modes of decision-making could cope with what happened in reality.

The 'Constitution', the Treaty establishing a Constitution for Europe, which intended to introduce the necessary amendments for the EU as political entity in the 21<sup>st</sup> century, failed with the negative referenda in France and the Netherlands. Moreover, also the Lisbon treaty as a

more pragmatic and less ambitious reform contract stood on the brink, as the Irish at first said 'No' and the Czech president Václav Klaus refused to give his signature (German Foreign Office, 2008; Hofmann, 2008; Weidenfeld, 2008). Even as the Lisbon treaty could finally be set into force in December 2009, the "permissive consensus" (Lindberg, 1997) of Europe's citizens can no longer be taken for granted. Despite

all obstacles there was no alternative to the Lisbon or any akin treaty because without the now implemented reforms the EU would have been confronted with stagnation or even disintegration.

The reasons why citizens and parts of the political elites obstructed the treaty ratification are various: The Irish, for instance, were afraid about a loss in national sovereignty, disadvantages for their economy due to tax harmonisations, and constraints in regard to their neutrality. None of these issues were actually endangered by the Lisbon treaty and hence after several constrictions had been amended, the second referendum in Ireland cleared the way for ratification. The German Bundesverfassungsgericht, the Federal Constitutional Court, ruled against the national law that was needed to implement the treaty reforms, but attested the treaty itself legality. In Poland and the Czech Republic a few Euroskeptics, especially the two presidents Lech Kaczynski and Václav Klaus respectively, delayed the process of ratification. The British Conservatives planned to hold a referendum on the treaty even though the ruling Labour-led government had already ratified the treaty

without public deliberation. Hence the positive result of the second Irish referendum is to be seen as 'door opener' due to the fact that subsequently resistance in other member states started to fade.

The main amendments of Lisbon are the expansion of majority decisions in the council, the introduction of a 'double majority' voting system, a strengthening of the Common Foreign and Security Policy, a more distinct separation of competences between the Union and the member states, an empowerment of the EP, the incorporation of the Charter of Fundamental Rights of the European Union into the *acquis communautaire*, a European citizens' initiative, and adjustments to the instruments of flexible integration (Brady, 2007). Over and above the reform treaty allows for several on-the-fly adjustments of decision-making procedures without the need for arduous intergovernmental conferences. The most evident improvement are two new 'faces' – the permanent president of the European Council who will be elected for two and a half years and the High Representative of the Union for Foreign Affairs and Security Policy who will be in charge of a more coherent external policy. Both jobs, possessed by Herman van Rompuy and Catherine Ashton, may provide the Union with more stringency and accountability.

Although the reform treaty was necessary and its ratification is must be considered a success, the Achilles' heel of a lack of transparency remains. The *acquis communautaire* is still a plethora and inaccessible document and as such ill-suited to justify deeper integration to Europe's citizens. Contrary to the nation state European integration needs to be legitimized and the EU has to be exculpated as a political actor with autonomous competences. Europe's citizens are awaiting an elucidation, a founding narrative, what the integration process is good for. Why is Europe important for us and what can it offer for the future? Yet, these institutional as well as political questions that seem to have been part and parcel of the European integration process since its beginning, were not the only challenges Europe had to face in 2009.

## Global crisis

Warning signals about a crash of the US subprime market went unheard. Even when the crisis had set in, nobody could predict the extraordinary impact on the real economy. The collapse of Lehman Brothers in 2008 is therefore a symbol for the demise of the Anglo-Saxon *laissez-faire* approach to markets that was for a long time perceived superior compared to other models. Today it seems as if the end of the crisis is near, but European economies will have to face additional headwinds. So under these circumstances the EU firstly has to further develop its own idea of markets in a globalized world and secondly establish a common framework and joint regulations for more transparency and stability in global eco-

*"The crisis both presents the need of and the chance for deepening financial and monetary integration and thus a concise European economic model"*

nomics together with other major actors, such as China, Russia, and the US.

The reason for the global crunch was not least the paradigm of unrestrained liberalisation and deregulation. As a consequence of the free activity of market forces a complex system of new financial instruments could evolve that could no longer be controlled by governmental actors (Dieter, 2008). While in the beginning the crisis affected banks in particular, the negative effects on other economic sectors unfolded dramatically during the last year. In January 2009 the Commission predicted a decrease in gross domestic product (GDP) by 1.8% and only a marginal growth rate of 0.4% for 2010 in the EU as a whole (European commission, 2009). A new forecast is slightly more optimistic as it projects a growth in GDP of 0.7% for this year. Germany witnessed a rebound since mid-2009 that was driven by expansionary fiscal and monetary policy, a sharp turnaround in the investment cycle, and a recovery of exports due to recovering world trade. In Spain the economic contraction was lower than predicted but growth will remain negative. The United Kingdom, Italy and the Netherlands will have a low growth rate albeit higher than forecasted in 2009. While others still have to cope with the crisis, Poland is the front-runner of recovery, in particular as a consequence of public spending (European commission, 2010).

As reaction to the crisis European governments engaged in interventions so far unparalleled. Several banks have been completely or partially socialised like for instance in Germany, the United Kingdom and Ireland and substantial financial support was offered to sustain capital markets. And more recently some member states have begun to consider national or coordinated levies for banks to establish a cash-fund for future crises. Other economic sectors have been supported by special state aid such as the car-scrapping schemes in Spain and Germany. Notwithstanding numerous attempts to protect national businesses, mercantile policies could be avoided. Even the fierce debate about how to handle the crisis in Greece makes it obvious that the EU member states are closing ranks. This does not imply that all decisions are made in total harmony but the ambitions to coordinate policies are significant.

The demand for common economic and financial governance is exemplified by the Polish and Danish desire to become part of the Eurozone. Denmark has as of yet an opt-out for the Euro but currently a change of mind seems to be taking place. Poland amplified its willingness to join the club of 16 Euro-countries as the common currency is seen as an area of stability. Iceland, one of the countries where the crisis impinged rather severe, applied for EU membership in July 2009. Hence the EU framework is discerned by countries from outside and from within as an effective construct in times of economic distortions. In contrast to all benefits of European integration and the displays of aspiration to join the Union one should not ignore the fact that competitiveness in the EU and also in the Eurozone diverges widely.

Against this background the debate on the French plan of an economic government for the Euro area was revitalized. Although most members agree basically about more coordination in economic and financial affairs the actual realization thereof remains controversial. Especially the British government is reluctant firstly against excessive state intervention in general and secondly as the United Kingdom is not a Eurozone country against an exclusive club dominated by France and Germany. Regardless what mode of economic government or governance finally will be established the crisis both presents the need of and the chance for deepening financial and monetary integration and thus a concise European economic model.

The European Commission whilst barely present in the earlier phase of the global crisis is by now a serious actor in the question of how to cope with the economic crunch. The Commission's Recovery Plan unrolls a common approach for Europe's economic retrieval while leaving enough room for additional national measures (Commission of the European Communities, 2008; Council of the European Union, 2009). Two of the key elements of the plan are to stimulate private consumption and to allocate sustainable investment. It is the stated aim of the Commission to use the crisis as chance for a structural transformation of European economies. A low carbon economy is thus seen as an instrument of recovery and the favourite approach to realise the EU's own climate objectives. The total budgetary impulse should amount to 1.5% of the joint GDP which is equivalent to €200 billion.

In principle the recent measures to deal with the economic crisis induce a critical tension in regard to the EU's long-term objectives for economic and monetary policy. There is a trade-off between the targets of the Stability and Growth Pact and national spending for counter-measures against the recession. Public deficits in 17 of the 27 member states will be above the limit of 3% of their GDP. During the year 2009 the combination of national and European initiatives showed their effectiveness. Now the pressing questions of how to come back on track with the Stability and Growth Pact and what rules are needed for the future have to be resolved.

So the global economic downturn contains two possible scenarios: The first one is an old acquaintance within Europe, the so-called 'Eurosclerosis'. In the late 1970s the process of European integration stagnated, the European Community lost its centripetal forces and social and economic decline threatened the continent. Today a similar scenario is possible if Europe is not able to use the crisis as a chance. So the second possible path for European development is one of a radical transformation of the economic structures at first within the EU and later on at global scope. Regarding the inner dimension, Europe needs to remember Jacques Delors who has been the French minister of finance and economic affairs in the 1980s. Before he took over the post as president of the European Commission, he elaborated a long-term strategy on the main challenges for Europe and how to solve them. He let the heads of state and government choose between two alter-



natives: economics or security. As they opted for the single market, Delors started the engine of modernization and led Europe out of the depression.

Despite all recovery the crisis is not over yet and facing the situation in Greece and the risk of economic contraction in other member states, Europe is looking for another Jacques Delors. Unfortunately today no master plan or vision for rebuilding the EU is tangible. Neither the Commission nor the Council have delved into the big picture. Instead they are struggling about details and specific segments. Declarations, attempts for tighter control of market participants and lukewarm efforts to allow for more coherence are all around, but what is missing is a comprehensive approach. The result is that cluelessness is omnipresent.

Due to the fact that the Lisbon treaty was put into force the EU's institutional architecture is more or less capable of dealing with new challenges. These include not only economic issues but also terrorism, energy security, global warming and other problems of major scale. Over and above multiple rounds of enlargement and thus increasing heterogeneity among the member states made the concept of a European identity neither comprehensible nor communicable. These

plethora of problems is not to be considered as separate but as impacting Europe at once.

Thus Europe has to define itself as a risk community (Bauer, 2008), a community where out of shared perceptions about different risks joint counter-measures are developed and that acts as a strategic community. The routine of noble containment in the various EU committees has to be overcome.

A new strategic culture needs to be developed and a visionary political elite has to acquire the leadership. As a multi-level system leadership can emerge at different levels of the EU. But creative power is nevertheless dependent on the capability and the willingness of the member states to act. Notwithstanding the dominant role of national leaders, Europe will only be successful if solidarity and coherence are made the 'leitmotifs' of policy-making. In addition a renewed narrative that makes the EU tangible for the citizens is badly needed.

## Europe's Potential

Times are hard at the moment. The EU is facing a plenitude of challenges. The objective imperative to define common solutions has made the Europeans move together. A reform of the transatlantic relations is in the

making as well as the expansion of the common energy and climate policy or a European research initiative. Anyhow the recent disputes about financial assistance to Greece shows that this unity is not unbreakable.

Most of the policies in the EU are reactive rather than pro-active. The reasons for that are the heterogeneity of member states' interests and the complex multi-level decision-making processes. With 27 members in the Council, the Commission, an invigorated EP and other actors on several levels, deliberations and negotiations in the EU are and capable radical shifts. Thus the key task is to gain new vitality for European integration. How can this be done?

New primary-law colossuses or treaty reforms are not an option. Europe will only endure the actual global development unscathed only if it is able to define for itself a new ethos. An ethos that gives the right answers to the consequences of globalisation and denationalisation and that thereby generates new legitimacy for the EU. With the concept of flexible or differentiated integration Europe already has an effective instrument to approach these issues. No one but Europe has the potential to provide conclusive answers; only the Union is powerful enough to offer security and stability to its members while allowing for flexibility and individuality.

Europe has the potential to be a world power but institutions and agencies alone will not be able to mobilise it. This potential has to be arranged and linked to the spirit of European identity. Such a historical effort can only be realized with an accurate idea, a concrete vision about our future. Those are needed to create a momentum to give Europe a new shape. An ever bigger Union with today 27 members will ever less be able to march in step.

During the 1990s with the single market project and the upcoming enlargements looming large the heads of state and government remembered an idea that was initiated by Leo Tindemans and Willy Brandt almost two decades earlier: flexible integration. Since that time numerous policies have been Europeanized without the condition that all member states participate from the beginning. The Eurozone, the Schengen-area and other initiatives underscore the fact that flexible integration is an integral part of the *acquis communautaire* for many years now.

With the Amsterdam treaty differentiation was for the first time implemented into the primary law. Since the rules of flexible integration within the range of the EU treaties were difficult to fulfil, those rules have been adjusted with every treaty reform. The Lisbon treaty even includes an element of flexibility in the sector of defence policy, the so-called "permanent structured cooperation". Despite the fact that flexible integration is still a demanding procedure, its application has never been easier.

Differentiation can be used as a laboratory to evaluate the potential for innovation within the EU. The diversity of interests among the member states asks for means to

*"A renewed narrative that makes the EU tangible for the citizens is badly needed"*

initiate projects that are seen as important by some members but are at the moment not feasible for the Union as a whole because consensus is impossible. Nevertheless Europe has to be careful with the instruments of flexibility. An uncontrolled utilization or the misuse as threat theatre is not worthwhile. To avoid centrifugal forces flexible integration has to be in line with the basic objectives of European integration, it has to be open for all member states able and willing to join, and finally must not be used as a power-tool. Hence not only the member states, but also the new troika of the President of the Council, the President of the Commission, and the High Representative of the Union for Foreign Affairs and Security Policy are responsible for a sensible employment of those instruments.

Flexible integration is linked to a multitude of terms, such as 'Europe a la carte' or a closed 'core Europe'. The model that should guide political reality is that of an open zone of gravitation. All other theoretical options would lead to dissolution. Thus differentiation should be applied where deeper integration of all member states is not possible. If the initiative of a group of members is successful, it will attract others to participate. Therefore this model does not establish a permanent separation between the 'Ins' and 'Outs' in conflicting areas of integration. On the contrary it provides flexibility and innovation for a more capable Europe.

### The EU in the next decade

2010 will be the year when Europe turns the switch. If Europe misses the chance of modernizing itself, its role in world politics will remain rudimentary and it will lose the support of the member states and the European citizens. However, Europe has the potential of being a global player. The reforms introduced by the Treaty of Lisbon need to be systematically implemented, as they provide Europe with an institutional as well as procedural set-up that will increase its internal steering capacity as well as its capability to act in international affairs. Europe is second to none in trade and production, in research and development. This potential needs to be organized adequately and filled with the spirit of European identity. Such a herculean effort can be executed by the same Europe that today trudges confusedly. Big apparatuses won't help overcome the crisis, only the big idea and decisive political leadership combined will do the job.

That is why the actual crisis can be seen as a chance: Europe, with its new institutional order, new decision-making procedures and new policy instruments may get out of this predicament stronger than before. Key is therefore a Europe of unity and diversity at the same time. A Europe that is willing to accept that none of the member states will be as strong and as secure outside the Union. A Europe that has an idea of its own future.

### Notes

1. See the following publications: MITTAG, Jürgen; HÜLSKEN, Claudia. "Von Sekundärwahlen zu europäisierten Wahlen? 30 Jahre Direktwahlen zum Europäischen Parlament", in: *Integration*, Vierteljahresschrift des Instituts für Europäische Politik, Vol. 32, 2/2009, 105-122; Aus Politik und Zeitgeschichte (APuZ): Europawahlen (Themenheft), 23-24/2009; ROOSE, Jochen. "Wahlen ohne Wähler. Vom Dilemma des Europaparlaments. Forschungs". *Journal Neue Soziale Bewegungen*, Vol. 22, Heft 2, May 2009; SEEGER, Sarah; KREILINGER, Valentin. Europawahl: Erwartungen – Programme – Visionen, *C.A.P Aktuell*, Forschungsgruppe Europa, 8/ 2008; NIEDERMAYER, Oskar: Europawahl: "Zusammenhänge, Ergebnisse und Folgen", *Internationale Politikanalyse*, Friedrich Ebert Stiftung, June 2009.

2. See [www.europa09.eu](http://www.europa09.eu) and <http://www.euractiv.com/en/eu-elections/2009-2014-centre-right-european-parliament/article-183383> [last update 29. January 2010].

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# The EU foreign and security policy in times of crisis

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The year 2009 will be remembered in history books as a year of global crises. In contrast to the past the world was not kept on tenterhooks by questions of war and peace but by the global economy. Unleashed in autumn 2008 by the burst of the US housing bubble the financial crisis unfolded at a speed and magnitude even the most die-hard pessimists could not have predicted. In 2009 alone worldwide GDP shrank by 5% and growth in global trade – the very essence of globalisation – was negative for the first time since World War II. The severe economic downturn raised fears of an enduring recession comparable to the Great Depression in the 1930s. Hence, politicians were not only alarmed by the size of the economic damage inflicted but by the dangerous political impact such a decline could have for the stability of the international system. Accordingly, the questions of getting the financial markets fixed and the economies out of recession took up most of the attention of governments within the European Union and around the world.

A second priority was climate change and the Copenhagen Summit in December 2009. Although no single outstanding development in 2009 can be attributed to global warming, the disastrous consequences of climate change for all mankind were considered to be imminent and thus added to the general feeling of crisis. That is not to say that the threats emanating from the Iranian and North Korean nuclear weapons programmes or the failure of peace in the Middle

East, persisting instability in Iraq, the deteriorating situation in Afghanistan and Pakistan and the ongoing conflicts in Somalia, Sudan and the Democratic Republic of Congo were not on everybody's mind; but they took a back seat.

The slump in global trade hit the EU hard. After all, five of its member states are leading export nations. Nonetheless, the EU mastered the crisis better than expected. Suddenly, the often criticised 'Rhineland model' of built-in-stabilizers appeared attractive. It helped to avoid the steep rise in unemployment which the US as well as China had to cope with. Even under severe circumstances the EU's social market economics appeared able to "protect whole societies from being wrecked by a successful few" (Fritz-Vannahme, 2009) and to guarantee a high standard of living.

At the end of 2009 the global economy showed signs of recovery owing to numerous bail-outs of banks and public spending at a scale previously inconceivable. But the fiscal rescue operations came at a price. Most governments within the EU were left with huge debts. To make things worse, the deficits accumulated before and during the crisis gave rise to new financial speculation testing the credit standing of EU member states and the strength of the Euro. In light of these new developments which see Greece short of bankruptcy the very litmus test for the EU might yet to come.

If coming to the rescue of a member state already makes the EU squirm, it will face even more difficulties in taking up its share of global responsibilities regarding poverty eradication. Although during 2009 the EU was still the biggest donor of humanitarian and development aid, it failed to live up to the Millennium Development Goals. Evidence indicates that its contributions are shrinking. In dire times the all too human reflex is to look first after one's own people. Once again, this happened to the detriment of the poorest in the world. Already hit by the food price shock of 2008, critical levels of food shortages persisted in 2009 affecting 31 countries around the world. The situation was particularly acute in East Africa, where prolonged drought and mounting conflict had left an estimated 20 million people in need of food aid.

As if economic downturn, climate change and the food crisis were not enough, the year 2009 saw a new virus spreading. After the first cases of swine flu were reported in Mexico in April the World Health Organisation declared the outbreak a pandemic 3 months later. The virus turned out to be less lethal than expected, but the protective measures worldwide absorbed steering power as well as money.

All these crises underscored how much the EU – being the biggest economy on the globe nearly matching that of the US and China combined – relies on international institutions to oversee and regulate the global economy, administer international law and tackle the manifold transnational threats.



## The EU without a grand strategy

Whether the EU draws the right lessons to manage what Javier Solana has called the “dark sides of globalisation” is to be seen. The growing tendencies to re-nationalise within the EU spur doubts. At the G20 financial crisis meeting in Pittsburgh the big member states France, UK and Germany took the floor while the European Commission stayed almost invisible.

Again during 2009 a common stance among member states was rather an exception. Mahmoud Ahmadinejad’s presidential inauguration may serve as an example. After forging the elections and brutally cracking down on the Iranian opposition most member states wanted to boycott the event. However, the Swedish Ambassador and a British envoy broke the ranks by attending.

In addition, the EU faced immense problems when attempting to translate its size and wealth into political clout. The failure to reach an agreement in Copenhagen is a case in point. As previous setbacks have shown, the EU is unlikely to be successful leading by example only or hoping that its ideas of multilateralism and the universality of human rights are per se convincing to the rest of the world.

In view of the tectonic shifts in the international system, scholars voiced fears that “while in an increasingly multipolar world other global actors were continually raising their reach, the EU appears happy just continuing to be” (Biscop, 2009). Although for long the strategic community has criticised the EU’s lack of strategic ambition, impatience with the EU’s internal foot-dragging and inability to act as a power grew particularly visible in 2009. Even strategists unsuspecting of anti-EU sentiments, like Jolyon Howorth, appeared to give in and prophesied the EU becoming marginalised by history (Howorth, 2009).

Time will show whether the evolving world of interdependence and multipolarity will turn to be more and more like great power rivalry in the 19<sup>th</sup> century. The self-assertiveness of China and Russia as well as India and Brazil has without doubt risen. In addition, 2009 showed that the future will no longer be negotiated in the G8 format, where EU states accounted for half of its members, but in the wider framework of the G20. Moreover, 2009 witnessed that Europe does not matter for America as much as in the past. Barack Obama with his Pacific

and African roots is himself a sign of this change. That does not mean that Obama is not very much a man of European or Western values. His thinking is no longer confined to the Cold War legacy but concerned with what might in future become a post-Western international system with its many new actors and complex challenges.

Given the life-belt function transatlantic relations had for Europe in the past, complacency is probably not the best approach. Instead, what will count is what the EU will actually be able to bring to the table. And that is where the problems lie. Irrespective of whether the reluctance of the EU to accept prisoners released from Guantánamo, to send more troops to Afghanistan or to reduce its energy dependency on Russia are judged as signs of its inability of strategic thinking, what holds true is that the EU has not gained enough military or civilian power to implement even its own ESDP decisions.

A comparison of military capabilities between 1999 and 2009 shows limited progress. The UK and France (43%) with Germany and Italy together account for roughly 70% of the defence budget within the EU27. This underlines the predominance of these four nations in ESDP decision-making. During this period defence spending has fallen further from 1.8% to 1.4% without putting effective procurement, acquisition and pooling strategies in place that would make better use of less money. Most member states’ armies have not successfully finished their force transformation away from territorial defence and large standing forces towards external deployments for peace-monitoring missions or command forces for high-end expeditionary warfare. The EU was unable to overcome its deficiencies in air transport and combat helicopters. With regard to the civilian capabilities the picture looks even worse given the EU’s ambition as a civilian power and the fact that most of its 22 missions thus far were civilian. To give just one example: It took the EU two years after the decision was taken to start implementing its Afghanistan Police Mission in 2009. Of the 400 police officers it promised more than 200 were still not in place by autumn.

## A year of European anniversaries

The year 2009 was not only a year of crises but also a year of anniversaries: 20 years after the fall of the Berlin Wall, 10 years after the European Security and Defence Policy (ESDP) was inaugurated, and, most importantly, five years after the largest EU enlargement ever integrating ten states, primarily from the other side of the iron curtain which had divided Europe for so long.

*“2009 witnessed that Europe does not matter for America as much as in the past”*



## Enlargement

The enlargement celebrations met with a rather buttoned-up audience, thus appearing to belittle that the peaceful and successful transformation of the former Warsaw Pact countries and their integration into the EU was the most successful foreign policy achievement of the EU to date.

Although the Swedish Presidency pushed the case of Turkey during the second half of 2009, accession negotiations made little progress. The resistance with which Turkey's EU membership application is met in France, Germany, Greece and Cyprus made all attempts look as if Sisyphus was at work. The Greek Cypriots have become the most visible obstacle to Turkish membership, even more so to a settlement of the Cyprus problem. With the up-coming elections in Northern Cyprus the window of opportunity which stood wide open during 2009 is closing. The EU would appear well advised – in contrast to what could be observed throughout 2009 – to engage actively if it does not want to risk that partition of the island becomes permanent.

The frustrated relations between the EU and Turkey furthermore impacted negatively on EU-NATO relations. Lacking sufficient own capabilities, these are of critical importance to the EU. A case in point is the refusal of Turkey – in the meantime joined by the US – to allow for NATO protection of its Afghan police force. The sphere of operation thus is limited more or less to Kabul and puts into question the entire mission.

On a more positive note, Slovenia and Croatia were able to find a solution on their longstanding border row overcoming the last obstacle for Croatia's EU membership. Unfortunately, Greece and Macedonia – even with the help of an especially appointed UN mediator – did not follow this example. Their dispute over the use of the name Macedonia kept on postponing Skopje's chances to open accession negotiations. In light of what was and is at stake in the Balkans this quarrel looks at least immature if not reckless. As in Cyprus this does not throw a promising light on the EU's conflict management skills.

Business as usual, Brussels processed the membership applications of Iceland, Albania and Montenegro which it received during 2009. Iceland's application might be less of a sign of the attractiveness of the EU than a desperate move to take shelter. Furthermore, and more importantly, Serbia felt encouraged to hand in its motion for EU accession and to catch up with its neighbours after the suspension of the implementation of the Interim Trade Agreement was lifted in December.

The EU's internal divisions over a strategy for enlargement to the Western Balkans will probably

continue another decade or more. As so often in its history, this will leave the region a rag rug mired with its unhappy past and battered by corruption and organised crime. Thus, the most important decision taken by the EU in 2009 was the liberalisation of the visa regimes for Serbia, Montenegro and Macedonia. The move led to celebrations in the region. It raised hopes that the enthusiasm would make the domestic constituencies more open-minded for further democratic reforms and reconciliation.

But there was more unfinished business for the EU on the Balkans. The relatively smooth first year of Kosovo's independence had not resolved its problems of weak government and an ailing economy. Rather, it created new ones for the region, in particular for Bosnia and Herzegovina. Although the Republika Srpska would be ill-advised to follow the Kosovo road, President Dodik did not renounce his threat to hold a referendum on independence. Thus, any possibilities to initiate the overdue constitutional reform process were further blocked, and Carl Bildt, the Swedish Foreign Minister and former UN Special Envoy for the Balkans, had to leave Bosnia and Herzegovina empty handed in October 2009.

It is an open question how much influence the EU still possesses in the Western Balkans. The events in 2009 rather point into the direction that the fate of the Balkans will ultimately be decided not in Brussels but in Belgrade and Zagreb. Paradoxically, an endorsement by the International Court of Justice of Kosovo's independence would be of help for Serbia to move on with its more pragmatic approach. President Tadic appears to be as prudent as astute. It would therefore not come as a surprise if he were quicker in taking steps towards recognition of Kosovo than any of the five EU member states which have not done so until now.

## Neighbourhood and Russia

If the EU had problems in imposing conditionality in its pre-accession policies, its agenda of democratisation, rule of law, respect for human rights and sustainable market economies proved even more difficult in its neighbourhood. In the economic environment of 2009 the record of the European Neighbourhood Policy (ENP) was at best mixed. The EU had to admit that particularly the pace of democratic reforms and human rights' standards had slowed during the year. Aware of these difficulties the EU tried to gain new momentum by inaugurating an Eastern Partnership with Armenia, Azerbaijan, Belarus, Ukraine and Moldova during the Prague Summit in May 2009.

The EU followed the example of the founding of the Union of the Mediterranean (UfM) with which it had tried to open up a new chapter with its south-



ern neighbours in 2008. Disappointingly, the Euro-Mediterranean Partnership has not flourished. On the contrary, at the turn of the year 2008-9 the situation in the Gaza strip deteriorated dramatically after the Israeli attack. All the EU could do was to protest, demand the resumption of the peace process and shoulder another bill for immediate humanitarian aid for Palestine. The US, too, was not able to influence Israel that accelerated its illegal settlement policy on Palestinian territory. Many observers argue that recognition of Hamas as a legitimate political force and negotiating partner may move things on. But this would certainly not be a step the EU could take without support of the US and the international community.

By adding the Eastern Partnership to the many policy instruments the EU already has in its toolbox, Brussels gave the impression that it is mistaking means for ends. The plethora of regional partnerships, thematic cooperation councils as well as the Black Sea Synergy or the Czech Presidency's new summit initiative "Southern Corridor – New Silk Road" with partially overlapping memberships form such a impermeable underbrush that even the most reform-minded politician must lose sight of the reform path.

But this observation is no excuse for the performance of the autocratic regime in Belarus and the problems this country posed to the EU's declared foreign policy ambitions. Neither EU offers for closer economic integration nor the third extension of the visa-restrictions targeted at members of the ruling political elite adopted in November 2009 did much to impress

President Lukashenko. He felt safe to issue further death sentences (the last in Europe), denied registration of political parties and went on persecuting the Polish minority. This should not come as surprise. Belarus has for years been allowed to export half of its production into the EU without any tangible concessions to democratic rule or human rights. Rather, it should let the EU think twice about what its priorities really are: business or civil and human rights.

Taking its size, its destitute economy, its delicate relations with Russia and its importance as an energy transit country, the Ukraine was and is of special concern to the EU. Already at the beginning of 2009 a disruption of gas supplies reminded the EU of this. A new row over unpaid gas bills and seemingly illegal gas extractions by Ukraine let Russia shut down its gas supply once again. As opposed to 2006 Brussels was better prepared this time and got both parties to agree to an EU monitoring mission that helped the resumption of gas flow within days. Further meetings between Ukrainian and Russian gas companies and

other stakeholders spearheaded by the Commission during 2009 were successful; at the end of 2009 no new gas disputes occurred. However, the underlying problems – for which the Ukrainian-Russian gas disputes are merely a sign – are far from being solved and will test the EU's ability to come to terms with its eastern neighbours in the years to come.

For Ukraine as much as EU-Ukrainian relations the year 2009 was more or less another lost year. Paralysed by political infighting the reform process stalled and EU membership stayed a faraway hope – even had more member states supported it more enthusiastically. Therefore, it was not without irony that at the end of 2009 Victor Yanukovich – toppled by the Orange Revolution five years earlier for his election fraud – led the polls in the presidential campaign. However, it would be simplistic to see Yanukovich only as Moscow's man. The distinction between pro-Western Orange forces and pro-Russian forces no longer corresponds to an increasingly complex reality. Both sides would be well advised to stop the 'blame game' of who could be held responsible for the lack of political and economic progress made by Ukraine. The launch of the EU-Ukraine Association Agenda in June 2009 is thus at least a sign in the right direction. Hopefully, it will pave the way towards finally concluding the EU-Ukraine Association Agreement in 2010, thus facilitating greater political association and economic integration (not least by further liberalisation in the visa regime). The EU also gave macro-financial assistance to Ukraine by of a loan of up to €500 million adding to the IMF rescue package (which un-froze its third tranche worth €2,3 billion in July 2009).

The EU still faces problems with its new status as a legitimate actor in the Black Sea region. But can the EU really be expected to master-mind reconciliation of interests between Russia and Georgia – especially after its own independence policies on Kosovo? At first sight, not many options come to mind on what the EU can do with regard to Russia other than what it did during 2009: standing firm on its claim that the Russian recognition of South-Ossetia and Abkhazia is a breach of the territorial integrity of Georgia and inconsistent with international law, calling upon Russia to let the UN and OSCE re-open their missions and demanding access for its Monitoring Mission in Georgia (EUMM).

Taking a closer look, one has to admit that the EU in all its neighbourhood activities over the years never offered Russia room to play a constructive role. This might well be a structural flaw, although there are many who would consider Russia and the adjective 'constructive' as a contradiction in terms. Nevertheless, not to engage Russia appears unhistorical if not unrealistic, given that all countries targeted by the Eastern Partnership were part of the Soviet Union and do not all share the same antagonistic feelings as Georgia. But even Russian-Georgian relations are quietly warming

***“EU has not gained enough military or civilian power to implement even its own ESDP decisions”***

up. Obviously, Russia is prepared to do a lot to secure a trouble-free success of the Winter Olympics in Sochi in 2014.

Certainly, there is room for improvement in EU policy vis-à-vis Georgia. In the first place, it could strengthen conditionality. It should be made clear to President Saakashvili that without progress in the democratisation of his country he cannot expect more financial assistance. Closer cooperation or membership is not for free. If on the side of the EU that would mean paying more, Brussels should not hesitate to find the necessary money for this purpose.

Whatever the case may be, Russia is a fact of life the EU cannot ignore if it wishes to make progress in its eastern neighbourhood or on a broader note as global actor. It should therefore think twice about whether its bilateral strategic partnership approach is enough to serve its purposes and whether it wants to leave broader security issues to be dealt with by NATO alone. With the US having emphasised the “reset-button” in its relations with Moscow and starting negotiations on deep reductions of strategic nuclear arms in mid-2009, relations with Russia might warm up. The EU should not miss this opportunity and take on Russia on some of its gestures made during 2009. Russia was self-critical enough to admit that its problems with the European Court of Human Rights were home-made and removed the last hurdle to overdue court reform. Even more importantly, President Putin sent an open letter to the Polish people deploring for the first time the Hitler-Stalin Pact and the suffering it had brought upon Poland.

### **ESDP 10 years on: no reason for celebration?**

The EU commemorated the 10th anniversary of ESDP in November. As of that date the EU had deployed some 70 000 personnel in 22 ESDP missions and operations (of which 12 were ongoing through 2009) on three continents. On this occasion, the Council adopted conclusions on “ESDP ten years - challenges and opportunities”. Not surprisingly, the EU commended itself on its achievements and declared that ESDP had proven to be an effective tool in the EU’s comprehensive external action. But the account did not spare the EU with at least modest criticism. The underperformance in achieving both its military and civilian Headline Goals were a case in point. Furthermore, the EU admitted its weakness in acting more comprehensively and providing links and synergies between security and development. A comprehensive and coherent approach in conflict prevention, crisis management and peacebuilding operations is a condition sine qua non if the EU really wants to make a difference in the many situations of state fragility and re-lapsing civil wars in Africa.

With the Civilian Headline Goal 2010 drawing to a close many activities were set off during 2009, including the Implementation Plan for Civilian Capabilities (January), the Swedish Presidency reporting on the ESDP mandate (June 2009), an account on the implementation of the Guiding Lines for Civilian Capabilities (July) and yet another account entitled the “Civilian Capability Planning and Development - Guiding Lines for the Second Semester 2009”. However, the agreed framework on enhancing the EU’s civilian capabilities has yet to materialise. In 2009, at least, progress was a snail and most member states have not lived up to their commitments. Thus – as the cases of Kosovo and Afghanistan underlined – the deployment of its ESDP missions remained irresponsibly slow.

In November concern about the worsening security situation in Somalia led the Council to approve a Crisis Management Concept on a possible ESDP mission to train up to 2000 soldiers for Somalia’s transitional government in Uganda. France, that already was conducting an operation in the area, had lobbied for such a mission from early on. However, justification of the mission seemed questionable. The Somali transitional government had no control over the country. It is itself charged with committing war crimes and abusing human rights. Furthermore, the EU cannot ignore the risk that its trainees will desert to better-paying militias, adding to the vicious cycle of violence in the region. It would be more appropriate for the EU to overcome its internal divisions on the rules for criminal proceedings of pirates captured by the anti-piracy operation Atalanta off the coast of Somalia. Fears that pirates brought before court in the EU would seek asylum afterwards led to the paradoxical situation that most of the pirates were released untried and thus left with every opportunity to restart their business. In this as in other cases there were “disturbing indications that the ESDP, while enhancing the ability and willingness of some member states to participate in crisis management activities, has come to serve as an alibi for a tendency to avoid broader international security responsibilities” (Menon, 2009).

### **EU: Any other business...**

The EU’s summit diplomacy continued in high gear. During 2009 the leaders of the EU met with their counterparts in Japan, Canada, South Africa, Brazil, USA, India, Russia, Ukraine and twice with China. Not surprisingly, the focus of these meetings was on climate change and the economic crisis. In the case of India and Russia the EU sought and gained confirmation of both countries on the two-degree target for Copenhagen.

In addition, the EU for the first time met on this level with Pakistan. The communiqué read: “The leaders of EU and Pakistan discussed the strengthening of EU-Pakistan partnership, the regional political situation, global issues and the world economy. They agreed on substantial measures to strengthen their mutual engagement by initiating strategic dialogue on their common commitment to development, education, science and technology, security, counter-terrorism, strengthening democracy, human rights and enhancing trade. The leaders reaffirmed their commitment to strengthen cooperation within the framework of the United Nations and in multilateral fora to address global concerns, including in the areas of development, environment, energy, disarmament, arms control, including arms trade and non-proliferation of WMDs.” A look at the packed agenda raises doubts as to whether the EU will really be able to keep track of all the initiatives and assume control of positive outcomes.

The EU’s global ambitions were promoted by the signing of a Partnership and Cooperation Agreement with Indonesia in November that included a human

rights dialogue. To facilitate closer ties with the biggest Muslim population of the world might make up for some of the negligence with which the EU has treated Southeast Asia in the past. The EU was underrepresented in most meetings with ASEAN and overlooked the potential of closer ties with this regional organisation. ASEAN has grown more confident and is eager to spur

a civil society dialogue among its members to overcome regional divisions.

**“It is an open question how much influence the EU still possesses in the Western Balkans”**

### **The EU, the Lisbon Treaty, and still no hope?**

After Ireland had passed the second referendum on the Lisbon Treaty with an overwhelming majority of 67 per cent in early October the last man standing in the way, Czech President Vaclav Klaus, backed down. Finally, the Lisbon Treaty came into force on 1<sup>st</sup> December of 2009.

The long idle time until this treaty reform took off the ground had lifted expectations of changing EU external policies for the better, turning the EU into a “more capable, more coherent and more active” global actor. One of the new features of Lisbon is to draw the external policies of the Council and the Commission closer together. This is to be achieved

by a new office merging in one person the powers, responsibilities and resources of the former External Relations Commissioner and the former High Representative for the Common Foreign and Security Policy. “Double-hatting” quickly became the term to describe this.

The other innovation—and perhaps the one with most potential in the long run—is the European External Action Service (EEAS) under the authority of the High Representative and Vice President of the Commission (HRVP). The EEAS will comprise country and thematic desks that previously had been spread between the Council and the Commission. Their merger into the EEAS will thus provide the chance to develop a better coordinated foreign policy culture at both the institutional and the policy levels. At the institutional level, the service might be able to diffuse the hitherto impermeable confines between the Commission and the Council. Furthermore, it might help to forge a true European *esprit de corps* by incorporating in its ranks diplomats and experts from the Member states. Regarding the policy level, the service could come to serve as the focal point of a new whole-of-government approach in external affairs by bringing together the EU’s many financial and political instruments and overcoming the outmoded divides between diplomacy, development and defence.

Hence, disappointment was noticeable when the member states announced their choices for the two new foreign policy top-level posts the Lisbon Treaty has created. Blair had championed the list for EU President for some time, but with the Herman Van Rompuy and Catherine Ashton two figures widely unknown to the world were chosen. The EU was seen again as not punching up to its weight. Particularly, the appointment of Ashton as High Representative has drawn criticism ever since. Cinderella or ‘accidental diplomat’ were two of the friendlier soubriquets given to her.

The first outline for the EEAS was taken of notice by the Council on 19 November. Ashton was tasked to hand in the final proposal for decision by the Council by the end of April 2010. In retrospect, the squabbles over the personnel decisions on the President and the High Representative may turn out to have been minor. To the detriment of a more comprehensive EU external policy the establishment of the EEAS was soon overshadowed by fierce turf-battles on who will get what posts. Centre stage was the question of who will pocket the external financial assistance instruments amounting to approximately €12 billion each year. It is difficult to judge who started the infighting. A first blow to the aspirations of the EEAS was Commission President Barroso decision to move responsibility for the neighbourhood policy from external relations to the Enlargement Commissioner.

The European Parliament had early on become a strong advocate against any attempts to re-nation-

alise long-established community methods. Such a threat certainly could not be dismissed as can be seen by member states' plans to hand over the conflict prevention, crisis response and peacebuilding instruments of the Commission to the new Crisis Management Planning Department created in the Council. Although this structure will be brought into the EEAS, it will stay separate and under exclusive control of the member states. The same applies to the Civil Planning Conduct Capability (CPCC), the European Military Staff (EUMS) and the Situation Centre.

To conclude, while governments in the EU can no longer deny the decline in their individual shaping power vis-à-vis the challenges of globalisation, they have resisted giving up national prerogatives. The Lisbon Treaty has not overcome this ambivalence but reflects it, leaving the EU with a "sophisticated" set of new posts, institutions and power sharing arrangements in external policies. The EU will continue to be absorbed with work on its own bureaucratic set-up. Thus, Brussels may have too little time to "get in the deal-making game, the Union needs to assert itself politically" (Van Rompuy, 2010), as Van Rompuy put it in his first major speech held at the College of Europe on 25 February 2010. For the time being there is little danger that it will surprise the growing crowd of Euro-sceptics with a more active and efficient foreign and security policy, a policy "willing to take controversial positions, even when powerful actors disagree; and being willing to back up policies with all available means, up to including economic coercion and, as last resort, military force" (Korski, 2009).

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# The banking crisis in Europe

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The financial and banking crisis in Europe started before 2009, and is still ongoing, as illustrated by recent developments in Greece and other countries. The news flow about it has been deafening, especially since September 2008 and throughout the year 2009, making it often difficult to distinguish essential shifts from side issues. Here we attempt to provide an account of the key features of the crisis so far, concentrating on banking aspects, and even though it is obviously too early to weigh its overall impact on the EU policy framework.

## Summarized chronology

The conventional start for the financial crisis is the seizing up of markets for asset-backed securities in early August 2007, as investors started to realize the extent of the US subprime property bubble. This most negatively impacted banks which had heavily relied on off-balance sheet vehicles such as asset-backed commercial paper (ABCP) conduits or special investment vehicles for their funding. One spectacular effect was the collapse of two mid-sized German banks with large Irish-domiciled ABCP conduits, IKB and SachsenLB, which had to be bailed out by state-owned German banking entities in late August 2007; many

large financial-services firms in both the US and Europe experienced large paper losses following heavy write-downs of asset-backed securities which they held either on- or off-balance-sheet. The European Central Bank (ECB) reacted swiftly by providing massive amounts of liquidity and was emulated shortly afterwards by the US federal reserve. In the UK, the Bank of England (BoE) tried to resist this orientation, invoking moral hazard arguments, but this precipitated a bank run on Northern Rock in September 2007, after which the BoE essentially aligned its liquidity policy stance with the ECB.

In the fall 2007 and winter 2007-08, unprecedented investments by Asian and Middle Eastern sovereign wealth funds to shore up the equity base of ailing financial giants failed to halt the deterioration of market conditions and increase in volatility, illustrated by a multi-billion loss at France's Société Générale in early 2008 following its failure to adequately control a reckless trader. This phase reached a temporary climax in March 2008, when Bear Stearns had to be bailed out by the US federal government. However, a lull followed in the late spring and early summer 2008, and it seemed for a moment that the crisis may have no material adverse impact on economic growth and employment in the EU.

Of course, this outlook changed following the nationalization of Fannie Mae and Freddie Mac in early September, the collapse of Lehman Brothers shortly afterwards, and the ensuing weeks of unprecedented financial disruption. Initially centered on the US, and secondarily on the UK where the government endorsed the shotgun merger of Lloyds TSB and Halifax Bank of Scotland (HBOS) on September 17, the wave of market panic fully reached Europe in the weekend of September 27-28, 2009, when the governments of Belgium, the Netherlands, Luxembourg and France had to orchestrate a public bailout of two large Brussels-headquartered banks, Fortis and Dexia. In the days that followed, Iceland's major banks were put into receivership, and online savings accounts they had sold abroad were frozen, in the UK on the basis of the Anti-terrorism, Crime and Security Act of 2001, giving rise to a still ongoing dispute between the two countries. Meanwhile, the Dutch government unilaterally nationalized the operations of Fortis on its territory, after which that bank's operations in Belgium and Luxembourg were sold to BNP Paribas in a legally tortuous process, as the Belgian government could not rely on a special resolution regime for failed banks. As the fear of banks run spread, several member states lifted the cap on deposit guarantees on their territory, without coordination and in at least one case (Ireland) initially reserving unlimited deposit guarantee to domestic banks only, a decision which was subsequently reversed following intervention by the European Commission to ensure equal treatment of foreign-owned banks.

On October 8, the British government announced a comprehensive plan combining bank recapitalization, guarantees and liquidity provision to ensure that no systemically important financial institution would become insolvent. This approach was then unanimously adopted by euro area countries at a crucial meeting in Paris on October 12, which arguably marked the end of the of the most acute phase of panic even though stock prices continued to decline for months afterwards. On October 15, the same approach was adopted by all 27 countries of the EU. Meanwhile on October 13, the UK government announced an equity recapitalization of Royal Bank of Scotland (RBS), Lloyds and HBOS, thus becoming the controlling shareholder in a large part of the UK banking industry. In the following weeks and months, many member states also conducted recapitalization through a mix of subordinated debt, nonvoting preferred stock, and in a few cases, common voting equity.

In 2009 and early 2010, no similarly large changes have been brought to the banking market structure. National authorities conducted stress tests on systemically important bank under coordination by the Committee of European Banking Supervisors (CEBS),

but, unlike in the US in May 2009, no specific results of these tests or even their scope were publicly disclosed. The EU adopted changes to its Capital Requirements Directive, forcing the retention of 5% of securitized exposure by securitization originators.

Meanwhile, the EU initiated an ambitious overhaul of its supervisory architecture: in late 2008 the Commission's

President, José Manuel Barroso, formed a high-level group chaired by French former central banker and International Monetary Fund managing director Jacques de Larosière, which delivered a report in February 2009 (European Commission, 2009a) whose main recommendations were unanimously approved by the European Council of heads of state and government on June 19, 2009. This reform package includes the creation of a European Systemic Risk Board (ESRB), tasked with steering macro prudential policy and in which the ECB shall play a leading role; and the establishment of three European Supervisory Authorities replacing the so-called Lamfalussy level-3 committees established in 2001-04,<sup>1</sup> with autonomous legal personality and budget, extensive tasks including the formation of a single European rulebook, binding powers in certain situations, and formal decision-making by a Supervisory Board voting under simple or qualified majority rule depending on issues. The corresponding implementing legislation is still under discussion at the time of writing, the proclaimed aim

at the time of writing being a formal establishment of these new bodies by the end of 2010.

### Immediate policy lessons

The ongoing financial crisis is the first major test of the powerful dynamic of EU banking integration that had developed over the 1990s and early 2000s. The previous systemic crises in what is now the EU had all been of an essentially national nature, with limited cross-border spillovers, even when they occurred almost simultaneously in the former Communist countries of Central and Eastern Europe or in Scandinavia;<sup>2</sup> meanwhile, cross-border banking crises, such as those of Herstatt Bank in 1974, Bank of Commerce and Credit International (BCCI) in 1990-91, or Barings in 1995, were not systemic. By contrast, the banking developments in Europe since mid-2007 have a very significant cross-border component, mirroring the extent of banking integration described in the previous section. While these developments are still unfolding, a number of policy lessons can already be identified.

- The European Central Bank has been an effective lender of last resort, taking bold and rapid measures since the very beginning of the crisis to ensure liquidity in the banking system, with impact arguably extending beyond the perimeter of the euro area.<sup>3</sup> This has significantly enhanced the credibility of this youngest of the world's major central banks.
- EU competition policy and especially the control of state aid by DG COMP, the European Commission's competition policy arm, have stood firm under difficult circumstances and effectively played their intended role as enforcers of a fair economic environment within the single market. This action has engendered significant friction between the Commission and member states but ultimately the Commission has appeared to win the argument in key cases, including by forcing financial firms that had received state aid, such as RBS in the UK, ING in the Netherlands or WestLB in Germany, to restructure and trim down their balance sheets substantially.
- The notion that market integration could be achieved through liberalisation without a strong regulatory stance at EU level now appears unsustainable, in spite of having been at the core of EU financial reform in the previous phase (see for example Jabko, 2006). Especially after the high point of turmoil in September-October 2008, an orientation towards more hands-on regulation is presently shared throughout the European policymaking community, including by some earlier advocates of a light-touch approach or a minimalist regulatory stance, such as the UK Financial Services Authority. Charlie McCreevy, European Commissioner for the Internal

*"The European Central Bank has been an effective lender of last resort, taking bold and rapid measures since the very beginning of the crisis"*



Market and Services and thus in charge of the financial regulation portfolio from late 2004 to early 2010, exemplified a similar shift from a hands-off regulatory stance during much of his term to an assertive one throughout 2009.

- The crisis has questioned the framework that had been put in place to manage cross-border bank stability issues, based on voluntary cooperation among national authorities under non-binding memorandums of understanding, pledges to share information, and the creation of supervisory “colleges”. These mechanisms, which had been given prominent status in EU financial stability initiatives before the crisis, were seen as largely ineffective in the real-life conditions of September and October 2008, when member states acted either alone in the relationship with banks within their jurisdiction, or in an ad hoc manner in a few key cross-border cases such as Fortis and Dexia (Pisani-Ferry & Sapir, 2010).
- The EU treatment of retail branches, which under the currently applicable banking directive are supervised by home country authorities and whose deposits are guaranteed by home country deposit insurance, has come under question especially in the wake of the Icelandic case.<sup>4</sup> The Turner Review (FSA, 2009) unambiguously called for reform of these arrangements and for more scope for host-country authority over retail branches.
- In general, the EU policymaking framework has been found both wanting and resilient in its reaction to the crisis. Apart from its competition policy duties, the European Commission has exerted limited leadership in the management of the banking crisis, and often seemed to be watching from the sidelines including at crucial moments such as the first half of October 2008. Early legislative efforts tended to focus on peripheral issues and to appear driven by political rather than policy considerations, such as the EU regulation on rating agencies (EC 1060/2009, September 2009) or the legislation on hedge funds and private equity (AIFM directive), still in discussion at the time of writing. Conversely, the above mentioned meeting of October 12, 2008 in Paris showcased a remarkable unity of purpose from EU member states and had major effect in halting the markets’ downward spiral. The EU Council’s endorsement of the Larosière report’s proposals in June 2009 showed unprecedented unanimity to build instruments for financial supervision at EU level, a move that had been vetoed many times before by some member states, primarily the UK. Similarly, EU action (together with the IMF and EBRD) has helped forestall damaging contagion in Central and Eastern Europe. Thus, the crisis so far has given the lie both to observers who would see the EU as adequately equipped to deal with major executive challenges, and to those who deem it essentially irrelevant as power and legitimacy remain primarily anchored at the national level.

## Impact on EU banking market trends

The extent to which the EU banking crisis should be considered essentially past, or yet unresolved, is a matter of controversy. On the face of it, most European banks have returned to profitability at the time of writing, and display acceptable capital ratios. However, widespread doubts remain about the overall extent of future write-downs (IMF, 2009). Significant swathes of the EU banking system, such as Spain’s savings banks (*cajas*) and Germany’s regional banks (*Landesbanken*) do not generally have high standards of financial disclosure and are suspected of being weakly capitalized in the face of probable future losses. EU authorities have been signally reticent to assess systemically important banks’ financial situation on a public and comparable basis (a process often described as “triage”), the way US authorities published detailed “stress test” results for 19 large financial institutions in May 2009. Specifically, the Committee of European Banking Supervisors (CEBS) did report on a coordinated stress testing of the EU’s major banks by national supervisory authorities in the second half of 2009, but with no public disclosure of any detailed results beyond the affirmation that the banks’ current level of capital was deemed sufficient.

As a consequence, some analysts predict that the European banking system will remain in a state of prolonged fragility unless decisive joint action is endeavored by a critical mass of EU member states to undertake triage and restructure those banks whose current undercapitalization makes them unviable commercially (Posen & Véron, 2009). At the time of writing, the uncertainty about the future fiscal position of several member states, illustrated by the market volatility affecting Greece in the early months of 2010, creates further doubts about the capital strength of Western banks that hold significant amounts of EU and euro-area sovereign debt or have significant operations in the corresponding countries.

Equally controversial and yet to be answered is the question whether the EU is undergoing financial fragmentation as a result of the wave of state intervention in the banking sector that was triggered by the panic of September-October 2008. The European Commission (2009b) has found evidence that financial integration has taken a step backwards in 2008, but it is too early to determine whether this shift, which mirrors a comparable dynamic at global level (see for example McKinsey Global Institute, 2009), is temporary or permanent.

The fate of Fortis, a major bank and insurance group formed by successive mergers of mainly Belgian and Dutch financial institutions since 1990, is illustrative of that ambiguity. In late September 2008, public authorities from Belgium, the Netherlands and Luxembourg concluded that Fortis could not be expected to meet



future obligations given its deteriorating balance sheet and the difficult market conditions. They decided to recapitalize its operations in each of the three countries on a national basis, and a few days later the Netherlands moved unilaterally to fully nationalize the Dutch component, thus reversing the cross-border integration that Fortis had embodied, both before 2007 and through its acquisition announced that year of the Benelux operations of ABN Amro. However, Fortis' banking operations in Belgium and Luxembourg were subsequently acquired by Paris-based BNP Paribas, one of the largest-ever cross-border combinations in EU banking history. Thus, the Fortis saga since 2007 presents cases of both reversal of cross-border banking integration, and further cross-border consolidation.

Beyond that particular case, the extent to which state intervention has led large European banks to redirect liquidity and credit towards their home country is not yet clear. In principle, state aid provided by national governments to ensure financial stability cannot be used to distort the internal market, and the European Commission appears to have been particularly vigilant on this front. In practice, however,

and somewhat unsurprisingly, there have been reports of national authorities yielding on domestic banks to expand their lending at home as a counterpart to public support measures.

It is likely that the restructuring of the EU banking industry as a consequence of the crisis has barely begun, and that it will be affected both by strategies adopted by member states to sell the stakes they acquired (or may

acquire in the near future) in failing banking groups, and by the level of write-downs still to come in the rest of the banking system. Only when this wave of restructuring is completed, which is unlikely to be before several years from now, will it be possible to make an unquestionable assessment of whether the crisis has halted, prolonged or accelerated the earlier trend towards cross-border banking integration.

### Expected policy developments

Similarly, it is likely that the most important policy changes resulting from the ongoing financial crises and affecting the banking sector remain to come, though some legislation has already been enacted both at national and EU level.

Part of the corresponding policy agenda echoes the regulatory debates in the United States, as have unfold-

ed around the discussion of a financial reform act in Congress since at least June 2009, when the Obama administration published a comprehensive reform blueprint (Department of the Treasury, 2009). This includes the possible regulation of derivatives currently traded "over the counter" (OTC), special resolution regimes enabling more effective handling of failing banks at national level (with a range of different situations: Italy has had such legislation for a long time, and several other countries such as the UK, Sweden and Belgium have introduced it in the wake of the crisis), and a possible increase in the taxation of financial firms with the intent of dampening the existing incentives for excessive risk-taking (thus, both the UK and France have introduced a temporary tax on traders' bonuses, and various other tax proposals have been adopted or floated in countries including Sweden, Germany and the UK). The policy agenda is also partly driven by established global bodies such as the Basel Committee, which in December 2009 issued an extensive set of reform proposals including a tightening of the definition of regulatory capital and tentative options to introduce countercyclical buffers in future capital regulation (Basel Committee on Banking Supervision, 2009).

However, the unique extent of financial integration in the EU gives particular prominence to cross-border issues, which have tended to dominate the agenda to the extent that key aspects of the US policy discussion, such as the crucial question whether banks have become "too big to fail", are comparatively under debated so far in the EU (Schinasi, 2009). Given the prominence of the concern for cross-border aspects, it is understandable that the main thrust of reform so far has focused on the creation of new institutions that may be able to effectively implement future financial policy initiatives at EU level. Thus, the already mentioned Larosière Report of February 2009 (European Commission, 2009a) is largely about institutional overhaul, and the corresponding legislation to create the European Systemic Risk Board and transform the Lamfalussy Level-3 committees into actual European Supervisory Authorities is at the centre of EU-level financial policymaking initiatives at the time of writing.

If this legislative discussion succeeds in creating a robust institutional infrastructure, it will provide a firmer basis than has existed so far for the establishment of a credible framework for cross-border crisis management, itself a condition for the sustainability of cross-border banking integration in the EU. The corresponding debates, however, have barely started (European Commission, 2010). Especially important, in the light of the Icelandic crisis and other developments which have put a question mark on the viability of the current home-host arrangements for banking branches, will be the question whether the competitive position of a bank in the EU may be increasingly seen as dependent on the fiscal capacity of its home country, which would be inherently contradictory with the

***"One key question in the current environment is thus whether international financial integration can be seen as durably compatible with unmitigated national fiscal sovereignty"***

notion of a level playing field within the EU single market. In this view, large banks based in small or fiscally fragile countries would be viewed as “too big to save” rather than “too big to fail” (as, in effect, were the large Icelandic banks in October 2008) and would thus find themselves at a comparative disadvantage to their competitors based in larger or fiscally more robust countries.

Obviously, the constant rejection so far by many member states of advances towards fiscal federalism at EU level compounds the difficulty of creating a credible EU prudential framework, as it essentially makes any cross-border crisis management scenario critically dependent on an unpredictable ad hoc negotiation among member states on burden sharing, in the assumption that an expense of public money would be seen as necessary. One key question in the current environment is thus whether international financial integration can be seen as durably compatible with unmitigated national fiscal sovereignty, and this question is exacerbated in the EU context given the high level of already existing integration (Pauly, 2009). Whether the current sovereign debt market developments affecting Greece and other EU countries, including the landmark statement of euro area leaders on March 25, may radically modify the EU political context from this standpoint, remains undetermined at the time of writing.

## Notes

1. Namely, a European Securities and Markets Authority (ESMA) to replace the Committee of European Securities Regulators (CESR); a European Banking Authority (EBA) to replace the Committee of European Bank Supervisors (CEBS), and a European Insurance and Occupational Pensions Authority (EIOPA) to replace the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).

2. Honohan and Klingebiel (2003) identify the following systemic banking crises in the current EU member states in the recent past: Czech Republic (1989-91), Finland (1991-94), France (1994-95), Hungary (1991-95), Poland (1992-95), Slovenia (1992-94), Spain (1977-85), and Sweden (1991-94).

3. For instance, major UK banks, unlike Northern Rock, had access to ECB liquidity as early as August 2007 through their euro area subsidiaries.

4. While not a member of the EU, Iceland belongs to the European Economic Area (EEA). Therefore, the EU banking directives also apply to home-host relationships involving it bilaterally with EU countries.

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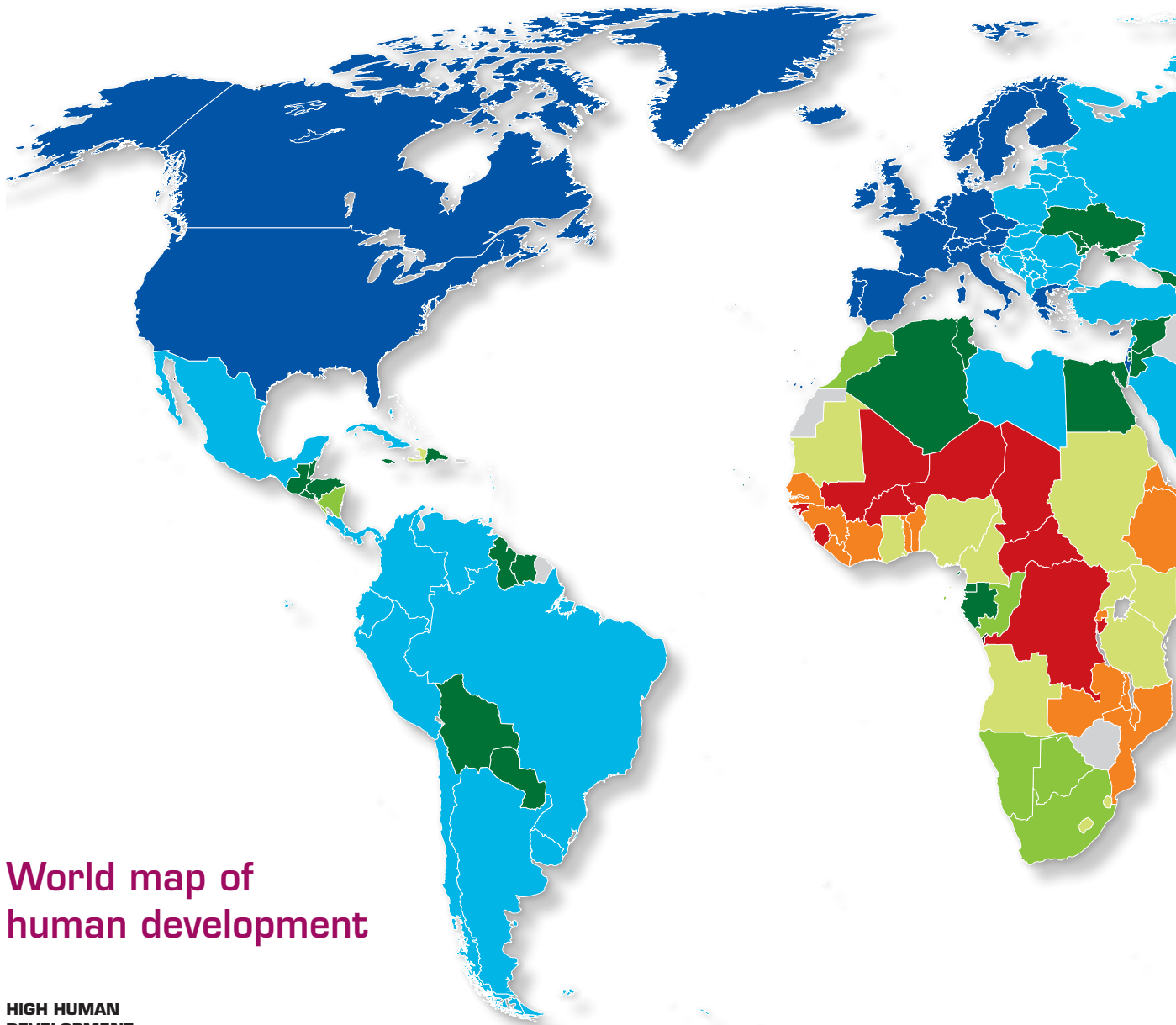
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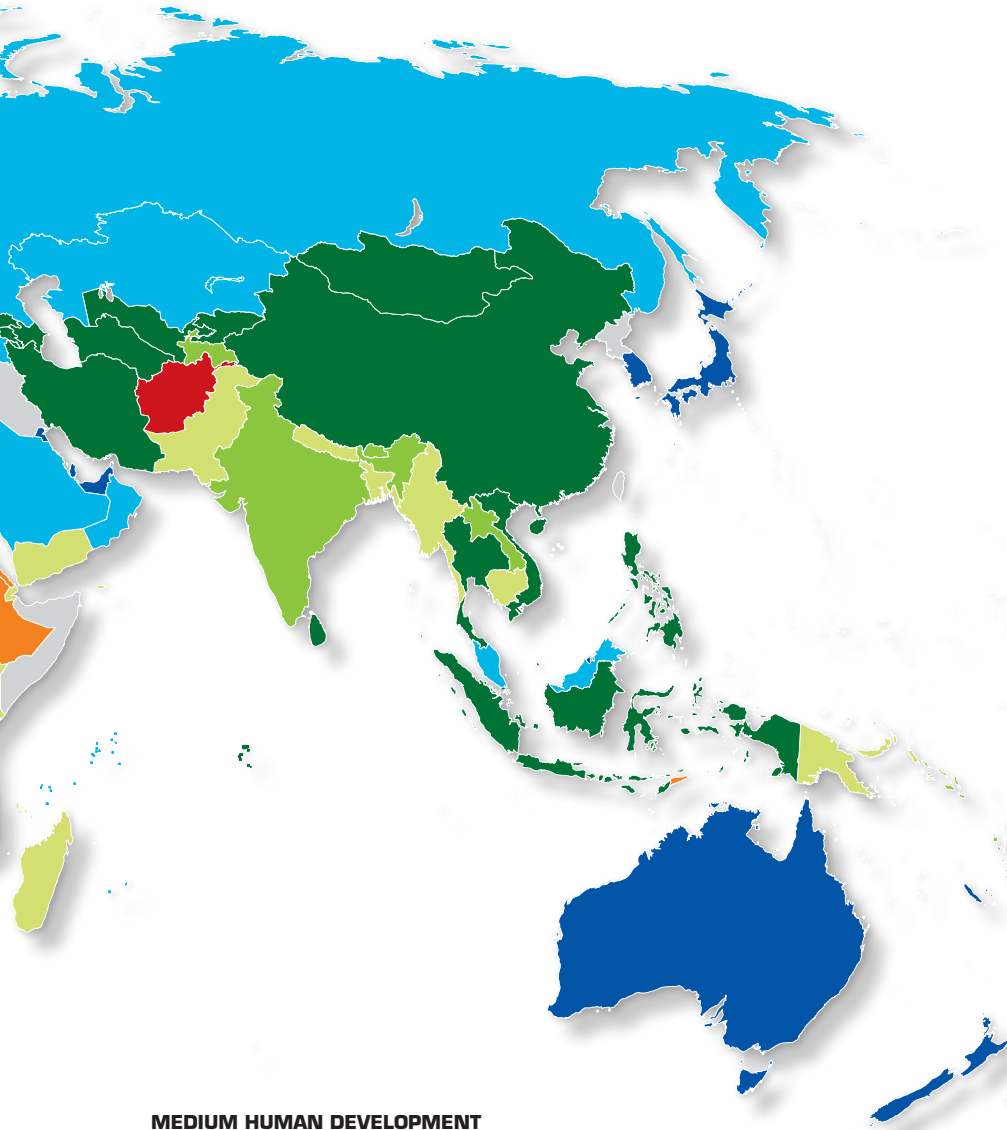
# ● APPENDIXES



## World map of human development

### HIGH HUMAN DEVELOPMENT

- |                          |                                |                                 |                                  |
|--------------------------|--------------------------------|---------------------------------|----------------------------------|
| <b>1</b> Norway          | <b>22</b> Germany              | <b>43</b> Hungary               | <b>64</b> Trinidad and Tobago    |
| <b>2</b> Australia       | <b>23</b> Singapore            | <b>44</b> Chile                 | <b>65</b> Montenegro             |
| <b>3</b> Iceland         | <b>24</b> Hong Kong            | <b>45</b> Croatia               | <b>66</b> Malaysia               |
| <b>4</b> Canada          | <b>25</b> Greece               | <b>46</b> Lithuania             | <b>67</b> Serbia                 |
| <b>5</b> Ireland         | <b>26</b> Korea (Republic of)  | <b>47</b> Antigua and Barbuda   | <b>68</b> Belarus                |
| <b>6</b> Netherlands     | <b>27</b> Israel               | <b>48</b> Latvia                | <b>69</b> Saint Lucia            |
| <b>7</b> Sweden          | <b>28</b> Andorra              | <b>49</b> Argentina             | <b>70</b> Albania                |
| <b>8</b> France          | <b>29</b> Slovenia             | <b>50</b> Uruguay               | <b>71</b> Russian Federation     |
| <b>9</b> Switzerland     | <b>30</b> Brunei               | <b>51</b> Cuba                  | <b>72</b> Macedonia (TFYR)       |
| <b>10</b> Japan          | <b>31</b> Kuwait               | <b>52</b> Bahamas               | <b>73</b> Dominica               |
| <b>11</b> Luxembourg     | <b>32</b> Cyprus               | <b>53</b> Mexico                | <b>74</b> Grenada                |
| <b>12</b> Finland        | <b>33</b> Qatar                | <b>54</b> Costa Rica            | <b>75</b> Brazil                 |
| <b>13</b> United States  | <b>34</b> Portugal             | <b>55</b> Libya                 | <b>76</b> Bosnia and Herzegovina |
| <b>14</b> Austria        | <b>35</b> United Arab Emirates | <b>56</b> Oman                  | <b>77</b> Colombia               |
| <b>15</b> Spain          | <b>36</b> Czech Republic       | <b>57</b> Seychelles            | <b>78</b> Peru                   |
| <b>16</b> Denmark        | <b>37</b> Barbados             | <b>58</b> Venezuela             | <b>79</b> Turkey                 |
| <b>17</b> Belgium        | <b>38</b> Malta                | <b>59</b> Saudi Arabia          | <b>80</b> Ecuador                |
| <b>18</b> Italy          | <b>39</b> Bahrain              | <b>60</b> Panama                | <b>81</b> Mauritius              |
| <b>19</b> Liechtenstein  | <b>40</b> Estonia              | <b>61</b> Bulgaria              | <b>82</b> Kazakhstan             |
| <b>20</b> New Zealand    | <b>41</b> Poland               | <b>62</b> Saint Kitts and Nevis | <b>83</b> Lebanon                |
| <b>21</b> United Kingdom | <b>42</b> Slovakia             | <b>63</b> Romania               |                                  |



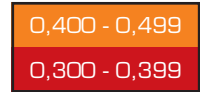
**HIGH HUMAN DEVELOPMENT**



**MEDIUM HUMAN DEVELOPMENT**



**LOW HUMAN DEVELOPMENT**



**NO DATA**



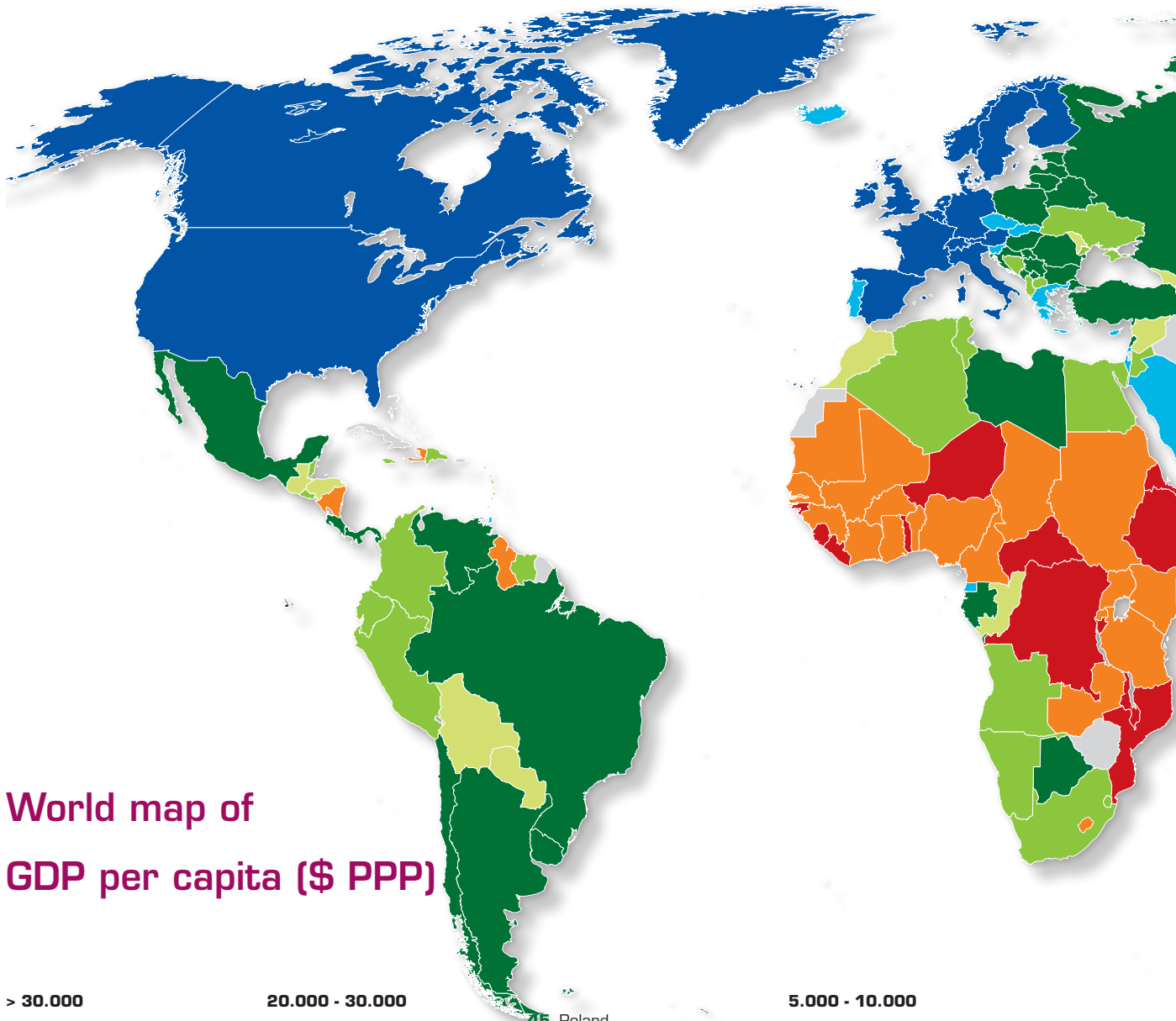
**MEDIUM HUMAN DEVELOPMENT**

- |                                       |                                |
|---------------------------------------|--------------------------------|
| <b>84</b> Armenia                     | <b>109</b> Turkmenistan        |
| <b>85</b> Ukraine                     | <b>110</b> Palestina           |
| <b>86</b> Azerbaijan                  | <b>111</b> Indonesia           |
| <b>87</b> Thailand                    | <b>112</b> Honduras            |
| <b>88</b> Iran                        | <b>113</b> Bolivia             |
| <b>89</b> Georgia                     | <b>114</b> Guyana              |
| <b>90</b> Dominican Republic          | <b>115</b> Mongolia            |
| <b>91</b> S. Vincent & the Grenadines | <b>116</b> Viet Nam            |
| <b>92</b> China                       | <b>117</b> Moldova             |
| <b>93</b> Belize                      | <b>118</b> Equatorial Guinea   |
| <b>94</b> Samoa                       | <b>119</b> Uzbekistan          |
| <b>95</b> Maldives                    | <b>120</b> Kyrgyzstan          |
| <b>96</b> Jordan                      | <b>121</b> Cape Verde          |
| <b>97</b> Suriname                    | <b>122</b> Guatemala           |
| <b>98</b> Tunisia                     | <b>123</b> Egypt               |
| <b>99</b> Tonga                       | <b>124</b> Nicaragua           |
| <b>100</b> Jamaica                    | <b>125</b> Botswana            |
| <b>101</b> Paraguay                   | <b>126</b> Vanuatu             |
| <b>102</b> Sri Lanka                  | <b>127</b> Tajikistan          |
| <b>103</b> Gabon                      | <b>128</b> Namibia             |
| <b>104</b> Algeria                    | <b>129</b> South Africa        |
| <b>105</b> Philippines                | <b>130</b> Morocco             |
| <b>106</b> El Salvador                | <b>131</b> Sao Tome & Principe |
| <b>107</b> Syria                      | <b>132</b> Bhutan              |
| <b>108</b> Fiji                       | <b>133</b> Laos                |

**LOW HUMAN DEVELOPMENT**

- |                             |                                       |
|-----------------------------|---------------------------------------|
| <b>134</b> India            | <b>159</b> Togo                       |
| <b>135</b> Solomon Islands  | <b>160</b> Malawi                     |
| <b>136</b> Congo            | <b>161</b> Benin                      |
| <b>137</b> Cambodia         | <b>162</b> Timor-Leste                |
| <b>138</b> Myanmar          | <b>163</b> Côte d'Ivoire              |
| <b>139</b> Comoros          | <b>164</b> Zambia                     |
| <b>140</b> Yemen            | <b>165</b> Eritrea                    |
| <b>141</b> Pakistan         | <b>166</b> Senegal                    |
| <b>142</b> Swaziland        | <b>167</b> Rwanda                     |
| <b>143</b> Angola           | <b>168</b> Gambia                     |
| <b>144</b> Nepal            | <b>169</b> Liberia                    |
| <b>145</b> Madagascar       | <b>170</b> Guinea                     |
| <b>146</b> Bangladesh       | <b>171</b> Ethiopia                   |
| <b>147</b> Kenya            | <b>172</b> Mozambique                 |
| <b>148</b> Papua New Guinea | <b>173</b> Guinea-Bissau              |
| <b>149</b> Haiti            | <b>174</b> Burundi                    |
| <b>150</b> Sudan            | <b>175</b> Chad                       |
| <b>151</b> Tanzania         | <b>176</b> Dem. Republic of the Congo |
| <b>152</b> Ghana            | <b>177</b> Burkina Faso               |
| <b>153</b> Cameroon         | <b>178</b> Mali                       |
| <b>154</b> Mauritania       | <b>179</b> Central African Republic   |
| <b>155</b> Djibouti         | <b>180</b> Sierra Leone               |
| <b>156</b> Lesotho          | <b>181</b> Afghanistan                |
| <b>157</b> Uganda           | <b>182</b> Niger                      |





## World map of GDP per capita (\$ PPP)

### > 30.000

- 1 Luxembourg
- 2 Norway
- 3 Kuwait
- 4 Brunei
- 5 Singapore
- 6 United States
- 7 Switzerland
- 8 Hong Kong
- 9 Netherlands
- 10 Sweden
- 11 Austria
- 12 Ireland
- 13 Denmark
- 14 Canada
- 15 United Kingdom
- 16 Germany
- 17 Finland
- 18 Japan
- 19 Belgium
- 20 France
- 21 Australia
- 22 Spain
- 23 Italy

### 20.000 - 30.000

- 24 Greece
- 25 Korea, Rep.
- 26 Israel
- 27 Slovenia
- 28 Iceland
- 29 New Zealand
- 30 Cyprus
- 31 Trinidad and Tobago
- 32 Saudi Arabia
- 33 Czech Rep.
- 34 Malta
- 35 Portugal
- 36 Ecuatorial Guinea
- 37 Slovakia
- 38 Oman
- 39 Antigua and Barbuda

### 10.000 - 20.000

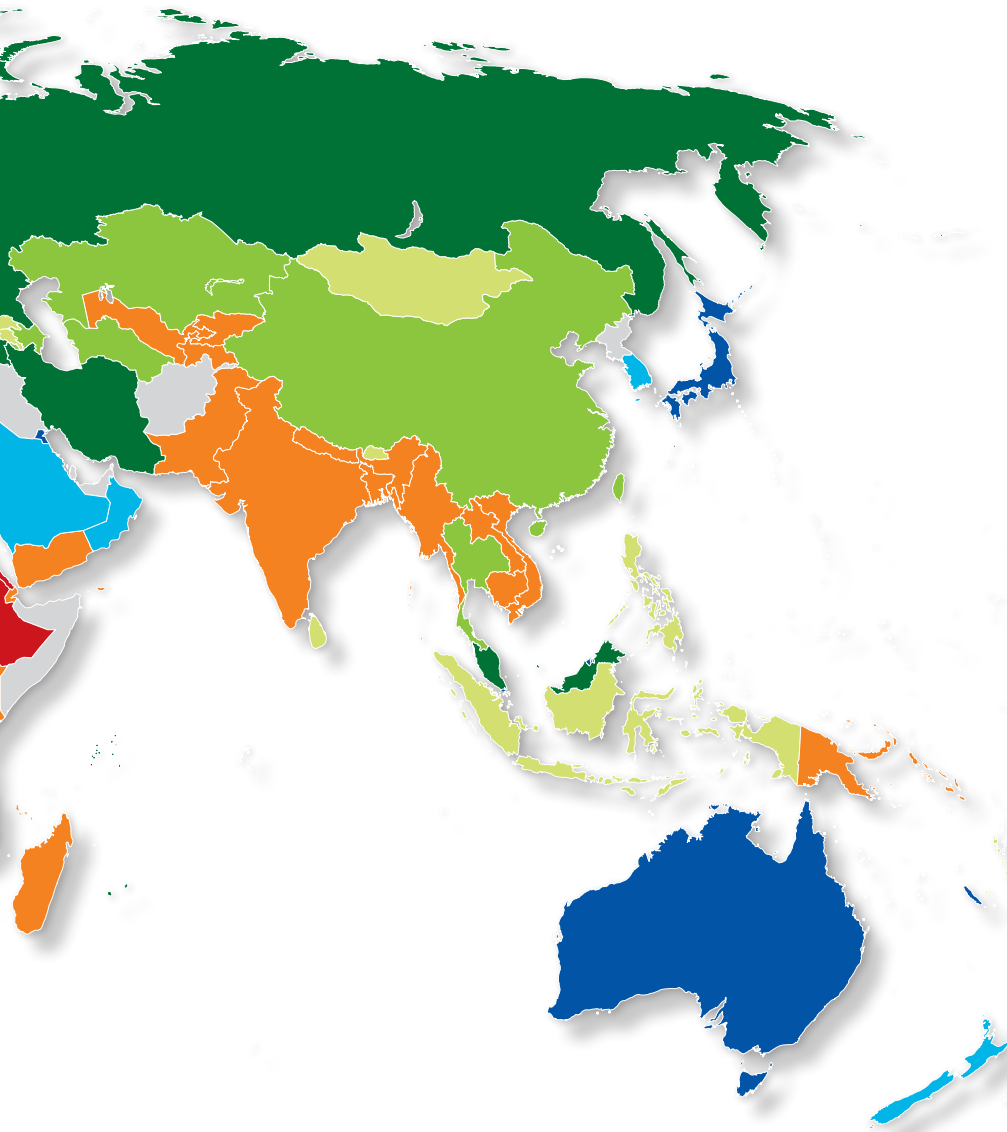
- 40 Seychelles
- 41 Estonia
- 42 Croatia
- 43 Lithuania
- 44 Hungary

- 45 Poland
- 46 Latvia
- 47 Russian Federation
- 48 Libya
- 49 Saint Kitts and nevis
- 50 Mexico
- 51 Argentina
- 52 Montenegro
- 53 Turkey
- 54 Malaysia
- 55 Romania
- 56 Chile
- 57 Botswana
- 58 Venezuela
- 59 Uruguay
- 60 Mauritius
- 61 Gabon
- 62 Belarus
- 63 Bulgaria
- 64 Panama
- 65 Serbia
- 66 Costa Rica
- 67 Lebanon
- 68 Iran
- 69 Brazil

### 5.000 - 10.000

- 70 Macedonia (TFYR)
- 71 South Africa
- 72 Kazakhstan
- 73 Saint Lucia
- 74 S. Vincent & the Grenadines
- 75 Bosnia and Herzegovina
- 76 Colombia
- 77 Dominica
- 78 Grenada
- 79 Peru
- 80 Albania
- 81 Argelia
- 82 Dominican Republic
- 83 Azerbaijan
- 84 Equador
- 85 Jamaica
- 86 Ukraine
- 87 Suriname
- 88 Tunisia
- 89 El Salvador
- 90 Armenia
- 91 Namibia
- 92 Turkmenistan
- 93 Belize





- 94 China
- 95 Thailand
- 96 Jordan
- 97 Egypt
- 98 Maldivas
- 99 Angola
- 100 Swaziland

**3.000 - 5.000**

- 101 Bhutan
- 102 Georgia
- 103 Paraguay
- 104 Guatemala
- 105 Timor-Leste
- 106 Sri Lanka
- 107 Syria
- 108 Samoa
- 109 Morocco
- 110 Fiji
- 111 Bolivia
- 112 Vanuatu
- 113 Philippines
- 114 Tonga
- 115 Honduras
- 116 Indonesia

- 117 Mongolia
- 118 Cape Verde
- 119 Moldova
- 120 Congo

**1.000 - 3.000**

- 121 India
- 122 Pakistan
- 123 Viet Nam
- 124 Uzbekistan
- 125 Nicaragua
- 126 Solomon Islands
- 127 Guyana
- 128 Djibouti
- 129 Yemen
- 130 Cameroon
- 131 Kyrgyzstan
- 132 Laos
- 133 Lesotho
- 134 Mauritania
- 135 Papua New Guinea
- 136 Nigeria
- 137 Sudan
- 138 Tajikistan
- 139 Cambodia

- 140 Sao Tome and Principe
- 141 Senegal
- 142 Côte d'Ivoire
- 143 Kenya
- 144 Benin
- 145 Bangladesh
- 146 Ghana
- 147 Myanmar
- 148 Gambia
- 149 Tanzania
- 150 Zambia
- 151 Guinea
- 152 Haiti
- 153 Comoros
- 154 Burkina Faso
- 155 Chad
- 156 Uganda
- 157 Nepal
- 158 Mali
- 159 Madagascar
- 160 Rwanda

**> 1.000**

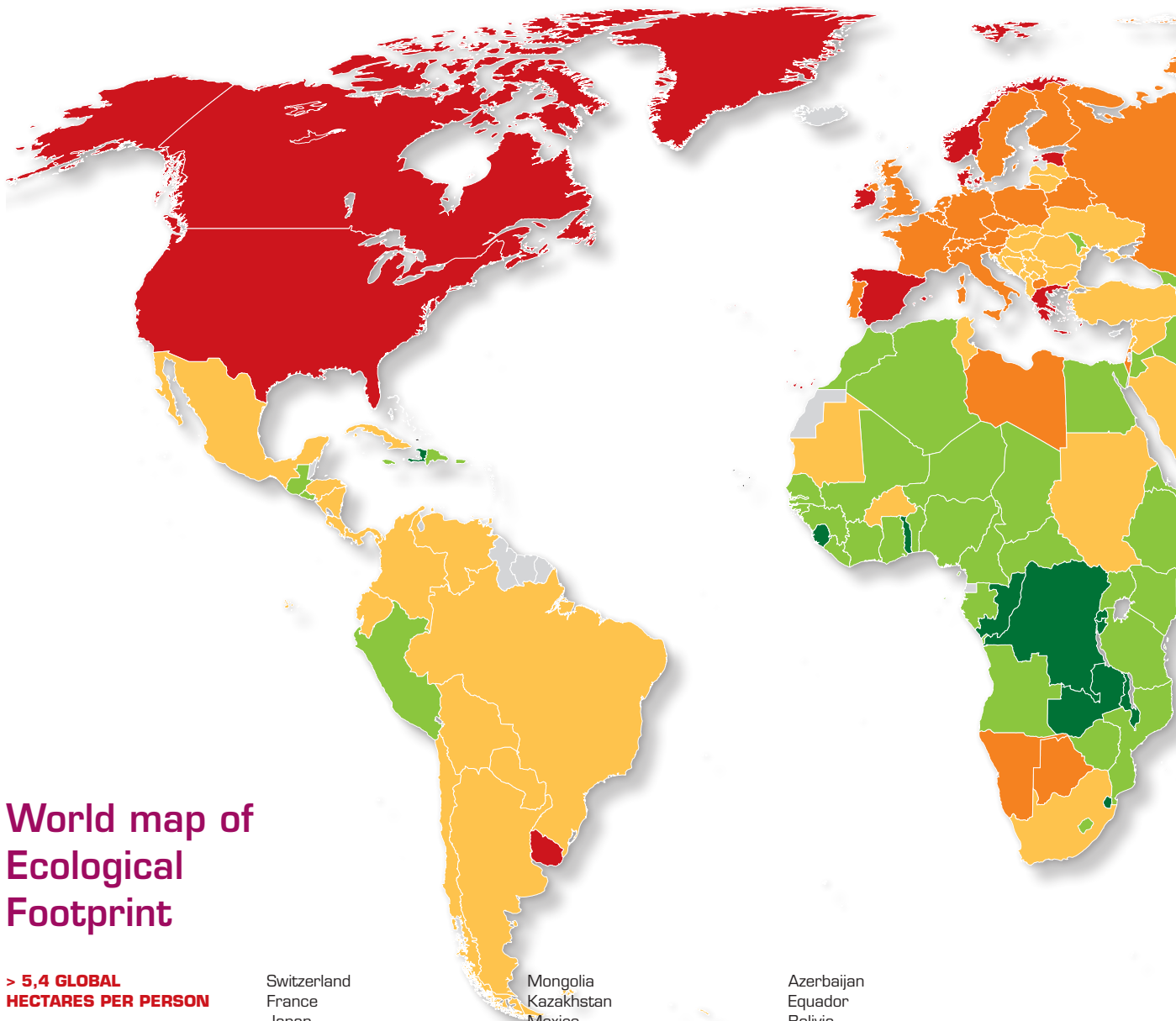
- 161 Ethiopia
- 162 Malawi

- 163 Togo
- 164 Mozambique
- 165 Sierra Leone
- 166 Central African Republic
- 167 Niger
- 168 Eritrea
- 169 Guinea-Bissau
- 170 Burundi
- 171 Liberia
- 172 Dem. Republic of the Congo

**NO DATA**

- Afghanistan
- Bahamas
- Bahrain
- Barbados
- Democratic Republic of Korea
- Cuba
- United Arab Emirates
- Iraq
- Palestina
- Qatar
- Somalia
- Zimbabwe





## World map of Ecological Footprint

### > 5,4 GLOBAL HECTARES PER PERSON

- United Arab Emirates
- United States
- Kuwait
- Denmark
- Australia
- New Zealand
- Canada
- Norway
- Estonia
- Ireland
- Greece
- Spain
- Uruguay

### 3,6 - 5,4 GLOBAL HECTARES PER PERSON

- Czech Republic
- United Kingdom
- Finland
- Belgium
- Sweden
- Austria

- Switzerland
- France
- Japan
- Israel
- Italy
- Oman
- Macedonia (TFYR)
- Slovenia
- Portugal
- Libya
- Germany
- Singapur
- Netherlands
- Poland
- Belarus
- Turkmenistan
- Korea (Republic of)
- Russian Federation
- Namibia
- Botswana

### 1,8 - 3,5 GLOBAL HECTARES PER PERSON

- Hungary
- Latvia

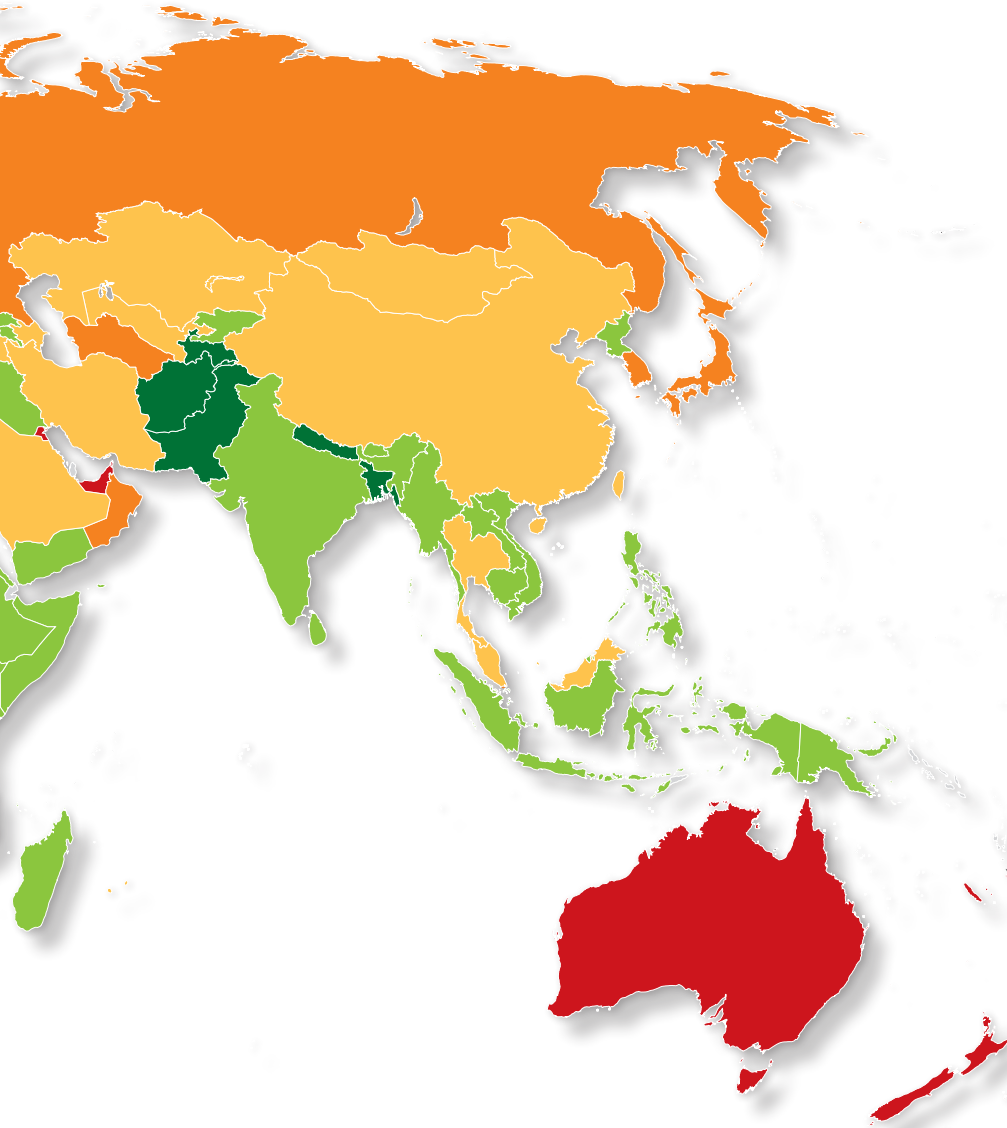
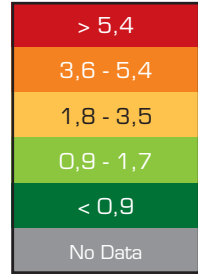
- Mongolia
- Kazakhstan
- Mexico
- Slovakia
- Croatia
- Lithuania
- Panama
- Paraguay
- Lebanon
- Chile
- Bosnia and Herzegovina
- Romania
- Venezuela
- Bulgaria
- Iran
- Turkey
- Ukraine
- Saudi Arabia
- Serbia and Montenegro
- Argentina
- Brazil
- Malaysia
- Sudan
- Costa Rica
- Mauritius
- Albania

- Azerbaijan
- Equador
- Bolivia
- China
- Syria
- South Africa
- Thailand
- Trinidad and Tobago
- Burkina Faso
- Nicaragua
- Mauritania
- Colombia
- Cuba
- Honduras
- Tunisia
- Uzbekistan

### 0,9 - 1,7 GLOBAL HECTARES PER PERSON

- Argelia
- Chad
- Egypt
- Jordan
- Papua New Guinea
- Central African Republic

**ECOLOGICAL FOOTPRINT  
(Global hectares per person)**



- Democratic Republic of Korea
- El Salvador
- Mali
- Niger
- Peru
- Dominican Republic
- Ghana
- Guatemala
- Armenia
- Ethiopia
- Senegal
- Somalia
- Uganda
- Cameroon
- Gabon
- Guinea
- Iraq
- Nigeria
- Viet Nam
- Gambia
- Moldova
- Eritrea
- Georgia
- Jamaica
- Kenya
- Kyrgyzstan

- Laos
- Lesotho
- Madagascar
- Morocco
- Myanmar
- Tanzania
- Zimbabwe
- Benin
- Bhutan
- Sri Lanka
- Angola
- Cambodia
- Côte d'Ivoire
- Philippines
- Guinea-Bissau
- India
- Indonesia
- Liberia
- Mozambique
- Yemen

**< 0,9 GLOBAL  
HECTARES PER PERSON**

- Burundi
- Nepal

- Pakistan
- Rwanda
- Sierra Leone
- Togo
- Zambia
- Swaziland
- Tajikistan
- Bangladesh
- Democratic Rep. of the Congo
- Afghanistan
- Congo
- Haiti
- Malawi

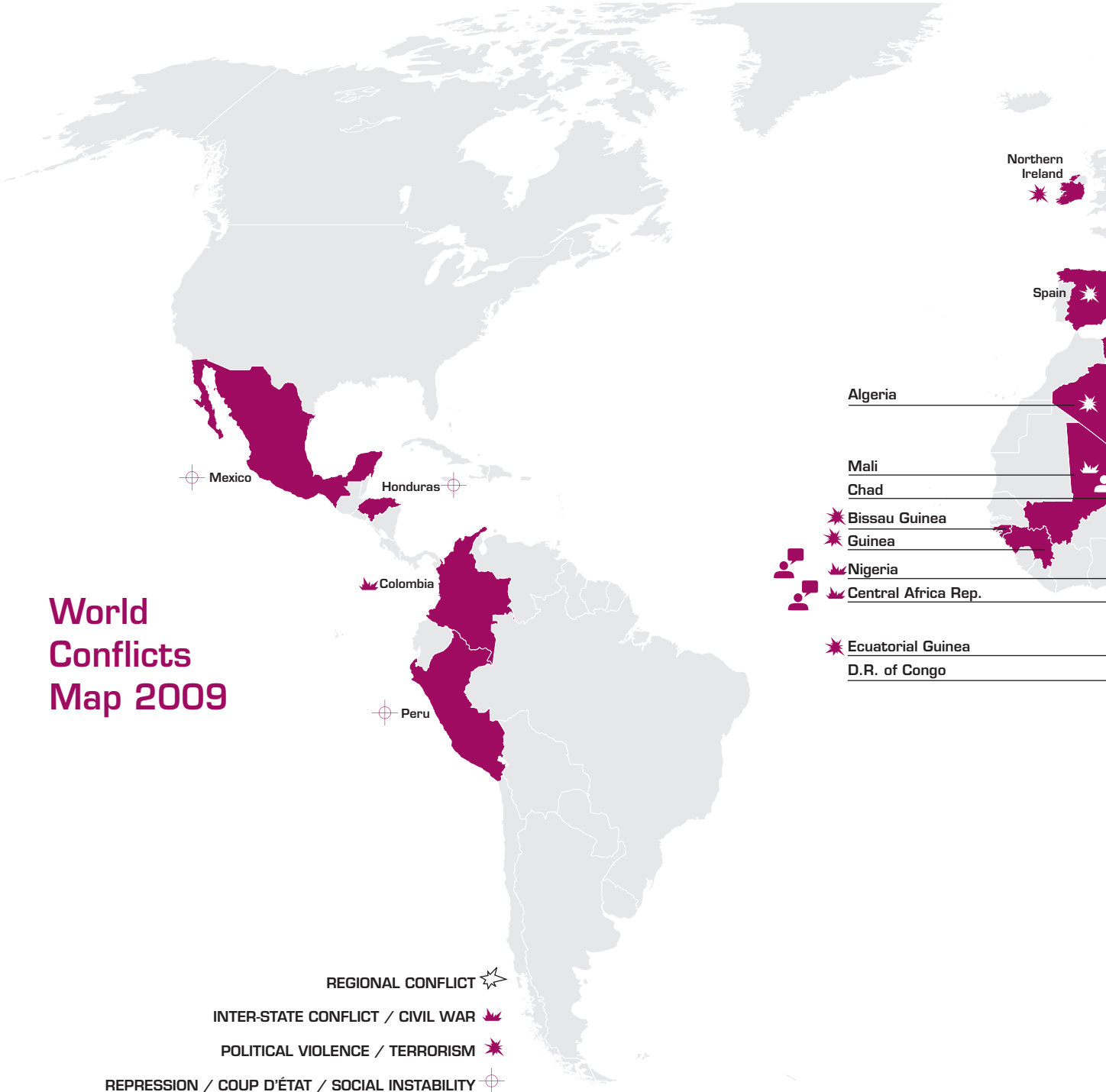
**NO DATA**







- Antigua and Barbuda
- Bahamas
- Bahrein
- Barbados
- Belize
- Brunei
- Cape Verde
- Cyprus
- Comoros
- Djibouti






- Dominica
- Fiji
- Grenada
- Equatorial Guinea
- Guyana
- Hong Kong
- Iceland
- Luxembourg
- Maldives
- Malta
- Palestina
- Qatar
- Solomon Islands
- Samoa
- Saint Kitts and nevis
- Saint Vincent and the Grenadines
- Saint Lucia
- Sao Tome and Principe
- Seychelles
- Suriname
- Timor-Leste
- Tonga
- Vanuatu

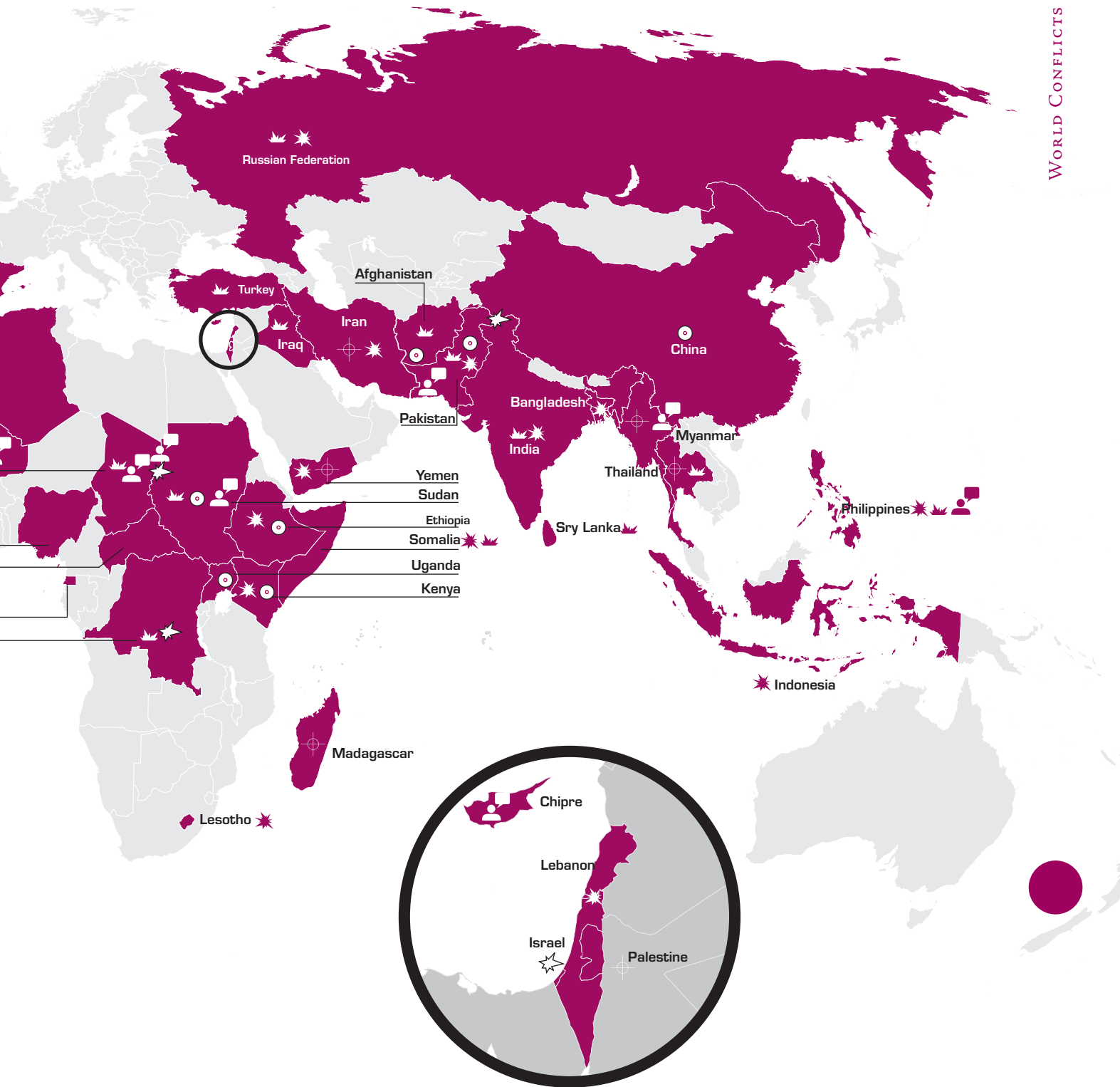


# World Conflicts Map 2009

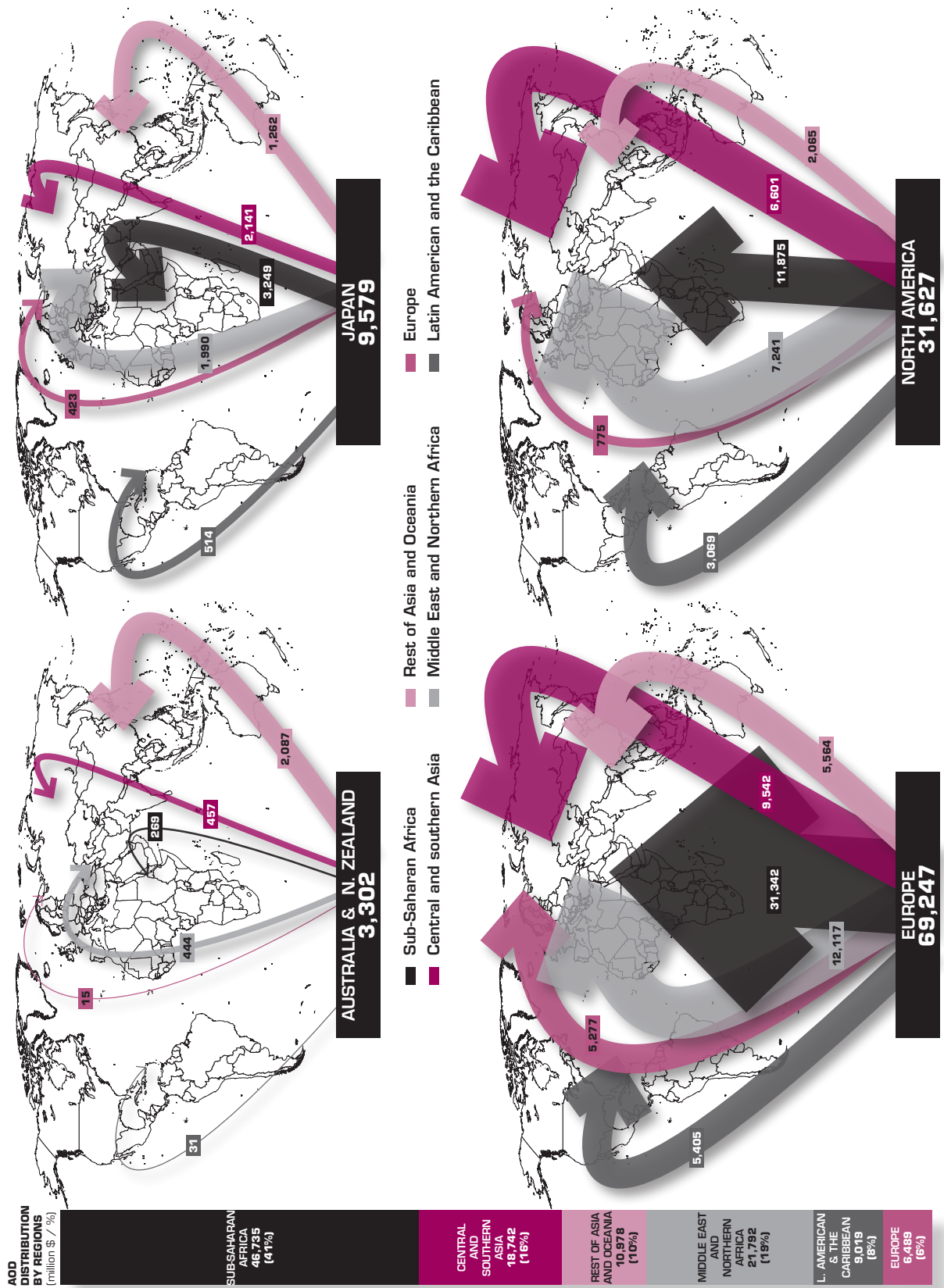


- REGIONAL CONFLICT 
- INTER-STATE CONFLICT / CIVIL WAR 
- POLITICAL VIOLENCE / TERRORISM 
- REPRESSION / COUP D'ÉTAT / SOCIAL INSTABILITY 
- RELIGIOUS, NATIONAL OR ETHNIC MINORITIES 
- PEACE TALKS 

- Algeria
- Mali
- Chad
-  Bissau Guinea
-  Guinea
-  Nigeria
-  Central Africa Rep.
-  Ecuatorial Guinea
- D.R. of Congo



# Map of the of the Official Development AID of OECD. Flows by regions (net disbursement in million dollars)

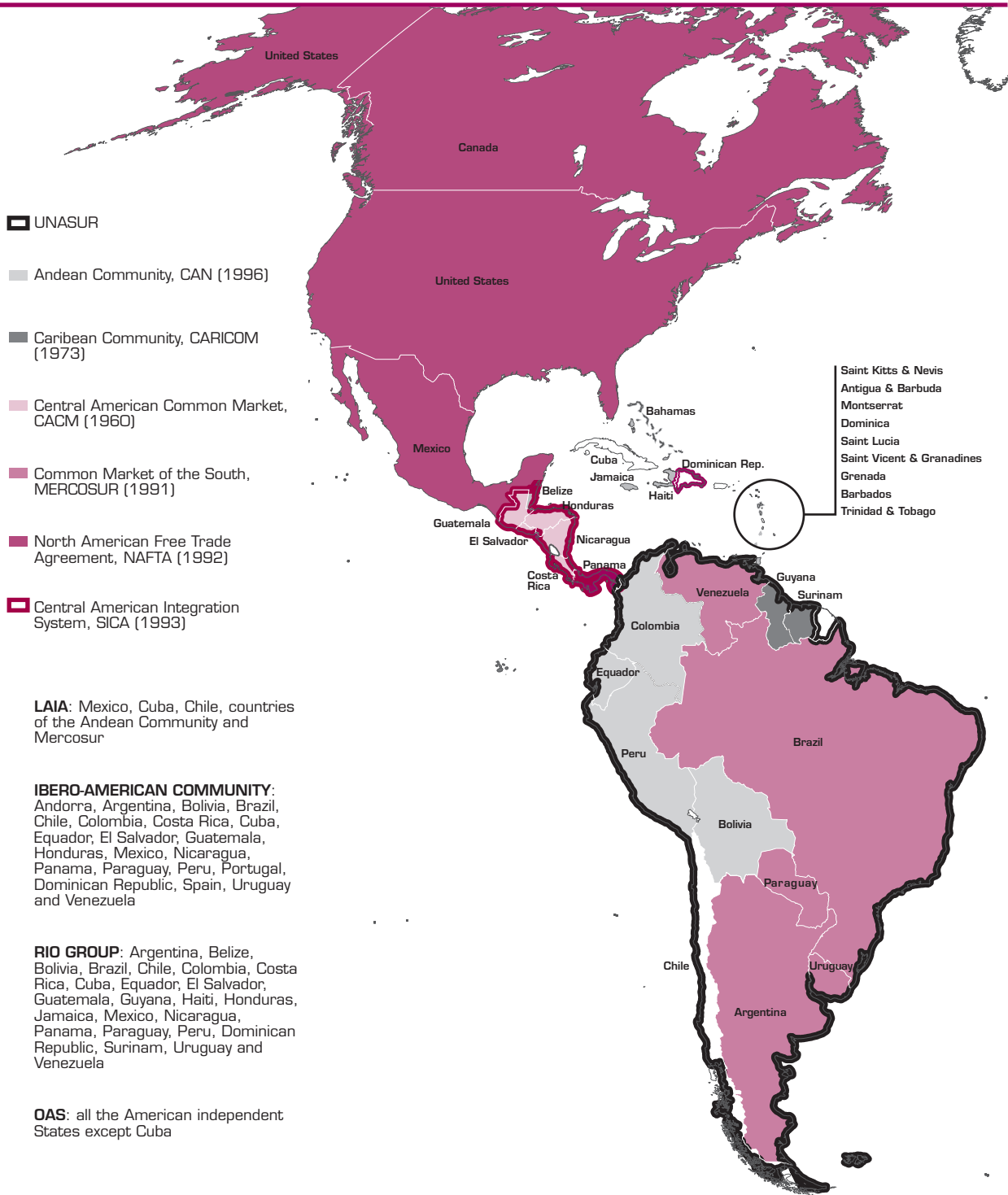


Produced by: CIDOB

Source: Development Cooperation Report, OECD 2010

# Cooperation and regional integration in Latin America and the Caribbean

## COOPERATION AND REGIONAL INTEGRATION ORGANIZATIONS IN LATIN AMERICA AND THE CARIBBEAN



## LATIN AMERICAN INTEGRATION ASSOCIATION (LAIA)

The ongoing effects of the world financial crisis resulted in diminished growth and a slump in international trade in 2009. According to estimates compiled in the IMF report *World Economic Outlook*, the drop in GDP worldwide is about -0.8%. This recession was very pronounced in the advanced economies which, taken together, showed negative figures of around -3.2%, with results in the Eurozone countries (-3.9%), the United Kingdom (-4.8%) and Japan (-5.3%) that were even worse than in the United States (-2.5%). As for the emerging countries, the results were extremely varied, with the Asian countries maintaining their growth rates while the rest generally showed negative figures. Hence, despite the crisis, China (8.7%) and India (5.6%) are outstanding in achieving vigorous growth, while the member countries of the Association of Southeast Asian Nations (ASEAN) also show growth, although in their case it is more gradual (1.3%). In contrast, the Russian Federation (-9%) and Mexico (-6.8%) were more acutely affected by the crisis, while the repercussions have been less in Brazil (-0.4%).

Similarly, the forecast for world trade flows was also negative and the report *World Economic Situation and Prospects*, a joint publication of the Department of Economic and Social Affairs, the United Nations Conference on Trade and Development and the five United Nations regional commissions, indicates a decline estimated at around -12% for 2009 as a whole. In any case, the report also notes a tendency towards moderate recovery of trade flows owing to a rise in international prices for raw materials and the volumes of trade that have been sustained at a good level in some fast-developing emerging countries, China in particular.

Against this general background, the Latin American region also succumbed to the effects of the international crisis, which cut short six years of sustained GDP growth accompanied by improved social indicators. These are some of the conclusions of the *Preliminary Overview of the Economies of Latin America and the Caribbean 2009*, produced by the Economic Commission for Latin America and the Caribbean (ECLAC), which estimates a -1.8% drop in GDP for the region in 2009. According to ECLAC data, the repercussions varied widely among the different Latin American countries, with a group of small countries that held out on their path of moderate growth of between 1% and 3.5% (Bolivia, Dominican Republic, Panama and Uruguay). Then there is another group of medium-level countries (Argentina, Peru, Colombia and Ecuador) along with the Brazilian giant, these showing a flat-line GDP performance, while the other countries experienced drops that ranged from -1% in the case of Guatemala to -6.7% in that of Mexico.

With regard to the evolution of foreign trade in the Latin American countries, the ECLAC data reveal that in 2009 there was a drop in exports estimated at -23.4%, while the drop in imports was -24.4%. Meanwhile the balance of trade in goods and services remained at low but positive levels. Accordingly, in spite of a slight improvement, the current account deficit in the balance of payments held firm at about 0.5% of GDP. The tendency towards contraction in foreign trade was quite similar among the different countries, although they were affected

in different ways because of prices and volumes. Countries exporting basic products suffered drops in prices while exporters of manufactured goods were affected by the reduced volume of goods exchanged. As for imports, in general, slowdowns were basically due to the diminished volume of purchases.

In this context, the overall foreign trade of the LAIA countries plummeted in 2009 with a drop of -22% in exports, which confirmed that the international recession had shifted to the Latin American countries by way of trade. In a comparison of the countries one sees that the decline in trade is generalised and in relatively similar percentages, although, in absolute terms, Mexico suffered the greatest loss (62,000 million dollars), followed by Brazil (45,000 million), Chile (19,000 million) and Argentina (14,000 million) so that, taken together, these four countries account for almost 90% of the drop in sales (see Table 1).

Overall imports, which fell by a figure of -25% for the totality of the LAIA countries in 2009, were affected by a lower domestic demand as a result of diminished consumption and investment in response to the crisis. In any case, the downturn in imports influenced, in good measure, the improved current account balance. Comparison of the countries shows that the drops have been generalised, although with rather varying impact. In absolute terms, Mexico again appears as having suffered the greatest decline (74,000 million dollars), followed by Brazil (45,000 million), Argentina (19,000 million) and Chile (18,000 million). Taken together, these four countries represent 87% of the downturn in purchases (see Table 2).

Interregional trade was also affected in 2009, which cut short a trade cycle that had been expanding steadily over five consecutive years to 2008. According to LAIA figures, trade between its member countries dropped by around -27% with both imports and exports, thus showing a trend that closely resembled the general decline in world trade (see Tables 1 and 2). In this context, trade flows between the different schemes of integration and the LAIA countries show a considerable slump in 2009. Among the most relevant situations is the decline in trade among the partners of the Southern Cone Common Market MERCOSUR, this amounting to almost 11,000 million dollars in absolute terms, as well as very significant losses in MERCOSUR trade with Chile, Mexico and the Andean Community. Equally momentous is the downturn in trade flows between the members of the Andean Community and the other LAIA countries, this amounting to a drop of a quarter or a third in comparison with the previous year, while trade between Chile and Mexico was depleted by a third (see Table 3).

## ANDEAN COMMUNITY

### Evolution of trade

Statistical estimates of the General Secretariat of the Andean Community (henceforth AC) are generally along the lines of LAIA and ECLAC data. The foreign trade figures for 2009 of the present AC members (Bolivia, Colombia, Ecuador and Peru) have fallen quite dramatically. According to AC estimates, overall exports fell by about -17% basically because of a downturn in prices for the main products exported by the Andean countries. Ecuador showed the worst result (-26%)



TABLE I. LAIA COUNTRIES EXPORTS<sup>1</sup> (million \$)

Country	To LAIA countries			Total World		
	2008	2009	% Variation 2009/2008	2008	2009	% Variation 2009/2008
Argentina	26,896	23,044	-14.3	70,021	55,750	-20.4
Bolivia	4,530	3,146	-30.6	7,016	5,382	-23.3
Brazil	43,095	29,897	-30.6	197,942	152,995	-22.7
Colombia	10,880	8,078	-25.8	37,626	32,853	-12.7
Chile	12,249	8,473	-30.8	69,022	49,938	-27.6
Equador	4,946	3,275	-33.8	18,511	13,762	-25.7
Mexico	14,132	10,121	-28.4	291,343	229,707	-21.2
Paraguay	3,013	2,218	-26.4	4,463	3,191	-28.5
Peru	5,831	3,731	-36.0	31,163	26,625	-14.6
Uruguay	2,341	2,056	-12.2	5,942	5,386	-9.4
<b>TOTAL</b>	<b>127,913</b>	<b>94,039</b>	<b>-26.5</b>	<b>733,049</b>	<b>575,589</b>	<b>-21.5</b>

<sup>1</sup>. Produced from data of the country informant. Information from Cuba and Venezuela not included.  
Source: LAIA

Produced by: CIDOB

TABLE II. LAIA COUNTRIES IMPORTS<sup>1</sup> (million \$)

Country	LAIA countries origin			World origin		
	2008	2009	% Variation 2009/2008	2008	2009	% Variation 2009/2008
Argentina	23,437	15,534	-33.7	57,423	38,771	-32.5
Bolivia	2,913	2,514	-13.7	5,009	4,410	-12.0
Brazil	27,281	21,884	-19.8	172,985	127,647	-26.2
Colombia	10,122	8,279	-18.2	39,669	32,898	-17.1
Chile	18,512	12,389	-33.1	56,709	38,826	-31.5
Equador	7,683	5,526	-28.1	18,685	15,093	-19.2
Mexico	12,112	8,133	-32.9	308,603	234,385	-24.0
Paraguay	4,212	3,153	-25.1	8,506	6,497	-23.6
Peru	10,270	7,078	-31.1	29,896	21,815	-27.0
Uruguay	4,822	3,883	-19.5	9,069	6,907	-23.8
<b>TOTAL</b>	<b>121,364</b>	<b>88,373</b>	<b>-27.2</b>	<b>706,554</b>	<b>527,249</b>	<b>-25.4</b>

<sup>1</sup>. Produced from data of the country informant. Information from Cuba and Venezuela not included.  
Source: LAIA

Produced by: CIDOB

TABLE III. TRADE FLOWS BETWEEN DIFFERENT ORGANIZATIONS AND LAIA MEMBER STATES<sup>1</sup>

	2008 (million \$)	%	2009 (million \$)	%	Variation 2008/2009 %
Intra-MERCOSUR	43,332	36.1	32,373	36.6	-25.3
MERCOSUR-Chile	16,271	13.6	11,619	13.1	-28.6
CAN-MERCOSUR	16,503	13.8	13,593	15.4	-17.6
Intra-CAN	7,795	6.5	5,789	6.5	-25.7
MERCOSUR-Mexico	12,021	10.0	9,361	10.6	-22.1
CAN-Mexico	9,891	8.2	6,604	7.5	-33.2
CAN-Chile	9,860	8.2	6,321	7.1	-35.9
Chile-Mexico	4,345	3.6	2,820	3.2	-35.1
<b>TOTAL</b>	<b>120,018</b>	<b>100.0</b>	<b>88,480</b>	<b>100.0</b>	<b>-26.3</b>

<sup>1</sup>. Information from Cuba and Venezuela not included.  
Source: LAIA

Produced by: CIDOB

while Bolivia's was -20%, both these countries being greatly affected by the fall in international prices for hydrocarbons. In Colombia (-13%) and Peru (-15%) the drop was somewhat less dramatic since manufactured goods had a greater presence in their exports and the prices for these held out a little better. In the case of imports, the downwards trend was also generalised although, once again, the impact in the different countries varied. The greatest reduction was in Peru (-27%), followed by Ecuador (-19%), Colombia (-17%) and, finally Bolivia (-12%).

Meanwhile, intraregional trade overall fell by a figure of -17%, this affecting the intra-community export quotas *vis-à-vis* exports as a whole, which dropped a little to a present 7.5%. Nevertheless, analysis of bilateral trade flows between the Andean countries once again shows patchy results. In the case of Bolivia, whose sales with some neighbouring countries increased, exports to its leading client (Peru) rose by 3.5% and took a sharp upwards turn with Colombia (35%), while dropping slightly with Ecuador (-4%). Colombia's downturn in exports was significant and was proportionally greater according to the relevance of its trading partners. Hence the biggest drop occurred with Ecuador (-17%), followed by Peru (-9%) and then Bolivia (-4%). The results of intra-community trade for Ecuador were very negative in 2009 with a dramatic decline in sales to Peru (-46%), which is its main client. Ecuador's exports to Colombia were not very encouraging either (-12.3%), while the spectacular plummeting of sales to Bolivia (-53%) has less relevance because of the low level of trading activities between the two countries. Finally, the performance of Peru's exports to its neighbours was rather uneven and its intra-community result as a whole for 2009 was practically neutral (-1%). With its main client, Colombia, the drop was slight (-3%) and that in the case of Bolivia was steeper (-11%). However, sales to Ecuador rose significantly, by 10%.

#### **Institutional activities, agenda for integration, political cooperation and joint foreign policy**

The Andean regional organism is passing through a delicate time of institutional debility and discord among its members. There is agreement over the suggestion that one of the events that triggered off the present situation occurred in April 2006 when Venezuela denounced the Cartagena Agreement and withdrew from the Andean Community. A year went by during which it was necessary to make the necessary adjustments with the representation of the countries in the jurisdictional organs and organisational structure, whereafter it seemed that the institutional machinery was functioning properly again. One example of this return to normal functioning was the holding of the Seventeenth Council of Andean Presidents on 14 July 2007 in Tarija, Bolivia. Moreover, one of the participants in this meeting was the Chilean president, Michelle Bachelet, thus consummating the incorporation of her country as an associate member of the Andean Community.

However, the respite was short-lived and discrepancies once again emerged, these being defined by the president of Ecuador, Rafael Correa, as serious asymmetries. The Andean Community members have different conceptions of joining the international sphere, apart from other particular disa-

greements of a bilateral nature that have raised situations that are difficult to reconcile. On the one hand, with regard to the international question, there are two countries that have signed a Free Trade Agreement with the United States (Peru and Colombia), while Bolivia and Ecuador declined to sign such an agreement. On the other hand, there are tensions in the bilateral relations between Bolivia and Peru, and then there are the relations between Ecuador and Colombia that have been frozen for political reasons that were exacerbated by a border conflict.

In this context, the fluid continuity of institutional relations was once again cut off and, in the past two years, it has not been possible to hold the regular Council of Andean Presidents. It was in these circumstances that the fortieth anniversary celebrations of the signing of the Cartagena Agreement were held in 2009. This agreement was the one that originally gave shape to the first organism of Andean integration and in the commemorative activities it was recalled that the process of integration had gone through other crises and that these had been dealt with through appeals to pragmatism.

The difficulties in institutional relations did not favour, either, the lines of political cooperation that the AC member countries had taken at other times in order to put into practice a joint foreign policy. In this regard, it seems that inertia holds sway and there are no major advances in relations with the United States and the European Union, the two leading partners outside Latin America. The only significant events in 2009 are that, for the United States, the Andean Trade Promotion and Drug Eradication Act (ATPDEA) remains in force for one year more while, in the case of the European Union, the negotiations en bloc in order to reach trade agreements were abandoned and bilateral negotiations with Colombia and Peru began.

#### **THE CARIBBEAN COMMUNITY (CARICOM) Evolution of the economy, the external sector and integration**

The economies of the Caribbean countries have also suffered the consequences of the international crisis and shrank considerably in 2009. According to the Preliminary Overview produced by the Economic Commission for Latin America and the Caribbean (ECLAC), the average figure for the drop in GDP of the Caribbean countries in 2009 was -2.1%. These negative results were due to a slump in tourist activity, a decline in construction, diminished mining activity, a drop in direct foreign investment and a reduction in the remittances sent back by the region's emigrants. Again, although agricultural activity saw some recovery in the majority of the countries, the international prices of primary products remained highly volatile. As for the foreign trade of the Caribbean countries, ECLAC estimates that this fell by a figure of -31% with exports and -29% with imports. In this critical situation, the deterioration in the results of the current account balance was extended, this being negative in most of the countries except Trinidad and Tobago, although it should be emphasised that a tendency towards some alleviation of these parameters is observed.

However, a breakdown and analysis of the data for the different countries reveals that the evolution of production in the

Caribbean continues to be rather uneven. First of all, there are four economies that have maintained a growth rate of between 1% and 2.5% (Guyana, Haiti, Dominican Republic and Surinam). Then there is a group consisting of Belize, Saint Vincent and the Grenadines, Dominica, and Trinidad and Tobago, where the decline in GDP was moderate, between -0.5% and -1.5%. Finally, there is the group consisting of Antigua and Barbuda, the Bahamas, Barbados, Granada, Saint Kitts and Nevis, Jamaica and Saint Lucia, which suffered a more severe drop in GDP, estimated as being between -3% and -8.5%.

As for evolution of the process of integration, although the CARICOM member countries formally subscribed to the creation of a Single Market and Economy (CSME) in 2006, the real bases for its construction are still very rudimentary. The requirements that were agreed upon as facilitating the convergence of the economies are difficult to observe in some cases, especially that of Jamaica. Also slow to advance is the coming into effect of the common external tariff (CET), while trade among the member countries has receded. According to data given in the report *An Overview of the International Insertion of Latin America and the Caribbean 2008-2009: Crisis and Regional Cooperation Areas*, which was produced by ECLAC in 2009, while the value of total exports in terms of current prices for the region tripled over the past fifteen years, sales among the Caribbean countries barely doubled. As a result, the coefficient of intraregional trade with respect to overall trade is estimated at approximately 11%, a quota that takes the region back to the figures for the early 1990s.

#### **Institutional activities**

The Heads of State and Government of the CARICOM countries held two extraordinary meetings in 2009, prior to the regular annual conference of July. The first meeting took place in Belize on 12 and 13 March 2009 with a view to discussing the international financial and economic crisis and to analyse the consequences for the region. The political leaders confirmed that the regulation of the financial system in their respective countries was functioning relatively well and thus the crisis had not come to the region through this channel. In this regard, the problems of the financial group Colonial Life and the Stanford Group were deemed to be very specific and not generalisable. By comparison, over time, the effects on the real economy were indeed noted, in sectors like tourism, construction, and basic products, all of which had consequences for production and employment. Hence, the leaders agreed that CARICOM should have greater access to the financing of regional institutions so that, in this way, they could work together with the policies pursued by each government in order to confront the crisis. The matter was taken up again at the second extraordinary meeting of Heads of State and Government, this time held on 24 May in Georgetown, Guyana, with an agenda focused on the deterioration of the Caribbean economies as a result of the international economic and financial crisis. At this meeting it was agreed to restructure the functions of the Caribbean Development Bank so that it might respond adequately to the needs of the region.

The Thirtieth Regular Meeting of the Conference of Heads of Government of the CARICOM Community was subsequently

held in Georgetown, Guyana, from 2 – 5 July. At this summit, the Caribbean leaders discussed the main challenges facing the region, as had already been noted at the extraordinary meeting in Belize. They therefore decided to set up a Working Group to draw up proposals to assist the region in confronting the international crisis. Notable among these proposals is that of financial support for agriculture, the development of a long-term strategy for the information and telecommunications sector, reconsideration of the timetable for the implementation of Free Movement of Persons Act, and the need to establish with alacrity an effective regime of sanitary and phytosanitary measures. Finally, those present at the meeting subscribed to the Liliendaal Declaration on the financial sector, whereby the governments recognised the need to bring about reforms in the financial structure of the region since the degree of financial integration in the Caribbean requires better cooperation from the member states.

#### **Foreign relations**

The Caribbean countries share a foreign relations agenda that is debated and articulated in an organ known as COFCOR (The Council for Foreign and Community Relations). This organism held its Twelfth Annual Meeting in Kingston, Jamaica, on 8 and 9 May. Among other matters of Community interest, the results of the Fifth Summit of the Americas, which had been held in April in Trinidad and Tobago, were analysed and joint proposals for the Regular General Assembly to be held in June by the Organisation of American States were also established. Moreover, the ministers jointly appraised the meeting they had at this summit with the Prime Minister of Canada in which they discussed the launching of negotiations to establish a free trade agreement. With regard to relations with Europe, after the signing in 2008 of the Economic Partnership Agreement between the EU and CARIFORUM, the Caribbean Forum of the ACP (African, Caribbean and Pacific Group of States) countries, the next item on the agenda is revising the Cotonou Agreement, which was scheduled for 2010. Work began on the matter at the COFCOR meeting this year and the continuing solidarity of the Caribbean countries with the ACP group was reaffirmed in the light of negotiations with Europe.

### **THE IBERO-AMERICAN COMMUNITY**

#### **Institutional activity and agenda for dialogue and coordination**

With the mechanism for dialogue, coordination and cooperation established by the member countries of the Ibero-American Community a set of institutional activities is carried out every year at different levels and with regard to different thematic areas. First and foremost, and of outstanding relevance, is the annual summit of the Heads of State and Government, where the main lines of the agenda are drawn up, resolutions are agreed upon and plans of action are established; next are the ministerial meetings by sector where the agenda corresponding to each thematic area is negotiated; then, also noteworthy are the meetings of civil society and other high-level forums, these constituting a third mainstay of the Community of Caribbean countries and a space for discussion of issues that are taken up to the presidential meetings



for their consideration. Likewise, also to be borne in mind are the many projects for cooperation that are implemented on an annual basis, these having the backing of the Ibero-American Summit of Heads of State and Government. Finally, is the work for institutional continuity being carried out within the organisms pertaining to the Ibero-American Conference, for example the Ibero-American General Secretariat (SEGIB in the Spanish acronym) and other Ibero-American intergovernmental organisations such as the Ibero-American Social Security Organisation (OISS in the Spanish acronym), the Ibero-American Youth Organisation (OIJ in the Spanish acronym) and the Organisation of Ibero-American States for Education, Science and Culture (OEI in the Spanish acronym).

As for meetings of civil society and high-level forums, in 2009 there were four events that deserve special mention. The first took place on 19 and 20 November, in Lisbon, where the Fourth Ibero-American Local Government Forum was meeting, in order to discuss innovation at the municipal level as a way of coming through the crisis and where, too, the municipal authorities approved the Ibero-American Charter of Local Self-Government. Shortly afterwards, the Fifth Ibero-American Parliamentary Forum was held on 23 and 24 November, again in Lisbon, this meeting bringing together the legislative representatives of the countries comprising the community. At the meeting of senators and members of parliament the debates were organised around three working groups: Ibero-American Cooperation; Information and Communication Technologies at the Service of Modern Parliaments; and Ibero-American Inter-parliamentary Technical Cooperation. The third meeting, the Fifth Ibero-American Civic Encounter, once again held in Lisbon, took place on 27 and 28 November. Here, four panels discussed social innovation and participation. Finally, on 29 November and still in Lisbon, the Fifth Ibero-American Business Meeting took place, this constituting a forum for discussing economic and financial prospects in the context of the world crisis. It was concluded that the Latin American region had withstood the crisis well. The businesspeople attending this meeting also discussed the influence of innovation in the energy, information and infrastructure sectors.

With regard to ministerial meetings, twelve of these took place covering different fields and discussing issues pertaining to Innovation and Knowledge, Environment, Social Security, Health, Tourism, Public Administration and State Reform, Childhood and Adolescence, Culture, Education, Youth and Finance. Discussed at each of these meetings were matters shaping a shared agenda for collaboration, and declarations were produced in which recommendations pertaining to the respective spheres of activity were made to the General Secretariat and the Summit of Heads of State and Government.

The central function was the meeting of Heads of State and Government of the 22 countries of the Community which was held in Estoril, Portugal, between 29 November and 1 December at the Nineteenth Ibero-American Summit. Attending this meeting were the heads of state of only fourteen of the member countries, which signified the biggest absence ever of presidents at any function of this type, since for different reasons, apart from the Honduran President Zelaya, the presidents of Venezuela, Cuba, Guatemala, Nicaragua, Bo-

livia, Paraguay and Uruguay were unable to attend. The situation of Honduras was an issue that took centre stage at this meeting because, at the start, the positions of the different Ibero-American presidents differed widely *vis-à-vis* the evolution and resolution of the internal conflict of this country. In any case, the Portuguese presidency managed to achieve consensus on two points that the participants deemed essential (condemnation of the coup and national dialogue), these being undersigned by the Portuguese Government in a communiqué issued at the end of the summit.

The basic debate was devoted to the central theme of the summit – innovation and development – and the results of this are reflected in the Lisbon Declaration and the Programme of Action that was approved. Noteworthy here is the agreement to promote an ambitious programme of applied and technological innovation that is to be defined by the governments and coordinated by the Ibero-American General Secretariat (SEGIB in its Spanish acronym), as well as the establishment of an Ibero-American Forum on Science, Technology and Innovation to be held on a biennial basis. As for the follow-up of the activities and programmes agreed upon at previous summits, the progress made in the process of ratifying the Ibero-American Social Security Agreement is to be highlighted. This will come into force in 2010 and will favour several million immigrants throughout the Community. Finally, after the approval in San Salvador the previous year of different modalities of participation, and having created the figures of the associated observer (states) and the consultative observer (international organisms) with the aim of promoting institutionalised links between the Ibero-American Conference and other members and actors of the international community, the summit of 2009 proceeded to register the first countries and organisms concerned. In the case of associated observers, first on the list are Italy and Belgium, while the first consultative observers are the Food and Agricultural Organization of the United Nations (FAO), the Organization for Economic Cooperation and Development (OECD), the Latin American Economic System (SELA in its Spanish acronym), the Latin American Faculty of Social Sciences (FLASCO in its Spanish acronym), the Latin Union and the Organisation of Eastern Caribbean States (OECS).

## THE RIO GROUP

After two years of having gone into a state of relative stagnation, manifested by a lack of presidential meetings and other institutional weaknesses, the Rio Group embarked on a slow process of recovery in 2007. This thrust continued and showed new signs of vigour in 2008 during the mandates of the Dominican Republic and Mexico in the pro tempore Secretariat. It was precisely Mexico that showed great interest in reviving this permanent mechanism of political consultation and coordination, partly to bolster its leading role in the region, which was being challenged by Brazil, and partly to achieve better balance against the other pole of its relationship with the United States and Canada. Again, since its inception, the Rio Group has been a strictly Latin American mechanism of political coordination, which has been joined by different countries at different times, bringing the membership up to 24 to date. With this dimension, it might be said that the Rio

Group is now a regional political organism and the only step that remains to be taken is to make this official. A first move in this direction became evident in December 2008 in Brazil with the parallel holding of the summit of the presidents of the Rio Group and the meeting of the heads of state of Latin America and the Caribbean, and it seems that this format will be continued at the next summit to be held in Cancun, Mexico, in 2010.

The institutional activity of the Rio Group was at a lower level in 2009 due to the agreement to hold the presidential summits biennially, this being ratified at the twentieth meeting of the Heads of State and Government, which was held in March 2008 in Santo Domingo, Dominican Republic. In the interim, the Twenty-eighth Meeting of Ministers of Foreign Affairs of the Rio Group was held on 5 November in Montego Bay, Jamaica. The meeting confirmed Jamaica's full incorporation into the organism, which will continue to be compatible with the representation of other CARICOM members. Also participating were observers representing Barbados, Granada, Saint Lucia, Saint Kitts and Nevis, and Trinidad and Tobago, which were invited to join as full members of the group. Among the issues of overriding concern on the meeting's agenda were the climate change summit in Copenhagen and the internal crisis of Honduras.

The Rio Group also acts as an axis of coordination in some areas of foreign relations of the member countries, outstanding among these being the bi-regional relationship with the countries of the European Union. In particular, biennial meetings at the ministerial level are to be held with a view to elucidating items on the common agenda while, in the alternating year, the participants have the occasion to meet again in the course of the summits of the Heads of State and Government of the countries of Latin America, the Caribbean and the European Union. In this framework, the Fourteenth Ministerial Meeting of the Rio Group and the European Union was held on 13 May in Prague. Likewise, this event was complemented with two bilateral meetings of the EU with Mexico and Chile, along with two others of regional scope with Central America and MERCOSUR.

## THE CENTRAL AMERICAN COMMON MARKET (CACM) / CENTRAL AMERICAN INTEGRATION SYSTEM (SICA)

### Evolution of trade

Foreign trade was one of the main channels of conveying the international crisis to the Central American region, although the impact was somewhat less with the goods trade than with the services trade, where the drop in income from the tourist sector was very steep. According to data compiled in the *Preliminary Overview for the economies of Latin America and the Caribbean 2009*, which is published by ECLAC, the total of goods exports of the Central American countries dropped by a figure of -4.6% while the figure for imports was -9.7%. With regard to the terms of exchange, the ECLAC analysis indicated that the Central American region came out rather better off as these countries benefited from the fall in prices of basic goods, especially oil, the bill for which represents a

very high cost in the totality of imports. Again, data supplied by the Secretariat for Central American Economic Integration (SIECA in its Spanish acronym), which do not include trade in maquila (export processing zone) and free zone products, show that total exports dropped by a figure of -9.3%, while that for the decline in imports was -24%. In the breakdown of performance by country, Honduras had the worst results with a drop in exports at a percentage that was almost twice the average for the region.

SIECA data on the evolution of interregional trade show that the result in 2009 has been more disadvantageous than that for overall trade, with a drop in exports among the Central American countries estimated at -18%. This decline has also had its influence in the diminished percentage of regional trade, which has been estimated at 26% with regard to total trade (discounting the maquila sector and the free zones). By comparison with the other countries, Honduras shows the greatest decline in trade with its neighbours, the figure for its drop in exports being estimated at -42%. Finally, continuity is observed in the general trend of trade flows among the Central American countries, with Guatemala being the biggest supplier and Honduras the main client, while Costa Rica appears as the principal beneficiary of trade with its neighbours, with a ratio of 2:1 in the sum of exports and imports.

### Institutional activities and agenda for integration

The presidents of the member countries and associated countries of the Central American Integration System (SICA in its Spanish acronym) attend one or two regular summits each year in order to follow up the agenda for integration, while also holding extraordinary meetings to discuss specific matters. In the case of the latter, a first meeting was held in Managua, Nicaragua on 15 January 2009 and, here, the renovations of institutional positions in SICA were agreed, a calendar for meetings to be held that year was established and the issues that were to constitute their thematic agenda were discussed. Subsequently, on 25 March, another presidential meeting was held, once again in Managua, in order to discuss in advance the programmes for restructuring the pertinent organisms so as to promote integration effectively, along with regional unity. Other matters on the agenda were also discussed, for example the impact of the international economic crisis on the region, problems of security, migration and food security. The third extraordinary meeting of the heads of state took place in Trinidad and Tobago on 19 April 2009, as a side event of the Fifth Summit of the Americas. At this meeting, the Central American presidents came to a consensus on regional positions *vis-à-vis* two forthcoming international events they would be attending, one being the Fifth Summit with the President of the United States and the other, in May, with European leaders under the auspices of the Ministerial Meeting of the San José Dialogue to be held in Prague, Czech Republic. Finally, on 20 May another extraordinary presidential meeting was held in Managua, Nicaragua, with the aim of advancing the establishment of a Common Credit Fund, an instrument that seeks to compensate the asymmetries with the EU countries and that is involved in the negotiations on agreements concerning the bi-regional association.



The regular summits continued with the holding, in Managua on 29 June, of the Thirty-Fourth Meeting of the Heads of State and Government of the SICA countries. At the beginning of the meeting the presidents issued a declaration stating the measures adopted with regard to the political situation in Honduras. They subsequently discussed several items on the agenda, notable amongst which were four regional initiatives. First, the foreign ministers and the Secretary General were instructed to draw up a strategy designed to promote new integral legislation on migration. Second, the port strategy for maritime matters, which had been prepared by the ministers for Transport, was revised. Third, the Central American Commission for Environment and Development was enjoined to move faster with the Regional Environmental Plan and to finalise the Regional Strategy on Climatic Change. Finally, the presidents discussed the bases for regional consultation with a view to determining the linchpins of a policy for integral disaster risk management in Central America.

### Foreign relations

The Central American countries continue to have a concerted agenda of foreign relations and activities which, in good measure, also influence the regional process of cooperation and integration. In this sphere, the most significant events of 2009 involved Mexico and the European Union. Moreover, the Central American countries held other meetings through the mixed commissions that give periodical continuity to their relations with Japan.

In the case of Mexico, the Eleventh Summit of the Tuxtla Mechanism – a space for Mesoamerican cooperation and dialogue – was held in Costa Rica on 29 July. Among the most relevant matters of this meeting was the interest shown in institutionalising the Mesoamerican Project, which would endow it with instruments of international law that were lacking in the Puebla-Panama Plan. In the political domain, the heads of state agreed to condemn the Honduras coup d'état and went on to endorse a range of joint initiatives on migration, security, drug trafficking, organised delinquency on the international scale and the arms trade.

With respect to the European Union, two new rounds of negotiations were held in 2009, one in January and one in March, in order to come to an agreement on the association between both regions but the initiative was suspended after June because of the internal conflict in Honduras. Prior to this, on 13 May, the Ministerial Meeting of the San José Dialogue was held in Prague, Czech Republic, this constituting a framework for dialogue and political negotiation that was established between Central America and Europe more than twenty years ago. This meeting saw a reaffirmation of the political impetus towards finalising negotiations on the bi-regional agreement in time for it to be signed at the summit that the countries of Latin America, the Caribbean and Europe were to be attending in Madrid in 2010.

## THE COMMON MARKET OF THE SOUTH (MERCOSUR)

### Evolution of trade

The international crisis of 2009 had serious effects with the shrinking of trade worldwide and also the price drops for prod-

ucts on the international markets. In these circumstances, according to preliminary data offered by LAIA and ECLAC, the performance for overall trade for the MERCOSUR countries was negative, with estimates for the decline in exports at -22% and for imports at -27%. The results by country showed that the crisis affected the overall sales in a similar fashion, except in the case of Uruguay for which the downturn was less (-9%).

With intraregional trade, the estimate for the decline remained close to the overall figure (-21%) while exports among the four members dropped to 33,000 million dollars. On a country-by-country basis the results were uneven. Brazil showed the biggest drop in sales to its partners (-27%), while the figure for Argentina was -14%. Finally, the intraregional export quota in comparison with total exports remained low, at around 14.2%.

### Institutional activities and relevant items on the integration agenda

Notable among the principal institutional activities carried out over 2009 are the two presidential summits held in the course of the regular meetings of the MERCOSUR Common Market Council (CMC), which were attended by the ministers for Economy and Foreign Affairs of the member countries. At the first presidential encounter, which took place on 23 and 24 July in Asunción, Paraguay, the heads of state reaffirmed that the process of regional integration must foster policies aimed at overcoming asymmetries, promoting the value-added goods trade and engaging in complementary productive activities. The report on the agenda carried out by the pro tempore Paraguayan presidency was presented at this meeting. Emphasised here were advances towards bringing into effect the elimination of the double levying of the common external tariff and distribution of the MERCOSUR customs revenue, although not all the differences between the member states have been resolved and thus final agreement was not reached. Approval was also given for extending the system of payment in local currencies for any commercial transaction, the operative conditions for which are to be implemented by means of bilateral agreements between the central banks of the member countries. Finally, the headquarters of the MERCOSUR Social Institute was inaugurated, this organism being tasked with consolidating activities related with the social dimension of the process of integration.

The second presidential assembly took place during the Thirtieth CMC Meeting, held on 7 December in Montevideo, Uruguay. At this meeting the items on the ongoing agenda were discussed. Among these issues, emphasis was given to the need to keep coordinating actions aimed at cushioning the effects of the international crisis, highlighting the importance of assuring the dynamism of regional and worldwide trade so as to contribute towards the attainment of established goals of development and social inclusion. During this meeting, the report on the agenda carried out by the Uruguayan presidency was presented. Noteworthy here was approval for the Permanent Regional Observatory on Productive Integration. It was also agreed to speed up the measures required for establishing the Advisory Commission for the implementation of the

MERCOSUR Fund for Micro, Small and Medium-sized Enterprises and for preparing the regulations governing the Fund.

### Foreign relations

By virtue of the constitutive treaties of MERCOSUR, the member countries jointly negotiate some international relations matters, while others are transacted in a concerted fashion. In this context, the MERCOSUR countries are engaged in a complex process of negotiation with European Union countries with the aim of fleshing out an agreement on bi-regional association, which was suspended in 2004 due to pronounced differences between the two parties. Nevertheless, the desire to move ahead in relations with Europe endures and, at the meeting of MERCOSUR presidents in Montevideo, Uruguay, on 7 December, it was agreed to resume negotiations in the course of the Summit of Presidents of Latin America, the Caribbean and the European Union that was to be held in Madrid in 2010.

Finally, for some time contacts have been made with a view to favouring trade exchanges between MERCOSUR with other American countries and the rest of the world. In this regard, the landmark achievements for 2009 were the coming into force of the Complementary Economic Agreement signed with Cuba, and the ratification by Israel of the Free Trade Agreement jointly signed with MERCOSUR.

## ORGANIZATION OF AMERICAN STATES (OAS)

### Institutional activity

The Foreign Ministers and Permanent Representatives of the thirty-four member countries of the OAS attended the Twenty-ninth Regular Session of the General Assembly from 2 to 4 June in San Pedro Sula, Honduras, in order to prepare the balance sheet for the previous period and begin the new annual period of sessions. The central theme of the meeting was non-violence, as is reflected in the Declaration of San Pedro Sula, which was approved with the consensus of the participants. The Declaration states that it is considered fundamental to reinforce the culture of non-violence because of the dire consequences of violence for the social, economic, political and cultural development of Latin American societies. There was conformity during the debate in pointing out the how vulnerable sectors of the population are at risk because of violence in the different countries, in particular women, children and the elderly.

In the stocktaking presented by the OAS Secretary General José Miguel Insulza, apart from a review of the state of play of some earlier issues, special mention was made of the economic crisis and the possibility that it may give rise to disputes over distribution that will have repercussions on the weakest members and on the political and social relations in the domestic sphere of the countries of the region. Concern was also expressed over worsened levels of poverty and job insecurity in a context where sustainable use of energy, the environment and development in general are under threat. In this regard, Insulza stressed that proper functioning of the democratic system could serve as a conduit for discussing and solving differences with the aim of reaching agreement

in the broad political and social domains so as to reinforce governance and the political viability of measures that will need to be adopted.

By way of conclusion, José Miguel Insulza made some reference to issues that were aired at the Fifth Summit of the Americas in Trinidad and Tobago in April 2009. At the presidential meeting the priorities to be implemented in the hemisphere's agenda were profiled, these taking in political (security and governability), economic (integrated development, energy and climatic change) and social (everyday violence and migration) matters. Mention was also made of wide-ranging deployment of OAS electoral missions in 2009 and an account was given of the accompaniment tasks carried out by the OAS in Haiti both to assure internal security and to coordinate aid so as to overcome the catastrophic humanitarian situation of the country resulting from internal conflict. A further significant point was the explanation of the OAS good offices mission in the conflict between Colombia and Ecuador, a task that was continued in 2009.

Finally, on 3 June 2009, the Foreign Ministers of the OAS adopted the resolution AG/RES. 2438 (XXXIX-O/09) that countermanded an earlier resolution from 1962 through which Cuba was excluded from the Inter-American System. The resolution of 2009 declared that Cuba's participation in the OAS will be the result of a process of dialogue initiated at the request of the Cuban government and in conformity with the practices, aims and principles of the OAS.

### Electoral observation activities and special missions in crisis situations

The OAS has been engaged in a wide-ranging set of activities benefiting the internal stability of the member states and peace in inter-American relations and also complying with specific requests made by any countries that are interested parties. Noteworthy among these are, on the one hand, the Electoral Observation Missions and, on the other, the special missions carrying out good offices tasks of accompaniment, facilitation and mediation in situations of conflict between member countries or domestic crisis within the states.

In the case of the Electoral Observation Missions, the presence of the OAS was requested for the general elections in El Salvador, the referendum to approve the Constitution followed by the general elections in Bolivia, the general elections and the Andean Parliament elections in Ecuador, the general elections in Panama and, finally, the legislative and municipal elections, as well as those for State governors in Mexico. With regard to the Special Missions tasked to work towards solutions in crisis situations, the presence and activities of the OAS in Haiti continued through 2009, as did the Mission to Support the Peace Process in Colombia. There have also been endeavours to provide OAS mediation and support in seeking solutions to the dispute between Ecuador and Colombia, as well as the internal conflict of Honduras. Finally, after the agreement reached in 2008 between Belize and Guatemala in order to put an end to their differences over territorial limits, the OAS has continued to assist both countries with a mission in the Adjacency Zone in order to prevent incidents that could affect the process that has now been initiated.



With regard to the internal conflict in Honduras, as soon as the coup d'état occurred on 28 June 2009, the OAS institutional mechanisms were activated. After an emergency convocation of the Council of Permanent Representatives where a resolution condemning the coup was approved, an Extraordinary General Assembly of Foreign Ministers was called and at this meeting it was decided to suspend Honduras' participation in the organism by way of the resolution AG/RES.2 (XXXVII-E/09). This resolution also entrusted Secretary General Insulza with the task of intensifying diplomatic measures and promoting action in favour of a return to democratic normality. He led several missions to Honduras and, in that of October, managed to set up round table talks in order to continue with the negotiations proposed in the San José Agreement, a pact between the parties in litigation that had been achieved in September under the auspices of President Óscar Arias of Costa Rica. At the close of the year elections had been held in Honduras and the presidential takeover was scheduled for the beginning of 2010, although the OAS members did not immediately recognise the winning candidate since they considered that the agreement to return Zelaya temporarily to the presidency so as to proceed to an orderly transfer of power had not been respected.

The Mission to Support the Peace Process in Colombia (MSPP/OAS), the mandate for which was established in resolution 859 (1397/04) of the Permanent Council, has been entrusted with the assignment of verification of the cession of hostilities, disarmament and reintegration of demobilised groups along with working with communities affected by violence. In the reports of this year, along with an assessment of the follow-up of the aforementioned tasks, the MSPP/OAS indicated that in spite of advances in the peace process, massacres are reappearing as a form of action and means of intimidation in disputes between certain emerging factions, this having a harmful impact in the communities.

The OAS has been involved in Haiti for several years and has been engaged in sustained activity through successive mandates in order to attend to a situation of chronic crisis that, at one point of threatened national collapse, required international intervention with a United Nations Stabilisation Mission in Haiti (MINUSTAH). After the presidential and legislative elections of 2006 and the coming to power of President René Préval, the assignment of the OAS has been to fortify and consolidate institutional structures and to help in seeking projects and resources for reconstructing the country. In the report on the activities in which the OAS was engaged in Haiti in 2009, one outstanding item is the task carried out in September by the High Level Inter-American Mission, in which delegates from several member countries and other specialist organs – for example the Inter-American Development Bank (IDB), the Inter-American Institute for Cooperation on Agriculture (IICA), the Pan American Health Organization (PAHO), and the Pan American Development Foundation (PADF) – participated. Shortly afterwards, on 4 November, a conference was called in Mexico to coordinate the assistance to Haiti from the Latin American countries and the different inter-American agencies. Finally, on 15 December, the OAS agreed to the request of the Haitian Government to send an observation mission for the 2010 legislative elections.

## NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

### Evolution of trade

The economic and financial crisis spread through all spheres of the economy of the NAFTA member states. According to IMF data, in 2009 the GDP of the United States dropped conspicuously (-2.5%), as happened with Canada (-2.6%) and, rather more steeply, in Mexico (-6.8%), with serious consequences for the external trade of all three countries. The statistics of the US Census Bureau show that the figure for total exports of the United States plummeted to -23.1% but its partners were even worse affected. The official statistics of Canada and Mexico indicate that their exports fell still more precipitously with figures of -33% and -27% respectively.

In these circumstances, data on the evolution of trade among the NAFTA partners show a substantial decline in 2009 but the drop in sales was greater within the bloc (-28%) than for sales worldwide (-26%). In the country-by-country reckoning, the downturn in sales to NAFTA partners was similar in the United States (-24%) and Mexico (-25%), while the reduction was still greater in the case of Canada (-36%). The quota for regional trade among the NAFTA members has therefore fallen to below 50% *vis-à-vis* total external trade, a figure that, in perspective, means going back more than a decade in terms of regional integration, although with the structures for exchange that have been established over these years it would appear that, with economic recovery, the quota will return to about 50-55%

As for mutual interdependence within NAFTA, the present crisis has done little to favour the trend of previous years towards overcoming the disparities between the United States and its less powerful partners. In 2009, one quarter of the imports entering the United States came from Canada (14%) and Mexico (11%), while the country sold to these two partners one third of its total exports, with a greater proportion going to Canada (19%) than to Mexico (12%). In contrast, the concentration of sales to the United States from the neighbouring countries continues to be very high, representing 81% of the total exports of Mexico and 65% of those of Canada. In the case of imports, Canada's degree of dependence on the United States has increased since 63% of its total imports come from this country, while Mexico continues with a figure of 48%, which varies very little from previous years.

### Institutional activities

The presidents of the United States and Mexico and the Prime Minister of Canada met in Guadalajara, Mexico, on 8 and 9 August 2009 at the Fifth Summit of the Security and Prosperity Partnership of North America (SPPNA). This trilateral alliance represents a framework for political cooperation between the NAFTA member countries with a view to procuring closer approximation in terms of quality of life, security, efficiency and the competitiveness of their different economies so as to advance towards convergence on the basis of the free trade agreement that presently governs the economic relations between the three countries.

Having reaffirmed the commitments undertaken the previous year, the three heads of state came to agreement on



the priorities for the current year; instructing their respective relevant ministries to carry them out and subsequently give an account of these activities in the mandatory report to be presented in mid-2010. On this occasion, the priorities focused on energy and climatic change, security in the case of pandemic outbreak of disease, and cooperation in combating criminal networks. In the declaration of the heads of state, mention was made of the global economic crisis and the need to coordinate efforts to overcome the situation, for example giving support to the OAS in its task of propagating democratic institutions in the continent.

### Foreign relations

Each of the three NAFTA member countries is developing its own trade policy whereby they basically negotiate free trade agreements with third countries throughout the Americas, although the United States is the most active and has the most extensive agenda. In this regard, the United States Congress approved on 11 December 2009 a new one-year extension to the Andean Trade Promotion and Drug Eradication Act (ATPDEA) which favours exports from Colombia, Ecuador and Peru.

Canada has also made contacts in order to give a boost to the negotiation of free trade agreements with different Latin American countries, although most of these are still in the deliberative phase. In 2009, taking advantage of the Fifth Summit of the Americas in Trinidad and Tobago, the Canadian Primer Minister and the CARICOM heads of state met in order to give impetus to the process of negotiation.

Finally, Mexico continues with its own approaches to the countries of the Central American isthmus although there are still difficulties when it comes to establishing closer relations with the MERCOSUR countries and those of the Andean Community. In this regard, the Eleventh Summit of the Tuxtla Mechanism – a space for Mesoamerican dialogue and cooperation – was held in Costa Rica on 29 July (see foreign relations of SICA).

## UNION OF SOUTH AMERICAN NATIONS (UNASUR)

### The background

The process of creating a community that would embrace the nations of South America has been constructed in different phases, which have included work on defining objectives, the main themes on the agenda, the strategy for bringing this mission into being, and the organisational and institutional architecture of the initiative. Its origins go back to the summit of political leaders organised by the Brazilian president Fernando Enrique Cardoso, which was held in Brasilia in 2000. Since then, these presidential meetings have been held almost every year until it was decided at the 2004 meeting in Cuzco, Peru, to institutionalise the gatherings with the initial denomination of South American Community of Nations (SACN). After a process of ironing out the details, which lasted another four years, the presidents of the South American countries met in Brazil on 23 May 2008 to sign the treaty constituting UNASUR, whereby the normative framework and institutional structure of the organism were established and it was stipu-

lated that the group would function with presidential summits every year, six-monthly ministerial meetings and a permanent secretariat with its headquarters in Quito. Also envisaged was the future creation of a South American Parliament, to be located in Cochabamba, Bolivia, the jurisdiction of which was to be established in an Additional Protocol that is yet to be negotiated by a special commission. The agreement stipulates that the constitutive basis of this body is upheld by the integration made possible by MERCOSUR and the Andean Community, along with the participation of Chile, Guyana and Surinam in such a way that the member countries are confined to the geographic area of South America. However, the wish of the UNASUR member countries is to advance cooperative relationships with all Latin American countries and hence, it is also established that five years after the treaty comes into force the possibility will remain open for the incorporation into the group of other countries of the region as associate members. Finally, in an extraordinary meeting held in Brazil on 16 December 2008, the presidents approved the creation of the South American Defence Council and the South American Health Council. The former body, which will be subject to the principles and objectives established in the United Nations Charter and the Charter of the Organization of American States, will constitute an agency for consultation, cooperation and coordination, the aim of which is to consolidate the region as a zone of peace and to serve as a basis for democratic stability and integrated development of the different countries. The aim of the South American Health Council is to construct a space of integration for health matters, incorporating therein the efforts and achievements of other mechanisms of regional integration and promoting the common policies and coordinated activities of the UNASUR countries. Moreover, a working plan was approved for the South American health agenda, this taking into consideration, *inter alia*, an epidemiological shield, the development of universal systems guaranteeing the right to health, access to medication, and the development of human resources in this area.

### Institutional activity and the agenda for dialogue and cooperation

On 10 August 2009, the South American presidents met at the Third Regular UNASUR Summit, which was held in Quito, Ecuador. At this meeting, an assessment was made of the organism's agenda and other areas of future work were proposed, notable amongst which are attention to infrastructure, technological advance, defence of human rights, social development, and the struggle against drug trafficking. While the item did not appear on the previous agenda, some time was spent discussing the agreement being negotiated between Bogotá and Washington to permit the access of US military personnel to Colombian bases as part of the joint struggle the two countries are engaged in against drug trafficking. The positions of the different countries with regard to this issue were markedly divided, with a very belligerent group headed by Venezuela backed by Bolivia and Ecuador, while the remaining countries adopted a more conciliatory stance. The presidential meeting in Quito ended without consensus and it was decided to call an extraordinary meeting to discuss and establish a common



position on defence policies regarding drug trafficking and terrorism. This took place on 28 August in Bariloche, Argentina, where the presidents approved by consensus a document on security policies in the struggle against terrorism and drug trafficking. They also agreed that, in a joint meeting of Foreign and Defence Ministers, to be held in September 2009, study would be made of several instruments in accordance with the measures of fostering trust and security enshrined in the OAS framework so that they might be jointly applied by the member countries. The ministerial meeting was held on 15 September in Quito, Ecuador but it was not possible to reach consensus because the Colombian minister did not agree to the request, in the formulation of Ecuador issued in keeping with its status as conference host, that he submit the details of negotiations with the United States, alleging that the agreement was neither approved nor ratified, either in Colombia or in the United States. Again, the Colombian Government demanded reciprocity in the measures of transparency, seeking guarantees on the different military agreements of its South American partners with third countries. Eventually, the matter was partially settled during a new meeting of Foreign and Defence ministers held in Quito, Ecuador, on 26 November, where it was agreed to create a network in order to exchange information on organisation, functions and procedures of the Defence ministries.

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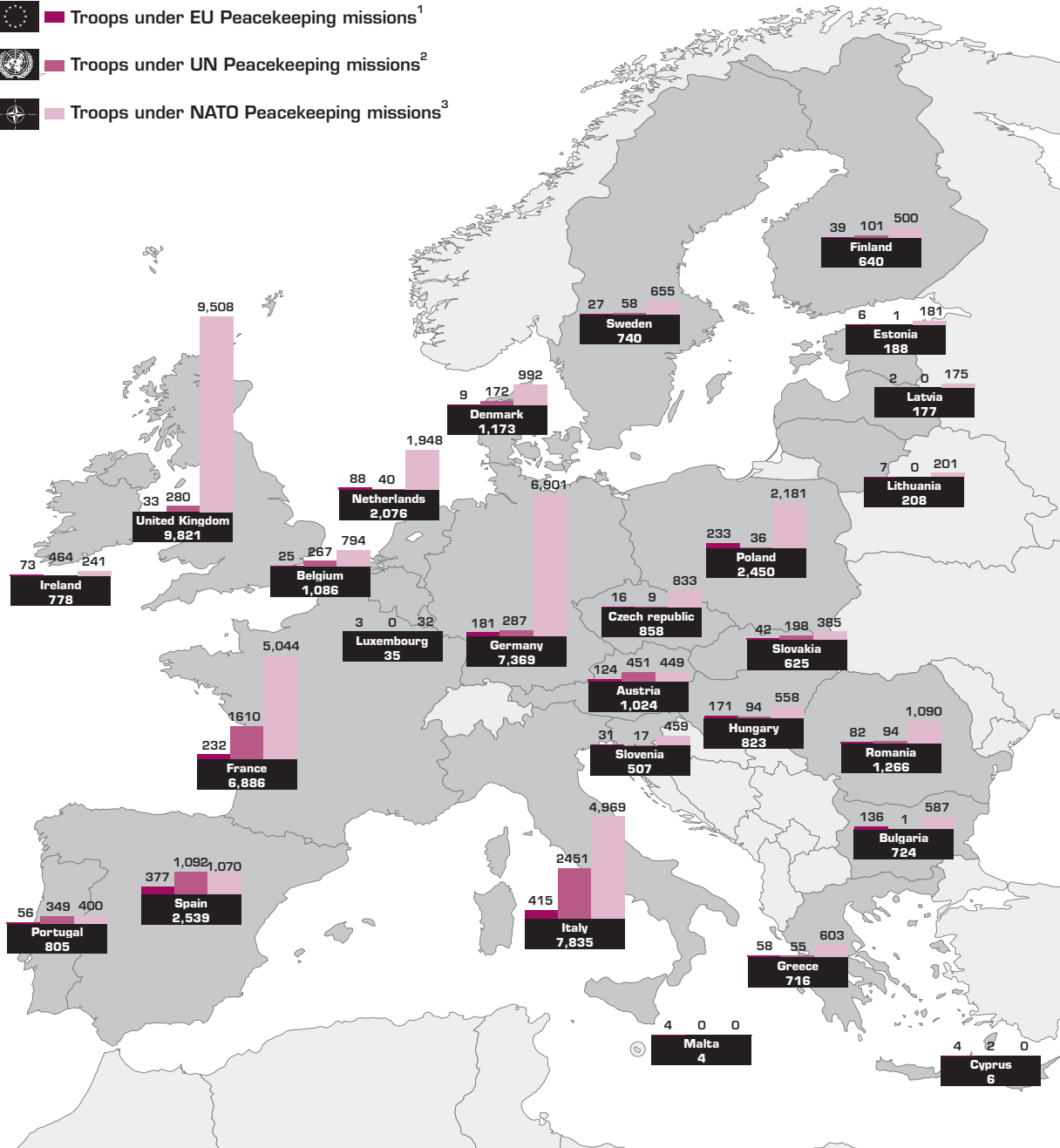




# Peacekeeping missions of the EU Member States

PEACEKEEPING MISSIONS OF THE EU MEMBER STATES 2009

-  Troops under EU Peacekeeping missions<sup>1</sup>
-  Troops under UN Peacekeeping missions<sup>2</sup>
-  Troops under NATO Peacekeeping missions<sup>3</sup>



<sup>1</sup> EU Peacekeeping missions: EUMM (Georgia), EUFOR (TChad/DRC), EUFOR-Althea (Bosnia-Herzegovina), EUPM (Bosnia-Herzegovina). Only troop-contributing countries to peace mission services. Training missions to security or judicial corps are excluded.

<sup>2</sup> UN Peacekeeping missions: MINURCAT (Chad and central Africa Rep.), UNOCI (Côte d'Ivoire), UNMIL (Liberia), MONUC (DRC), MINURSO (Western Sahara), UNMIS (Sudan), ANAMID (Sudan-Darfur), UNIFIL (Lebanon), UNSTO (Middle East), UNDOF (Golan Heights: Syria and Israel), UNMOGIP (India and Pakistan), UNMIN (Nepal), UNMIT (Timor-Leste), UNFICYP (Cyprus), UNOMIG (Georgia), UNMIK (Kosovo), MINUSTAH (Haiti).

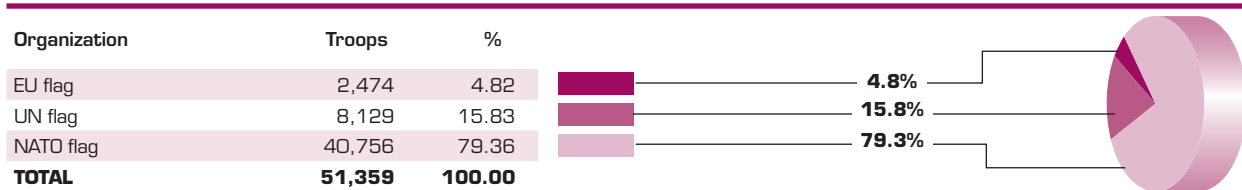
<sup>3</sup> NATO Peacekeeping missions: ISAF (Afghanistan), KFOR (Kosovo).

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Data from: December 2009

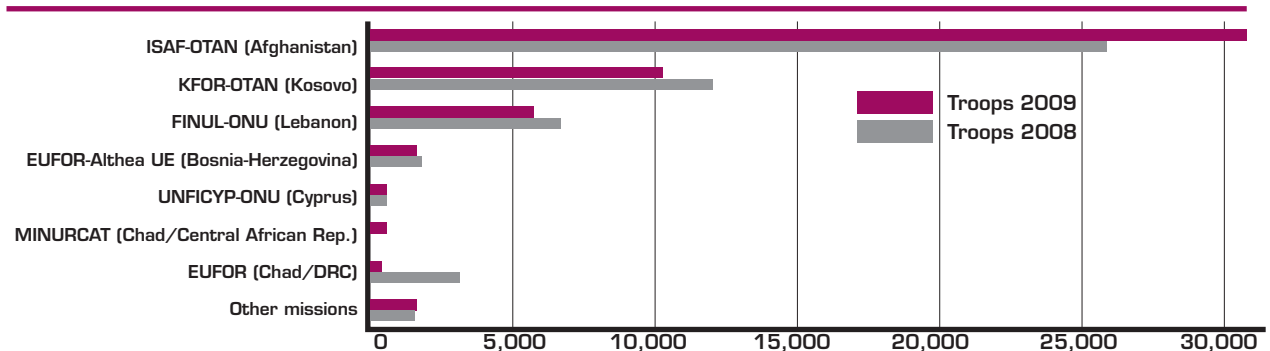
Produced by: CIDOB

	Troops in UN Missions												
	MINURCAT (Chad and Central Africa Rep.)	UNOCI (Côte d'Ivoire)	UNMIL (Liberia)	MONUC (Dem. Rep. of the Congo)	MINURSO (Western Sahara)	UNMIS (Sudan)	UNAMID (Sudan-Darfur)	FINUL (Lebanon)	UNSTO (Israel and Syria)	UNDOF (Golan Heights: Israel and Syria)	UNMOGIP (India and Pakistan)	UNMIN (Nepal)	UNMIT (Timor-Leste)
Austria	3				2				7	384		2	49
Belgium				27		3		235	2				
Bulgaria			1										
Cyprus								2					
Czech Republic			5	3									
Denmark			2	2		12		144	11				
Estonia									1				
Finland	76		2			1	3		15		4		
France	51	21	1	14	17			1,441	2				
Germany			5			36	13	232					
Greece					1	4		50					
Hungary					6			4					
Ireland	418	2		3	3			8	12				
Italy					5		1	2,424	8		8		
Latvia													
Lithuania													
Luxembourg													
Malta													
Netherlands						20	1		12				
Poland	17	5	5	3	1	2				2			
Portugal	5							146					198
Romania		7	2	36		11					7		9
Slovakia									2				
Slovenia								14	2				
Spain				2				1,050					5
Sweden	2		15	10		13			7		6	2	3
United Kingdom				5		3							
<b>TOTAL TROOPS</b>	<b>572</b>	<b>35</b>	<b>38</b>	<b>105</b>	<b>35</b>	<b>105</b>	<b>18</b>	<b>5,750</b>	<b>81</b>	<b>386</b>	<b>18</b>	<b>11</b>	<b>264</b>

II. TOTAL NUMBER OF EU TROOPS IN PACEKEEPING MISSIONS



III. PEACEKEEPING MISSIONS WITH MAJOR NUMBER OF TROOPS OF EU MEMBER STATES

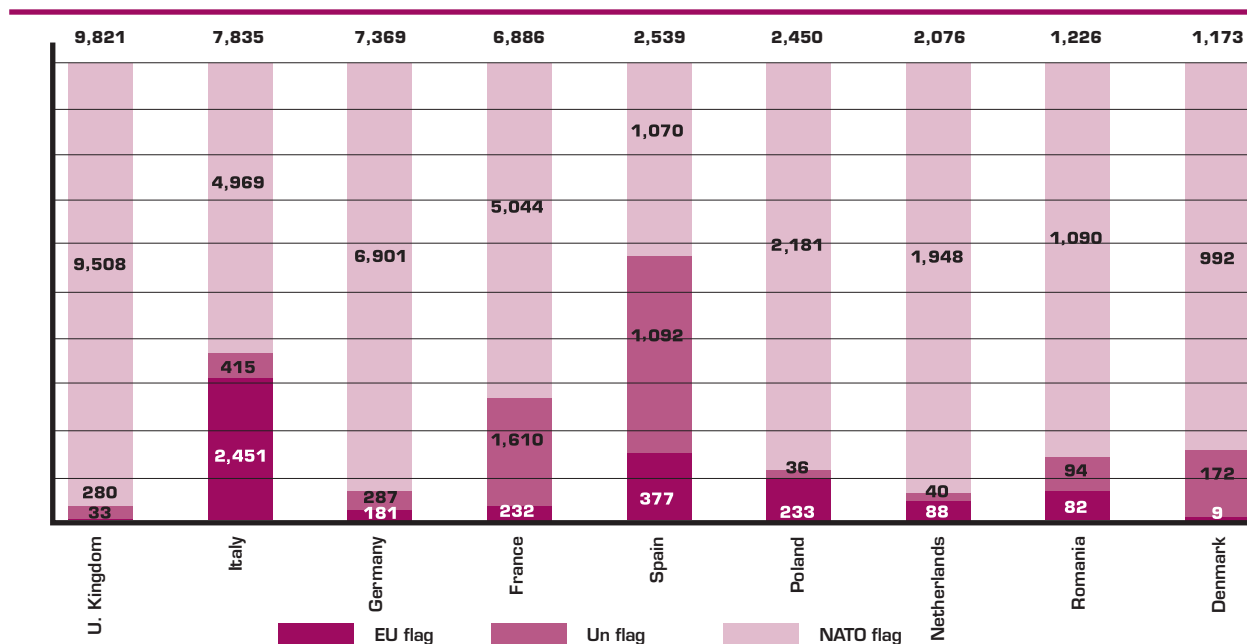


## I. EU MEMBER STATES PARTICIPATION IN PEACEKEEPING MISSIONS 2009

Troops in missions

UNFICYP (Cyprus)	UNOMIG (Georgia)	UNMIK (Kosovo)	MINUSTAH (Haiti)	TOTAL UN	Troops in UE Missions					Troops in NATO Missions		
					EUMM (Georgia)	EUFOR (Chad / RDC)	EUFOR-Althea (Bosnia-Herzegovina)	EUPM (Bosnia-Herzegovina)	TOTAL UE	ISAF (Afghanistan)	KFOR (Kosovo)	TOTAL OTAN
4				451	7	19	96	2	124	2	447	449
				267	2	21	0	2	25	575	219	794
				1	13	0	119	4	136	540	47	587
				2		2	0	2	4	0	0	0
		1		9	12	0	0	4	16	440	393	833
		1		172	9	0	0	0	9	750	242	992
				1	3	0	2	1	6	150	31	181
				101	25	2	4	8	39	95	405	500
			63	1,610	33	186	4	9	232	3,750	1,294	5,044
		1		287	39	0	129	13	181	4,415	2,486	6,901
				55	11	3	44	0	58	15	588	603
84				94	7	1	160	3	171	315	243	558
18				464	3	20	43	7	73	8	233	241
4		1		2,451	21	74	300	20	415	3,150	1,819	4,969
				0	2	0	0	0	2	175	0	175
				0	6	0	1	0	7	165	36	201
				0	2	0	1	0	3	9	23	32
				0	2	0	0	2	4	0	0	0
7				40	8	0	73	7	88	1,940	8	1,948
		1		36	24	18	188	3	233	1,955	226	2,181
				349	4	0	51	1	56	105	295	400
		1	21	94	22	0	56	4	82	945	145	1,090
196				198	4	1	32	5	42	240	145	385
		1		17	2	0	25	4	31	70	389	459
		1	34	1,092	9	58	304	6	377	1,070	0	1,070
				58	24	0	0	3	27	410	245	655
272				280	16	2	9	6	33	9,500	8	9,508
<b>585</b>	<b>0</b>	<b>8</b>	<b>118</b>	<b>8,129</b>	<b>310</b>	<b>407</b>	<b>1,641</b>	<b>116</b>	<b>2,474</b>	<b>30,789</b>	<b>9,967</b>	<b>40,756</b>

## IV. EU MEMBER STATES WITH HIGHEST NUMBER OF TROOPS IN PEACEKEEPING MISSIONS







# The European Union's priorities for the area of migration and asylum

The year 2009 was marked by a context of international economic crisis, which has affected migratory flows into the EU along with the member states' perception of the phenomena. The debates arising from these two areas, led by the Czech and Swedish Presidencies of the EU, revolve around the issue of how to combat irregular immigration, the contents of the new Stockholm Programme, the Lisbon Treaty and managing flows of refugees and petitioners for asylum.

With a situation of rising unemployment figures in the EU member states and increased demand on the social services, reducing irregular immigration was one of the priorities in 2009. Hence, June saw the approval of a Directive of the European Parliament and the Council of Europe prohibiting the contracting of illegally staying third-country nationals, which is to come into force on 20 July 2011.<sup>1</sup> This instrument establishes certain obligations for entrepreneurs, for example requiring of third-country nationals that they present their work or residence permit, and that employers should keep a copy of such documents in case of inspection by the appropriate national authorities. Moreover, infringement of the Directive can be penalised by fines or other sanctions, for example exclusion from entitlement to public benefits or even closure of the establishment concerned. The Directive also stipulates that mechanisms must be established in order to permit third-country nationals to lodge complaints or claims against their employers.

Another notable aspect of the Directive is that it establishes certain actions as criminal offences, including, in this regard, the contracting of a significant number of third-country nationals in an irregular situation, contracting of persons who are victims of human trafficking, contracting of minors, and abusive working conditions. It includes the stipulation that member states must carry out regular inspections with the aim of identifying those immigrants who are working without the requisite permit, especially in sectors where contracting illegally staying third-country nationals is common. Finally, the Directive also recognises that the struggle against the contracting of illegal immigrants cannot be implemented at State level alone and therefore needs to be carried out at the European Community level.

In 2009, another change relevant for controlling irregular immigration was the European Council's conversion of the European Police Office (EUROPOL) into an EU organism with the aim of facilitating cooperation between the police forces of the different member states. Changing the legal framework of EUROPOL was expedited so that it is now more adaptable to present trends in delinquency, which will help to combat organised delinquency on the international scale. Moreover, since it is an EU agency, EUROPOL expenses will be covered

by Community rather than State funds, which will make its financing easier.<sup>2</sup>

However, contradicting European-level policy in irregular immigration, both Belgium and Italy were carrying out amnesty campaigns for illegal immigrants throughout 2009. In the case of Belgium, immigrants had to demonstrate that they were integrated into the community, for which they had to justify residence in the country for at least five years or having worked in it for at least two and a half years. In response to criticism of the amnesty, the government denied having carried out any "mass regularisation".<sup>3</sup> In Italy, the amnesty was aimed at those immigrants employed in domestic service or caring for the aged from at least 1 August 2009.<sup>4</sup> It is therefore clear that there is persisting inconsistency among the member states in their management of illegal immigration. Again, in this context, the EU is still facing the rejection of the Latin American countries of its migrant return programmes and their requests for bigger regularisation campaigns.<sup>5</sup> Accordingly, even if legislation has been approved in this regard, one cannot yet speak of any coherent policy of irregular immigrant management in the EU.

However, one area in which it is proving easier to reach consensus is that of issuing work permits to highly-qualified immigrants. The Directive that regulates the issuance of the now-famous blue card to highly-qualified third-country workers was approved in May and member countries are expected to bring into force the laws, regulations and administrative provisions necessary for them to implement the Directive by 19 June 2011.<sup>6</sup> In order to be eligible, the third-country national must have a contract of a minimum of one year's duration, offering a salary that is at least 1.5 times the average gross salary in the member state concerned. Nevertheless, the Directive permits each member state to determine the number of high-qualified workers that may reside in its territory. Again, the EU member states have not yet come to agreement over standard issuance of work or residence permits for third-country nationals who are not highly qualified. This is due to the fact that, as one subtitle of the Stockholm Programme indicates,<sup>7</sup> the prime aim of the EU in this domain is to satisfy the needs of the national labour markets. Hence it is difficult to define at the Community level the circumstances under which a permit should be issued to a third-country national.

On the other hand, 2009 came to an end with the approval of the Stockholm Programme, which replaces the Hague Programme. The Stockholm Programme points to relevant policies in the spheres of freedom, security and justice and will therefore provide the guidelines for cooperation between EU countries in legal, police and migration matters over the next



five years. The central aim of the Programme is to safeguard the interests and needs of citizens and to take on the challenge of guaranteeing respect for basic freedoms while also assuring the security of Europe. In order to accomplish these goals, the Programme establishes six political priorities, among which are responsibility, solidarity and collaboration in the spheres of migration and asylum.<sup>9</sup> This means that, notwithstanding the present context of economic crisis, the Stockholm Programme has established migration as a priority area, suggesting a number of initiatives with regard to migration and development, labour migration, rights of third-country nationals, integration of immigrants, border management and questions of asylum.

The Stockholm Programme differs from its predecessors – the Tampere Programme and the Hague Programme – in several ways. First, the Stockholm Programme establishes the Global Approach to Migration as a priority, while this was not the case with the earlier Programmes. This focus is concerned with establishing mobility partnerships with the countries of Africa and Eastern Europe and, accordingly, the present Programme promotes the launching of migration profile processes for third countries with the aim of fostering cooperation between the EU and third countries in the design of coherent immigration policies. Furthermore, the problem of unaccompanied minors is introduced as a specific priority, another issue that was absent in the earlier Programmes. Likewise, the present Programme leaves aside the approach of harmonisation of immigration and asylum policies in the EU member countries, which was present in the former Programmes, to focus on practical solutions. In this regard, the Programme is concerned with international relations and the needs of European labour markets, which means that migration policies can no longer be circumscribed to the spheres of freedom, security and justice alone but must also embrace other relevant domains, such as foreign policy, trade, education and social affairs. Finally, the Stockholm Programme reaffirms safe return as the essential policy to be applied in the case of immigrants in an irregular situation, arguing that voluntary return should be encouraged, along with the signing of treaties with the countries of origin and transit. However, for all the positive and innovative aspects of the Stockholm Programme, it mentions only a few time frames so that some of the more thorny debates – which are necessary if tangible results are to come out of it – are yet to be tackled.

As for the relationship between migration and development, the Global Forum on Migration and Development held in 2009 helped to consolidate the focus on this question within the EU, which has opted for three priorities in this regard: facilitating the sending of remittances, working with diasporas and promoting circular migration, the latter of which is turning out to be particularly difficult at the Community level since it is more feasible by means of bilateral treaties.

In 2009 the Treaty of Lisbon came into force, this modifying the extant EU and EC treaties and changing the structure of EU institutions. With respect to immigration, the main change is that legislation pertaining to migration is no longer to be determined by ordinary legal procedure but by co-decision in which the European Parliament shares legislative power on an equal basis with the Council, which is to say that the Parliament

now has the power of veto when it comes to approving migration law. The Treaty has also eliminated the need to reach consensus among all the member states in order to approve legislation so that it is now easier to pass new laws. In addition, the Treaty of Lisbon establishes the legal basis for putting into effect European-level integration policies through which efforts towards integration on the national level can find support. Again, two Commissioners will now be responsible for monitoring EU activities with regard to the spheres of justice, freedom and security: the Commissioner for Justice, Fundamental Rights and Citizenship, and the Commissioner for Internal Affairs. Regardless of these changes, the decision on the number of third-country nationals entering the territory of a member state remains the prerogative of each country.

The implementation of the Stockholm Programme, evaluation of the European Pact on Immigration and Asylum, and the development of the global approach to European Migration Policy will be some of the main challenges to be met in 2010. The path to be followed will depend, on the one hand, on the priorities of the Spanish Presidency – among which are application of the Treaty of Lisbon, reinforcing the role of the EU as an international actor, and managing immigration in its different dimensions, from integration and cooperation with countries of origin and transit through to combating the mafia engaged in human trafficking<sup>9</sup> – and, on the other, the priorities of the Belgian Presidency in the second half of 2010, which also include the Treaty of Lisbon and the Stockholm Programme, especially in the domains of freedom, asylum and immigration.<sup>10</sup>

## ASYLUM POLICY

The Stockholm Programme is much more ambiguous than its predecessors on the question of European asylum policy. Thus, it merely invites the Council and the Parliament to establish procedures of asylum at Community level for 2012. Nevertheless, the Programme does reiterate the goal of establishing within the EU “a common area of protection and solidarity” in matters of asylum and supports the development of new instruments to achieve this goal. Hence a proposal was drawn up in 2009 for the creation of a European Asylum Support Office,<sup>11</sup> the aim of which will be to underpin cooperation among the EU states on asylum issues. Also suggested is the setting up of a system for joint treatment of requests for asylum. Such initiatives would help to reduce disparities between the levels of protection afforded to nationals of any one country in the different EU member states. However, the Programme does not go into the details of how mutual recognition might be achieved among the member states regarding decisions on questions of asylum.

Another problem to be confronted in European asylum policy is the considerable number of requests for asylum and refugees entering the southern states of Europe. The pressure group Quadro, consisting of Italy, Cyprus, Greece and Malta – which Spain has expressed an interest in joining – has asked for support from the other EU member states in managing the flows of irregular immigrants and petitioners of asylum coming into their territory. The main demand of this group is reform of the Dublin II system, which indicates that the state through which the asylum seeker first enters the EU is to

be responsible for processing the request for asylum, which makes the situation of these states even more difficult.<sup>12</sup>

While the long-term objective of the EU is to resolve the problems of illegal border crossing and to improve the management of requests for asylum, present-day efforts are focused on fast solutions and provisional measures. For example, a pilot project has been initiated in Malta whereby the EU member states can offer to accept in their own territory asylum seekers and refugees that have arrived in Malta.<sup>13</sup> Nonetheless, the Stockholm Programme states that the decision to help the Quadro Group countries must be taken by each state, which is to say, such collaboration is entirely voluntary.

### Notes

1. Directive 2009/52/EC providing for minimum standards on sanctions and measures against employers of illegally staying third-country nationals.

2. Decision of the Council of 6 April 2009 for the creation of the European Police Office (EUROPOL).

3. "Belgium to Legalise 25,000 Illegal Immigrants", *Euroactiv*, 20 July 2009.

4. "Italia realizará una regularización selectiva para los inmigrantes ilegales" (Italy to Carry out Selective Regularisation of Illegal Immigrants), *Ciudadanía Informada*, 23 July 2009.

5. "Latinoamérica pide a la UE que impulse procesos de regularización de inmigrantes" (Latin America Asks the EU to Promote Regularisation Processes for Immigrants), *El País*, 26 September 2009.

6. Council Directive 2009/50/EC of 25 May 2009 on the conditions of entry and residence of third-country nationals for the purposes of highly qualified employment.

7. "A concerted policy in keeping with national labour market requirements".

8. "The Stockholm Programme: An Open and Secure Europe Serving and Protecting Citizens", Council of Europe 5731/10.

9. Presidencia Española EU, <http://www.eu2010.es/es/presidencia/programapol/> [in English, <http://www.eu2010.es/en/presidencia/programapol/index.html>]

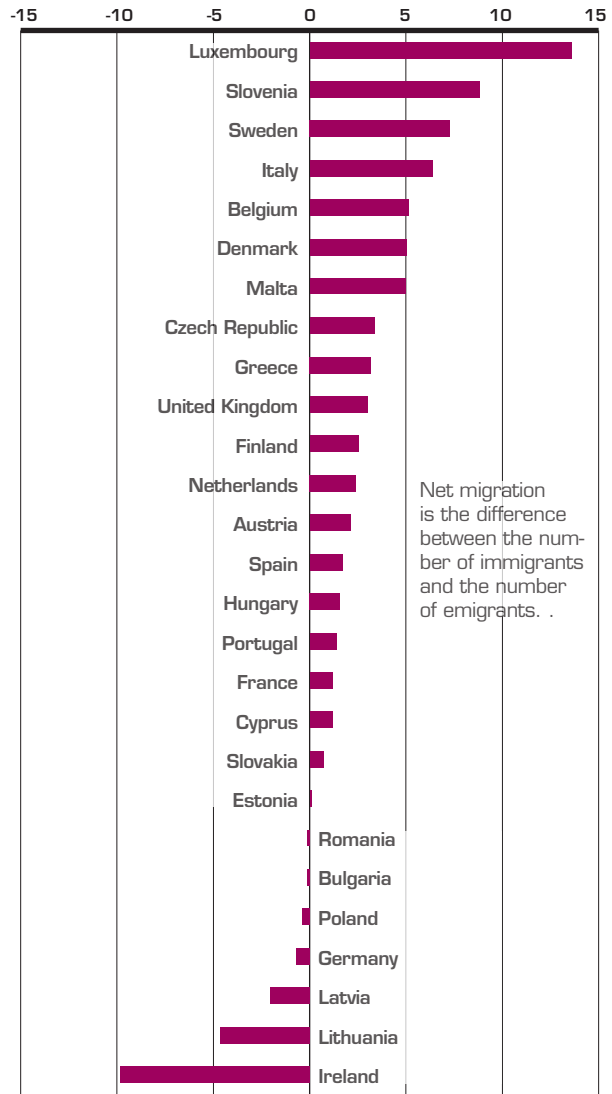
10. Key Priority Areas of the EU Belgian Presidency", European Foundation Centre, 23 February 2010.

11. COM (2009) 66 final 18 February 2009, "Proposal for a Regulation of the European Parliament and of the Council establishing a European Asylum Support Office".

12. "Quadro Group Report Stresses Solidarity and Burden Sharing", *Times of Malta*, 13 January 2009.

13. "The European Union's Stockholm Program: Less Ambition on Immigration and Asylum, but More Detailed Plans", Migration Information Source, 12 January 2010.

## I. NET MIGRATION RATE IN THE EU MEMBER STATES 2009 %



Source: Eurostat

Produced by: CIDOB

## II. ASYLUM APPLICATIONS IN THE EU BY MAIN COUNTRIES OF ORIGIN 2009

Country	Total asylum applications	%
Afghanistan	17,438	15.3
Somalia	17,307	15.2
Russian Federation	17,124	15.0
Iraq	16,416	14.4
Serbia <sup>1</sup>	16,293	14.3
Pakistan	7,725	6.8
Iran	6,584	5.8
Sri Lanka	5,944	5.2
China	4,790	4.2
Eritrea	4,233	3.7
<b>TOTAL EU-27</b>	<b>113,854</b>	<b>100.0</b>

<sup>1</sup>. Kosovar citizens included  
Source: UNHCR

Produced by: CIDOB

## III. ASYLUM APPLICANTS IN THE EU 2009

Country	Total of asylum applications submitted		Citizenships of the main groups of asylum applicants												Total positive decisions <sup>2</sup> over applications <sup>1</sup> %	
	Firts group	Second group	Third group	Country	Applications	%	Country	Applications	%	Country	Applications	%	Country	Applications		%
Austria	15,785	3,565	23	Russian Federation	3,565	23	Afghanistan	2,215	14	Kosovo	1,305	8	Kosovo	1,305	8	
Belgium	21,645	2,875	13	Russian Federation	2,875	13	Kosovo	2,515	12	Afghanistan	2,055	9	Afghanistan	2,055	9	
Bulgaria	855	305	36	Iraq	305	36	Stateless	125	15	Afghanistan	60	7	Afghanistan	60	7	
Cyprus	2,665	300	11	India	300	11	Sri Lanka	235	9	Occ. Palestinian territories	230	9	Afghanistan	230	9	
Czech Republic	1,240	200	16	Ukraine	200	16	Kazakhstan	185	15	Mongolia	160	13	Mongolia	160	13	
Denmark	3,725	1,045	28	Afghanistan	1,045	28	Syria	380	10	Russian Federation	335	9	Russian Federation	335	9	
Estonia	40	10	25	Afghanistan	10	25	Georgia	5	13	Russian Federation	5	13	Russian Federation	5	13	
Finland	4,915	1,150	23	Somalia	1,150	23	Iraq	1,130	23	Russian Federation	585	12	Russian Federation	585	12	
France	47,625	4,580	10	Kosovo	4,580	10	Sri Lanka	3,900	8	Russian Federation	3,785	8	Russian Federation	3,785	8	
Germany	31,810	7,065	22	Iraq	7,065	22	Afghanistan	3,455	11	Kosovo	1,790	6	Kosovo	1,790	6	
Greece	15,925	3,715	23	Pakistan	3,715	23	Georgia	2,170	14	Bangladesh	1,810	11	Bangladesh	1,810	11	
Hungary	4,665	1,785	38	Kosovo	1,785	38	Afghanistan	1,195	26	Serbia	535	11	Serbia	535	11	
Ireland	2,690	570	21	Nigeria	570	21	Pakistan	260	10	China	195	7	China	195	7	
Italy	17,470	3,975	23	Nigeria	3,975	23	Somalia	1,600	9	Pakistan	1,355	8	Pakistan	1,355	8	
Latvia	60	20	33	Afghanistan	20	33	Uzbekistan	10	17	Syria	5	8	Syria	5	8	
Lithuania	450	245	54	Russian Federation	245	54	Georgia	75	17	Sri Lanka	20	4	Sri Lanka	20	4	
Luxembourg	480	130	27	Kosovo	130	27	Iraq	65	14	Bosnia-Herzegovina	35	7	Bosnia-Herzegovina	35	7	
Malta	2,385	1,445	61	Somalia	1,445	61	Nigeria	280	12	Eritrea	270	11	Eritrea	270	11	
Netherlands	16,140	6,025	37	Somalia	6,025	37	Iraq	2,165	13	Afghanistan	1,400	9	Afghanistan	1,400	9	
Poland	10,595	5,725	54	Russian Federation	5,725	54	Georgia	4,180	39	Armenia	150	1	Armenia	150	1	
Portugal	140	20	14	Eritrea	20	14	Guinea	20	14	Mauntania	15	11	Mauntania	15	11	
Romania	965	145	15	Moldova	145	15	Pakistan	110	11	Afghanistan	90	9	Afghanistan	90	9	
Slovakia	810	170	21	Pakistan	170	21	Georgia	100	12	Moldova	75	9	Moldova	75	9	
Slovenia	200	40	20	Bosnia-Herzegovina	40	20	Kosovo	30	15	Serbia	20	10	Serbia	20	10	
Spain	3,005	460	15	Nigeria	460	15	Côte d'Ivoire	305	10	Colombia	255	8	Colombia	255	8	
Sweden	24,175	5,915	24	Somalia	5,915	24	Iraq	2,310	10	Afghanistan	1,695	7	Afghanistan	1,695	7	
United Kingdom	30,290	7,505	25	Zimbabwe	7,505	25	Afghanistan	3,590	12	Iran	2,175	7	Iran	2,175	7	
<b>TOTAL EU-27</b>	<b>222,930</b>														<b>169,325</b>	<b>24.6</b>

<sup>1</sup>. Firts instance applications.

<sup>2</sup>. Percentage of accepted applications over: firts instance decisions.

Source: ACNUR and Eurostat

Produced by: CIDOB

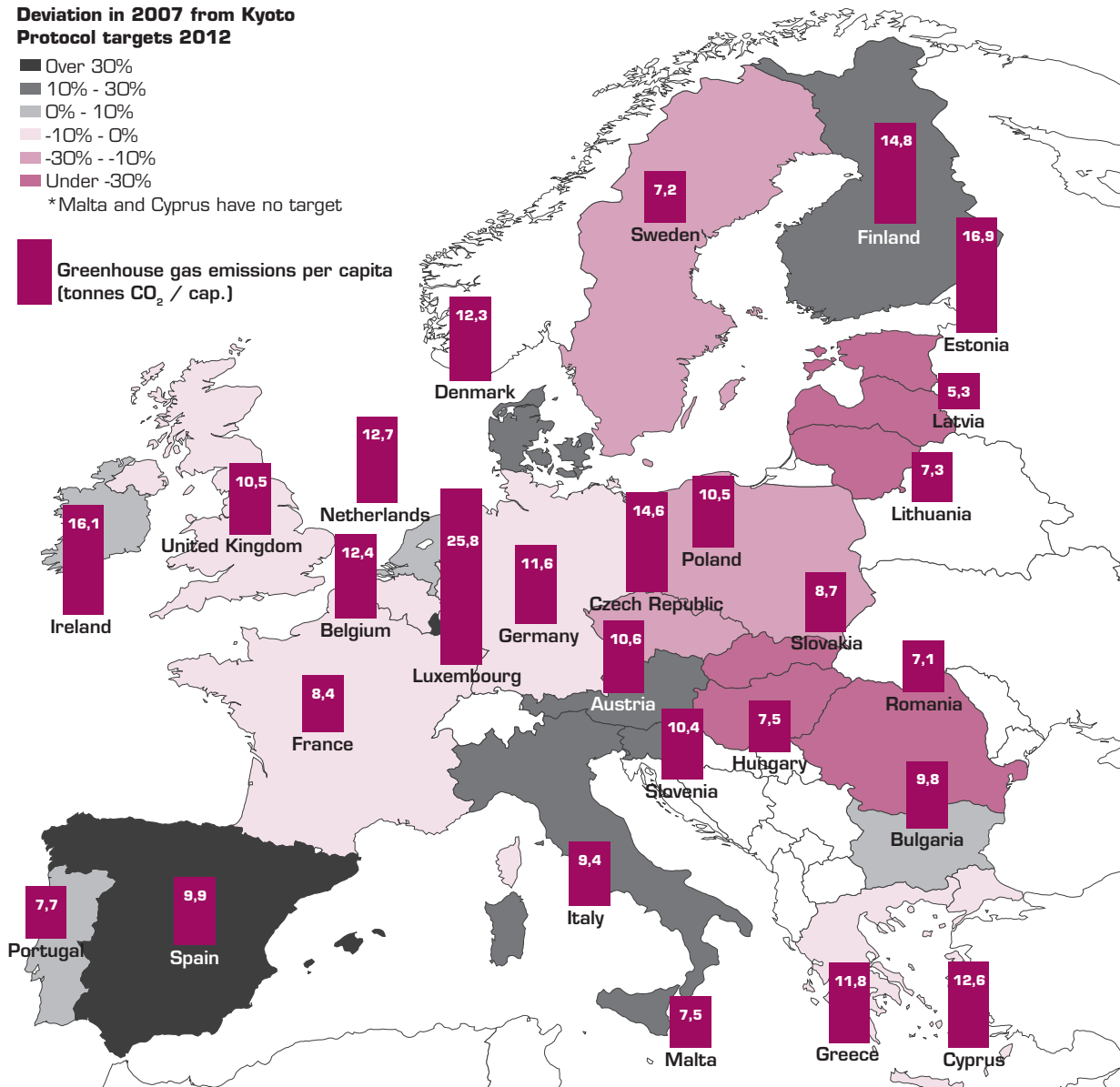
# The Kyoto Protocol in the EU in 2007

## Deviation in 2007 from Kyoto Protocol targets 2012

- Over 30%
- 10% - 30%
- 0% - 10%
- 10% - 0%
- 30% - -10%
- Under -30%

\* Malta and Cyprus have no target

Greenhouse gas emissions per capita (tonnes CO<sub>2</sub> / cap.)



**Deviation from Kyoto Protocol commitments.** In 2007, the Greenhouse gas emissions in the EU-27 kept under Kyoto Protocol commitment, with a deviation of -4,4% improving the figures of two previous years, 2006 and 2005, (-2,5 % and -1,9 % respectively). Regarding the EU-15, promoter of the agreement in 1997 and responsible of 80 % of the emission of the EU, the results show that this group of countries continues 3,3% over the target (5,8% in 2006). Therefore it keeps the dynamics according to which the good results of the new 12 Member States that join the EU between 2004 and 2007 allow the whole EU to keep inside the target fixed by the Protocol.

Taking a look at the European map in 2007, for the first time Germany and Belgium fulfil with Kyoto, while the other countries keep their gas emissions in their habitual margins, emphasizing again the negatives results of the "energetic islands" (Ireland, Portugal and Spain) that keep emissions clearly over the 2012 targets. The other 11 over-emission countries present very unequal results, they are located in grand part in the periphery of the EU. Of the most recent EU Member States, only Slovenia and Bulgaria keep with a deviation around 10% of their emissions. In this context, the Copenhagen summit held in December 2009 only approved a non binding agreement, and also did not manage to make concrete target of commitments on CO<sub>2</sub> reduction beyond the figures established in Tokyo for 2012.

Sources: European Environment Agency (2007). "Annual European Community greenhouse gas inventory 1990-2007 and inventory report 2009". *Technical report* N° 4/2009.

Produced by: CIDOB

## I. GREENHOUSE GAS EMISSIONS IN EU MEMBER STATES 2007

Country	Greenhouse gas emissions in CO <sub>2</sub> (million tonnes)	Kyoto Protocol Target 2012 <sup>1</sup>	Deviation from Kyoto target %	Emissions by GDP (tonnes CO <sub>2</sub> Thousand €) <sup>2</sup>	Emissions per capita. (tonnes/Cap.) <sup>3</sup>	EU assigned emissions under Kyoto Protocol 2012 %	GDP of EU <sup>4</sup> %	Population of EU <sup>4</sup> %
Austria	88.0	68.68	28.1	341.1	10.6	1.3	2.2	1.7
Belgium	131.3	135.87	-3.4	414.2	12.4	2.6	2.7	2.1
Bulgaria	75.5	68.90	9.6	3.020.0	9.8	1.3	0.2	1.6
Cyprus	10.1	No target	No target	673.3	12.6	No target	0.1	0.2
Czech Rep.	150.8	180.58	-16.5	1.322.8	14.6	3.4	1.0	2.1
Denmark	66.6	54.77	21.6	302.7	12.3	1.0	1.9	1.1
Estonia	22.0	39.23	-43.9	1.692.3	16.9	0.7	0.1	0.3
Finland	78.3	71.10	10.1	468.9	14.8	1.3	1.4	1.1
France	531.1	567.09	-6.3	296.4	8.4	10.8	15.5	12.8
Germany	956.1	971.67	-1.6	411.8	11.6	18.4	20.0	16.6
Greece	131.9	138.82	-5.0	616.4	11.8	2.6	1.8	2.3
Hungary	75.9	114.89	-33.9	843.3	7.5	2.2	0.8	2.0
Ireland	69.2	63.03	9.8	395.4	16.1	1.2	1.5	0.9
Italy	552.8	485.83	13.8	374.8	9.4	9.2	12.7	11.9
Latvia	12.1	23.82	-49.2	756.3	5.3	0.5	0.1	0.5
Lithuania	24.7	46.86	-47.3	1.029.2	7.3	0.9	0.2	0.7
Luxembourg	12.9	9.14	41.1	379.4	25.8	0.2	0.3	0.1
Malta	3.0	No target	No target	600.0	7.5	No target	0.0	0.1
Netherlands	207.5	201.45	3.0	388.6	12.7	3.8	4.6	3.3
Poland	398.9	531.34	-24.9	1.466.5	10.5	10.1	2.3	7.7
Portugal	81.8	76.15	7.4	527.7	7.7	1.4	1.3	2.1
Romania	152.3	259.90	-41.4	1.570.1	7.1	4.9	0.8	4.4
Slovakia	47.0	67.36	-30.2	1.044.4	8.7	1.3	0.4	1.1
Slovenia	20.7	18.60	11.3	690.0	10.4	0.4	0.3	0.4
Spain	442.3	332.79	32.9	450.9	9.9	6.3	8.5	9.0
Sweden	65.4	75.35	-13.2	213.7	7.2	1.4	2.6	1.8
U. Kingdom	636.7	671.90	-5.2	333.4	10.5	12.7	16.5	12.3
<b>EU-15</b>	<b>4,052.0</b>	<b>3,923.64</b>	<b>3.3</b>	<b>373.1</b>	<b>10.3</b>	<b>74.4</b>	<b>93.8</b>	<b>79.1</b>
<b>EU-27</b>	<b>5,045.1</b>	<b>5,275.12</b>	<b>-4.4</b>	<b>435.6</b>	<b>10.2</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> The base year for EU-15 carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O) is 1990. For fluorinated gases the twelve 1995 EU Member States agreed 1995 as base year, except Austria, France and Italy that chose 1990. EU-15 emissions include those coming from deforestation only in the case of Netherlands, Portugal and United Kingdom. Even there is no target for EU-27, it includes the total figure.

<sup>2</sup> Emission in tonnes CO<sub>2</sub> equivalents for 1,000 Euros of GDP (base year 2007).

<sup>3</sup> Emission per capita in tonnes CO<sub>2</sub> equivalents.

<sup>4</sup> Aiming to connect environmental with socioeconomic indicators, GDP and population percentage of each EU member state of total EU in 2007 are presented.

Sources: European Environment Agency (2007). "Annual European Community greenhouse gas inventory 1990-2007 and inventory report 2009". Technical report N° 4/2009.

Eurostat 2007 (data on EU GDP and population)

Produced by: CIDOB

# Energy dependency and energy *mix* of the EU Member States in 2007

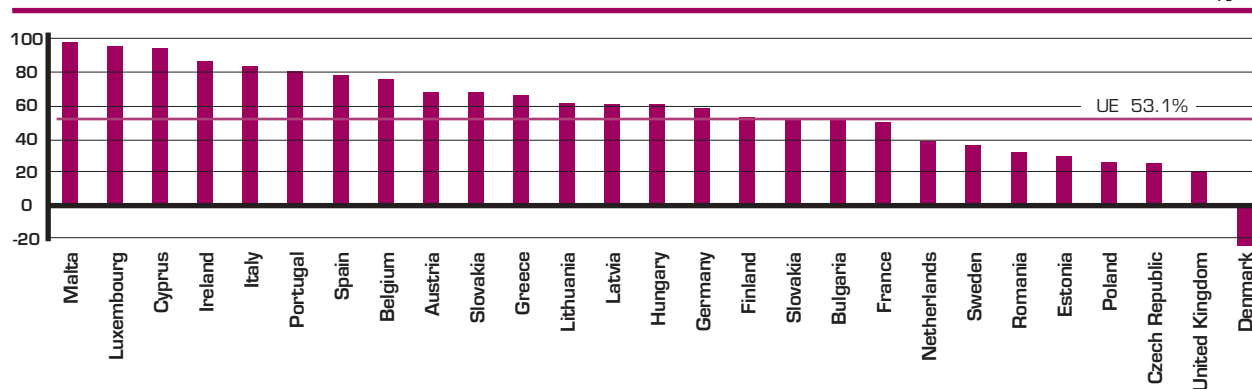
**Ia. ENERGY DEPENDENCY AND ENERGY MIX OF THE EU MEMBER STATES UE 2007**

	Net energy imports <sup>1</sup> %	% Imports of Crude Oil by origin			% Imports of Natural Gas by origin		
		Russian Fed.	Norway	OPEC	Russian Fed.	Norway	Algeria
Austria	69.1	3.0	-	58.2	57.0	14.9	-
Belgium	77.2	42.31	9.1	29.2	4.5	33.2	2.2
Bulgaria	51.9	64.2	-	-	100.0	-	-
Cyprus <sup>2</sup>	95.9	-	-	-	-	-	-
Czech Republic	25.1	63.8	-	3.5	79.1	20.9	-
Denmark	-25.4	-	95.7	-	-	-	-
Estonia	29.7	-	-	-	100.0	-	-
Finland	53.8	73.7	3.8	-	100.0	-	-
France	50.4	13.0	15.3	35.3	13.5	31.3	17.7
Germany	58.9	31.7	15.6	19.3	43.2	31.3	-
Greece	67.3	28.2	-	55.8	76.6	-	23.4
Hungary	61.4	94.7	-	-	74.1	-	-
Ireland <sup>3</sup>	88.3	-	57.3	4.8	-	-	-
Italy	85.3	17.2	3.0	56.5	7.5	30.7	33.2
Latvia	61.5	-	-	-	100.0	-	-
Lithuania	62.3	79.1	-	-	100.0	-	-
Luxembourg <sup>4</sup>	97.5	-	-	-	-	-	-
Malta <sup>2</sup>	100.0	-	-	-	-	-	-
Netherlands	38.6	27.4	7.3	35.7	-	-	-
Poland	25.5	89.8	2.3	-	67.6	-	-
Portugal	82.0	-	4.0	53.8	-	-	34.0
Romania	32.0	55.2	-	12.7	91.3	-	-
Slovakia	69.0	99.4	-	-	99.2	-	-
Slovenia	52.5	-	-	-	51.1	-	32.2
Spain	79.5	21.6	2.9	43.2	12.1	6.0	37.2
Sweden <sup>2</sup>	36.1	32.4	26.1	8.1	-	-	-
United Kingdom	20.1	10.6	56.9	9.9	-	66.8	2.0
EUROPEAN UNION	53.1	28.8	13.1	30.3	30.7	20.1	12.8

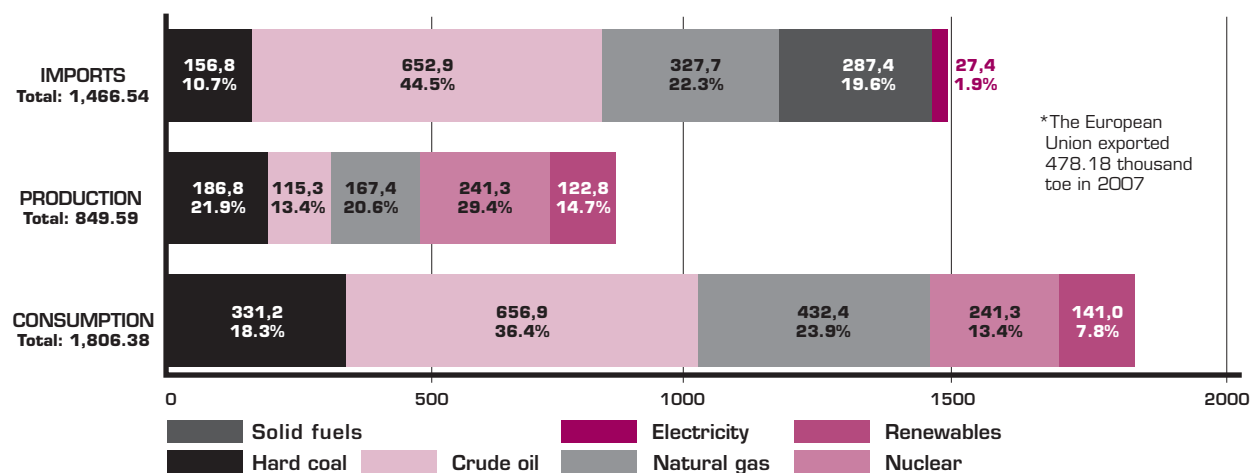
1. Net energy imports/Gross consumption (%)  
2. Malta, Cyprus and Sweden have poor natural gas consumption.  
3. Ireland imports natural gas from United Kingdom (100%).  
4. Luxembourg imports natural gas from Belgium and Germany.

Source: Eurostat (2009) "Energy Yearly Statistics 2007" Produced by: CIDOB

**Ib. ENERGY DEPENDENCY OF THE EU MEMBER STATES UE 2007** %



## II. ENERGY CONSUMPTION, PRODUCTION AND IMPORTS OF THE UE\* 2007 (thousand toe)



## III. ENERGY GROSS INLAND CONSUMPTION BY PRODUCT IN EU MEMBER STATES 2007

	Energy intensity (kgoe/1000 EUR) <sup>1</sup>	Gross inland consumption / (kgoe/cap) <sup>2</sup>	Solid fuels		Crude Oil		Natural Gas		Nuclear		Renewables		2020 renewable target <sup>3</sup> (%)
			thousand toe	%	thousand toe	%	thousand toe	%	thousand toe	%	thousand toe	%	
Austria	145.0	4.1	3.9	11.4	13.9	41.1	7.0	20.6	-	0.0	8.0	23.8	34
Belgium	218.5	5.4	4.6	8.0	22.6	39.4	14.9	26.0	12.4	21.7	1.8	3.1	13
Bulgaria	1,554.0	2.6	7.8	38.6	5.1	24.9	3.0	14.8	3.8	18.6	1.0	4.7	16
Cyprus	250.8	3.5	0.0	1.2	2.6	96.0	-	0.0	-	0.0	0.1	2.4	13
Czech Republic	794.8	4.5	21.4	46.2	10.0	21.7	7.2	15.5	6.8	14.6	2.2	4.7	13
Denmark	118.1	3.8	4.7	22.7	8.3	40.6	4.1	19.8	-	0.0	3.6	17.3	30
Estonia	848.3	4.5	3.7	61.2	1.2	19.1	0.8	13.2	-	0.0	0.6	9.9	25
Finland	252.5	7.1	7.2	19.2	11.0	29.3	3.7	9.9	6.0	16.1	8.5	22.6	38
France	179.1	4.3	13.4	5.0	90.9	33.6	38.5	14.2	113.4	42.0	19.0	7.0	23
Germany	154.7	4.1	87.0	25.6	112.7	33.2	76.6	22.6	36.3	10.7	28.1	8.3	18
Greece	204.7	3.0	10.8	32.4	17.2	51.5	3.4	10.0	-	0.0	1.7	5.0	18
Hungary	521.0	2.7	3.1	11.6	7.6	28.2	10.7	39.6	3.8	14.0	1.4	5.3	13
Ireland	139.2	3.7	2.3	14.4	8.7	54.9	4.3	27.0	-	0.0	0.5	2.9	16
Italy	185.0	3.1	16.8	9.2	80.3	43.8	69.5	37.9	-	0.0	12.7	6.9	17
Latvia	563.2	2.1	0.1	2.2	1.6	34.0	1.4	28.5	-	0.0	1.4	29.7	42
Lithuania	861.9	2.7	0.3	2.9	2.8	30.2	2.9	31.6	2.5	27.7	0.8	8.9	23
Luxembourg	173.8	9.8	0.1	1.7	2.9	62.6	1.2	25.8	-	0.0	0.1	2.5	11
Malta	239.8	2.3	-	0.0	0.9	100.0	-	0.0	-	0.0	-	0.0	10
Netherlands	188.4	5.2	8.4	9.9	37.2	44.0	33.4	39.5	1.1	1.3	3.0	3.6	14
Poland	574.0	2.6	55.5	56.7	25.1	25.6	12.4	12.6	-	0.0	5.0	5.1	15
Portugal	225.1	2.5	2.9	11.1	14.0	54.1	3.8	14.7	-	0.0	4.6	17.6	31
Romania	1,128.0	1.9	10.2	25.4	10.2	25.6	13.0	32.4	2.0	5.0	4.8	11.9	24
Slovakia	772.2	3.4	4.0	22.2	3.9	21.3	5.1	28.2	4.0	21.9	1.0	5.5	14
Slovenia	299.1	3.7	1.6	21.9	2.6	35.2	0.9	12.4	1.5	20.0	0.7	10.0	25
Spain	211.3	3.3	20.2	13.7	70.8	48.2	31.9	21.7	14.2	9.7	10.3	7.0	20
Sweden	188.3	5.5	2.7	5.3	13.9	27.6	0.9	1.8	17.3	34.2	15.6	30.9	49
United Kingdom	193.3	3.6	3.9	1.8	7.9	3.6	82.0	37.1	16.3	7.4	4.6	2.1	15
EUROPEAN UNION	202.4	3.6	331.2	18.3	656.9	36.4	432.4	23.9	241.3	13.4	141.0	7.8	20

<sup>1</sup> Data from 2006. Energy intensity is a measure of the energy efficiency of a nation's economy. It is calculated as units of energy per unit of GDP. In this case is calculated in tons of oil equivalent per every 1.000 Euros of GDP (year base 2000)

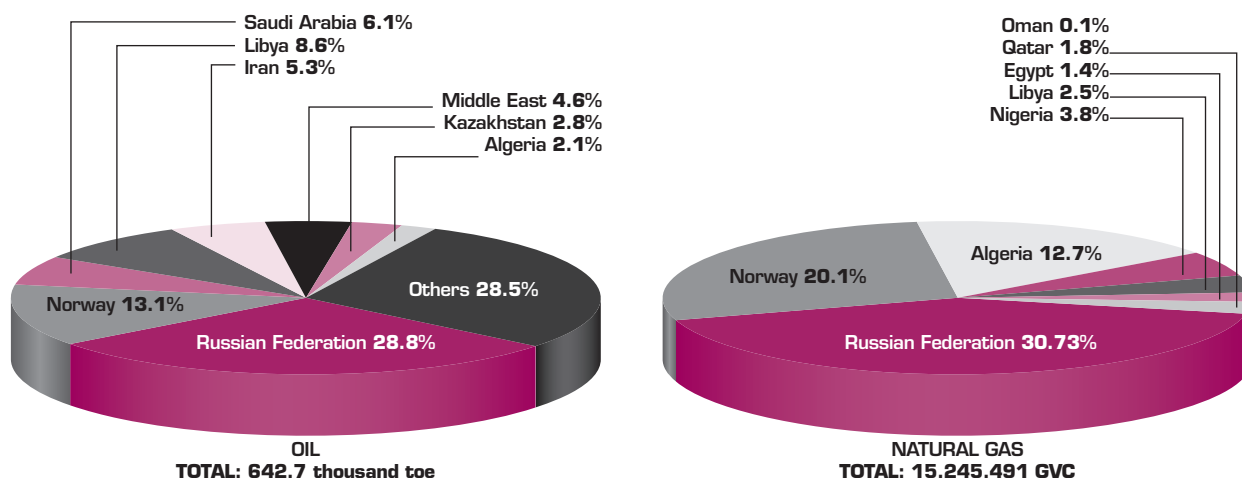
<sup>2</sup> Energy consumption per inhabitant.

<sup>3</sup> Targets of quota of renewable energy in the total consumption for 2020 according to the proposal of the Commission.

Source: Eurostat (2009) "Energy Yearly Statistics 2007"



## IV. EU IMPORTS OF CRUDE OIL AND NATURAL GAS BY ORIGIN 2007



## V. ENERGY PRIMARY PRODUCTION BY PRODUCT IN EU MEMBER STATES 2007

	Hard coal		Crude Oil		Natural Gas		Nuclear		Renewables	
	thousand toe	%	thousand toe	%	thousand toe	%	thousand toe	%	thousand toe	%
Austria	-	0.0	1.00	9.6	1.59	15.2	-	0.0	7.53	72.1
Belgium	-	0.0	-	0.0	-	0.0	12.44	90.7	1.22	8.9
Bulgaria	4.77	48.7	0.03	0.3	0.24	2.4	3.78	38.5	0.96	9.8
Cyprus	-	0.0	-	0.0	-	0.0	-	0.0	0.01	18.5
Czech Republic	23.80	71.4	0.25	0.7	0.14	0.4	6.75	20.2	2.39	7.2
Denmark	-	0.0	15.53	57.5	8.27	30.6	-	0.0	2.55	9.5
Estonia	3.65	81.8	-	0.0	-	0.0	-	0.0	0.74	16.5
Finland	1.09	6.9	-	0.0	-	0.0	6.04	38.4	8.57	54.5
France	-	0.0	1.03	0.8	0.92	0.7	113.43	84.6	18.13	13.5
Germany	54.59	40.4	3.43	2.5	12.87	9.5	36.25	26.8	23.92	17.7
Greece	10.39	85.4	0.08	0.7	0.02	0.2	-	0.0	1.35	11.1
Hungary	1.77	17.4	1.21	11.9	2.01	19.7	3.79	37.2	1.31	12.8
Ireland	0.59	42.0	-	0.0	0.37	26.2	-	0.0	0.28	19.5
Italy	0.10	0.4	5.95	23.0	7.95	30.7	-	0.0	6.50	25.1
Latvia	0.00	0.2	-	0.0	-	0.0	-	0.0	1.79	99.6
Lithuania	0.02	0.4	0.16	0.0	-	0.0	2.54	72.0	0.80	22.8
Luxembourg	-	0.0	-	0.0	-	0.0	-	0.0	0.07	90.2
Malta	-	0.0	-	0.0	-	0.0	-	0.0	-	0.0
Netherlands	-	0.0	2.65	0.0	54.76	89.8	1.08	1.8	2.18	3.6
Poland	61.99	86.5	0.73	1.0	3.90	5.4	-	0.0	4.04	5.6
Portugal	-	0.0	-	0.0	-	0.0	-	0.0	4.04	87.7
Romania	6.86	24.8	4.82	17.5	9.23	33.4	1.99	7.2	4.70	17.0
Slovakia	0.55	9.8	0.02	0.4	0.11	1.9	3.96	70.3	0.97	17.3
Slovenia	1.24	36.0	-	0.0	-	0.0	-	0.0	0.74	21.4
Spain	5.46	18.1	0.14	0.5	0.08	0.3	14.21	47.1	7.78	25.8
Sweden	0.15	0.5	-	0.0	-	0.0	17.28	52.2	15.51	46.9
United Kingdom	9.76	5.6	78.27	45.1	64.91	37.4	16.26	9.4	3.87	2.2
EUROPEAN UNION	186.78	22.0	115.30	13.6	167.36	19.7	241.26	28.4	122.83	14.5

Source: Eurostat (2009) "Energy Yearly Statistics 2007"

Produced by: CIDOB

## VI. ENERGY IMPORTS BY PRODUCT IN EU MEMBER STATES\* 2007

	Crude Oil		Natural Gas	
	thousand toe	%	Mtep	%
Austria	12.86	38.0	5.65	16.7
Belgium	31.03	54.1	14.90	26.0
Bulgaria	5.16	25.4	2.75	13.5
Cyprus	2.85	104.5	-	0.0
Czech Republic	9.66	20.9	6.71	14.5
Denmark	-6.39	-31.2	-4.05	-19.7
Estonia	1.39	22.9	0.80	13.2
Finland	11.22	29.8	3.72	9.9
France	92.60	34.3	37.13	13.7
Germany	109.18	32.2	61.75	18.2
Greece	20.63	61.6	3.34	10.0
Hungary	6.29	23.3	8.56	31.7
Ireland	8.57	54.0	3.92	24.7
Italy	77.58	42.3	60.51	33.0
Latvia	1.77	37.0	1.32	27.6
Lithuania	2.69	29.4	2.98	32.5
Luxembourg	2.88	61.8	1.20	25.8
Malta	1.79	188.8	-	0.0
Netherlands	49.40	58.4	-21.46	-25.4
Poland	25.87	26.4	8.25	8.4
Portugal	14.54	56.0	3.76	14.5
Romania	5.52	13.8	3.87	9.6
Slovakia	3.52	19.5	4.98	27.6
Slovenia	2.61	35.5	0.91	12.4
Spain	78.89	53.7	31.50	21.5
Sweden	15.46	30.6	0.91	1.8
United Kingdom	0.75	0.3	16.63	7.5
EUROPEAN UNION	588.29	32.6	260.54	14.4

\* (-) In cases of country exports.  
Sources: European Commission (2008). "Proposal for a Directive of the European Parliament and of the Council on the promotion of the use of energy from renewable sources". COM(2008) 19 final  
Eurostat(2007) "EU Energy figures. Pocket Book 2007"  
Eurostat(2007) "Energy Yearly Statics 2005" Produced by: CIDOB

# EU budgetary flows in 2008

In 2008, expenditure from the EU budget totalled 116,545 million euros, of which 104,962 million corresponded to spending allocated among the member states. This means that 90.1% of expenditure had a final destiny which could be assigned to any of the EU countries. Of the remaining amount, which is to say 9.9% of the total outlay, part was used for programmes with countries outside the EU as their final destiny, this amounting to 5,604 million euros and representing 4.81% of total expenditure, leaving a further 5,979 million euros which, by their nature, cannot be attributed to any country in particular.

In the distribution by sector of expenditure as divided up between the member states the allocations consolidated the priorities established within the pluriannual financial framework for the period 2007-2013, notable here being two large areas of outlay. The first was, once again, the set of costs pertaining to the conservation and management of natural resources (49.6%), over two thirds of which went to different forms of support for common agricultural policy, while one quarter went into rural development funds. The second large area of expenditure was the block of costs associated with promoting sustainable development (41.7%), which includes spending covering the goals of convergence and cohesion funds, the total quantity of which makes up the main part under this heading since it represents more than three quarters of the total. Then, there is one fifth reserved for regional funds aimed at improving competitiveness and employment.

## 1. DISTRIBUTION OF EU COSTS AMONG THE MEMBER STATES

From a first perspective based on absolute figures, the division of spending by country for the year 2008 shows France topping the list with 13.1%, followed by Spain (11.5%), Germany (10.7%), Italy (9.8%) and Greece (8.1%). A little over half the outlay is concentrated among these five countries and, if we add the next five countries (Poland, United Kingdom, Belgium, Portugal and Romania), the figure for the expenditure approaches 80%. This group of countries more or less coincides with the most populated and some are also the biggest in the EU, confirming thus a trend to a concentration of disbursement according to a variable that combines territory and population.

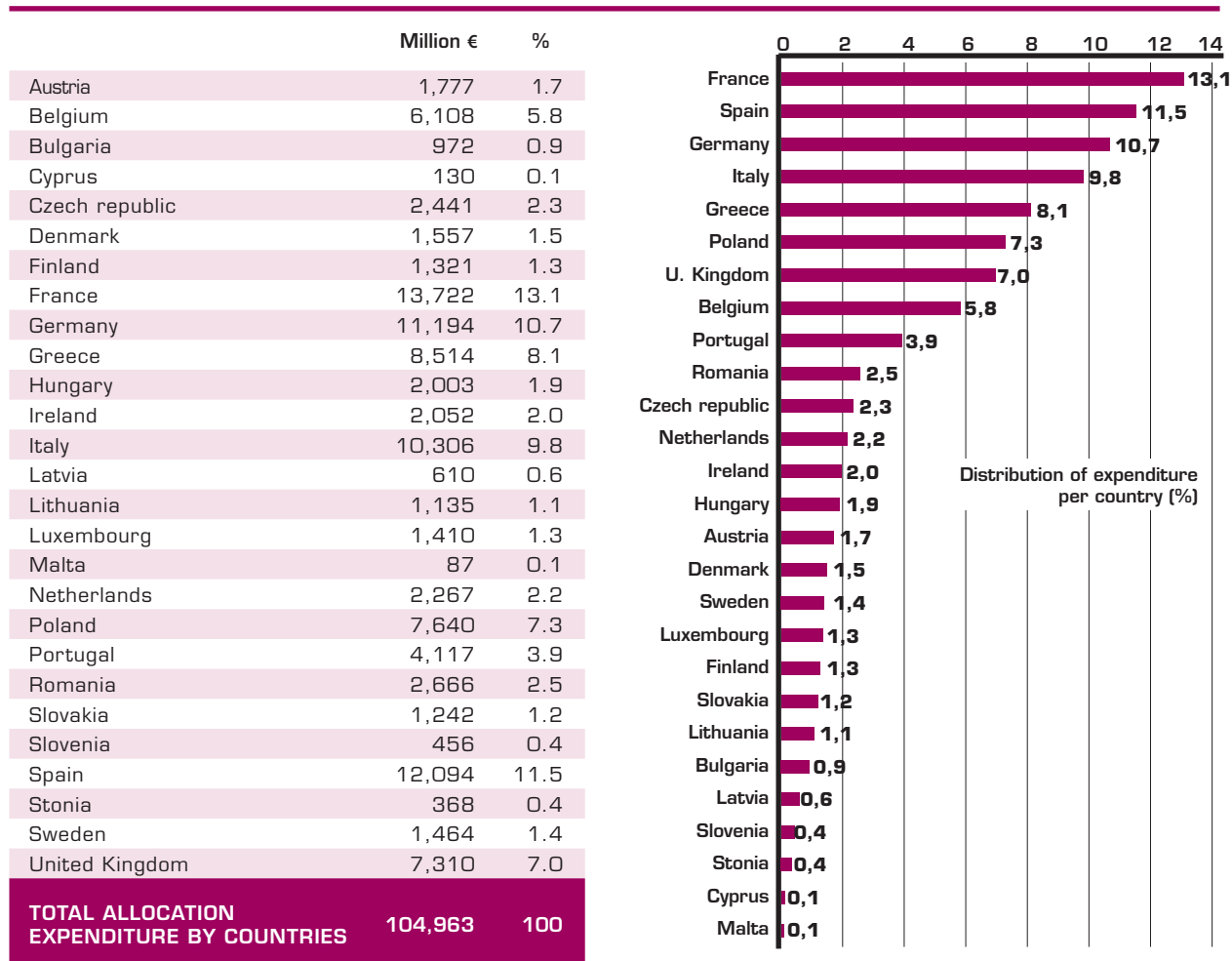
## 1.1 2008 EU BUDGET BY HEADING

	Million €	%
<b>SUSTAINABLE GROWTH</b>	<b>43,782</b>	<b>41.7</b>
Competitiveness for growth and employment	8,303	7.9
Cohesion for growth and employment	35,479	33.8
<b>PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES</b>	<b>52,094</b>	<b>49.6</b>
<b>CITIZENSHIP, FREEDOM, SECURITY AND JUSTICE</b>	<b>1,239</b>	<b>1.2</b>
<b>EU AS GLOBAL PLAYER</b>	<b>1,147</b>	<b>1.1</b>
<b>ADMINISTRATION</b>	<b>6,493</b>	<b>6.2</b>
<b>PRE-ACCESSION AND COMPENSATIONS</b>	<b>207</b>	<b>0.2</b>
<b>TOTAL EXPENDITURE PER SECTORS</b>	<b>104,962</b>	<b>100</b>
Source: European Commission. EU Budget 2008-Financial Report Produced by: CIDOB		

Then there is another perspective of analysis, this time determined by levels of wealth and calculated by proportionally relating disbursements with the Gross National Income (GNI) of each country. This way it is possible to obtain results that better explain the effects of territorial re-stabilisation and social cohesion, which are the aim of the redistribution of Community expenditure. First place in the ranking is occupied by Luxembourg because of the extraordinary repercussion of administrative costs on the economy of a very small, prosperous country. However, leaving Luxembourg aside, in the first bloc of beneficiaries are nine countries in which the impact of their Community cost statements exceeds 2% of their GNI. Notable amongst this group are Greece (3.64%) and Lithuania (3.62%), heading the list, followed by Bulgaria (2.89%), Latvia (2.70%), Portugal (2.58%), Estonia (2.46%), Poland (2.19%), Hungary (2.07%) and Romania (2.03%). In second place is a group of seven countries (Spain, Slovenia, Ireland, Malta, Belgium, the Czech Republic and Slovakia) with Community cost statements ranging between 1% and 2% of GNI. Finally, there is a set of ten countries with a level of income above the Community average and, accordingly, their cost statements are proportionally considerably less for their economies in representing between 0.38% and 0.83% of their GNI.



## 1.2 ALLOCATION OF EU EXPENDITURE BY MEMBER STATE 2008



Sources: European Commission EU Budget 2008-Financial Report

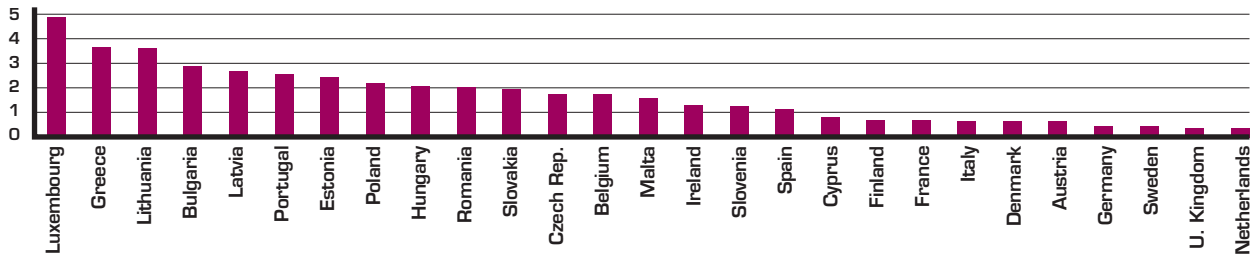
Produced by: CIDOB

A third analytical perspective is obtained on relating the country-by-country distribution of costs with sectoral data, in particular those coming under the two big headings of natural resources and sustainable growth, which reveal an uneven impact offering a different explanation for the various ways in which the member countries benefit from community outlay. With costs pertaining to sustainable growth, the main recipient in 2008 was Greece (11.23%), followed by (Spain (11.14%), Poland (10.85%), Italy (10.33%), Germany (9.91%), France (7.51%), United Kingdom (7.16%), Portugal (6.15%) and the Czech Republic (4%), these nine countries accounting for almost 80% of this part of spending. As for costs earmarked for management and conservation of natural resources, once again one sees a high concentration of three quarters of the total being shared by seven countries, with France (19.22%) in the lead, followed by Spain (13.60%), Germany (12.68%), Italy (10.38%), United Kingdom (7.30%), Greece (6.61%) and Poland (5.10%).

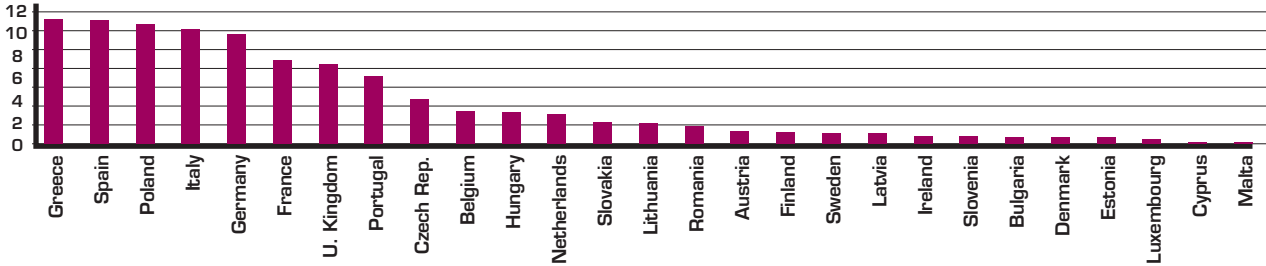
A fourth and final perspective is that of the impact on each

country of the internal structure of the sectoral distribution of the main parts of the outlay, this affording other revealing results. On the one hand, is the case of the set of seven countries that show most approximation to a relative state of equilibrium (Spain, Greece, Italy, the Netherlands, United Kingdom, Cyprus and Hungary). Next comes a second group with a more pronounced tendency to receive EU disbursements pertaining to sustainable growth (Portugal, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Malta, Poland and the Czech Republic), while a third group shows a greater influence of costs earmarked for management and conservation of natural resources (Germany, Austria, Denmark, Finland, France, Ireland and Sweden). Belgium and Luxembourg are cases apart as both countries have a notable presence of headquarters of EU organisms and therefore collect a considerable amount for administrative costs. Finally, Bulgaria and Romania are two exceptional cases because of they are recent members of the Community and hence are considerably compensated with funds earmarked for this purpose.

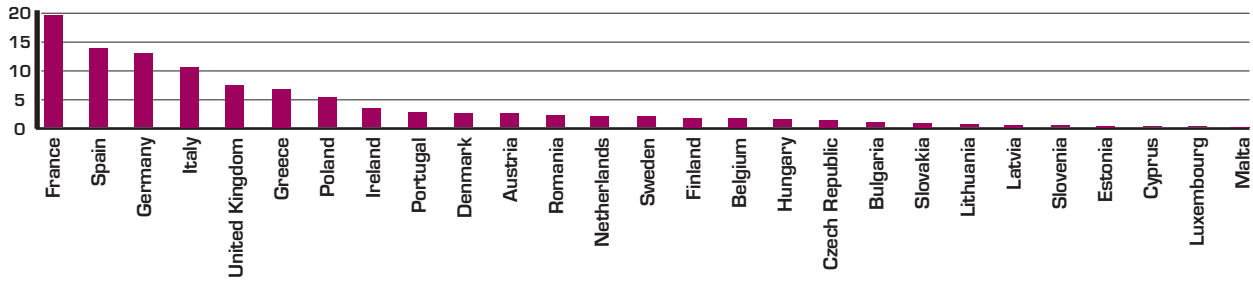
**1.3 ALLOCATION OF 2008 EU EXPENDITURE BY MEMBER STATES**  
(% GDP)



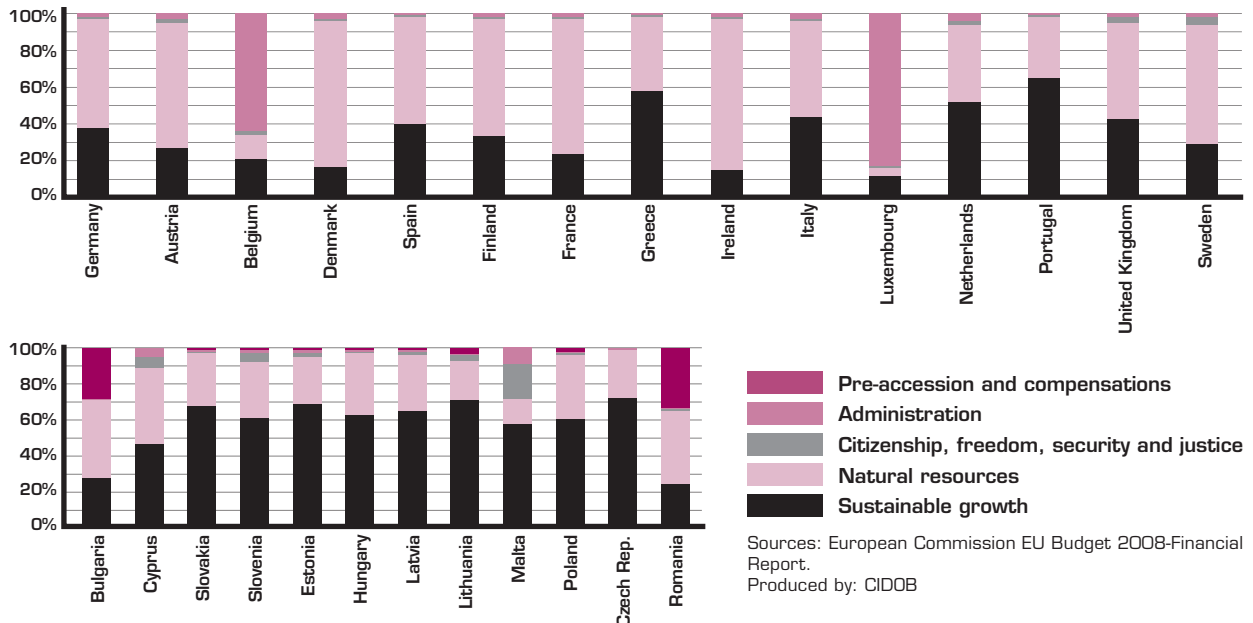
**1.4 ALLOCATION OF 2008 EU EXPENDITURE ON SUSTAINABLE GROWTH BY MEMBER STATES**  
%



**1.5 ALLOCATION OF 2008 EU EXPENDITURE ON NATURAL RESOURCES BY MEMBER STATES** %



**1.6 EU EXPENDITURE BY HEADING AND BY MEMBER STATE 2008** %



- Pre-accession and compensations
- Administration
- Citizenship, freedom, security and justice
- Natural resources
- Sustainable growth

Sources: European Commission EU Budget 2008-Financial Report.  
Produced by: CIDOB

## II. DISBURSEMENT CONTRIBUTED BY EACH MEMBER STATE TO THE TOTAL OF STRICTLY EU RESOURCES

The EU budget works within a framework of pluriannual financing that has traditionally been governed by two general principles that condition the results. One is balancing the budget, since deficit is not contemplated, and the other is a resources ceiling as a limit on the proportion of overall European GNI that can be spent, this being set at 1.24%. In 2008, the sum of disbursements of the member states amounted to 111,169 million euros. Then, there are other revenues arising from the dynamics of Community activities (fines, revenue from administrative operations, et cetera), which amounted to 10,067 million euros in 2008. With the sum of the Community's own resources and other revenues the total came to 121,236 million euros, which represent 0.97% of the GNI of the 27 EU countries.

Among the three big headings under which EU's own-resources revenue raising is divided, the first consists of the so-called traditional own resources (agricultural rights, market prices of sugar and other agricultural products, and rights to levies and duties for goods imported into the EU from elsewhere in the world) which, by their very nature are deemed to be of common provenance so that the role of the states would be limited to mere channelling of the takings into Community coffers. The communitarian nature of these resources, besides favouring the EU's financial autonomy, has meant that these disbursements have been less questioned by the states since they are not considered to be a national contribution. In any case, with the passing of time, the percentage of the contribution of the traditional own resources to the total of EU's resources has slowly fallen. In 2008, these revenues amounted to 17,283 million euros, approximately 16% of the total of own resources.

Then there are the two own-resources headings based on levels of production and wealth. Known as 'national contribution' these are the resources that constitute the basic sustenance of the EU budget. This contribution, unlike the 'traditional' group, has indeed been a recurrent source of discussion over the different efforts entailed for each country as those with economies that generate more activity and more revenue evidently pay more. Again, in this case, comparison is more likely to be made between the effort involved in the contribution and the benefits received from the distribution of operative costs for each state. The major resource of national contribution is calculated by applying a uniform GNI rate for each member state which, in 2008, totalled 74,479 million euros (67% of the total of own resources). The other resource arises from the application of a harmonised rate to the VAT tax base in each country which, in the last financial year has meant a contribution of 19,008 million euros (17%). Finally, in keeping with a number of criteria agreed upon in 1985 to correct what was deemed to be an unreasonably high net contribution by the United Kingdom to the EU budget, the final amount of national contributions is completed with an 'abatement' to this country by means of the other member states making up the shortfall *pro rata*. In 2007, the value of the funds under this heading amounted to 6,252 million euros.

## 2. REVENUE AND EXPENDITURE BY MEMBER STATE\* 2008

	Million €	%
Austria	2,194	2.0
Belgium	4,631	4.2
Bulgaria	364	0.3
Cyprus	180	0.2
Czech republic	1,396	1.3
Denmark	2,301	2.1
Finland	1,710	1.5
France	18,025	16.2
Germany	22,215	20.0
Greece	2,327	2.1
Hungary	947	0.9
Ireland	1,577	1.4
Italy	15,144	13.6
Latvia	216	0.2
Lithuania	329	0.3
Luxembourg	259	0.2
Malta	60	0.1
Netherlands	6,669	6.0
Poland	3,473	3.1
Portugal	1,466	1.3
Romania	1,218	1.1
Slovakia	595	0.5
Slovenia	409	0.4
Spain	9,966	9.0
Stonia	161	0.1
Sweden	3,223	2.9
United Kingdom	10,114	9.1
<b>TOTAL EXPENDITURE*</b>	<b>111,169</b>	<b>100</b>

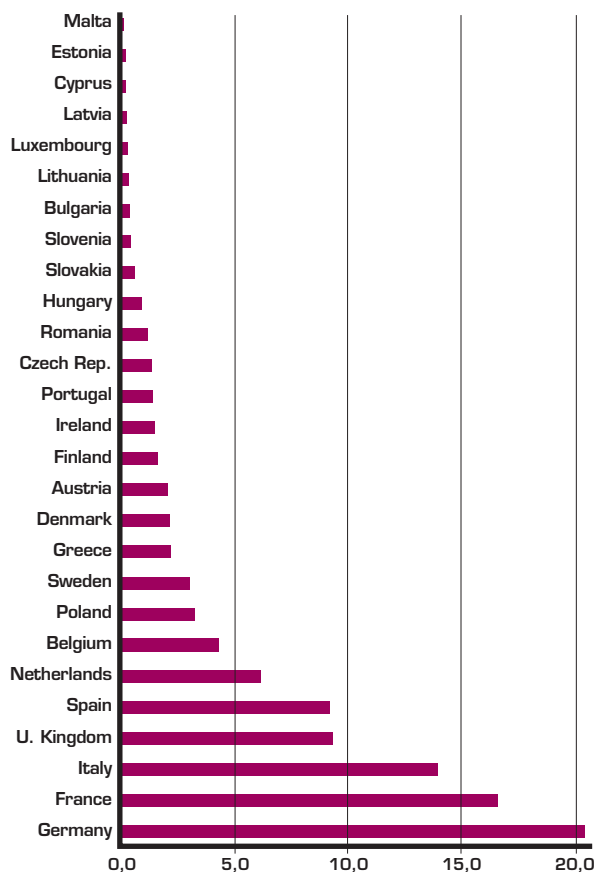
\* Including the correction of budgetary imbalances in favour of the United Kingdom

Sources 2, 2.1 y 2.2: European Commission EU Budget 2008-Financial Report  
Produced by: CIDOB

Data on the disbursements of the member states contributing to the total of EU own resources in 2008 show that, in this structural context of EU funding, Germany continues to be the main contributor in absolute figures, with a contribution of 20%, followed by France (16.2%), Italy (13.6%), United Kingdom (9.1%) and Spain (9%). Hence the contribution of the five countries that, in relative terms, combine the most territory, population and economic capacity represent over two thirds of the total of EU income. Next come two countries that are smaller but with great economic potential, with a medium-level contribution: The Netherlands (6%) and Belgium (4.2%). In third place is a set of countries of varying categories (Austria, Denmark, Greece, Sweden and Poland) with a smaller contribution, between 2% and 3% of the total. Finally, are the fifteen remaining countries of which eleven are new member states with contributions being of a proportion lower than 1.5%.

However, if the situation is observed from the perspective of contributive effort in relation with wealth levels, measured by the contribution to total revenues made by each country in proportion to its GNI, the data come up with another order of correlation. From this standpoint, Belgium tops the list for 2008 with a contribution of 1.34%, followed by Cyprus (1.14%), Slovenia (1.13%), The Netherlands (1.13%) and

## 2.1 REVENUE AND EXPENDITURE BY EU MEMBER STATE 2008 %



Malta (1.10%). Next comes a group of nine countries with contributions ranging between 0.98% and 1.08%, while the thirteen remaining countries contribute less than 0.97% of their GNI.

### III. OPERATING BUDGETARY BALANCES FOR THE EU MEMBER STATES

With the results of some of the operations discussed in the foregoing sections, the European Commission budget managers have established a method that calculates the difference between the disbursements contributed according to what is termed national contribution – which is to say, without taking into account contributions that are deemed to be traditional own resources – and the quantities of operating costs received by each member country (excluding administrative costs). Hence, the sum of the difference between the amount of the disbursement, which involves a direct effort by each country, and the amount received by each one is calculated, thereby coming to an approximation to the budgetary balances among the Community countries. The results represent no more than a mere exercise in accountancy, which enables one to make some observations on the budgetary balances among the member states but it does not aim to

## 2.2 REVENUE AND EXPENDITURE BY EU MEMBER STATE\* 2008

(% GDP)



question the benignity or effectiveness of EU budgetary policies and their effects on the Community countries.

From the data for 2008 one derives balances that give the results of the impact of budgetary flows among the member states, showing a group of fifteen net beneficiaries and another twelve net contributors. Among the group of net beneficiaries, first place is occupied by five countries that are particularly favoured in absolute terms (Greece, Poland, Spain, Portugal and Romania), which account for a favourable net result situated between 1,581 million euros for Romania and 6,280 million euros for Greece. The ten remaining beneficiaries, except for Ireland, are all countries that have joined the EU in recent years. As for the group of net contributors, great disparity is also observed, with some extreme situations. First, for yet another year, Germany's extraordinary contribution in absolute terms stands out, with a net contribution considerably above that of the other countries. Somewhat behind Germany come Italy, France and the United Kingdom, these being three significant cases among the bigger, more populated and richer countries which obtain in return, through the budgetary flows, an amount that allows them somewhat more equitable balances. In contrast Sweden and The Netherlands make contributions that are comparatively more burdensome than those of bigger part-



### 3. BUDGETARY OPERATIVE BALANCES BY EU MEMBER STATES\* 2008

	Million €	% over GDP
Austria	-356.4	-0.13
Belgium	-720.6	-0.21
Bulgaria	669.6	1.99
Cyprus	-17.7	-0.11
Czech republic	1,178.0	0.85
Denmark	-543.2	-0.23
Finland	-318.5	-0.17
France	-3,842.7	-0.20
Germany	-8,774.3	-0.35
Greece	6,279.7	2.68
Hungary	1,111.7	1.15
Ireland	566.1	0.36
Italy	-4,101.4	-0.26
Latvia	407.0	1.80
Lithuania	842.6	2.69
Luxembourg	-22.1	-0.08
Malta	30.0	0.55
Netherlands	-2,678.2	-0.45
Poland	4,441.7	1.27
Portugal	2,695.1	1.69
Romania	1,581.0	1.20
Slovakia	725.6	1.15
Slovenia	113.8	0.31
Spain	2,813.2	0.26
Stonia	227.4	1.52
Sweden	-1,463.1	-0.44
United Kingdom	-844.3	-0.05

\* Including the correction of budgetary imbalances in favour of the United Kingdom and the british compensation.

Sources 3, 3.1, 3.2 y 3.3: European Commission EU Budget 2008-Financial Report  
Produced by: CIDOB

gal (254) and Lithuania (251). Then there is a group of seven countries with a net amount per capita ranging between 111 euros for Hungary and 179 euros for Latvia, while the results for the remaining five beneficiary countries are less than 100 euros per inhabitant.

If the results for the net contributor states are compared on the bases of their levels of income, The Netherlands is again in an outstanding position, with a proportion of 0.45% of its GNI, closely followed by Sweden (0.44%) and Germany (0.35%). Then there is a group of seven countries with medium-level contributions, ranging from 0.11% for Cyprus and 0.26% for Italy. Finally, the values for the two remaining net contributors, the United Kingdom (0.05%) and Luxemburg (0.08%), are quite a lot lower. In contrast, if the net contribution is compared on a per capita basis for the same countries, The Netherlands (163 euros) tops the list, followed by Sweden (159), Germany (107) and Denmark (99). Next come France, Finland, Belgium and Italy, contributing between 60 and 90 euros per inhabitant, while the contributions of the four remaining countries are less than 50 euros per inhabitant.

To conclude, from both the perspective of absolute values such as revenue or population one sees continuity in the profiles of the net contributor countries, and this has become a structural feature of the EU budgetary flows. In the case of the beneficiary countries, while there is continuity in traditional profiles, one perceives a more recent tendency towards consolidation of a new structural pattern that has evolved over the past five years owing to the progressive incorporation of the new member states.

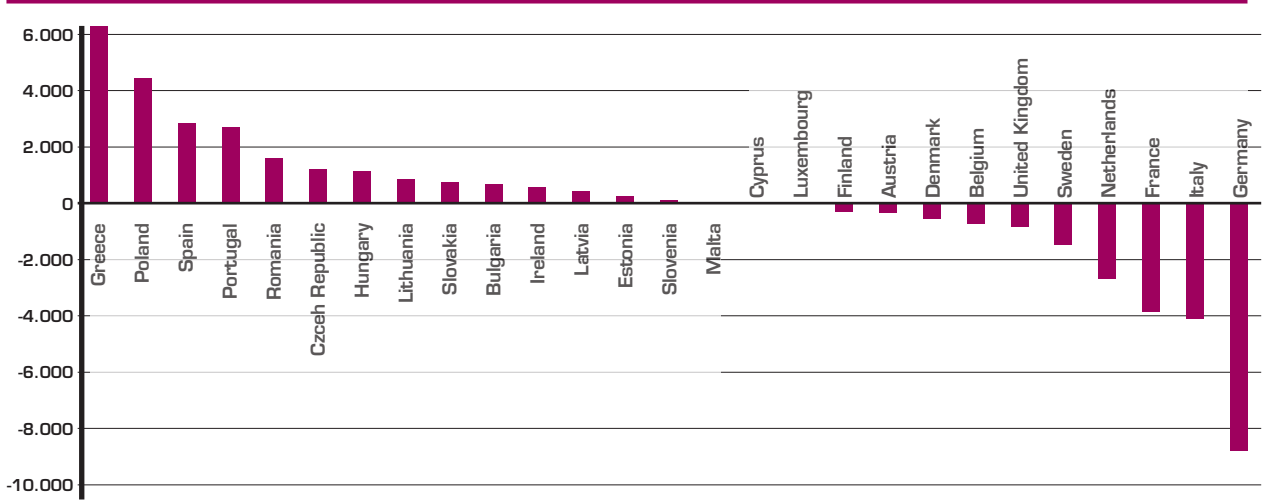
ners. In brief, this combination of peculiar situations among the net contributors has been a permanent source of discussion among the member states in recent years.

Nevertheless, if bias is introduced into the observation by taking into account other factors that distinguish the member states, for example level of income or size of population, the results of the budgetary balances reveal other trends depending on how they are viewed in proportion with GNI or from the per capita standpoint. In the case of significance with regard to economic level, the leading net beneficiary for 2008 was Lithuania, with a result representing 2.69% of its GNI, closely followed by Greece (2.68%). A little behind these two countries is a group of eight others (Bulgaria, Latvia, Portugal, Estonia, Poland, Romania, Hungary and Slovakia), which obtained a net balance of between 1.15% and 1.99%. Finally, are the five net beneficiary countries with a lesser result ranging between 0.26% and 0.85% of GNI. In the case of positive balance per capita, the country with the best result is Greece, with 560 euros, followed at a considerable distance by Portu-



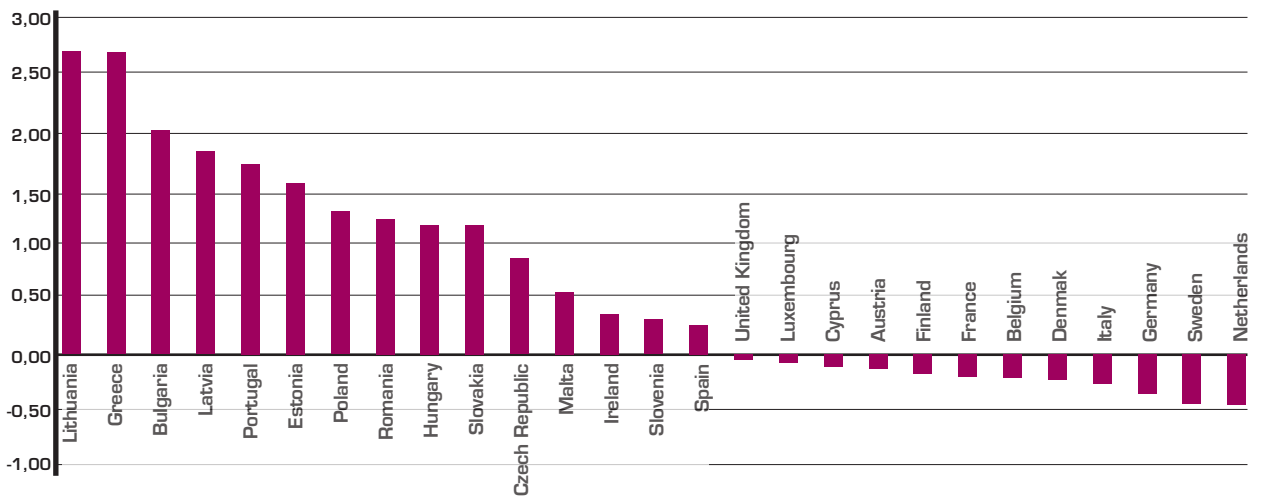
3.1 BUDGETARY OPERATIVE BALANCES BY MEMBER STATES 2008

(Million €)



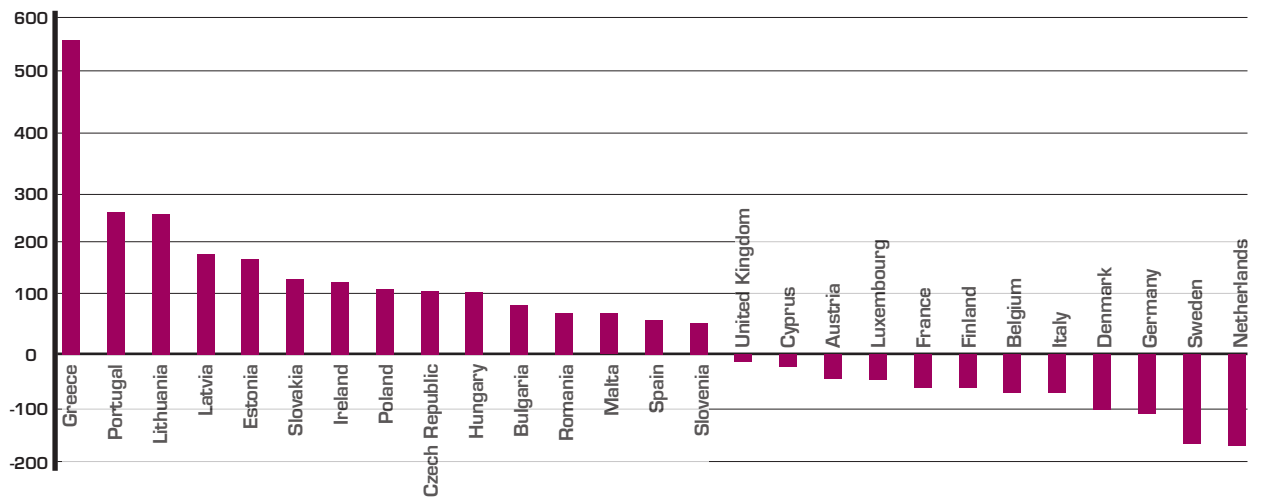
3.2 BUDGETARY OPERATIVE BALANCES AMONG EU MEMBER STATES 2008

(% GDP)



3.3 BUDGETARY OPERATIVE BALANCES AMONG MEMBER STATES 2008

(€/per cap.)







# **RUSSIAN FEDERATION, COUNTRY PROFILE**



# The Medvedev presidency: Russia's changing profile

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The introduction of the former President Vladimir Putin to the Western audience started with a rather naïve yet well pointed question “Who is Mr. Putin?” that for some time remained unanswered. A similar question – “Who is Mr. Medvedev?” – was quite relevant not only in 2008 when Putin’s successor came to power, but even today, more than two years after the inauguration of Medvedev.

From the very beginning of Medvedev’s accession to power there were endless speculations about his political profile. Some expected him to be Putin’s loyalist and even marionette, while others predicted Medvedev’s role as a more liberal alternative to his predecessor known as the architect of centralization of power (Blakkisrud, 2005: 9). It is not my intention in this paper to draw lines of separation between the first half of Medvedev’s presidency and the eight years of Putin’s regime (2000–2008). Since Putin as prime minister is deeply enshrined in the current regime of power relations, this separation, in strict sense, is unattainable, yet this however does not prevent us from comparing the two presidencies with each other. Of course, the degree of continuity in Medvedev’s policies is incomparably higher than in the case of transition from Yeltsin to Putin, but in the meantime it would be an oversimplification to portray Medvedev as a mere extension of his predecessor. The differences between the two leaders sometimes boil down to style and accents, in other cases they represent different reactions to changed developments beyond Russia’s borders. Yet what is noteworthy

is that the dynamics and the evolution of Russian polity is quite traceable, which gives reasons to predict that the Medvedev presidency will expand the scope of policy options for Russia both domestically and internationally.

## Domestic policies of the Medvedev regime

### The hurdles of Medvedev’s political identity

Since the times of Gorbachev, the policies of the top Kremlin leaders were associated with certain concepts that served as their political brands and reflected the spirit of the epoch. For Gorbachev, these key words included the proverbial ‘perestroika’ and ‘glasnost’, as well as ‘acceleration’ and ‘new thinking’; Yeltsin will be remembered for his orchestration of Russia’s independence from USSR and the “parade of sovereignties” staged by Russia’s regions; Putin is known for his own political vocabulary with the ‘vertical of power’ and ‘sovereign democracy’ at its core. By now Medvedev lacks recognizable language markers that could rightly distinguish him from other leaders. He tries to make accents on ‘modernization’ and ‘innovations’, as well as anti-corruption policies and the independence of judiciary, but these approaches are not new and remain rather broad and sometimes hollow. Perhaps, the “Medvedev thaw” could serve as a possible metaphor for today’s President, yet it reflects public expectations rather than real effects of his presidency.

Arguably, the lack of key words tells a lot about difficulties that Medvedev faces in underpinning his political credentials. Having a reputation of a mild liberal (in contrast to “tough conservative” Putin), a few months after his inauguration he had to start war against Georgia, and then faced a series of harsh security challenges in North Caucasus where terrorist acts became endemic. With a reputation of pragmatic technocrat, he nevertheless showed sensitiveness to ideological motives, as exemplified by the forming of the Commission for Countering the Falsifications of History aimed basically at disclaiming the revision of the heroic narrative of the Great Patriotic War. Having done this, he in the meantime tried to avoid pro-Stalinist rhetoric underlying in his internet blog that “the scope of terror of 1937–1938 is beyond imagination” and by no means can be justified.

Medvedev’s liberal credentials were confirmed by the creation in March 2008, immediately after his inauguration, of the Institute for Contemporary Development (ICD), a new think tank tasked with charting long-term strategies for Russia. In its widely debated report “Russia in the XXI Century: an Image of Desirable Tomorrow” released in January 2010 ICD called for reforms with ostensibly pro-liberal orientation. The most important among them are the introduction of legal norms stipulating the reduction of the presidential term to four years (from six), the formation of the government by the Duma majority, the popular election of the member of the



Council of Federation (the upper chamber of the parliament) and the governors (Gontmakher; Yurgens, 2010). The ICD report called not only for fostering party-based political competition but also for growing roles for civil society organizations. The very appeal to institutional reforms could be read as a tacit critique of the Putin presidency which left a number of key issues of democratic governance unsolved.

However, in domestic political scene, Medvedev's options are restricted by a number of constraints. *Firstly*, with Putin as prime minister, the government became the institution meant for checking and balancing the presidency. In fact, for the first time in post-Soviet Russia the President has to share his competences with much more experienced prime minister, which to some extent moved Russia to accepting greater diversity in the "administrative market".

*Secondly*, with Putin becoming the chairman of the "United Russia" party (though, paradoxically, without holding party membership), Medvedev lacks instruments to directly influence the policies of the ruling party, which explains his interest in widening opportunities for minority parties. In particular, he proposed to

**"Russia builds its relations with the West upon two key concepts – multipolarity and new security architecture in Euro-Atlantics"**

cancel the current procedure of collecting signatures as a precondition for party participation in election (since this proviso was frequently used to artificially disqualify the oppositional parties and their candidates on technical grounds), to guarantee the representatives of non-parliamentary parties seats in electoral committees of all levels, and their right to participate in a limited number of State Duma sessions. Some of his moves – like the nomination of the leader of oppositional Union of Right Wing

Forces Nikita Belykh as the governor in Kirov – have no analogs under his predecessor.

One of the key questions looming large at this juncture is whether - and to what extent - Medvedev's policies could be viewed as a kind of balance to the Putin rule. Under a closer scrutiny, the gaps between the two Russian leaders seem to be rather visible. For example, Medvedev's emphasis on modernization presupposes a radical rethinking of the "energy super-power" concept aired during the Putin presidency. In more practical terms, Medvedev relies upon the "presidential cadre reserves" rather than on 'United Russia' party personnel supervised by Putin.

As for the future configuration of Russian political scene, it will to a large extent be influenced by the already commenced process of diversification and even fragmentation within the ruling party. From the viewpoint of ideologies, United Russia was never a monolith and accommodated three different streams – a more or less liberal (institutionally exemplified by the "November 4" Club), nationalistic ("Civic Patriotic Club") and centrist (Center for Social Conservative Policies). Yet even more consequential are generational gaps that tend to de-

compose the organizational unity of 'United Russia': the positions of "old" party elite is increasingly challenged by a younger generation that have strong business interests and are eager to use party structures for promoting them. Should this trend continue, the 'United Russia' will face internal transformation to pave the way for potentially more diverse political landscape.

**New challenges to Russian federalism**

In this section I will explore the changes between the federal center and the constitutive units of federation that fostered the diversification of Russian regional "landscape". My basic argument is that the dominating discourse on an alleged success of Putin's efforts to recentralize Russia needs a more critical look, since a number of symptoms point to the limitations of the re-unification project as initially conceived by Putin. Regions' self-assertiveness is gradually becoming an important part of policy agenda for Medvedev's presidency. It is manifest in three spheres and brings three different effects. The issues of cultural identity foster regional *diversity*, economic protectionism leads to *fragmentation*, and the security situation in Russia's Caucasus boosts *asymmetry* between regions.

Firstly, issues of *cultural identity* keep gaining momentum all across Russia. Most of regional elites are keen to reinvent their historical identities through reactivating collective memories. The sharpening of identity agenda might lead to tensions between regions: the most telling case in 2008 was the contest between Nizhny Novgorod and Kazan for a semi-formal title of "Russia's third capital". In ethnic republics the issues of protecting local identities have re-entered the agenda. The leader here is Tatarstan which in 2009 campaigned for recognizing the Tatar language as the second official in Russia, as well as for the right of local graduates to pass the Single State Examination test in Tatar language. Both claims brought no immediate success but were indicative of the revival of demands for more cultural diversity.

Secondly, *economic tensions* between regions are becoming more pronounced. As the financial crisis erupted, it turned out that regions may differently react to the federal policies. For example, Moscow's decision to raise import duties for foreign cars was challenged in the Far East where most of the cars are imported, but supported in car-producing regions. By the same token, certain signs of the revival of inter-regional economic conflicts, widely spread all across Russia in 1990s, have reappeared recently. In economic sphere, the financial crisis has reactualized regional protectionist strategies aimed not only at supporting local producers but also at closing regional markets for merchandise coming from other regions.

Thirdly, *security situation* is a factor that fosters asymmetry within the federation. The security dynamics in Russia's North Caucasus regions entails their distinguishing from the rest of Russia. The sharpening of security concerns only adds new constraints to the policies of Moscow in these peripheral regions and exacerbates their claims for exceptional treatment.

Against this background, the policies of the Chechen leadership seem indicative. The termination by Moscow of the “regime of counter-terrorist operation” in Chechnya, a decision lobbied by Ramzan Kadyrov, is as an example of successful regional pressure upon Moscow. The federal center not only met the demands from Grozny, but found itself in a peculiar situation when its power be manifested not through the power to exceptionalize (and securitize), but – vice versa – through the power to normalize (and de-securitize) the formerly break-away region. Under Medvedev’s presidency Chechnya tries to present itself as a “model region”, an example of successful resolution of rampant security problems. It wishes to be considered as a region capable of helping other Caucasian territories: thus, immediately after the attempt on the Ingushetia President Evkurov in June 2009 Kadyrov proposed to jointly investigate the incident and severely punish the criminals either in Russia or abroad. In fact, the Chechen leader has publicly announced his security service ability to persecute criminals beyond Russia, and Medvedev has referred to the authorities in Chechnya while demanding to capture the terrorists operating in Ingushetia.

The Kremlin is certainly not inimical to the recognition of the variety of regional identities and interests in Russia. For instance, the three most recent Russia – EU summits were held outside Moscow – in Samara, Khanty-Mansiisk and Khabarovsk. In some cases, Moscow is favourably disposed to the geo-cultural ambitions of regions: thus, Ekaterinburg (a city promoting itself as Russia’s “Eurasian capital”) became a home to both BRIC and Shanghai organization summits in 2009. What remains to be seen is how the ongoing regional diversification can be harmonized with the unified way of governing the federation still practiced by the Kremlin.

### Russia’s foreign policy: the pressure of structural circumstances

In this section I will show that the changed macro-structural circumstances in the world have altered some of the previous policies, and reconfigured “a corridor of opportunities” for Russia’s elites. In fact, the nature of domestic regime remained almost unchanged; yet the new external environment has made Medvedev to readjust his policy tools to tackle new threats and take advantage of new opportunities.

What are the macro-structural processes that directly affected Russian policies under the Medvedev presidency? *Firstly*, the administration of Barak Obama has initiated the proverbial “reset” in U.S. – Russia relations which led to a number of compromises to include America’s reconsideration of its previous policies (from direct support of the “colour revolutions” to the decision to deploy anti-missile systems in Poland and Czech Republic), and more cooperative Russian take on Afghanistan. *Secondly*, NATO has started developing its new Strategic Concept.

Though the debate within NATO on its future strategy is far from being over, it may have long-term effects on Russia, since NATO offers an amalgamated vision of hard and soft security perspectives that strikingly differs from a much narrower Russian focusing on mostly military aspects of security. *Thirdly*, there is some important dynamic in Europe as well: on the one hand, EU is increasingly eager to play a role of “global security provider”; on the other hand, the world financial crisis has highlighted deep economic vulnerabilities of some of EU member states, which gives new arguments to those calling for stepping back from deepening integration. *Fourthly*, according to the Russian official interpretation, the five-day war against Georgia in August 2008 was a landmark event that is of paramount importance for the entire structure of international relations, a Russian equivalent to September 11, i.e. an event to be symbolized as a “moment of truth” and touching upon the deepest strings of international politics. *Fifthly*, as direct effects of Russia’s policies towards Georgia and Ukraine, countries of Eastern and Central Europe more loudly than earlier started expressing their serious concerns about what they dub the resurgence of Russia’s great power ambitions, and thus revived the geopolitical / hard security / territorial defence type of thinking.

Medvedev’s foreign policy agenda differs from his predecessor in at least two major respects. *Firstly*, as a direct effect of the Georgia war of August 2008, Russia builds its relations with the West upon two key concepts – multi-polarity and new security architecture in Euro-Atlantic. *Secondly*, in its near abroad, the idea of soft power became more accentuated as one of prospective foreign policy tools of Russia.

### The multipolarity discourse and its variations

Under the presidency of Medvedev, Russian foreign policy is conceptually focused at practically implementing what since mid-1990s is known as the idea of multipolarity. Foreign minister Sergey Lavrov has stated that the unipolar world ceased to exist right after August 2008, as a result of Russia’s military victory over Georgia. Russia thus stems from the “reality of multipolar world” (Lavrov, 2008a). Therefore, the key problem is not the demolition of the “American hegemony”, as it used to be under Putin’s presidency, but its replacement with a different type of international order.

A closer look at the concept of multipolarity opens at least three policy strategies. A first one sees multipolarity as a variant of the *balance of power* approach. Its reverse side is unilateralism and the logic of sovereign decisions which Russia favours itself and expects from others. Hereof, Medvedev’s suggestions that the Western countries need to be pragmatic and guided by their own “genuine interests”, as opposed to the “imagined ideological clichés” (Medvedev, 2008).

The victorious operation against Georgia strengthened the balance-of-power approach. Russia not only demonstrated serious determination to apply military force in



its “near abroad”, but also openly announced its zones of “special interest”. The “red line” concept, though, could be understood in both offensive (as a declaration of Russian aggressiveness) and defensive (as a proposal to divide spheres of influence) terms.

A second perspective, on the contrary, imbues some *normative* flavor to the conception of multipolarity by linking it with democracy. Russian standpoint suggests that it is multipolarity that fosters the development of democratic institutions in the world not vice versa. In other words, the key argument is that *all* type of multipolarity is equivalent to international democracy.

A third perspective views multipolarity through institutionalist lenses, as a type of *multilateralist* international society. Eventually, it entails a new version of a “concert of great powers” (Rossiiskiy..., 2009: 37), or “great power management” (GPM). The Georgia war, despite the seemingly deep cleavages between Russia and major Western governments it provoked, fostered some elements of GPM. The Russia – NATO relations which reached their peak of securitization in August 2008, have gradually evolved into a more business-as-usual type of bargaining with concessions from both sides.

NATO refused to extend the Membership Action Plans to Georgia and Ukraine; the US cancelled the deployment of anti-missile systems in Poland and Czech Republic, while Russia increased its involvement in the operation in Afghanistan and pledged to cooperate against Somalia pirates.

***“Russia’s predominant focus on hard security issues, which differs from the EU concentration on soft security”***

#### **New security architecture proposals**

The second conceptual approach articulated in the aftermath of the Georgia war is known as Medvedev’s proposal on a new security architecture in the Euro-Atlantic region. Lavrov called the events of August 2008 a systemic breakdown which only necessitates reparation of the deficient architecture of security (Lavrov, 2008b). This claim is substantiated by different arguments.

*Firstly*, the current security architecture proved to be unable to prevent a number of violent crises, from Balkans to the Caucasus. *Secondly*, European security landscape rests upon obsolete “bloc approaches” that are of no help in situations of trans-national threats. *Thirdly*, the prevailing approaches to security are excessively ideologized. Thus, Russia insists that security decisions (including NATO enlargement) should not be based upon the assessments of the state of democracy in candidate countries. *Fourthly*, in today’s Europe certain countries and their groups enjoy special rights in security making – a clear allusion to NATO. *Fifthly*, Lavrov compared today’s security arrangements to a patchwork (Lavrov, 2008c), a metaphor pointing to fragmentation and lack due uniformity. Therefore, a “new security architecture”,

as opposed to an “old” one, has to, logically speaking: a) be able to prevent violent conflicts; b) be of “non-bloc” nature; c) avoid ideological collisions; d) exclude the possibilities of exceptional security arrangements; e) contain “suturing” mechanisms allowing for more coherence, and f) give Russia an equal footing with other participants.

The last point seems to be crucial, since Medvedev’s security proposal is meant to raise Russia’s international profile as a country apt for normative type of behaviour. The crux of the proposal lies in an attempt to join the security community of Euro-Atlantic partnership that NATO and EU consider, by and large, as already established and functioning. Inclusion in such a community requires that the applicants become increasingly “more like us” and, consequently, is premised on a sense of wholeness and togetherness. In such a community difference and pluralism are externalized, and Russia is one of those outsiders that is perceived as external to the Western security (Joenniemi, 2010). Some of the language games nicely reflect this perceptual gap: while Russia prefers to speak about “*Euro-Atlantic* security” (presupposing Russia’s participation), most of Europeans think in categories of “*trans-Atlantic* security” (which does not envision Russia’s actorship).

There are some grounds to believe that the Kremlin does understand the possible negative effects of this distancing. In particular, Lavrov’s portrayal of Russia and America as two branches of the European civilization seems to be an attempt to reformulate the Western discourse on Russia through three inter-connected moves. *Firstly*, Lavrov repudiates the US-centric worldview in favour of a Europe-centric one, much closer to Russia’s world outlook. His claim that America has to think about “returning to Europe” – in a sense of sharing the European worldview (Lavrov, 2008a) – underpins this point. *Secondly*, within this logic, Russia portrays its role identity as an extension of Europe. *Thirdly*, this discursive strategy equates Russia with the US, presenting both countries as sharing a common European legacy.

Yet there are two problems with practically implementing Russia’s policy of integration into Euro-Atlantic security space: one is related to intrinsic inconsistency of Russia’s vision, while the second deals with miscommunication between Russia and EU.

As far as Russia’s vision of a “new security architecture” is concerned, it seems to be rather blurred. In particular, the Kremlin explains the presumed “indivisibility” of security from a rather narrow and formalistic standpoint, as rejection of safeguarding one’s own security at the expense of others. Yet seen from other angles, security can be both divisible (the hard – soft security distinction) and dividing (for example, the Litvinenko murder case has overtly illustrated how different are security mindsets in Moscow and London). These divisions are inherent in the structure of security relations between Russia and Europe.



Some of glaring discrepancies in communication between Russia and EU stem from Russia's predominant focus on hard security issues, which differs from the EU concentration on soft security. This is perceived as quite troublesome by the Kremlin, since most of the "soft" threats, being *external* for Europe, are *domestic* for Russia. Russia is ill-equipped to effectively deal with the issues that get a high profile in the EU policy agenda, including corruption, trafficking, migration, environmental protection, and can't 'export' successful security practices to other countries. The EU concept of security sector reform, with its accents on accountable and transparent security relations (Ioannides, 2009: 37), does not resonate in Russia. By the same token, the security-development nexus, being pivotal for the European discourse, indirectly marginalizes Russia that evidently can't boast of grounding its security management in inclusive social policies.

Conceptual divisions are complemented by geographical ones, only to raise questions about the presumed "equality" in security relations. Lavrov is explicitly skeptical about the existence within a wider Europe of spheres with different mechanisms of influence, humanitarian commitments, market regulations, etc. Yet the dominating European discourse views Europe exactly in a manner refuted by Lavrov - as a conglomerate of regions-in-the-making, each of them potentially having its own security agenda. One may argue that security concerns of the Nordic Europe are definitely very much different from - and thus unequal to - security troubles faced by the Black Sea countries.

#### Normative arguments and soft power

It is Russia's near abroad where the concept of soft power, increasingly important in Russian foreign policy toolkit, can be tested. Normative judgments were one of Russia's major arguments against the Saakashvili regime, Ukraine's NATO membership, the disenfranchisement of Russian-speaking population in Baltic countries, etc.

Against this background, the normative turn in the Kremlin foreign policy is one of its political instruments aimed at reinstalling Russia as an organic part of the international society - a status which, as Moscow feels, is either disputed or challenged by the West. In the meantime, the sensitiveness of Russian authorities to normative invectives from the part of foreign governments and NGOs is a good prove of the understanding that the only way to gain *political subjectivity* in the world is through the observance of *democratic procedures*.

The CIS countries seem to be the most natural terrain for Russia's exercise of soft power-based integrationist policy. Yet the vectors of these countries' development are markedly different. For my analysis, I will refer to two countries that most clearly demonstrate the plurality of post-Soviet area: Ukraine that after the 2010 presidential election has rejected the explicitly pro-Western, orange revolution-based type of transformation, and Moldova

that, vice versa, in 2009 made important step towards association with the West.

#### Russia - Ukraine: new political context of 2010

Under Putin's presidency, the Kremlin dubbed the so-called colour revolutions "a Western ploy to install pro-American regimes on Russia's periphery and then to engineer a regime change in Russia itself" (Trenin, 2005: 1). Thus, it was a strong feeling that starting from 2004 Russia is gradually losing political levers over Ukraine. Yet under the Medvedev presidency the situation has changed. Both of the previous Russian goals - to prevent the advent to power in Kyiv of anti-Russian regime and to block projections of "colour revolutions" into Russia - do not appear as vibrant as in previous years. The process of Ukraine's integration into NATO was also brought to a halt.

The Ukrainian presidential election of February 2010 won by the most cardinal challenger of the "orange coalition" Viktor Yanukovich set a new political context for Russian - Ukrainian relations. At least three of its facets are worthwhile noting. *Firstly*, in 2010 Russia was not so deeply and openly engaged in the electoral process as it was the case of 2004 election. It was widely acknowledged that the 2010 election outcomes were predetermined by domestic developments.

*Secondly*, with Viktor Yushchenko and Yulia Tymoshenko out of their offices, the idea of "orange revolution" has clearly lost its political momentum, which is widely acknowledged by both Western and Ukrainian experts. The international implications of this turn seem to be favourable for Russia: the Obama administration has repudiated the regional "balance-of-power" approach towards Russia and rejected calls to contain Russia through strengthening neighboring countries (Dubovyk, 2010: 3). For Russia's domestic policies this signals the drastically decreased value of the "orange threat" argument that was widely employed by the Putin administration as the stronger justification for more authoritarian rule.

*Thirdly*, the advent of Yanukovich to the presidency signifies the setting of a new agenda in Russian - Ukrainian relations. Russian political elite, celebrating the success of Yanukovich, should not, however, exaggerate his pro-Russian intentions. There are three perceptual gaps that deserve attention in this context. First, it has to be noted that Yanukovich, who is overwhelmingly portrayed as a "pro-Russian" leader, made his first official visit to Brussels, followed by a visit to Moscow. This itinerary seems to be quite symbolic and sheds light on new President's international priorities. It is likely that Yanukovich will positively react to the attempts of both EU and US to engage him in dialogue. Secondly, Russia expects from the new administration in Kyiv more efficiency in economic sphere plagued by multiple gas price conflicts. In the meantime, it seems potentially disappointing for Russia that in his first address to Moscow the new Ukrainian prime minister requested the decrease of



the gas prices. In a very pragmatic way, the post-orange elite is likely to have more chances to pressurize Moscow and demand economic concessions in exchange for political rapprochement. Thirdly, it is likely that Moscow will expect Yanukovich to take a more explicit pro-Russian stand in allowing the Russian Black Sea fleet to maintain its base in Sebastopol, yet it might turn out that the new President, even if he wishes so, won't be legally capable of prolonging the deployment of Russia's naval base after 2017.

#### Russia – Moldova: testing the soft power approach

the defeat of the Communist Part of Moldova in the parliamentary election of 2009 has deeply challenged Russia's positions in this country. As an effect of the 2009 events in Moldova, Russia was stuck between geopolitical approaches and prescriptions of political realism, on the one hand, and the application of more sophisticated "soft power" tools, on the other.

The first set of approaches is grounded in the concept of Russia's national interests that, however, raises more questions than gives answers. One of its possible articulations is the maintenance of Moldova as a sovereign state.

In practical terms this argument spells preventing Moldova' from the possible EU membership. For Moldova this membership, the logic goes on, means manipulation, submission, and loss of identity. In the opinion of Russian officials, this misfortune is ruled out in the so called post-Soviet model of integration. Yet the distinction between the EU integrative model as presupposing the dispersal of sovereignty, on the one hand, and the post-Soviet one as intending to safeguard sovereignties of all parties involved, on the other, is perceived in Moldova as an indication of Russia's imitation of integration and its reduction to a series of state-to-state agreements.

Russia claims that its another interest is fostering Moldova's neutrality which, more concretely, means blocking the prospects of NATO membership for Moldova. Yet it remains unclear what kind of security arrangements Russia may offer to Moldova.

Russia also declares that it is in its interest to keep the current format of the negotiations on Transdnistria. Yet it remains unclear what this break-away region means for Russia – a tool for exerting political pressure on Chisinau, a Russia-controlled piece of land at close vicinity with NATO and EU, or a break-away territory with perspectives of accession to the Russian Federation?

These uncertainties forced the Kremlin to refresh its policy instruments in Moldova, adding to the rather traditional – though not always workable – geopolitical and 'realist' approaches more subtle forms of "soft power". What might be seen as a step in the right direction is Russia's gradual investment of political resources in bridging the communication gaps with the new pro-Western

elites in Chisinau and a variety of non-governmental groups. Yet the functioning of Russian foundations in countries like Moldova and Ukraine sometimes produces polarizing effects within these societies and only complicates the bilateral political relationship. What lies at the surface is that, despite these foundations' self-presentation as "independent civil society institutions", they are overwhelmingly viewed as off-springs of the Kremlin. Yet the even deeper problem is the lack in Russian arsenal of a 'normative appeal', which is one of strongest instruments of the EU neighborhood policy. This deficit of value-based policies is detrimental for the attempts to make use of soft power as a foreign policy tool. The way soft power is understood in the Kremlin does not meet the expectations of the new Moldovan elite, and only strengthens the perception of Russia as a *Realpolitik* type of power which makes largely ineffective efforts to use soft power resources.

In conclusion, domestically Russia is gradually moving to accepting more diversity, in terms of both interests and identities. The "vertical of power" imposed by Putin seems to be under severe strain.

From the international viewpoint, there are two main contradictions in Russian foreign policy. On the one hand, the two dominating Russian approaches – multipolarity and "new security architecture" – are not so congruous as it may seem. The lack of harmony between them is explained by their grounding in two divergent foreign policy philosophies. The new security architecture idea fits into the normative and solidarist logics of rule-based international society, while the multipolarity approach is presumed on the tenets of Realpolitik and more pluralist worldview where each powerful actor is free to choose its own policy. On the other hand, the post-Soviet countries that are deemed Russian priority seem to be unaffected by both multipolarity and security discourses, which makes to conclude that Russia has two foreign policies voices – for the West and for CIS countries.

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# The relations between Russian Federation and Spain

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After two-day negotiations in Moscow in the end of January, 1977 a new period in the history of relations between Russia and Spain began - diplomatic relations between two countries were filled. However, the basic directions of cooperation found their reflection later in the Amity and Cooperation Agreement (1994) and Strategic Partnership Declaration (2009). There is also a wide range of agreements which form the basis for the development of bilateral cooperation in various spheres. At present cooperation between Spain and Russia includes several directions: political, economic, civil cooperation, and also cooperation on struggle against global challenges.

Relations between Russia and Spain expand favorably, and it appears mainly in an active political dialogue at different levels. In March, 2009 during the visit of Russian President D. Medvedev to Spain a number of important and mutually advantageous agreements were signed. "The twenty-first century is indeed possible to reach a new level of cooperation between the two countries in all spheres. And, most importantly, to coordinate our efforts for a variety of fronts - the economy, and in the field of human relations and foreign policy, not least in view of the role played by our nations in our continent and the world,"<sup>1</sup> - said D. Medvedev.

Thus, dialogue between Russia and Spain covers the international and bilateral levels. Really, the countries share the views on a variety of large international issues and act as adherents. Russia and Spain have close perceptions

of the modern international relations based upon such principles, as multilateral cooperation, strengthening of United Nations' role and international law. Besides, both Russia and Spain realize importance cross-cultural dialogue in modern circumstances when certain extremist circles try to impose something like the conflict of civilizations. Therefore Russia actively supports the initiative of Spain and Turkey - the Alliance of Civilizations. «We find within this organization considerable potential for mobilization of collective efforts of the states and a civil society in the interests of overcoming intercultural, inter-religious and interethnic contradictions», - said A.V. Yakovenko, Deputy Minister of Foreign Affairs of Russia.<sup>2</sup>

Russia and Spain also cooperate in settling international conflicts. For an example, both countries support the idea of giving an additional serious impulse to the peace process in the Middle East, including opportunity of organizing an international conference devoted to this issue.

## Political cooperation

Spain is well placed to take the lead in efforts to improve EU-Russia relations. Russo-Spanish relations are free from the many biases and unresolved historical arguments that affect many other bilateral relationships. Both countries have a glorious imperial past, have emerged recently from dictatorships, and have made considerable input into the world's cultural heritage.

Economic relations of Russia and Spain ground mainly on political basis and there is a number of political moments which get these states closer to each other. First of all, it's important to note that there are no contradictions that could be related to history or political or geopolitical processes in present. Common between these states are internal problems, which regularly aggravate and often in connection with international conflicts related to threats of separatism and terrorism.

Spain and Russia were opponents to the recognition of Kosovo independence, fearing negative consequences for themselves. Both countries opposed the unilateral declaration of independence. However, the reasons for this refusal were not exactly the same in the first place, and the evolution of events has set the positions of the two countries further apart (Makarychev; Vaquer, 2009). For Russia it was also important that Spain as NATO member didn't recognize Kosovo independence. In this respect, Russia expects that Spain will also become an important strategic partner in the project of common Euro-Atlantic security architecture announced by President Medvedev.

Spain has made clear its desire to use its Presidency to improve EU-Russia relations which have been going through a period of some difficulty since the August 2008 war in Georgia. Spanish Foreign Minister Miguel Angel Moratinos is making efforts to establish the Georgian-Russian relations. "We have visited the Georgia-Russia



border, where opened a checkpoint that allows direct communication between the two countries, to this end. In the meantime, the EU supports the territorial integrity, sovereignty and independence of Georgia" ("EU President...", 2010).

Prime Minister Zapatero has noted that global security is largely dependent on mutual understanding between Russia and EU, and stated that Spain was committed to increasing trust and cooperation between the two actors. In his speech on the priorities of the Spanish Presidency of the EU Prime Minister Zapatero made an accent on the "development of a strategic dialogue with Russia".<sup>3</sup> The main priorities of the Spanish Presidency include "major steps during these six months to strengthen the relations between the EU and Russia. Progress will be pursued in energy cooperation, the negotiations of the new post PCA Agreement, mobility simplification and global matters. Furthermore, Russia's participation in Eastern Partnership programmes within the European Neighbourhood Policy framework will be encouraged".<sup>4</sup>

#### Euro-Atlantic security architecture

In June 2008, Russian president Dmitri Medvedev laid out a proposal in Berlin to review the overall security architecture of Europe. This proposal is still in the preliminary stages of defining its objectives and commitments. For Russia, it is necessary to newly redefine the principles and institutions that make up the collective security system, following the example of the 1975 Conference on Security and Cooperation in Europe that brought together all the countries of the Euro-Atlantic region to sign the Helsinki Final Act. According to D. Medvedev's speech at Evian, France in October of 2008, a new European security architecture should be governed by five premise.<sup>5</sup>

In other words, with this initiative Russia seeks to prevent NATO from becoming the key organization framework for European security and to acknowledge a security role for the European Union. In the meantime, Russia's "hard" security concept is diametrically opposed to the Union's "soft" security approach.

This important period when EU should define the reaction to the propositions of D. Medvedev has fallen out to the Spanish Presidency. And it's very important for the EU-Russia cooperation that under the Spanish Presidency the EU has preferred not to ignore these propositions but to answer them structurally and by that to bring an important contribution to involving Russia into security discussions.

Some of the more distinguished politicians from countries like France, Germany, Italy and also Spain have already shown their support for the Russian idea of creating a new European security architecture. At the Munich conference, Javier Solana expressed the interest of European institutions in considering the proposal with a

view to rebuilding mutual confidence between the main players in European security.<sup>6</sup> Thus, Spain could play a double role as facilitator between the Member States in order to find common ground and as intermediary in the triangle Russia-EU-USA in creating global security.

Russian experts also discuss intensively EU-Russia relations in the context of Spanish Presidency. More precisely, the idea of so-called "big bargain" which consists in: "energy in exchange for common high-grade institutions along with common view of global security problems" (Bordachev, 2009). This is a possible way to overcome the deficit of trust and lack of strategy in relations between Russia and EU.

#### Russia-Spain relations in the mediterranean

A number of differences between Russian and Spanish diplomacies may be traced. Firstly, Spain – unlike Russia – maintains some military presence in the Balkans, which makes it take a more pragmatic and less confrontational stance. Secondly, Spain – unlike Russia – is very reluctant to draw any parallels between Kosovo and other regional conflicts, admitting that Kosovo deserves separate treatment. Thirdly, for Russia the Kosovo incident reveals Russia's distinctive identity mostly oppositional to the West. This is certainly not the case of Spain which prevents any possible anti-European modalities in its diplomatic position (Makarychev, 2009).

#### New Partnership and Cooperation Agreement

As a new Partnership and Cooperation Agreement concerns the European Union as a whole, we will consider firstly the EU-Russia perceptions and then will envisage Russia-Spain cooperation in this context.

The negotiations on a new Partnership and Cooperation Agreement started in June 2009 in Khanty-Mansisk. It is supposed that the document will be universal and will include such issues as economic cooperation, political dialogue, development of four common spaces, security and justice etc. However, energy remains the main issue and simultaneously problem for the development of the new Partnership and Cooperation Agreement. For its conclusion it is necessary to overcome some serious obstacles based on different perceptions and visions.

Russia considers the new document to be of a general character that would provide with the opportunity of working out and signing agreements on various sectors of cooperation as well as would allow necessary flexibility in negotiations.

The EU perceives the new agreement as a universal one in which democratic standards of a law-based state will be fixed as well as the basic aspects of energy security will be guaranteed. In particular, the EU would like to integrate the Energy Charter and the Transit Protocol into the new Partnership and Cooperation Agreement.

So, at least four key factors differentiate Russia from the EU in this regard (there may well be more): integration of state and company, attitude to monopolies, attitudes to prices, profits and investment, transparency.

*"Spain is well placed to take the lead in efforts to improve EU-Russia relations"*

Thus, it's important to develop a new flexible regime of trade in energy recourses or to reform Energy Charter Treaty as well as discussions about the new Partnership and Cooperation Agreement. The document should include the aims of both partners. In case, if liberalization and monopoly are perceived as both possible market models, there will be an opportunity to have common denominator in strategic energy thinking and Spain could play this important role for further development of EU-Russia relations.

## Economic cooperation

### Energy sphere

Economic relations between Russia and Spain become stronger over time. Bilateral trade grew almost fivefold over the past five years, hitting \$9.3 billion in 2008. Russian exports increased 17% amounting to over \$5 billion and imports grew 32.5% to \$4.2 billion. It is expected that due to agreement in the energy sphere economic cooperation will gain a new impulse for further development.

During the most recent state visit of Russian president Dmitry Medvedev to Spain, in March 2009, two countries signed an energy agreement giving Spanish companies greater access to Russian fossil fuels in exchange to easing Spanish regulations regarding purchase of Spanish energy companies by Russian businesses. According to Spanish prime minister Zapatero, "The memorandum means greater security in Spain's energy supplies and it guarantees better access for our companies to Russian energy reserves" ("Russia and Spain...", 2009). Besides, it gives opportunities for creating additional job places. It's a complex agreement and covers such energy sources as oil, gas and liquefied natural gas.

Agreement between Gazprom and Gas Natural gives the Spanish side access to Gazprom's export pipelines and, potentially, Shtokman gas field output, in exchange for a stake in Spanish electric utilities. Gazprom is considering inviting Spanish companies, in particular, Repsol, to join projects to produce and liquefy natural gas in Russia.

The gas swap deal between Russia's Gazprom and Spain's Gas Natural includes liquefied natural gas supplies from Russia's Shtokman field to be delivered to Spain. "Up until now, Gazprom has not supplied natural gas to Spain. In accordance with this agreement, gas under Gazprom contracts will appear on the market of Spain in the nearest future" - Alexei Miller, the head of Gazprom, said.<sup>7</sup>

### Cooperation between Russian railways and Spanish rail companies

Spain is a world leader in terms of the extent of the new high speed rail lines it is building and commissioning. The experience gained by Spanish Railways in feasibility evaluation, design, construction and operation of high speed rail links can be easily adapted to Russian operat-

ing conditions. The relevant technologies and engineering solutions are fully in line with international standards, while at the same time Spanish engineering design companies charge somewhat less for their services than, for example, French or German companies.

One important component of cooperation between Russian Railways and Spanish railway companies is the further development of information exchange, the harmonization of technical and operating standards and commercial procedures.

The signing in March 2009 of a cooperation agreement between Russian Railways and ADIF – Spain's Railway Infrastructure Administration – was an important stage in the development of links between the two countries' railway companies. The document reflects the parties' mutual interest in building a close and mutually beneficial relationship in all aspects of the freight and passenger rail transport business in Russia and Spain.<sup>8</sup>

Spain is interested in Russia's experience of work in wintertime and with this aim several research and expert groups visited Irkutsk to explore the railway functioning under low temperatures.

### Tourism

Spain enjoys a steady inflow of Russian tourists and investments. According to the Russian ambassador to Spain, trade between Russia and Spain in 2008 reached ten billion Euros. The same source estimates that 300,000 Russian tourists visited Spain in 2008, while 100,000 Spaniards visited Russia. Spain is immensely popular among wealthier Russians as a place to buy their second home or have a summer dacha. Its climate and favorable tax regime have continued to attract Russian money even after the financial crisis. According to DOKI real estate agency, Russians spent up to two billion Euros in 2009 for purchasing property in Spain. The permanent living Russian-speaking community in Spain is currently estimated at quarter of a million. Foreign Minister Miguel Moratinos said shortly after Spain assumed the Presidency that he would work towards abolishing visas for Russians wishing to visit the EU. A kind of "road map" would be considered but however it's the question of future (Ordzhonikidze, 2010).

## Civil society relations of Russia and Spain

The forum "Dialogue of civil societies" serves for contacts between intellectuals and business communities. Its creation was declared in February, 2006 during Vladimir Putin's state visit to Madrid. The forum includes three "round tables": economy, culture, mass-media. The forum will promote in many aspects to the development of new ideas and the further strengthening of mutual understanding and trust between Russia and Spain.



For Russia it could be useful to address the experience of so-called democracy transit which occurred in Spain, to get acquainted with developments of civil society, with the business organization. Russia and Spain are united by political, economic and social transformations, but at the same time each of the countries has its own experience of transformation and development of democratic institutions, its successes and failures. The forum will allow to find things in common for further cooperation.

Spain for Russia represents an example of “soft power” and probably cooperation would allow to introduce European values to Russia that witnesses about affinity of Russia more to the European rather than to English-Saxon culture.

### Common challenges

Russia and Spain cooperate in *fighting against terrorism*. There is a working group covering this issue. The countries also actively discuss this problem in the framework of international organizations such as UN as well as at the bilateral level. During the visit of D. Medvedev to Spain an important joint document on the fight against was signed.

***“Energy remains the main issue and simultaneously problem for the development of the new Partnership and Cooperation Agreement.”***

Another global challenge touching upon all the countries is **financial crisis**. During its official visit to Spain D. Medvedev proposed the idea of reforming economic relations and creating new world financial architecture. Then, during the London Summit on April, 2009 both countries supported the idea of fundamental reform.

“The key challenge of the G20 is to link the short-term response to the crisis with the task of fundamental reform. We need to build a robust institutional framework to underpin, not only globalization, but also to address market failures” – declared José Luis Rodríguez Zapatero, Prime Minister of Spain.<sup>9</sup>

“If you ask what we are proposing, it is simply a more equitable international financial system” – announced Dmitry Medvedev, President of Russia.<sup>9</sup>

Countries and regional groups from around the world worked closely together to find practical policies contributing to the aims of both the Washington and London Summits. Several governments – including Spain and Russia – have set out their own agendas following publication by the UK of its plan for recovery – The Road to the London Summit.

In conclusion we can say that Russia-Spain relations are developing and becoming stronger. They ground mainly on the political and economic basis as both countries share opinion about main political issues such as Euro-Atlantic security, Kosovo independence, energy cooperation, reform of the international financial system. However, Spain and Russia have different perceptions of the key world questions.

### Notes

1. Spain and Russia subscribe a Declaration of Strategic Association [http://www.la-moncloa.es/IDIOMAS/9/ActualidadHome/03032009\\_visita+presidente+ruso.htm](http://www.la-moncloa.es/IDIOMAS/9/ActualidadHome/03032009_visita+presidente+ruso.htm)

2. Speech by Deputy Minister of Foreign Affairs A.V. Yakovenko at the second Forum of the Alliance of Civilizations on April 6, 2009, Istanbul, available at [http://www.un.int/russia/new/MainRootrus/docs/off\\_news/060409/newrul.htm](http://www.un.int/russia/new/MainRootrus/docs/off_news/060409/newrul.htm)

3. Speech by the Prime Minister, José Luis Rodríguez Zapatero, on the priorities of the Spanish Presidency of the EU, December 16, 2009, available at <http://www.eu2010.es/en/documentosynoticias/discursos/zapatero-discurso.html>

4. The Programme for the Spanish Presidency of the Council of the European Union 1 January-30 June 2010, available at <http://www.eu2010.es/en/>

5. A Project For Europe: Reflections and proposals for the Spanish Presidency of the Council of the European Union. Part two: The European Union as a Global Player, available at [www.cidob.org](http://www.cidob.org)

6. Speech by Javier Solana at the 45th Munich Security Conference on February 2, 2009, available at <http://www.securityconference.de/Dr-Javier-Solana-Madariaga.246.0.html?&L=1>

7. Russia plans future gas supplies to Spain from Arctic gas field, official web-site of Prime Minister V. Putin, [www.putin.ru/news/81-engnews1/6092-russia-plans-future-gas-supplies-to-spain-from-arctic-gas-field.html](http://www.putin.ru/news/81-engnews1/6092-russia-plans-future-gas-supplies-to-spain-from-arctic-gas-field.html)

8. Russian Railways Official Web-Site [http://eng.rzd.ru/isvp/public/rzdeng?STRUCTURE\\_ID=4090](http://eng.rzd.ru/isvp/public/rzdeng?STRUCTURE_ID=4090)

9. What Summit leaders have said in the run-up to the London Summit <http://www.londonsummit.gov.uk/en/summit-aims/summit-progress/quotes-leaders-pre-summit/>



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# Relations between Spain and the Russian Federation

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*“Russia and Spain, the two extremes of Europe’s great diagonal (...) coincide in being the lands of two peoples that suffer from an evident and enduring scarcity of eminent individuals. In the Slavic nation (...) there has always been an exquisite minority that has acted on Russian life but it is of such meagre dimensions in comparison with the vastness of the race that it has never been able to permeate the colossal plasma of the masses with its organising influence. As for Spain, the most characteristic feature (...) is the disproportion between the value of our masses and that of our select minorities (...). Here, the “people” have done it all and what the “people” have been unable to do has been left undone. However, the people cannot do science, or high-quality art, or create a civilisation endowed with complex techniques or organise a State of enduring consistency”*

José Ortega y Gasset, *España Invertebrada*, 1921  
(*Invertebrate Spain*)

In pronouncing his diagnosis, Ortega considered that, in comparison with the most advanced countries of Europe, Russia (now officially the Russian Federation) and Spain had in common a lack of elites that were capable of bringing their respective peoples out of their centuries-old backwardness.

Our distinguished philosopher came up with an extremely negative verdict on being Russian or Spanish at a difficult moment in the history of both Spain and Russia. The former was still on edge with the feeling of defeat resulting from the “disaster of ’98” and the difficulties of the Spanish army in Morocco (the Primo de Rivera coup d’état and the suspension of the 1876 Constitution happened just

two years after the publication of *España invertebrada*), added to which were the rise of the workers’ movements and peripheral nationalist agitation. In Russia, the October Revolution had followed in the wake of defeat in the First World War, along with the very harsh process of transformation into a communist society at the hands of the Bolsheviks.

There can be no doubt that the physical and historic distance between the Russian Federation and Spain is very great. Yet over the centuries these two peoples have had quite a lot of notable points in common. Each of the two countries has constituted a bridge between two continents and different civilisations. The two great empires, the Russian and the Spanish, were built up at about the same time. At one point, they even ended up being neighbours in the southern part of Alaska.

The Spanish nation was forged with the thrust of Castile, which united with Aragon. As Ortega describes, both kingdoms merged their different international policies which were respectively oriented to Europe and Africa and to the Mediterranean. The consummation of the campaign against the Muslims and unification under the Catholic faith were followed by the conquest and colonisation of America (which, for Ortega was “the greatest thing that Spain has done in History”, although this was not the work of the elites but of the people).

In Russia’s case, the driving force of agglutination came from Moscow once it had recovered from its dynastic crises. The reign of Muscovy set about a massive project of territorial expansion taking in the empire from the Baltic Sea and the Black Sea to the vast lands of Central Asia and the Pacific Ocean. After the fall of Constantinople, Moscow, bastion of the orthodox faith, took over from Byzantium, presenting itself as the “Third Rome”. In Spain and Russia alike, the tremendous territorial expansion required a huge effort from the people, who had to face constant threats.<sup>1</sup>

Like Spain, Muscovy absorbed the Christian faith and, in great part, each country defined its Christian identity in the endeavour of expelling the Muslim invaders (the Tartars in the case of Russia and the Arabs in that of Spain). In both countries, the strain on the military was transformed into a religious cause, and vice versa. The political and religious authorities were intimately linked and, when the time was ripe, both lands were to become the standard bearers of their respective versions of the Christian faith.

The expulsion of the Jews ordered by the Catholic monarchs Ferdinand and Isabella was followed with interest in Russia. J. H. Billington considers that there is similarity in the role played by the respective Jewish communities in the development of the Russian and Spanish cultures and, again, in the attacks on the Jews in Spain and Russia. In the latter case, anti-Semitic reaction began shortly after the Alhambra Decree, or



Edict of Expulsion, which transferred the centre of gravity of Jewish influence from the southwest to the northeast of Europe.<sup>2</sup>

With the coronation of Ivan IV in 1547, the monarch of Russia became the “tsar” a term that is equivalent to emperor (“*Gosudar vseia Rusi*”, “sovereign of all the Russias”). Historians have frequently drawn attention to the parallels between Ivan IV (1537 – 1584) and Philip II, King of Spain (1527 – 1598), and both monarchs have given rise to their own “black legends”.

Another classic similarity is that of the resistance of Russia and Spain to the Napoleonic invasions (the uprising of the people of Madrid in 1808 and the burning of Moscow by its inhabitants in 1812). The enlightened scholars who drew up the Constitution of Cadiz (1812) and the liberals who succumbed to the authoritarian repression of Ferdinand VII after the Liberal Triennial (1820-23) have been compared with the “children of 1812” or the “Decembrists” like Prince Sergei Volkonsky who, on their return to Russia in 1815, were betrayed by Tsar Alexander I, in whom they had vested their hopes for reform.<sup>3</sup> As in Spain, it was the Russian people who heroically struggled to expel the invader

**"Spain is on the same footing as the other European countries with which the Russian Federation has privileged relations"**

and the same thing occurred, although on a much greater scale, in the Second World War with the Nazi invasion. To paraphrase Orlando Figes, who evokes the tremendous epic of the Russian people – known in the Russian Federation as the “Great Patriotic War” – this disposition for personal sacrifice was the Soviet Union’s best weapon. The deeds of millions of soldiers and civilians, many of whom laid down their lives, compensated for the shortcomings of the military commanders and the paralysis of almost all the powers-that-be.<sup>4</sup>

The reciprocal interest between Russia and Spain is also reflected in literature. The Duke of Muscovy appears in *La vida es sueño* (Life Is a Dream) by Pedro Calderón de la Barca, while Lope de Vega tells the story of the false Dmitry in *El Gran Duque de Moscovia y emperador perseguido* (The Grand Duke of Muscovy and Persecuted Emperor). Not to be overlooked either is *Cartas de Rusia* (Letters from Russia) by the diplomat and writer Juan Valera.<sup>5</sup>

Naturally, the great Russian authors like Tolstoy, Turgenev, Chekhov, Dostoyevsky and Gogol were known and appreciated in nineteenth-century Spain. In the Russian Federation, *Don Quixote* continues to fascinate to this very day (Cervantes is the only foreign writer who has a monument in Moscow) and even the picaresque as embodied in *El Lazarillo de Tormes* came to be idealised. Billington writes that Turgenev preferred the works of Calderón to those of Shakespeare.<sup>6</sup> Again, among Russian composers such as Glinka and Rimsky Korsakov, Spanish themes and music were a source of inspiration. Among the operas and plays

that have enjoyed greatest popularity in Russia are *The Force of Destiny*,<sup>7</sup> *Carmen*, and *Don Carlos*, all of which are set in Spain.

Not to be overlooked, in the case of architecture, is the figure of the Canarian, Agustín de Betancourt, founder of the higher engineering school known as the St Petersburg Institute of Corps of Engineers of Routes of Communication. As Tatiana Pigariova<sup>8</sup> writes, he became friendly with Tsar Alexander I, came to be Chief Director of Routes of Communication in Russia and was awarded the Cross of Knight of the Order of Alexander Nievsky. He designed one of Moscow’s most emblematic buildings, the Manege or Riding Academy, which was constructed in 1817 for the occasion of a visit by the Tsar to attend a military parade commemorating the victory against Napoleon.

Although this has no pretensions to being an exhaustive account, one should not forget, either, the intervention of the Soviet Union in the Spanish Civil War (1936-39). In the face of the inaction of France and Great Britain and the support given by Nazi Germany and Fascist Italy to the insurgents, Stalin aided the Republic with arms shipments – which, of course, were duly paid for with gold from the Banco de España (Bank of Spain) – but did not send troops, although he did authorise the presence of numerous Russian volunteers in the International Brigades, many of whom were subsequently “purged” in the campaigns of repression and persecution of the years between 1937 and 1940. Moreover, the Soviet regime gave priority to preventing a coalition of Trotskyites and (POUM) anarchists from taking power in Catalonia. Orwell complained that “it was the Communists above all others who prevented revolution in Spain”.

Of course, the “children of war” who were sent to the Soviet Union between 1937 and 1939 should not be disregarded at this point. Of the 3,000 who arrived in the USSR, little more than 200 remain, some 160 living in the Russian Federation and the remainder in other countries of the Commonwealth of Independent States (CIS). The others have died or they returned to Spain after 1956 (although some went back to the Soviet Union when they could not adapt to the Spain of those years). These people (who receive special support from the Spanish State in the form of a complementary welfare pension, medical insurance and who have the use of a rented venue in Moscow so that they can meet) constitute a paramount historic legacy, for they are the very incarnation of the tragedy of the Spanish and Russian peoples.

### **A brief historical account of Spanish-Russian relations<sup>9</sup>**

Historians situate the first diplomatic contacts in the sixteenth century, principally due to the interest of the Prince of Muscovy, at that time Basil III, in keeping



up with the new Holy Roman Emperor, Charles V, King of Spain, the same good relations that he had enjoyed with latter's paternal grandfather Maximilian I. The two sovereigns sent reciprocal diplomatic missions. With the same objective, Ivan IV also sent a mission to Spain.

However, the establishment of full diplomatic relations with an exchange of ambassadors did not occur until 1722 during the reigns of Peter I (The Great) of Russia and Philip V. The Tsar appointed as his first ambassador to Spain Prince Sergei Golitsyn, who was assigned the tasks of informing on the commitments undertaken by the King of Spain with other powers, especially France, and investigating the possibility of signing a trade agreement. The ambassador nominated by Spain was the Duke of Liria. However, Spain broke relations with Russia in 1759 on the death of Peter II since the ascension to the throne of his distant cousin Anna Ivanovna (Anna of Russia) was not deemed to be in accordance with dynastic rights. At the end of the eighteenth century, the Prime Minister of Spain, Manuel Godoy, attempted to accomplish the signing of agreements with Russia, among them a possible alliance against increasing pressure from the French. However, relations deteriorated greatly to the point of rupture and even a declaration of war in July 1799 as the result of a dispute instigated by the Order of Malta (which had offered the title of Grand Master of the Knights Hospitaller to Paul I of Russia).

Relations were re-established when Alexander I came to the throne and were greatly strengthened because of French aggression against both countries. On 8 July 1812 they signed the Velikie Luki Treaty of Alliance, the most interesting element of which is recognition by the Russian Tsar of the "the legitimate and extraordinary Cortes Generales [legislature] of Cadiz, along with the Constitution drawn up and established by the said Cortes Generales". Lamentably, the Tsar's open, liberal position was short-lived since, after the Verona Congress in October 1822, Russia joined with Prussia and France in the Holy Alliance and pushed for sending an army of 95,000 men under Louis Antoine de Bourbon, Duke of Angoulême to help Ferdinand VII restore absolutism in Spain, thus putting an end to the period known as the Liberal Triennial (1820 – 1823). Alexander I would then proceed to suppress in his own country the reformists who had come together in the group known as the Decembrists. Russia was subsequently to close its embassy in Spain from 1833 to 1856 on not recognising Isabella II as the legitimate Queen of Spain.

After the Crimean War (1853 – 1855), Russia and Spain decided to establish closer relations, sending as their respective envoys Prince Mikhail Golitsyn and the Duke of Osuna. Thenceforth, until the October Revolution of 1917, relations were smooth, the monarchs of both countries remaining neutral in the conflicts that Russia faced with the Ottoman Empire and Spain

with the United States. After the Bolshevik Revolution the respective ambassadors were withdrawn and no envoys were sent until the Second Spanish Republic. In 1933, one of the most outstanding artificers of the Russian Revolution, Anatoly Lunacharsky was appointed ambassador to Spain, but he died in France en route to take up his position. After the Popular Front victory in Spain in February 1936, the USSR named Marcel Rozenberg as the first Soviet ambassador to the Spanish Republic in August the same year, while the Republican Government sent Marcelino Pascua to be its ambassador in Moscow. A Soviet Consulate General was also opened in Barcelona.

The victory of Franco's forces in April 1939 saw the beginning of a long period of almost forty years in which Spain and the Soviet Union had no diplomatic relations. Although Spain did not participate in the Second World War, it did send the División Azul (Blue Division), an 18,000-strong unit of volunteers who joined the German Wehrmacht and fought in Russia from 1941 to 1943.

Trade relations began to flourish at the end of the 1960s, leading to the 1969 opening in Madrid of the first office representing an official Soviet organism, the *Morflot* (Merchant Navy), after which companies specialising in Spanish-Russian trade – for example Sovhispan – began to appear. In 1972, Spain and the USSR signed a trade agreement that opened up the way for trade representation in their respective capitals, these offices also being responsible for consular functions.

After the death of General Franco in November 1975, contact between the two countries intensified, eventually leading, in February 1977, to the re-establishment of diplomatic relations with the formalisation of an agreement between the foreign ministers, Andrei Gromyko and Marcelino Oreja. The first Soviet ambassador to Madrid was Sergei Bogomolov, while the first Spanish ambassador to Moscow was Juan Antonio Samaranch.

After the dissolution of the Soviet Union in December 1991, Spain officially recognised the Russian Federation on 21 December 1991, after which the first ambassador to Spain was Igor Ivanov, while the last Spanish ambassador to the Soviet Union, Eugenio Bregolat remained in the post after these events.

In 2007, the thirty-fifth anniversary of the re-establishment of diplomatic relations between the two countries was celebrated with a series of events, articles and retrospective exhibitions covering this period.

### Spanish-Russian relations today

The relations between Spain and the Russian Federation have moved ahead significantly in recent years, this essentially being due to an intensification

**"The Russian Federation ought to be an attractive market for Spanish enterprises and investors"**

of high-level political contacts and the absence of any bilateral disagreements. An additional factor is the natural sympathy among people in the Russian Federation for Spain, the growing number of Russian tourists and increasing activity in the domain of economic exchanges. Nevertheless, the good state of relations is not satisfactorily reflected in the trade and investment figures between the two countries.

The legal framework of political relations is constituted by the Treaty of Friendship and Cooperation between the Kingdom of Spain and the Russian Federation, which was signed in Madrid on 12 April 1994 (BOE N° 247/1995, 16 October 1995). The Treaty is inspired in the "deep feelings of mutual friendship and respect between the peoples of Spain and Russia and in the centuries-old Spanish-Russian relations" and seeks to "open up a qualitatively new period in the latter". The Treaty had an initial validity of ten years, renewable for successive five-year periods except in the case of written formal complaint by either of the two parties. The Treaty is still in force.

Relations have intensified still more in recent years, once again due to the frequency of high-level political contacts. President Putin visited Spain in February 2006,<sup>10</sup> as did his successor Dmitry Medvedev in March 2009. Again, both King Juan Carlos I and the Spanish Prime Minister José Luis Zapatero have visited the Russian Federation several times in the past four years. Moreover, there have been activities of political consultation between the two Foreign Ministers who meet several times a year.

On the occasion of the aforementioned visit of President Medvedev to Spain (his first official visit abroad as Head of State) in March 2009, a Declaration of Strategic Alliance between Spain and the Russian Federation was signed, this bestowing a new dimension on bilateral Spanish-Russian relations, and stating, "*Based on mutual understanding and trust, this Strategic Alliance aspires to raise the links between the two countries to a level that is both higher and qualitatively new, giving impetus to especially close and dynamic cooperation in the realms of both bilateral relations and in the international scene*".<sup>11</sup> The document envisages that the Prime Minister of the Spanish Government and the President of the Russian Federation will meet at least once a year. The respective Ministers of Foreign Affairs and co-presidents of the Joint Economic Commission are also expected to be present. Also foreseen is the possibility of creating further Joint Commissions by sector, at ministerial level if deemed necessary, and the holding of at least two meetings per year of the Ministers of Foreign Affairs.<sup>12</sup>

In fact, from the political and institutional perspective, the Declaration places Spain on the same

footing as the other European countries with which the Russian Federation has privileged relations that come under the heading of "strategic", which is to say Germany, France and Italy whose volume of economic exchanges with the Russian Federation is far greater than Spain's. In 2008, trade between the Russian Federation and Germany was estimated at 60,000 million euros and that for the Russian Federation and Italy at 40,000 million euros, in contrast with somewhat less than 9,000 million euros in the case of Spain.

Spain has also received special treatment as one of the few countries hitherto – along with Germany, France and the United States – that has signed with the Russian Federation an agreement concerning air transport of military equipment and personnel under the auspices of the stabilisation mission in Afghanistan. This agreement was signed on the occasion of President Medvedev's State Visit in March 2009.

Of special relevance, too, is the re-launching of the Intergovernmental Spanish-Russian Joint Commission for Economic and Industrial Cooperation, which held its Sixth Session in Madrid on 12 November 2008. Also of particular significance was the holding in Madrid, to coincide with President Medvedev's State Visit, of the First Assembly of Vice-Chancellors of Spanish, Russian and Iberoamerican Universities, with the participation of vice-chancellors of the leading Russian and Spanish universities along with their counterparts from numerous Latin American countries. The Spanish-Russian Civil Society Forum, which had been formally constituted in September 2007, also met in Madrid during the State Visit.

The great challenge for both countries is to fill their relations with real content, especially in the commercial-economic, cultural, educational and scientific-technical areas, making the most of the present high point in political relations and the solid institutional framework that has now been established.

### Spanish-Russian economic relations

the economies of Spain and the Russian Federation are complementary. The volume of trade exchanges has steadily increased in recent years, although the pace of progress was interrupted in 2009 as a result of the economic crisis when the Russian economy went from an average annual growth rate of 6.5% in the period from 2004 to 2008 to a figure of -7.9% in 2009. However, it seems that the Russian economy might go back to a growth rate of somewhere between 3% and 5% in 2010, which would doubtless have an effect on Spanish sales.

Nevertheless, there is a great imbalance since the import-export coverage ratio is just over 30% (37.7% in 2008 compared with 26.5% in 2007). The Russian Federation is Spain's main oil supplier, this product

representing between 80% and 90% of its sales in Spain. Other imported products are cast iron, steel, nickel and manufactured goods. It is ninth on the list of Spain's suppliers, accounting for 2.7% of total imports.

Spanish exports to the Russian Federation have been increasing over recent years (+37.5% in 2006, +63.7% in 2007 and +35.5% in 2008) with the already-noted exception of 2009. The figure for 2008 was 2,836 million euros. The composition of Spanish sales is quite varied with automobiles topping the list (24.6% in 2008), followed by capital goods (24.3%, mostly industrial machinery), semi-manufactured goods (17.8%, noteworthy here being chemical products) and foodstuffs (17.4%). The fastest-growing sectors are those of capital goods and food and agriculture. In 2009, as a result of the crisis, the downturn in all areas has been dramatic, with a particular decline in automobiles – virtually paralysed – and capital goods. Yet sales in textiles and foodstuffs (principally fruit, vegetables and meat) have held their own.

In 2008, the Russian Federation represented 1.5% of total Spanish exports, thus occupying eleventh place among the countries supplied. Spain has a market quota of about 1.3% of total Russian imports.

Given the high growth rates of the Russian economy (until 2009), the increased revenue of the population and the need to renovate the productive apparatus and infrastructure, the greater part which is obsolete, the Russian Federation ought to be an attractive market for Spanish enterprises and investors. However, because of lack of knowledge about the country and its market, bureaucratic problems and a high perception of risk, Spanish business presence lags behind that of its international competitors. In the domain of energy, relations are practically exclusively limited to the purchase of crude oil on the spot market because, since Spain is not connected with the European network of gas pipelines, it is not a Gazprom client. Among Russian entrepreneurs there is an almost total lack of interest in Spain as a destination for their products. Most Russian investments in Spain are in the real estate sector.

Among non-members of the World Trade Organisation (WTO) the Russian Federation has the biggest economy in the world and it is not possible to predict when it will join this body, especially after the decision, announced in June 2009, to construct a customs union with Belarus and Kazakhstan.<sup>13</sup> There are significant obstacles to trade and investment, these including high tariffs,<sup>14</sup> quantitative restrictions, the requirement of a certificate of conformity with and approval of products, and restrictions on foreign investment in strategic sectors. The Russian authorities apply their own rules in health and phytosanitary matters, establishing tolerance levels (residues of antibiotics in meat, and residues of pesticides, nitrites and nitrates in fruit and vegetables)

that do not meet internationally accepted standards (in the *Codex Alimentarius*) and those specified in EU norms. However, given its huge endowment of energy resources and with a clear recovery in oil prices, the Russian Federation continues to be a dynamic market and one with great potential for Spanish industry. It is, therefore, a market that deserves very close attention.

One valuable instrument for the furtherance of economic relations between Spain and the Russian federation is the Joint Commission of Economic and Industrial Cooperation. This is presently headed, on the Spanish side, by the Minister of Industry, Tourism and Trade and, on the Russian side, by the Deputy Prime Minister Alexander Zhukov. The Commission has divided its activities into working groups that are presently as follows: Cooperation in the Sphere of the Kyoto Protocol; Naval Construction; Cosmic Space; Tourism; Transport Infrastructure; and Other Infrastructure (water, environment, energy). President Medvedev's State Visit to Spain (March 2009) saw the signing of a Memorandum of Mutual Understanding in Matters of Energy Cooperation in which it is envisaged that a Working Group on Cooperation in the Sphere of Energy will be established.

Notable for their importance within the framework of the Joint Commission are matters related with infrastructure. Prominent achievements in the field of transport are the agreements signed between the Railway Company of the Russian Federation (RZhD) and the Spanish companies ADIF, RENFE, INECO, TALGO and DANOBAT with regard to high speed railways, supply of bogies, automatic gauge change systems and repair and maintenance of rolling stock. Spain's experience with high speed railway systems could be very valuable for the Russian Federation. TALGO is negotiating a contract with RZhD for the supply of four units of its train-hotel for the Moscow-Berlin route. RZhD has recently announced its interest in purchasing the TALGO automatic gauge change system which is to be used for a fast change from the Russian gauge (1,520 mm) to the European standard (1,435 mm). The passenger trains that presently have to wait two and a half hours at the border for the bogies to be changed will be able to move from one gauge to the other without stopping and, in addition, the TALGO system is five times cheaper than the bogie system.

Since Spanish companies are leaders in the field of infrastructure both in the domain of transport (roads, railways, ports) as well as with other kinds (water supply and purification, telecommunications and urban waste management), there is great potential for collaboration between the two countries in this regard. Particularly stressed in the Russian Federation is interest in the idea that Spanish enterprises should participate in the preparations for the Sochi Winter Olympics 2014 (mainly construction and running of hotels). In the realm of energy, the areas of most inter-



est to Spain are the construction of combined cycle power plants, oil, gas and renewable energies (wind, thermo-solar, bioethanol and biomass). The Russian Federation has been open to the participation of foreign companies in exploiting new natural gas reserves in the Yamal Peninsula, in joint endeavours of liquid natural gas production, and in Gazprom's participation in supplying energy to Spain and third countries (working with the Spanish companies Gas Natural and Repsol).

Some Spanish enterprises are already engaged in major projects in the Russian Federation. The company Técnicas Unidas is at the head of an international consortium working on the Khabarovsk Refinery Hydroprocessing Project with the aim of reconstructing and modernising an oil refinery belonging to the Russian enterprise Oil Company Alliance in the Khabarovsk region of Eastern Siberia. Iberdrola is finalising the construction of a 400 MW combined cycle plant in Sugres (near Yekaterinburg) for the electrical company OGK-5, while Iberdrola Renovables has signed a contract with the Government of the Krasnodar region to construct 100 MW wind energy plants and integrated water purification systems for six cities, including Sochi.

***"There is great potential for collaboration between the two countries in infrastructure and transport"***

Spanish investments in the Russian Federation do not amount to much since the stock does not exceed 800 million euros. They are closely linked with exports, since the main objective is to facilitate access to the Russian market. The main sectors attracting Spanish investment are food and agriculture, construction materials, fashion, car industry components and the energy sector. Among the most prominent companies involved are URSA-EURASIA (Uralita group, with fibreglass insulation plants), Roca Santekhnika (sanitary equipment for bathrooms), Maxam (explosives and chemical products), Europe Foods (Gallina Blanca group, in the food sector), Bodegas Valdepablo (wines), Inditex (fashion), Grupo Antolín and Ajusa, (car industry components), Santander Consumer Bank and BBVA (banking) and Indra (air traffic control systems). In total, almost 110 Spanish companies have branches in the Russian Federation (in contrast with Germany which now has over 3,000 companies active in the country).

The flow of Russian tourists to Spain has been steadily increasing every year. The year 2007 saw a leap of 23% over the previous year, with a total of 445,000 tourists from the Russian federation while some 540,000 arrived in 2008, an increase of 18.5%.<sup>15</sup> In addition these are tourists of high spending capacity. The regions that most appeal to Russian tourists are Catalonia, Andalusia, the Canary Islands and Madrid.

Spain is very much in favour of facilitating as much as possible stays in the country by means of being more flexible about visa requisites within the framework of the Agreement between the European Community and the Russian Federation on the Facilitation of the Issuance of Visas to the Citizens of the European Union and the Russian Federation, which has been in effect since 1 June 2006 and is presently in the process of revision. Some of Spain's competitors as tourist destinations, for example Turkey, Israel, Egypt and Tunisia have already introduced a visa waiver for the Russian Federation. At present, the Spanish Consulate General in Moscow, in concert with the Consulate General in St Petersburg, issues more visas than any other Spanish consulate in any other country.

### **Cultural, educational and scientific relations**

The legal framework for cultural cooperation is the Agreement on Cultural and Educational Cooperation between the Kingdom of Spain and the Russian Federation, signed in Madrid on 11 April 1994. The Agreement envisages the creation of a Joint Spanish-Russian Commission for Cultural and Educational Cooperation which approves, on a biennial basis, a programme for the said cooperation. However, it is more than four years since the Commission last met since the most recent session was in September 2005.

One of the main goals of Spain's cultural activity in the Russian Federation is the diffusion of Spanish language and culture. Of particular relevance in this regard is the work of the Cervantes Institute of Moscow. The activities of this centre are governed by the Agreement between the Kingdom of Spain and the Russian Federation on Activities of Cultural Centres, which is dated 15 November 2001. This Agreement was complemented by a Protocol signed in September 2007,<sup>16</sup> by virtue of which the financial situation of the Cervantes Institute is clarified, thereby putting an end to a complex bilateral dispute.

The Cervantes Institute of Moscow shows one of the highest figures for students in the network of the Institute's centres, with approximately 5,000 students for the academic year 2008/2009. At present it is responsible for overseeing the examinations in Spanish as a Foreign Language within the Russian Federation and several countries of the Commonwealth of Independent States: Kazakhstan, Kirghizstan, Tadjikistan, Uzbekistan, Georgia and Armenia, while also working with Hispanists of these countries. It is extending its sphere of action by way of designating associated centres and training Spanish language teachers. It also has a splendid library and engages in cultural activities with its own programmes<sup>17</sup> and in collaboration with the embassies of Latin American countries accredited in Moscow.



The Institute also promotes agreements of institutional collaboration with Russian organisms, for example the Latin American Institute, the Institute of Oriental Studies of the Russian Academy of Sciences and the All-Russia State Library for Foreign Literature. It has also begun to work jointly with the cultural services of the Spanish-language broadcasting channel of the state-owned TV news network, Russia Today.

In the sphere of education, an agreement was signed in March 2001 between the Ministries of Education of both countries by means of which the Spanish Programme for Bilingual Departments in Russia was drawn up. The programme is presently being carried out in several secondary education centres in Moscow and St Petersburg (six in total). Initiated on an experimental basis, it is now fully consolidated as demonstrated by the fact that the first class of Russian students to become holders of the Spanish secondary education certificate (Bachillerato) graduated in the academic year of 2008-2009. The Spanish Ministry has suggested drafting a new agreement to regulate the programme since that signed in 2001 was of an experimental nature. Spanish has officially become the second optional language in Russia's secondary education curriculum.

In the terrain of higher education, discussion is presently underway between the respective Ministries of Education towards a new Agreement on Mutual Recognition of Certificates of Study, Diplomas and Degrees in order to facilitate academic mobility, university exchanges and access of professionals to different job markets.

It should also be pointed out that there already exist numerous agreements between Russian and Spanish universities, while seven Russian universities offer courses in Spanish language and culture.

Particularly notable was the holding in Madrid, on 2 March 2009 – with the presence of the King of Spain and President Medvedev at the opening – of the First Assembly of Vice-Chancellors of Spanish, Russian and Iberoamerican Universities, attended by 27 vice-chancellors of Russian universities, including the most important among them, for example of the Lomonosov Moscow State University, the St Petersburg State University and the Irkutsk State Linguistic University. The Spanish universities were represented by some 40 vice-chancellors and also attending were vice-chancellors from universities of Nicaragua, Cuba, Mexico, Argentina, Paraguay and El Salvador.

The aim of the initiative is give impetus to the links of association and collaboration between higher education centres in the Russian Federation, Spain and Latin America in the spheres of education, research and science, while also contributing to the diffusion of Russian and Spanish culture and language and the mobility of university students and teachers. A

large-scale Conference of Vice-chancellors from the two cultural realms is being planned for 2011 with Moscow as its venue.<sup>18</sup>

The sphere of scientific-technical cooperation comes under the Agreement on Scientific and Technical Cooperation between the Government of the Kingdom of Spain and the Government of the Russian Federation of 15 November 2001. The Joint Spanish-Russian Commission on Scientific and Technological Cooperation envisaged in the Agreement has not yet met and, accordingly, this is one of the “pending matters” of Spanish-Russian relations. There are great possibilities for collaboration in the areas of nuclear energy, renewable energies, biotechnology, space, aeronautics and nanotechnology. Agreements of collaboration have already been signed between the Russian Academy of Sciences and the Spanish National Research Council (CSIC), the Russian Space Agency and the Spanish Centre for the Development of Industrial Technological (CDTI), and the Complutense University of Madrid and the Research Centre in Energy, Environment and Technology (CIEMAT) and the Russian Nuclear Energy Agency.

In the field of historical research, one should mention the protocol between the respective Foreign Affairs ministries on the Preparation of the Joint Collection of Diplomatic Documents (*Corpus Diplomático*), which is presently being negotiated. By virtue of this agreement, the third volume of *Corpus Diplomático* is to be produced, this being concerned with the history of relations between the Russian Federation and Spain in the twentieth century. The two first volumes have already been produced following a protocol signed in March 1985.

Cultural exchanges between the two countries are very intense. Relations between the leading Spanish and Russian museums are good, these including El Prado and the Hermitage, the Pushkin Museum and the Tretyakov Gallery and the Reina Sofía Museum of Madrid and the Guggenheim Museum in Bilbao. The Kremlin State Ballet and the Bolshoi and Mariinsky companies frequently tour Spain, as does the Moscow Theatre School, which is directed by Galina Vishnevskaya, widow of the cellist Mstislav Rostropovich. Also frequent are visits to the Russian Federation by such well-known Spanish artists as José Carreras, Plácido Domingo, Paco de Lucía and Nacho Duarte.

### Cooperation in matters of freedom, security and justice

The working relations between Spain and the Russian Federation on homeland security matters are fluid, with Spain engaging in frequent exchanges of data and information of police interest with the different services of the Russian Federation (Ministry of



the Interior, Federal Drug Control Service, Federal Security Service and the Moscow Police Department). Spain also works with the Research Committee of the Prosecutor General's Office of the Russian Federation in questions pertaining to criminal investigation. Again, joint Spanish-Russian operations are carried out against drug trafficking. On the occasion of President Putin's State Visit to Spain in February 2006 an agreement on Drug Trafficking was signed by the Federal Drug Control Service of Russia and the Spanish Ministry of the Interior.

During President Medvedev's State Visit to Spain in March 2009 a Memorandum of Understanding was signed by the Office of the Public Prosecutor of Spain and the Prosecutor General's Office of the Russian Federation, this allowing for collaboration between the two institutions in investigation of criminal activities.

Collaboration between the different services has made it possible to carry out successful action against organised crime, for example the "Ballena Blanca" (White Whale) operation against Russian-based money-laundering and the "Avispa" (Wasp) crackdown against organised criminal groups in Russia and Georgia. Further operations have been carried out against human trafficking for purposes of sexual exploitation and the collaboration also extends to the struggle against terrorism, which is a priority issue for both governments. Again, the two countries participate in the endeavour known as the Global Initiative to Combat Nuclear Terrorism.

However, it should also be borne in mind that, sometimes, when the Spanish media reports on police action against "Russian mafia groups" this actually refers to operations involving delinquents from other countries of the former Soviet Union (for example Georgia or Armenia) but not from the Russian Federation.

In the sphere of control of illegal immigration, a Bilateral Protocol for the Implementation of the Agreement between the European Community and the Russian Federation on Readmission (25 May 2006), which allows for collaboration in issues pertaining to expulsion, is in an advanced stage of negotiation. In the consular domain, a Bilateral Agreement on Cooperation in International Adoption between Spain and the Russian Federation is presently being negotiated.<sup>19</sup>

### Parliamentary relations

Parliamentary relations between the Russian Federation and Spain have intensified in recent years. The President of the Spanish Senate, Javier Rojo,

visited the Russian Federation in 2006, while the Chairman of the Council of Federation of the Federal Assembly of the Russian Federation, Sergei Mironov, visited Spain in October 2009. In June-July 2009 a delegation from the Foreign Affairs Commission of the Spanish Congress of Deputies, headed by its president Josep Antoni Duran i Lleida, visited Moscow. Again, the president of the Congress of Deputies, José Bono, has invited the president of the Russian State Duma, Boris Grizlov to make an official visit to Spain.

A parliamentary group on Relations with the Congress of Deputies has been set up in the Russian State Duma, headed by Andrei Makarov, who is presently the deputy chairman of the Committee for Budget and Tax Policy. In the Congress of Deputies, a Group of Parliamentary Friendship with the Russian Federation has also been formed, this being headed by Jordi Jané (CiU – the Catalan coalition *Convergència i Unió*) with Celia Villalobos (PP – the national conservative party *Partido Popular*) as vice-president.

### Celebration of the "Spain in the Russian Federation Year" and the "Russian Federation in Spain Year"

The holding in 2011 of the "Year of Spain" in the Russian Federation and the "Year of the Russian Federation" in Spain was decided at the meeting in Yaroslavl in September 2009 between Prime Minister Zapatero and President Medvedev. The "Year" will constitute a major boost to activities in the economic, cultural, educational, scientific and mass media domains in both countries.

In the Russian Federation, the Deputy Prime Minister Alexander Zhukov has been put in charge of the "Year" while, in Spain, the Minister for Foreign Affairs and Cooperation will be responsible for its organisation. Both men will preside over the respective organising committees. Mikhail Shvedkoi, President Medvedev's representative on cultural and humanitarian matters, has been designated as the general coordinator for the Russian Federation and his Spanish counterpart will be the ambassador Juan José Herrera.<sup>20</sup> The events of the "Year of Spain" in the Russian Federation will not only be held in Moscow and St Petersburg but also in other major cities such as Kazan, Novosibirsk, Yekaterinburg, Sochi, Vladivostok and Irkutsk, thus giving a wide-ranging territorial dimension to the presentation of Spain in the Russian Federation.

Among the sectors of particular interest for Spain in this "Year" are those of energy, infrastructure (including urban infrastructure), architecture, transport, tourism, decoration and fashion, music and the plastic arts. In 2011 Spain will be the guest country at the St Petersburg International Economic Forum, which will probably be attended by the Spanish Prime

Minister. A Spanish-Russian Business Forum might well be established under the auspices of this event. In addition, the Russian Federation could be the guest country at a number of fairs and exhibitions to be held in Spain, for example the ARCO International Contemporary Art Fair. The project of establishing in Barcelona a Russian centre to be called “Casa Rusia” is well advanced. This project has the backing of the Barcelona City Council.

The Bolshoi Theatre of Moscow – whose traditional, now-refurbished headquarters are to be opened in autumn 2011 – may offer a top-of-the-line performance by a Spanish group or singer at the end of the same year. The Patronato de la Alhambra (Alhambra Trust) and the Junta de Andalucía (Autonomous Government of Andalusia) are negotiating with the Pushkin and Hermitage museums in order to obtain the ceding of several works by Matisse for an exhibition to be held in Granada between 2010 and 2011 and, in return, notable Spanish baroque works will be ceded for an exhibition in the St Petersburg Museum. The Prado Museum and the Hermitage are discussing the possibility of holding exhibitions of their respective collections in 2011 while exchanges with the Pushkin Museum in Moscow are also envisaged. The organisers of the Kandinsky Prizes, the most prestigious awards for the plastic arts in the Russian Federation, are studying the possibility of Madrid being the venue of the award-giving ceremony.

### Civil society forum

The Spanish-Russian Civil Society Forum was constituted in September 2007 on the occasion of the visit to Sochi by the Spanish Prime Minister. This was also the occasion for the signing of the constitutive document of the Forum by its co-presidents, Álvaro Gil-Robles for Spain and Igor Ivanov (former Minister for Foreign Affairs) for Russia. Again, the Spanish-Russian Federation Council Foundation has been established with the participation of such prominent enterprises as BBVA (Banco Bilbao Vizcaya Argentaria), BSCH (Banco Santander Central Hispano), FCC (Fomento de Construcciones y Contratas), Repsol, Iberdrola, Indra, Uralita and Técnicas Reunidas. The functions of the Forum Secretariat are to be carried out, on the Spanish side, by the International Affairs and Foreign Policy Institute (INCIPE).

The Forum, presided over by Igor Ivanov (former Minister for Foreign Affairs) representing the Russian Federation and Álvaro Gil-Robles for Spain held its first meeting on 2 March 2009, this coinciding the President Medvedev’s State Visit to Spain. The meeting, the closing ceremony of which was presided over by President Medvedev and Prime Minister Zapatero, was organised around three panels: Economics

(“Business Development”), Mass Media, and Culture.

To conclude, the Russian Federation and Spain are at the two extremes of Europe. Their relations throughout history have been intermittent but also very intense, with powerful emotional content at certain times. At present, the generally cultured Russian people have quite good knowledge of Spanish culture and enjoy visiting Spain, where many have acquired properties. Spanish people are not so well informed about the Russian Federation, its history and its culture. Ideas in Spain about the country are sometimes warped by stereotypes – mainly encouraged by the mass media – that are overly negative. Fortunately, however, more and more Spaniards are visiting Russia and have the opportunity to learn about its history, its culture, and its processes of change and modernisation.

From the political standpoint, relations between the two countries are now excellent. There are frequent high-level contacts and considerable agreement on the significant issues on the international agenda. Spain is clearly in favour of an increasingly substantial approximation between the Russian Federation and the European Union, not only because it considers that the Russian Federation is an integral part of Europe but also because each party needs the other and will continue being indispensable partners in every sphere, from trade and energy through to homeland and international security.

The matter still pending as far as Spain is concerned is that of bringing more content to its relations with the Russian Federation, not only in the economic domain but also in the scientific, technical and cultural spheres. Spanish companies must show more determination to enter the Russian market which, in the coming ten or twenty years, will continue to be one of the most dynamic and interesting of all. The holding of the “Year of Spain” in the Russian Federation and the “Year of the Russian Federation” in Spain in 2011 should serve as the incentive for closer approximation between the two peoples.

### Notes

1. In the case of Moscow, there were many enemies: to the west lay the Catholic kingdom of Lithuania and Poland, along with the Teutonic knights; to the south-east were the vestiges of the Golden Horde and the Khanates of Crimea, Siberia, Astrakhan and Kazan; in the southwest was the Ottoman Empire; and, to the north, the kingdoms of Sweden and Denmark.

2. See James H. Billington, 1970, *The Icon and the Axe: An Interpretive History of Russian Culture*, Vintage Books, pp. 70-72. Billington recalls how, in 1492, the archbishop of Novgorod wrote to the head bishop in



Moscow, expressing his admiration for King Ferdinand of Spain: “*Look at the resolve with which the King of Spain cleansed (“ochisti”) his land*”. Billington states that the Russian fascination for the Spanish Inquisition begins here, along with the use of the word “cleansing” (“*chista*”) to allude to ideological purges. The famous chapter in Dostoyevsky’s *The Brothers Karamazov* on the “Grand Inquisitor” is set in Seville.

3. To paraphrase Orlando Figes, “these Russian officers who had proceeded as far as Paris in the hope that Russia would become a modern European state had dreamed of a Constitution in which all the Russian peasants would have the same rights as any other citizen. Yet they were to be disappointed by a Russia in which the peasants continued being treated as slaves. Volkonsky wrote on his return to Russia that he felt as if he was in a prehistoric past”. (*Natasha’s Dance: A Cultural History of Russia*, Picador, New York, 2002).

4. Orlando Figes, 2007, *The Whisperers: Private Life in Stalin’s Russia*, Picador, New York.

5. Tatiana Pigariova, in her magnificent book, *Autobiografía de Moscú* (Moscow Autobiography) harks back to Valera’s description of Saint Basil’s Cathedral in the Red Square: “*Valera compared the cathedral with a plate of vegetables: carrots, artichokes, radishes, parsley, mushrooms and asparagus, which might seem rather petty when he’s speaking of a great cathedral but he reflects the relationship of Russian architecture with the natural world*” (*Autobiografía de Moscú*, Editorial Laertes, Barcelona, 2001).

6. Billington, op. cit., p. 71.

7. This opera by Verdi is based on the work *Don Álvaro o la fuerza del Sino* (Don Álvaro or the Force of Destiny) by Ángel de Saavedra, Duke of Rivas. It was commissioned by the Mariinsky Theatre (then the Imperial theatre) of St Petersburg and premiered, in the presence of Verdi, in 1862.

8. Pigariova, op. cit., pp. 34 and 35.

9. The information that follows has mainly been obtained from the work of the Russian diplomat Mikhail Rassiski, which is partly based on Volumes I and II of the Spanish-Russian *Corpus Diplomático*.

10. On the occasion of President Putin’s visit to Spain the following agreements were signed: Agreement of Cooperation in Matters Related to Tourism; Agreement of Cooperation in the Exploration and Peaceful Use of Outer Space; Memorandum of Cooperation in Matters Related to Sport; Joint Declaration of Cooperation in Food Agriculture and Fisheries; Agreement of Cooperation in the Struggle Against Drug Trafficking; Non-

mandatory Agreement between the Ministries of Justice of the Russian Federation and Spain.

11. The Strategic Alliance provides for broad cooperation in the following fields: political coordination in bilateral, multilateral and international matters of mutual interest; fostering bilateral economic and trading exchanges, business contacts and promotion of reciprocal investment; cooperation in the domain of defence by means of agreements worked on by the Defence Ministries of both countries and collaboration between their respective Armed Forces; scientific and technical cooperation in bilateral and multilateral domains; collaboration in the educational field through teaching and study of the respective languages and cultures, and through relations between universities and other educational institutions of the two countries; collaboration in the cultural sphere through governmental organisms and private institutions of both countries; cooperation in the struggle against terrorism, organised delinquency, illegal drug trafficking, proliferation of weapons of mass destruction and other challenges of a global nature; cooperation in the promotion of dialogue and understanding between cultures and civilisations.

12. On the occasion of this State Visit, a series of sector-based agreements were also signed: Programme of Joint Actions 2009 – 2010 under the auspices of the Agreement of Cooperation in Matters Related to Tourism; a Memorandum on Matters Relating to Energy (a bilateral Working Group on Energy has been set up under the auspices of the Joint Economic Commission); and a Protocol on Cooperation between ADIF [Administrator of Railway Infrastructures], RENFE [Spanish National Railway Company] and RzhD [Railway Company of the Russian Federation]. Also signed were several agreements between Russian and Spanish enterprises: Agreement between the Compañía Española de Seguros de Crédito a la Exportación (CESCE – Spanish Export Credit Insurance Company) and the Russian Federation’s Economic Development Bank (*Vneshekonombank*); the Gas Natural-Gazprom Agreement; the Iberdrola-Inter RAO UES Agreement; the Danobat-TransmashHolding Agreement; and the Informa-Interfax Agreement.

13. The common external tariff of the Customs Union came into force on 1 January 2010 and envisages the application of a unified customs code on 1 July 2010. The creation of a joint economic space is envisaged for the medium term, in 2012, although it is unlikely that this goal will be achieved in so little time.

14. In 2009 some protectionist measures were adopted to support industrial sectors in crisis, so that increased tariffs were imposed on imports of automobiles, car industry components, farm machinery and construction materials. These measures violate agreements reached

with the EU and jeopardise the declared aim of joining the WTO.

15. In 2009, thanks to the economic crisis, the inflow of Russian tourists to Spain dropped by 18.92%.

16. This took effect on 10 March 2009 (BOE N° 86, dated 8 April 2009).

17. In the last academic year the Cervantes Institute centre in Moscow has been engaged in new working relations with institutions mainly in the domain of music (the Moscow Philharmonic Orchestra, the Moscow Conservatory and Radio ORFEO) as well as joining with local organisations in planning events in the fields of literature, theatre, the plastic arts and film.

18. This Conference will be structured around three themes: language education; university cooperation for the mobility of teachers and students; and research, technological development, innovation and intellectual property. It should be pointed out that the Russian Federation already enjoys good relations in the university milieu with some Latin American countries, namely Mexico, Brazil, Argentina, Venezuela, Chile and Cuba.

19. The Agreement will give bilateral legal cover to Spain and the Russian Federation in issues pertaining to the adoption of minors until such time as the Russian Federation becomes a signatory to the Hague Adoption Convention. In recent years the Russian Federation has become one of the countries most favoured by Spanish families seeking to adopt children, so that it is second on the list of countries of origin of minors adopted in Spain (901 cases finalised in 2008), immediately after China. Again, there is the commendable initiative of Spanish families that take in children from Russian orphanages during holiday periods.

20. Among the representatives on the Spanish Organising Committee, besides the Ministry of Foreign Affairs and Cooperation, are the Prime Minister's Office and the ministries of Culture, Education, Defence, Industry, Tourism and Trade, Environment and Rural and Marine Affairs (MARM), Equality, and Science and Innovation. There will also be a significant representation of the Autonomous Communities so as to give a complete territorial dimension to the "Year", along with such enterprises and organisations as Foro Hispano-Ruso de la Sociedad Civil (Spanish-Russian Civil Society Forum) and a number of think tanks (Elcano, CIDOB, etc.). Also represented are the Instituto Español de Comercio Exterior (ICEX – Spanish Institute for Foreign Trade), Sociedad Estatal para la Acción Cultural Exterior (SEACEX – State Society for Cultural Action Abroad), Barcelona Meeting Point, Cervantes Institute, Confederación Empresarial de

Madrid (CEIM – Madrid Business Confederation), Consejo Superior de Cámaras de Comercio (Council of Chambers of Commerce), Asociación de Mujeres Empresarias de Madrid (ASEME – Association of Businesswomen of Madrid) and Radio Televisión Española (RTVE – Spanish Radio and Television). The Russian Committee includes the Ministries of Finance, Culture and Mass Communication, Education and Science, Sports, Tourism and Youth, and Regional Development, along with other organisms such as the Academy of Sciences, Roskosmos and several television channels, news agencies and the Hermitage, Pushkin and Tretyakov museums, *inter alia*.

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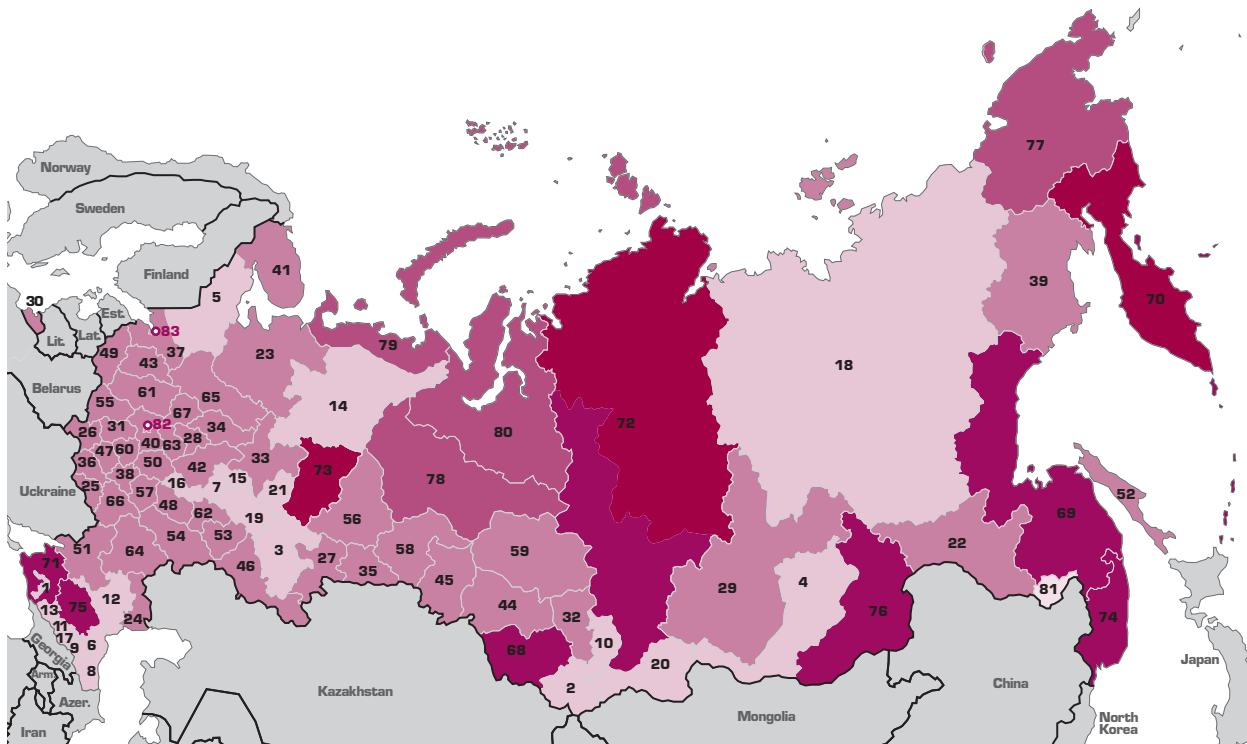
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# ◆ APPENDIXES





# Map of the country



- |                         |                              |                                       |                              |
|-------------------------|------------------------------|---------------------------------------|------------------------------|
| <b>21 Republics</b>     | <b>46 Provinces (oblast)</b> | <b>9 Territories (krais)</b>          | <b>1 Autonomous oblast</b>   |
| 1. Adygueya             | 22. Amur                     | 45. Omsk                              | 81. Jewish Autonomous Oblast |
| 2. Altai                | 23. Arkhangelsk              | 46. Orenburg                          |                              |
| 3. Bashkortostan        | 24. Astrakhan                | 47. Oryol                             |                              |
| 4. Buryatia             | 25. Belgorod                 | 48. Penza                             |                              |
| 5. Carelia              | 26. Bryansk                  | 49. Pskov                             |                              |
| 6. Chechnya             | 27. Chelyabinsk              | 50. Ryazan                            |                              |
| 7. Chuvashia            | 28. Ivanovo                  | 51. Rostov                            |                              |
| 8. Dagestan             | 29. Irkutsk                  | 52. Sakhalin                          |                              |
| 9. Ingushetia           | 30. Kaliningrad              | 53. Samara                            |                              |
| 10. Jakasia             | 31. Kaluga                   | 54. Saratov                           |                              |
| 11. Kabardino-Balkaria  | 32. Kemerovo                 | 55. Smolensk                          |                              |
| 12. Kalmykia            | 33. Kirov                    | 56. Sverdlovsk                        |                              |
| 13. Karachay-Cherkessia | 34. Kostroma                 | 57. Tambov                            |                              |
| 14. Komi                | 35. Kurgan                   | 58. Tyumen                            |                              |
| 15. Marii-El            | 36. Kursk                    | 59. Tomsk                             |                              |
| 16. Mordovia            | 37. Leningrad                | 60. Tula                              |                              |
| 17. North Osetia        | 38. Lipetsk                  | 61. Tver                              |                              |
| 18. Saja Yakutia        | 39. Magadan                  | 62. Ulyanovsk                         |                              |
| 19. Tatarstan           | 40. Moscow                   | 63. Vladimir                          |                              |
| 20. Tuva                | 41. Murmansk                 | 64. Volgograd                         |                              |
| 21. Udmirtia            | 42. Nizhny Novgorod          | 65. Vologda                           |                              |
|                         | 43. Novgorod                 | 66. Voronezh                          |                              |
|                         | 44. Novosibirsk              | 67. Yaroslavl                         |                              |
|                         |                              | 68. Altai                             |                              |
|                         |                              | 69. Khabarovsk                        |                              |
|                         |                              | 70. Kamchatka                         |                              |
|                         |                              | 71. Krasnodar                         |                              |
|                         |                              | 72. Krasnoyarsk                       |                              |
|                         |                              | 73. Perm                              |                              |
|                         |                              | 74. Primorsky                         |                              |
|                         |                              | 75. Stavropol                         |                              |
|                         |                              | 76. Zabaykalsky                       |                              |
|                         |                              | <b>4 Autonomous districts (okrug)</b> |                              |
|                         |                              | 77. Chukotka                          |                              |
|                         |                              | 78. Janty-Mansi                       |                              |
|                         |                              | 79. Nenets                            |                              |
|                         |                              | 80. Yamalo                            |                              |
|                         |                              | <b>2 Federal cities</b>               |                              |
|                         |                              | 82. Moscow                            |                              |
|                         |                              | 83. St. Petersburg                    |                              |

**Area:** 17,098,242 km<sup>2</sup>  
**Population:** 141,914,509 (2010)  
**Rate of demographic growth:** -0.4% (2005-2010)  
**Urban population:** 72.8% (2010)  
**Immigrant population:** 8.4% (2005)  
**Capital:** Moscow (10,562,000 hab.)  
**Government:** Federal republic  
**Administrative organization:** 21 republics, 46 provinces, 9 territories, 4 autonomous districts, 1 autonomous province y 2 federal cities (Moscow y St. Petesburg)  
**President:** Dmitry Medvedev (2008)  
**GDP:** \$ 1,290,1 Trillion (2007)  
**GDP per capita (\$PPP):** \$ 14,690 (2007)

**Annual growth GDP:** 6.4% (annual average 2000-2006)  
**GDP composition:** 5.2% Agriculture, 37% Industry, 57.9% Services  
**Unemployment rate:** 15.7%  
**Population below threshold poverty:** 15.8% (2007)  
**Exports:** \$ 303,388 million  
**Imports:** \$ 191,803 million  
**Fertility rate:** 1.34 births per woman (2008)  
**Life expectancy at birth:** 66.2 (2007)  
**HDI:** 0.817 / IDH high / Global position, 71 (2007)

Sources: Federal State Statistics Service, CIA World Factbook, UNDP



# Political system and structure of the state

## THE RUSSIAN CONSTITUTION OF 1993

The supreme legal document of Russia is the Constitution of the Russian Federation, adopted by national referendum on 12 December 1993. In post-imperial Russia this was the fifth Constitution although it was the first one to be officially approved by the nation. Its adoption was the subject of drawn-out debate and was preceded by a fierce power struggle, which almost brought the country to the verge of the civil war.

The referendum marked the beginning of a new period for the Russian State. After centuries of tsarist rule followed by 70 years of communist dictatorship, Russia consciously took the path of further democratic development on the basis of the principles spelled out in the Constitution of 1993. Although the inevitable process of democratisation could clearly be witnessed in the latter period of the Soviet Union under the rule of Mikhail Gorbachev, it was only with the adoption of the new Constitution that Russia emerged as a truly democratic country.

In the Constitution, Russia was proclaimed a democratic state based on a separation of powers giving priority to human rights and freedoms. It also guaranteed political and ideological pluralism, promoted ideals of the free-market economy, and recognised the nation as the only bearer of State sovereignty.

As in many other transitional countries, democratisation in Russia has suffered a series of setbacks, characterised by human rights violations, restrictions of political freedoms and tight control over the mass media. To the present day, the country has often been criticised for practising rule of thumb rather than rule of law. In response to this critique, the administration of President Vladimir Putin came up with the concept of 'sovereign democracy', which implies that the measures taken by the Russian government that are perceived as illiberal from the outside should not be taken as anti-democratic tendencies but rather as peculiarities of the democratic regime in Russia. The adjective 'sovereign' is meant to signify that Russia reserves the right to define what it deems democratic through the prism of its own national interests.

## THE FEDERAL STRUCTURE

The status of Russia as a federal state is also guaranteed by the Constitution. Russia presently consists of 83 federative units, these being 21 republics, 46 regions (*oblasts*), nine

territories (*krais*), one autonomous region (*avtonomnaya oblast*), four autonomous districts and two cities of federal significance, these being Moscow and Saint Petersburg.

The two main principles of state division in Russia are national-territorial and administrative-territorial. The former rests on the foundation of republics, autonomous districts and autonomous regions. The Russian Constitution of 1993 recognises a nation's right to self-determination but only as long as it does not undermine the state sovereignty of the Russian Federation. Hence the main ethnic groups of the country have their own subjects (constituent units) in the federation but are still subordinate to the federal authority. Although in many of these subjects Russians comprise the majority of the population, they are still more ethnically and culturally diverse than other parts of the country. The native language of the republics is usually given official status on a par with Russian, the people have their own citizenship besides Russian citizenship, and all the republics have adopted their own Constitution which, however, cannot contradict the main principles enshrined in the Constitution of the Russian Federation of 1993.

All the other subjects of the Russian state (regions, territories and federal cities) were created on the basis of the administrative-territorial principle. These subjects, as well as being autonomous districts and regions are entitled to have their own Charter, which must also comply with the principles of the Constitution of the country.

Although some of these constituent units have a different status, officially they are all equally entitled to the same degree of autonomy. However, the regions are not equal in territory and population. Accordingly, their economic power is not comparable either. With the priority aim of addressing this problem, the map of the federal subjects of Russia was redrawn several times, so that they are better managed and have become less dependent on subsidies from the federal budget.

The political structure of each subject is also based on the principle of separation of powers. Every subject has its own executive and legislative body, the structure of which it is entitled to determine independently, on the basis of the main principles of the federal structure. Members of the legislative body in the federal subjects are elected by their citizens. The number of deputies and their term of office are also determined independently by every subject. However, according to federal laws, a deputy's term of office in the legisla-



tive bodies of the federal subjects cannot exceed five years. The main responsibilities of this body usually revolve around enacting the laws of the subject, approving its budget and giving consent on appointments to positions in the executive body of the subject.

The executive body is formed by the political leader of the subject and usually supervises implementation of the budget plan, while also carrying out different programmes aimed at fostering the socio-economic development of the subject. This leader of the subject is also the head of its executive body. He/she represents the subject on the federal, inter-subject, and international levels, and promulgates laws elaborated by the legislative body of the subject. The right to dissolve the legislative body of the subject also comes under his/her jurisdiction.

Heads of the federal subjects used to be elected by their citizens. However, in 2004 this procedure was abolished and, since then, the Heads of the federal subjects have been appointed by the President of Russia with the consent of the legislative body of the subject. This reform was carried out to enhance federal control over the subjects, with the prime aim of solving the problem of the terrorist threat, although it drew considerable criticism from the opposition and different political experts. However, today, pro-government experts point out that, in some regions, this initiative has had quite positive results, such as better cooperation between the federal centre and the subject, a higher degree of responsibility being expected of the subject's governor, and more effective cooperation between the legislative and executive powers of the subject.

In general, the federative structure of Russia was inherited from the Soviet state. By the end of Mikhail Gorbachev's rule it became clear that the only way to keep the Soviet Union alive was through signing a new federal agreement according to which the USSR would be transformed from a federal state into a confederate state. This was prompted by the tendency of the Soviet republics to proclaim their sovereignty and leave the Union. The Baltic countries were the first to become independent. On 12 June 1990, the Congress of People's Deputies of the Republic adopted the Declaration of State Sovereignty of the Russian Soviet Federated Socialist Republic (SFSR). Subsequently, the Head of the Supreme Soviet of the SFSR, Boris Yeltsin, declared that the republics of the SFSR could take as much sovereignty as possible. Thenceforth, in the period from August to October of 1990, about fifteen federal subjects of the SFSR decided to make the most of this opportunity. In Russian history, the phenomenon has been dubbed 'the parade of sovereignties'.

Nevertheless, on March 31, 1992 all the republics of the former Russian SFSR, except for Tatarstan and Chechnya, signed the Federative Agreement, which established the supremacy of federal power over the subjects that signed the agreement. This agreement distinguishes three areas of jurisdiction in the relations between the federal authority and the subjects of the federation: the area of exclusively federal jurisdiction, the area of joint jurisdiction between the federal centre and the subject, and the area of jurisdiction reserved for the authorities of the subjects.

The federal centre is exclusively responsible for the range of issues within the spheres of state administration, economy and finances, protection of human rights and freedoms, social and cultural development, environmental protection, international relations, and defence and security policy.

The area of joint jurisdiction mainly includes such issues as compliance of the regional legislature with the federal one, use of natural resources in the territory of the federal subject, coordination of programmes for social and cultural development, along with those in the sphere of public health, establishment of the legal framework for the system of regional administration and local self-government, and coordination of the international and foreign economic relations of the federal subjects.

In areas lying beyond the sphere of centralised federal and joint jurisdiction, federal subjects enjoy full authority. In general, they are responsible for the formation of their own governing bodies, regional budget approval and law enactment.

Although the Federative Agreement introduced a lot more clarity in the sphere of federal-regional relations, it prioritised the rights of the republics over those of other federal subjects. In order to eliminate this disparity, those parts of the Agreement that contradict the Constitution, have been deemed invalid since 1993.

In the case of Tatarstan, a special Agreement on Mutual Delegation of Authority was signed on 15 February 1994, this granting the Tatar Republic the status of a confederate state within the structure of the Russian Federation. In 2000, the Constitution of Tatarstan was amended so that it became an equal subject of the federation and, in 2007, a new agreement on the division of authority between the republic and the federation was signed. Nevertheless, Tatarstan still retains many of its privileges, mainly in the economic sphere.

The case of the Chechen Republic was more complex. A strong separatist movement, largely comprised of former Soviet military men, which was eventually supported by the local people, made the problem of Chechnya's independence loom large for the federal authorities of Russia. The clash between central federal power and the secessionist republican government led to a protracted military conflict that gradually developed into guerrilla warfare between the Russian military forces and Islamist groups in the North Caucasus region. With the elimination of the main terrorist groups, the installation of a pro-Russian government and an inflow of federal subsidies, the situation in the region has significantly improved and the problem of independence aspirations in the Republic seems to be resolved, at least for the time being.

With the dissolution of the USSR, another subject of the Russian Federation came into being in rather a peculiar situation. That was the Kaliningrad region, which was cut off from Russia's main territory by the newly established Baltic States, such as Latvia, Estonia and Lithuania. Although it might have seemed to be the area most prone to falling prey to separatist sentiments, the Kaliningrad region never raised the issue of its sovereignty as emphatically as Chechnya or Tatarstan. The main problem that arose revolved around complications of access to the mainland for Russian citizens living in the

region and vice versa. Thus, the problem of the Kaliningrad region not only had a federal dimension, but also an international one. It became especially acute after the Baltic States signed the agreement to join the EU in the spring of 2003. After several months of talks the same year the problem was resolved through establishing a special regime of border crossing through Lithuania and Belarus for Russian citizens going to and from the Kaliningrad region, and to and from the main part of Russia. Although the transit of people to and from this region is still hindered by some formal procedures, which are unavoidable in the current situation, Russia has managed to find responses to most of the demands in relation to the problem. While the solution of the Kaliningrad problem is a good example of fruitful cooperation between Russia and the EU, the geographical position of the exclave opens a lot of possibilities for the development of even closer cooperation between the countries, especially taking into consideration the great significance of the Kaliningrad region for Russia from the strategic point of view.

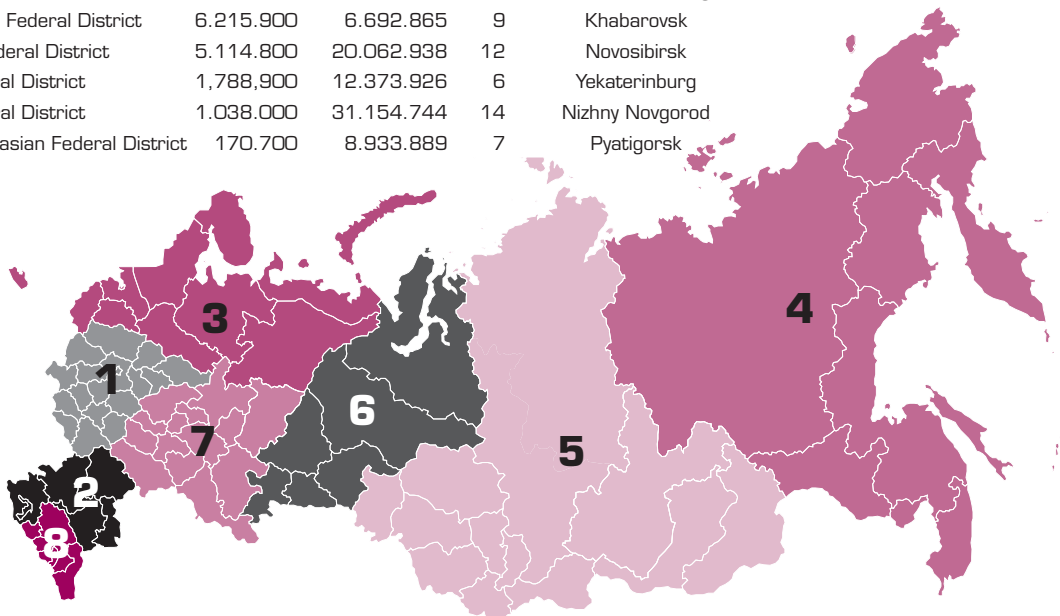
Nevertheless, the federal centre approaches the possibility of regional cross-border cooperation very cautiously, which might reflect Moscow's concerns over regional separatism. The first decade of Russian statehood posed the question of state integrity in a very acute fashion and, during the Presidency of Vladimir Putin, one of the top-priority issues on the agenda has been consolidation of central federal control over the federal subjects.

In order to bridge the gap between the regional authorities and the federal centre, in May 2000 the new institution of federal districts was introduced into the federal structure of Russia. According to the Presidential decree of 13 May 2000, all the subjects of the Russian Federation formed seven federal districts, which were to be headed by Presidential Plenipotentiary Envoys, chosen from among the members of the Presidential Administration. Their main responsibility is to ensure implementation of constitutional responsibilities by the President at the regional level, which is to say, they are mainly responsible for control over regional compliance with the decrees and ordinances of the federal centre. Representatives are appointed by the President and their term cannot exceed that of their patron.

On 19 January 2010 a new North Caucasian federal district was created out of seven federal subjects, which had previously formed part of the Southern Federal District. The main purpose of this innovation was, according to the President, to enhance effectiveness of economic and social policy in the region. Alexander Khlopotin, who was put in charge of the district, is known for his good managerial skills which he demonstrated while governing the Krasnoyarsk region. However, it is obvious that the formation of the new district was also prompted by signs of growing instability in the region and the need to separate the problem-free regions of the Southern district from those with potentially unstable situations.

## I. FEDERAL DISTRICTS OF RUSSIA

	Name of District	Area (km <sup>2</sup> )	Population (2002 est.)	Federal Subjects	Administrative center
1	Central Federal District	652.800	38.000.651	18	Moscow
2	Southern Federal District	418.500	13.973.252	6	Rostov-on-Don
3	Northwestern Federal District	1.677.900	13.974.466	11	Saint Petersburg
4	Far Eastern Federal District	6.215.900	6.692.865	9	Khabarovsk
5	Siberian Federal District	5.114.800	20.062.938	12	Novosibirsk
6	Urals Federal District	1,788,900	12.373.926	6	Yekaterinburg
7	Volga Federal District	1.038.000	31.154.744	14	Nizhny Novgorod
8	North Caucasian Federal District	170.700	8.933.889	7	Pyatigorsk



## THE SYSTEM OF LOCAL SELF-GOVERNMENT

The history of local self-government in Russia can be traced back to the reforms of Alexander II, when in the second half of the XIX century, there appeared district councils (*zemstva*), which were responsible for public administration on the local scale. During the years of the Soviet Union, this institution was discarded and it was only about twenty years ago that the system of local self-government was reinstated.

The first laws on the main principles of local self-government were passed in 1990 and 1991. Thoroughgoing reform of the system of local administration in 1993 and the Constitution of the Russian Federation officially established the system of local self-government as an independent branch of governmental system in the country, one that was situated beyond the system of the organisms of state authority.

The law on the main principles of local self-government was adopted in 1995. This law stipulated that every municipality was obliged to have a representative body, the structure of which was to be determined by local citizens in accordance with the Charter of the municipality and the main principles of local self-government as established by the federal centre. If the position of the Head of the municipal administration was established, he/she was either elected by the citizens of the municipality or by the representative municipal body.

Local self-government bodies were put in charge of local affairs, such as maintaining good social conditions in the territory of the municipality, administration of municipal property and local budgeting. Economic independence was guaranteed by the right to accrue benefits from the use of municipal property and its lending, as well as the work of municipal enterprises.

In 1996 Russia signed the European Charter of Local Self-Government and in 1998 it came into force.

However, in 2003, the state government embarked on a process of municipal reform with the adoption of the new law on the basic organisational principles of local self-government. This time, it stated that every municipality was obliged to have in the local-government structure such elements as a representative body, the Head of administration and a local administrative body. It also stipulated that when the Head of administration was elected by the citizens of the municipality he/she either took the position of head of the local administrative body or that of chairperson of the representative body. If he/she was elected by the members of the representative body, he/she could only become its chairperson. In cases where the elected mayor did not head the local administrative body, this position was given to the city manager, who was chosen on a competitive basis by a commission of which two thirds consisted of the members of the municipal representative body and one third of members of the representative body of the federal subject.

Immediately after the law was passed, the Russian political leaders were engaged in heated discussion concerning the possibility of the governors of the federal subjects appointing mayors. Some experts claimed that abolition of the elections of subjects' governors was carried out on the basis of an unofficial agreement that the right to appoint city mayors

would subsequently be given to the governors. In 2006, the Duma Speaker, Boris Grizlov, who also chairs the United Russia party, acknowledged that the institution for electing mayors would be left intact.

Nevertheless, this discussion was followed by the growing tendency of municipal representative bodies, dominated by the pro-government party United Russia, to enact laws that reserved for themselves the right to elect city mayors. As a result, at the beginning of 2008 about 69.7% of Heads of municipal administrations were elected by public vote. According to the opposition magazine "New Times", in 2009 this figure might have been 50%.

Effective governance of the federal subjects and municipalities in Russia is often challenged by clashes between the governor and the mayor of the main federal city, which usually accounts for the greater part of the income financing the budget of the subject. This problem has become more acute with the introduction of the institution of appointed subject governors. At present, among the possible solutions to this problem is the idea that deputies should nominate the variant of city mayor appointees only in those cities with a population exceeding one million people. For instance, today, out of eleven cities falling under this category, only seven have their mayors chosen by public vote.

Another issue that has given rise to public concern is that, as an outcome of this trend, the economic independence of local self-government bodies might be undermined. The mayor elected by the representative body cannot take the post of Head of administration. As a result, all the financial leverage ends up with the city manager, who is elected on a competitive basis. In the meantime, more and more state officials are speaking out in favour of increasing the number of the subject's representatives in the commission responsible for contracting the city manager, which means that the subject authorities will have increased influence in the process of choosing the city manager and will accordingly tighten their grip on the municipal budget.

Another alternative to the current situation suggests moving the system of local self-government based on popular election to a lower level of municipal districts, while integrating bodies of municipal administration into the structure of state government bodies.

## THE PRESIDENT OF THE RUSSIAN FEDERATION

The institution of the Presidency is very young in Russia. In 1990, Mikhail Gorbachev became the first and the only President of the USSR while, in 1991, Boris Yeltsin was chosen as the first President of the Russian Soviet Federative Socialist Republic, which later became the Russian Federation. In establishing this position, Russian officials studied the experience of other countries and, as a result, the country became a presidential republic with elements of mixed government.

According to the Constitution of 1993, the President of the Russian Federation is the Head of State and guarantor of the Constitution. He is above all the branches of power and his most crucial function is facilitation and coordination of cooperation among the different bodies of state power. Although



he is closely connected with the organisms of executive power, the Constitution does not put him at their head. Thus, within the power structure of the country, the President of Russia takes an independent position, which gives him immunity from all the other bodies of state authority, except in the case of impeachment. His role within the structure of power might be compared to that of an arbitrator between the Government and the Federal Assembly, the Russian analogue of a parliament. In case of conflict between them, he is entitled to dissolve either or both of them.

As the person responsible for protecting the sovereignty of the Russian state, the President directs the activity of various federal bodies of executive power that are in charge of defence and security policy, domestic and foreign affairs, law enforcement and several other issues that are crucial for the state. Among others, these bodies include the Ministries of Domestic and Foreign Affairs, the Ministry of Defence, the Ministry of Justice and the Federal Security Agency. Furthermore, the President is Commander-in-Chief of the Russian Armed Forces and Chairman of the Security Council, a consultative body, where the main security issues are discussed and security policy is worked out. The Constitution also vests in the President the right to declare a state of emergency and to impose martial law throughout the territory of the country.

As Head of State, he is also responsible for determining the main directions of domestic and foreign policy. While he is in charge of appointing the members of Government and has the right to preside over its meetings, at the same time, the President is not deprived of the right of legislative initiative and is the person to promulgate the laws passed by the Federal Assembly. The State Council, another consultative body that is comprised of the highest officials of the federal subjects and that was established to discuss the most important current affairs, is headed by the President as well.

In the international arena the President represents the country. He is entitled to sign international agreements, to appoint diplomatic representatives of the country and to accept letters of accreditation from diplomatic representatives of other countries.

Only a person who is not younger than 35 years old, who has Russian citizenship and who has been living permanently in Russia for a period of not less than 10 years can become the President of the country. To register as a candidate for the Presidency, any aspirant has to collect two million signatures of citizens of the country (no more than 50,000 signatures for any one federal subject), regardless of whether he or she is nominated by a party or independently.

The President is elected by public vote. If any candidate receives more than 50% of votes, he/she wins the elections. Otherwise, run-off elections take place with the participation of the two candidates with the largest number of votes received in the first round. The one who gets more votes this time round becomes the President.

Before 2006, voter turnout had to be no less than 20% for the results of elections to be officially recognised. Since November 2006, this threshold was abolished for elections at all levels of state power. The same year the Federal As-

sembly voted to exclude the option 'For none of the above' from the ballots.

Initially, the President of the RFSR was elected for five years. The Constitution of 1993 set the term at four years, while allowing Boris Yeltsin, elected in 1991, to serve out his five-year term. When Dmitry Medvedev came to power in 2008 the Constitution was amended, so that the term of Presidential office was extended to six years. However, in practice this amendment will only take force in 2012 after the next Presidential elections are held. Dmitry Medvedev has stated that this move was prompted by the obvious inability of the President to fulfil all his promises in a four-year term.

According to the Constitution of 1993, the same person cannot occupy the position of the President for more than two consecutive terms.

The President is assisted in his work by the Presidential Administration, which helps him to prepare reports on major issues, drafts of decrees and ordinances; to monitor the enactment of Presidential decrees; to maintain cooperation with political parties, public associations, international organisations and foreign officials; and to analyse data on international events and the internal situation. The array of functions performed by the Presidential Administration has led to its being dubbed the Presidential body of executive power.

## THE FEDERAL ASSEMBLY

The Federal Assembly, or the Parliament, is the highest representative and the main legislative body of the Russian Federation. It is bicameral and consists of the Council of Federation and the State Duma.<sup>1</sup>

The main function of the Federal Assembly is law making. The two houses are not on an equal footing in relation to this process. In principle, all laws are passed by the State Duma in three readings. However, in cases specified by law, if a bill does not provoke much disagreement, its adoption may not require all three stages. The role of the Federation Council in law-making procedure is confined to giving its approval or disapproval. In case of the latter, the state Duma can override the veto of the Federation Council if not less than two thirds of the Duma deputies vote in favour of the law. After the law is passed by the Federal Assembly, it requires the President's signature, which makes the law effective. If the President vetoes the law, it goes back to the legislative body and is subjected to reconsideration and alteration. Nevertheless, the Presidential veto can be overridden by a vote in favour of the law by two thirds of all the members of the Federal Assembly.

Another crucial function of the Federal Assembly is supervision. It monitors how the Federal Budget is spent, the effectiveness of the Government's work and the work of other state bodies, while also keeping track of the observance of human rights in the country. The controlling authority of the Federal Assembly also presupposes the right to pass a vote of no-confidence in the Government.

Members of both houses elect their own Speaker, who supervises the work of the house. In order to enhance the effectiveness of their work, both houses have committees and commissions, which specialise in certain areas of state activ-

ity and consist of house members. They prepare and evaluate draft laws, report on draft laws to their houses, conduct hearings, and oversee implementation of the laws.

### THE COUNCIL OF FEDERATION

The Council of Federation is considered to be the upper house of the Russian Parliament. It was first introduced in 1993 and the members of its first convocation were elected by popular vote for two years on the very day that the referendum on the Russian Constitution took place. It was considered to be transitional pending the federal law that was to be passed later with a view to regulating the process of council formation on a non-elective basis. In 1995, the second Council of Federation was established and, this time, the seats were taken *ex officio* by the heads of the federal subjects' executive and legislative bodies; which means that every subject had two representatives in the Federation Council. In 2000, the mechanism of council formation was reformed again and, since then, the heads of the federal subjects' executive and legislative powers have been sending their representatives to the Council.

The third Council of Federation, which has sixteen committees and eleven commissions, is currently in progress under the chairmanship of Sergey Mironov, the leader of the "Just Russia" party. Since there are 83 federal subjects, the council consists of 166 members. Unlike the Duma, the members of the Federation Council are not allowed to form factions.

Besides having the authority to approve laws, the Council of Federation also has the right of legislative initiative. It gives approval to alterations made to the subjects' boundaries and to Presidential decrees on the establishment of the state of emergency and the imposition of martial law. It appoints judges of the Constitutional, Supreme and Supreme Arbitration Courts on the recommendation of the President and can impeach the President, if two thirds of its members vote in favour of such a move.

### THE STATE DUMA

The first Russian Duma was established in Imperial Russia as the result of the revolutionary events of 1905. However, in 1917 it ceased to exist and only in 1993 was it re-established as the main representative body of the Russian Federation.

Its chief function is law making. Among other authorities, the Duma also approves the appointment of the Prime Minister by the President, hears reports on the work of the Government and initiates the process of Presidential impeachment.

The State Duma consists of 450 deputies who are elected by popular vote. Their initial term of office, as stipulated in the Constitution of 1993, was four years. In 2008, this provision was amended so that the term of office of a deputy is now extended to five years, starting with the sixth convocation of the Duma, which is to say the one that is to be formed in 2011.

Until the 2007 elections, half of the Duma members were elected by proportional representation in the federal constitu-

encies and half by voting in single-member constituencies. In 2005, voting in single-member constituencies was abolished and, thenceforth, all Duma members are elected on the basis of the system of proportional representation.

In 2002, the vote threshold for parties to obtain seats in Parliament was raised from 5% to 7%. These amendments set off a wave of criticism that resulted in a slight liberalisation of the election process, this consisting in lowering the number of party members required for its registration for elections, and abolition of the election deposit.

As the result of 2007 elections, the absolute majority of seats in the fifth Duma went to the members of the United Russia party, which secured the prescribed majority of votes (2/3 of all the members of the Duma) that is required during the decision-making process on most crucial issues. Comparison of the fourth and the fifth Duma structures permits one to assert that the only party to benefit from the amendments to the election procedure was the United Russia Party, which increased its stake in the parliamentary structure by 43%. On the whole, only four parties cleared the 7% barrier for entry to the Duma in the 2007 Parliamentary elections. Clearly, in comparison with the political pluralism that thrived during the first three convocations of the Russian Duma, the current situation seems to be characterised by an apparent tendency to unification of the political processes in the country. However, this should not be perceived as the consequence of the electoral reforms alone but it should also be borne in mind that, taken as a whole, the parties that did not clear the barrier only gained 8.3% of the total votes.

At present, the United Russia Party occupies 315 seats, while 57 seats are taken by the Communist Party of the Russian Federation, 40 by the Liberal-Democratic Party of Russia, while the Just Russia Party has 38 members in the Parliament. The Speaker of the present Duma is Boris Gryzlov, who is chairman of the Supreme Council of the United Russia Party. Members of the State Duma form 32 committees and four commissions.

### THE MAIN POLITICAL PARTIES

#### The United Russia Party

The United Russia Party is objectively the country's most influential political force for the moment. Although created quite recently, in 2001, it numbers more than one million members today, including some of the most prominent political leaders, public figures, artists and sports personalities. Its members occupy the key positions in the state structure. The Prime Minister Vladimir Putin is the Chairman of the party, the vast majority of seats in the State Duma are held by the United Russia Party and, in 79 federal subjects, the party has the majority of seats in legislative bodies. It also has several forums where the political stance of the party towards the main issues is worked out.

The party promotes the idea of modernisation based on the principles of sovereign democracy and reasonable conservatism. This assumes the development of Russia as a unique civilisation with its own cultural and spiritual heritage, a country with a competitive economy based on innovation and an effective political system built on democratic principles.



### **The Communist Party of the Russian Federation (KPRF)**

The Communist Party of the Russian Federation is the successor to the Communist Party of the Soviet Union. Having won the Parliamentary elections in 1995, its presence is gradually dwindling every four years. The KPRF is presently the biggest left-wing party in Russia. Its ideology is based on Marxist-Leninist teachings and it identifies capitalism as the main threat to the successful development of Russia. The party advocates the idea of restoring the USSR and establishing a new form of socialism that is redefined according to the main national interests of the Russian State. It also supports measures aimed at nationalisation of the major strategic sectors of the Russian economy and the preservation of small and medium-sized businesses as well as improvements in the Government's social policy.

### **The Liberal-Democratic Party of Russia (LDPR)**

The LDPR is one of the first non-communist parties that appeared in Russia. Despite the political orientation that is declared in its name, the real ideology of the party is often described as populist and nationalistic, due to the contradictory statements of its charismatic leader Vladimir Zhirinovskiy. More recently, it has often been called the centrist party. Members of this party support the idea of strengthening vertical power and establishing state monopoly in the main strategic spheres of economy. According to its political programme, people of Russian nationality should be considered as the lynchpin of Russian statehood, while Russia should become a unitary state with a structure based exclusively on the administrative-territorial principle.

### **The Just Russia Party**

The Just Russia Party is relatively young. It was officially established in 2006 as a result of a merger with several other parties. Its ideology can be characterised as social-democratic as it gives priority to elaborate and effective social policy of the state. It is often characterised as belonging to 'the systemic opposition', which refers to its solidarity with the United Russia Party on most issues. In February 2010, an official agreement was signed between these parties, stating their intentions to take concerted action aimed at supporting the strategic course of the current administration.

## **THE GOVERNMENT OF THE RUSSIAN FEDERATION**

The Government of the Russian Federation is the main executive body of the country. After the collapse of the Soviet Union in 1991 the Russian Council of Ministers took over the position of the chief executive body. In 1993 this authority was vested in the Government of the Russian Federation. Since then it has been subject to reshuffling several times, although the main principles of its organisation have been left intact.

According to the Constitution of 1993 the Government is responsible for implementation of the principles set out as the foundations of this document through effective administration of state affairs. If the President is entitled to determine the main direction of domestic and foreign policy, the

Government is responsible for carrying out the edicts coming from the Head of State.

In the sphere of the economy, the Government is obliged to prepare and submit the draft of the federal budget to the State Duma. After it is approved, the Government must ensure its due implementation and also supervises the processes of carrying out of uniform financial, credit and economic policy.

Its executive authority extends to other areas as well, including the social, cultural and political life of the country, where it is once again responsible for ensuring that uniform policy is carried out.

The Government is headed by the Chairman, who is often called the Prime Minister. If the President should die, resign or become incapable of performing his functions, the Head of the Government is the person who replaces him in this position. A person who holds this office is appointed by the President with the consent of the State Duma. All the other positions within the Government are appointed by the President on the recommendation of the Chairman of the Government. Currently, besides the Chairman, the Government consists of two First Deputy Prime Ministers, seven deputy Prime Ministers and seventeen federal Ministers.

Today, thirteen ministries, 24 federal services and 21 federal agencies form the structure of the Government. Five ministries and several other federal bodies that deal with the country's defence, state security, and implementation of foreign policy come directly under presidential authority and are thus often referred to as the 'presidential block'. All the executive bodies are divided into the regular federal bodies that are responsible for administration of affairs in the areas under state jurisdiction, and the joint federal departments, which carry out their functions in the spheres placed under the joint authority of the State and the federal subjects. The latter include the Ministry of Education, the Ministry of Labour, the Ministry of Culture and some other institutions, while the former encompass the Ministry of Defence, the Foreign Intelligence Service, the Federal Agency of Governmental Communications and Information and other executive bodies.

## **JUDICIAL POWER**

The judicial system of the Russian Federation is an independent section within the mechanism of separation of powers. It was established on the basis of the Constitution of 1993 and the law on the judicial system of the Russian Federation of 1996.

Depending on the area of competence, three main branches of the Russian judicial system might be distinguished. The first is constitutional courts. It is represented here by the Constitutional Court of the Russian Federation and the constitutional or statutory courts of the federal subjects, which are not subordinate to the former body. The Constitutional Court of Russia, consisting of nineteen judges, exercises control over the compliance of laws passed within the territory of the country and ensures that activities carried out by state bodies comply with constitutional norms and principles. It also resolves disputes between the federal subjects. Con-



stitutional or statutory courts of the federal subjects fulfil similar obligations although only within the territory of the subject and concerning only the subject laws and the activities of the subject authorities.

The second branch is general courts, which are subordinate to the Supreme Court. These courts are mostly in charge of criminal, administrative and civil forms of justice. Municipal courts, as well as district and magistrates' courts, the number of which is different for every subject depending on the population, are the first instance courts in this branch. The supreme courts of the federal subjects are the second instance courts, while the court of last resort is the Supreme Court of the Russian Federation. The latter supervises the work of the lower-level courts. In cases prescribed by federal law, it acts as the court of first and second instance and also deals with issues pertaining to international agreements signed by the country.

The branch of general courts also incorporates the system of military courts, which deal with issues connected with the activity of the military bodies of the country. The highest echelon in this system is occupied by the military board of the Supreme Court.

The third branch consists of the arbitration courts. Those of the federal subjects, which are situated at the lowest level, consider cases connected with economic and administrative legal relationships between legal entities, individual entrepreneurs and bodies of state authority as courts of the first instance. Appeals in relation to decisions taken by these courts go to the Arbitration Courts of Appeal, of which there are twenty. Then there are ten District Arbitration Courts, which deliberate on the legality and validity of decisions taken by the arbitration courts of federal subjects and the Arbitration Courts of Appeal. The highest-ranking of this branch is the Supreme Arbitration Court of the Russian Federation.

All the courts are also divided into federal courts and courts of the federal subjects. The latter include constitutional and statutory courts of the federal subjects and magistrates' courts, while the former encompass all the rest. Judges for the Constitutional Court, the Supreme Court and the Supreme Arbitration Court are appointed by the Federation Council on recommendation by the President. Judges for all the other federal courts are appointed directly by the President, while the appointment procedure for judges in courts of the federal subjects, as well as that for magistrates, are determined by the law of every subject.

The right to control law enforcement in Russia is vested in the Prosecutor's Office, which forms a centralised system of bodies from the federal down to the municipal level. It also carries out criminal prosecution in compliance with the Russian Federation code of criminal procedure.

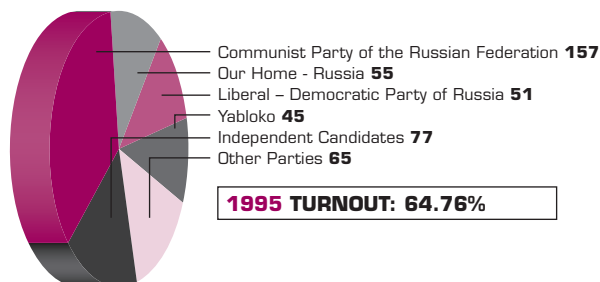
Since 1 January 2010, trial by jury has been introduced into the courts of the Chechen Republic, which was the last one of all the federal subjects to make this move. Although this is doubtless a positive innovation, it may have simultaneously entailed another significant change in the sphere of justice in Russia. The issue is that, according to the decree of 1999, which had established a moratorium on the use of capital punishment, the ban was to be lifted when all federal

## II. PARLIAMENTARY ELECTIONS

(number of seats)



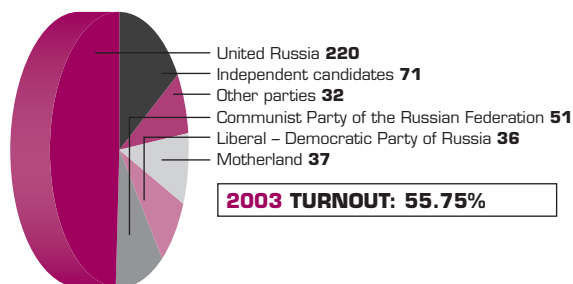
**1993 TURNOUT: 54.81%**



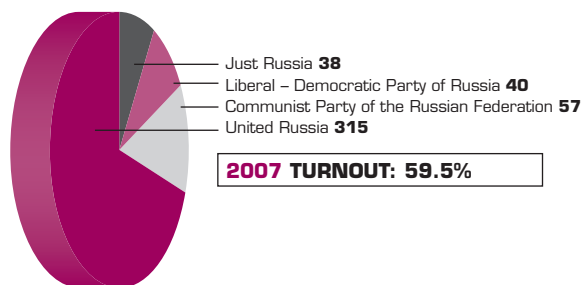
**1995 TURNOUT: 64.76%**



**1999 TURNOUT: 61.85%**



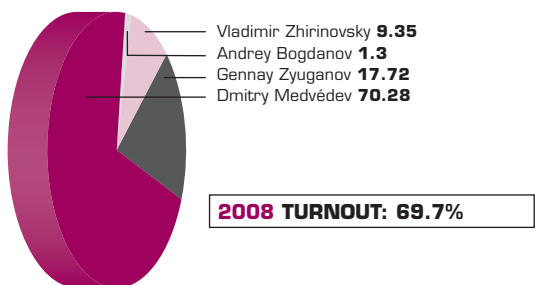
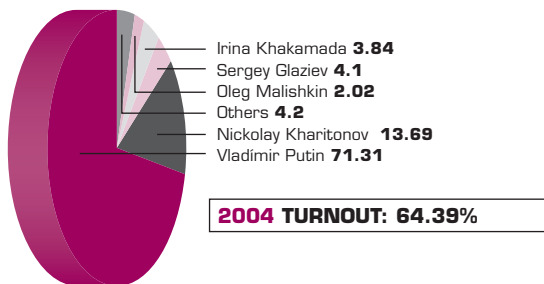
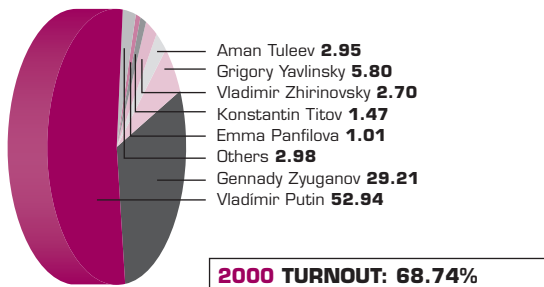
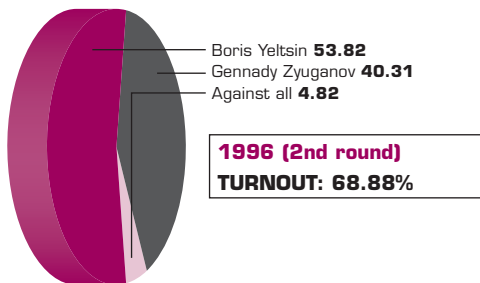
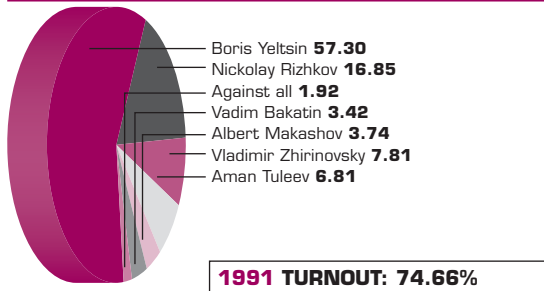
**2003 TURNOUT: 55.75%**



**2007 TURNOUT: 59.5%**

### III. PRESIDENTIAL ELECTIONS

(percentage of vote)



subjects introduced trial by jury in their courts. Thus, shortly before this amendment went into effect, the Constitutional Court of the Russian Federation issued a decree abolishing capital punishment for once and for all.

At present there is very intense debate concerning another possible innovation in the judicial system of Russia. This is related with the introduction of a juvenile courts system, which was actually provided for in the concept of the development of the Russian judicial system in 1996. In 2002 the State Duma passed a law on the establishment of juvenile courts in the first reading, while the second reading has not yet taken place. In 2008, with regard to the system of juvenile justice, the Supreme Court noted that its effectiveness was affirmed by all the courts of the subjects that had decided to introduce it. However, this initiative is strongly opposed today by the Russian Orthodox Church and a great number of other civil organisations.

The overall efficacy of the judicial system of Russia is reflected in the level of citizens' confidence in the courts and the number of appeals from Russian citizens to the European Court of Human Rights. Although by December 2009, among all the civil institutions of rights protection, the courts were preferred by the greatest number of people (34%), only 36% consider the judicial system of Russia as being effective, while 38% think the opposite. At the same time, in 2009, Russia topped the list of countries with the largest number of appeals to the European Court of Human Rights. Last year one appeal in every three came from Russia.

The judicial system of the country is also often criticised for the prevalence of non-acquittal decisions taken by courts. For instance, in 2009 for every person who received a verdict of non-guilty there were a hundred others found guilty. However, the Supreme Court challenges such criticism by drawing attention to the fact that 530,000 out of the 900,000 people found guilty were sentenced through a special procedure whereby defendants plead guilty.

Another problem that Russia has to deal with in the sphere of justice is the low level of implementation of rulings. For example, in 2006 only 52% of all the rulings were implemented.

The flaws of the Russian judicial system are officially acknowledged in the Government's decree on the development of the judicial system from 2007-2011. During the early days of his presidency, Dmitry Medvedev also pointed out that Russian society is plagued by legal nihilism, which is the main root of corruption. The programme of judicial reform, on which the government embarked on his initiative, is mostly aimed at enhancing the transparency of court procedures, eliminating corruption at all levels of the state system, improving the mechanisms for implementing rulings and restoring public confidence in the courts.

#### Notes

1. From the Russian verb '*dumat*', which means 'to think'

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# Biographies of the political leaders of the Medvedev Administration

## DMITRY MEDVEDEV

### President of the Russian Federation since May 2008

The latest Presidential elections in Russia, held in March, 2008, were preceded by a huge mass-media debate over the future successor of Vladimir Putin. The end of 2007 marked the period of one year and seven months during which Putin's public approval ratings did not drop below 50%. For many people his strong political leadership gave rise to the misapprehension that he was going to amend the Constitution and stay on for a third term. Political experts, in turn, were prophesying a great power vacuum if Putin were to step down. The uncertainty came to an end on 10 December 2007 when Putin officially announced his support for Dmitry Medvedev as the Russian presidential candidate. By that time, Medvedev was occupying the post of First Deputy Prime Minister and was thus in charge of several national projects aimed at social development. In general, it would be unfair to say that Medvedev was unknown to the Russian public in 2008. Nonetheless, his image of an average politician merging into the background of Putin's administration did not usually attract much attention. However, in December, 2007 public interest in him skyrocketed and for the rest of the electoral campaign he remained the centre of public attention.

Dmitry Medvedev was born on September 14, 1965 in Leningrad (now St Petersburg). Both his parents were university professors and they encouraged their son's interest in science from an early age. In 1982 he enrolled in the Law Department at Leningrad State University (LSU), from which he successfully graduated in 1987, majoring in civil law. In his student days he continued with his weight-lifting training and once even won the university contest in his weight category. During this period he also developed a liking for photography and western rock-music. After graduation Medvedev continued with post-graduate studies at the same university, combining this with his work as an assistant to the Chairman of the Department of Civil Law. Before obtaining his PhD in 1990, he took part in Anatoly Sobchak's successful campaign for the Congress of People's Deputies of the Soviet Republic. Sobchak was Medvedev's civil law professor at LSU and was often cited as an ardent supporter of the free market and political pluralism.

During the 1990s Medvedev ran a private practice in law, co-founded or advised several businesses and worked in the



**Dmitry Medvédev**

World Economic Forum

government. In 1990 he accepted the position of Sobchak's legal advisor when the latter was first elected to the City Council of Leningrad and later, in 1991, as Mayor of the city. After 1991 Medvedev also worked in the City Council of Leningrad (later St Petersburg) as a legal consultant to the Committee for External Relations, which was headed by Vladimir Putin. In 1996 Medvedev left this office after Sobchak lost the mayoral elections. Furthermore, from 1990 until 1999, Dmitry Medvedev gave lectures at his *alma mater* and contributed to writing a textbook on civil law, for which he received a state award in the sphere of education in 2001.

In 1993, Medvedev joined Ilim Pulp Enterprise, a timber processing company, as the legal affairs director. The company was later to develop and become one of the leaders in



its field. In 1998 he accepted the position of chairman of the board of directors at Bratsky Forestry Complex.

Medvedev embarked on his political and business career as a married man. His former classmate, Svetlana Linnik, became his wife in 1989 and, in 1996, their son Iliya was born. November, 1999 saw the opening up of a new era of his political career. He accepted the position of Deputy to the Government Chief of Staff when Vladimir Putin became Prime Minister. Several months later, Medvedev became head of Putin's electoral campaign for the 2000 presidential elections and subsequently Deputy Presidential Chief of Staff.

In June 2000 he was elected as Chairman of the board of directors of the state-owned gas monopoly, Gazprom. From 2001 to 2002, he was deputy to the Chairman of the Board and, in 2002, resumed his chairmanship.

In October 2003 Medvedev replaced Voloshin in the position of Presidential Chief of Staff. Almost two years later, in November 2005, he was appointed First Deputy Prime Minister. His main responsibility was supervision of four top-priority national projects, which were expected to raise living conditions in Russia. These were implemented in the spheres of health care, education, housing and agriculture.

On 10 December 2007 the leaders of four Russian parties unanimously expressed their approval of Dmitry Medvedev as presidential candidate. The next day he proposed Vladimir Putin for the office of the Prime Minister if he should win the elections. On 2 March 2008 he was elected as President of the Russian Federation with 70.28% of the votes, with a turnout of 69%.

During his election campaign he mainly stressed the issues of social development and modernisation. As a lawyer he devoted considerable attention to the judicial branch of power, embarking on a programme of making the judicial system more effective and transparent. He also addressed the problems of corruption and legal nihilism.

During his first year as president Medvedev proved himself to be quite a decisive manager who took initiatives. Although he sought continuation of Putin's political course, some of the results of his first year in office diluted his image as Putin's protégé. Recognition of South Ossetia and Abkhazia as sovereign states, the extension of the presidential term to six years and the parliamentary term to five years through Constitutional amendments, and confident measures against global economic recession secured him the image of an independent political leader. His Presidency, compared with that of Vladimir Putin, has also been notable so far for a more liberal attitude towards opposition parties and the market economy.

## VLADIMIR PUTIN

### Prime Minister of the Russian Federation

Vladimir Putin was born on 1 October 1952 in Leningrad (now St Petersburg). His father was a foreman in the metal factory and his mother a housewife. In 1975 he graduated from Law Department at the Leningrad State University, majoring in international law. While still a student he joined the Communist Party and left it only in 1991. By then, he

was a top-ranking judoist and sambo (a kind of martial arts based on judo techniques) fighter.

As a part of the job-placement programme that was implemented in Russia during Soviet times, he was posted to the KGB after his graduation. From 1975 to 1984, Putin worked in the recruitment department of the Leningrad administrative office of the KGB. In 1984 he was sent to the KGB's Higher School in Moscow, where he specialised in the German-speaking countries.

Immediately after his graduation in 1985 he was sent to Dresden, then in East Germany, where he worked undercover as the Director of the Soviet-German House of Friendship. He returned from Germany in 1990 and, in 1991, left the KGB with the rank of colonel.

From 1991 until 1996 Putin was Chairman of the Committee for External Relations at the St Petersburg Mayor's Office under Anatoly Sobchak. From 1992 to 1994 he also worked as a deputy-mayor and, from 1994 to 1996, he was the first deputy-mayor of St Petersburg. After Sobchak's unsuccessful campaign for the mayorship, Putin moved to Moscow to become the Deputy Chief of the Presidential Budget and Management Office. In 1997 Putin received a PhD in economics. His thesis was titled "The Strategic Planning of Regional Resources under the Formation of Market Relations".

Along the way to achieving the position of Prime Minister, he also worked as deputy head of the Presidential Administration (March 1997 - 1998), first deputy head of the Presidential Administration (May-July 1998), head of the Federal Security Service (FSB) of the Russian Federation



Vladimir Putin

(July 1998 – August 1999), and Secretary of the Security Council of the Russian Federation (April – August 1999). In August, 1999 Vladimir Putin was appointed Prime Minister of the Russian Federation. He was the fifth person in a period of seventeen months to occupy this position. On December 31, 1999 the Second Russian President Boris Yeltsin declared his intention to leave the office, appointing Vladimir Putin as Acting President.

Putin's political figure had tremendous political repercussions within the Russian population. In a situation in which the country was intimidated by a series of terrorist attacks in Moscow and other cities in the autumn of 1999, when the Chechen Republic was torn apart by the second great wave of insurgency, and when country's economy was still in dire straits and its external public debt was soaring to 90% of GDP, the public approval rating of Putin's actions skyrocketed. In the period from August to November 1999 it shot up from 31% to 78%. By comparison, Boris Yeltsin's approval rating for the same period remained at 6% with minor fluctuations.

On March 26, 2000 Putin won the presidential elections, receiving 53% of the votes. In 2004 his victory was even more convincing, secured by 71% of the votes. On May 8, 2008 he handed over the administration to Dmitry Medvedev, his former colleague from the Sobchak era, and took over the office of Prime Minister of the country. The period of Vladimir Putin's Presidency is characterised by rapid economic growth, which was mostly maintained by high oil prices. On the basis of the huge influx of petrodollars, a new Stabilisation Fund was established with the aim of securing

future economic development. The practical value of this move was especially appreciated during the period of the global financial crisis, which started in 2008.

In the political domain his main achievement was the consolidation of the so-called vertical power structure, although this was marred by media scandals arising from the assassination of several opposition journalists, law suits against the head of the Media-Most holding and the head of the Yukos Oil Company, and human rights infringements in the North Caucasus region.

Nevertheless Vladimir Putin managed to maintain incredibly high levels of approval ratings among the Russian population. According to the Levada polling centre, during his eight years as President, the index never went down below 61%. This fact is especially important, taking into consideration his vague responses as to the prospects of his participation in the 2012 Presidential elections.

## IGOR SHUVALOV

### First Deputy Prime Minister

Igor Shuvalov was born on 4 January 1967 in Bilibino, then in the Magadan Region, which is now known as Chukotka Autonomous Okrug, Russia.

After serving in the Soviet Army from 1985-1987, he enrolled in the Law Department of the Moscow State University in 1987. After graduation in 1992 he worked as an attaché at the Legal Department of the Ministry for Foreign Affairs. In 1997 he was appointed head of a Department of the State Register of Federal Property. Over the period of the next three years he rose to the top of the career ladder to become Chairman of the Russian Federal Property Fund.

In the years from 2000 to 2003 Shuvalov worked as the Government Chief of Staff with the rank of the Federal Minister. In May, 2003 he became an aide to the President, also serving as the Deputy Presidential Chief of Staff from October 2003 to March 2004. After Putin's victory in his second presidential elections, Shuvalov was reappointed as his aide. On January 4 2005 he was also appointed Russia's *Sherpa* (the head of state's personal representative who prepares the agenda and agreements at the talks) at the G8 summit.

On 12 May 2008 Shuvalov became a First Deputy Prime Minister in Prime Minister Vladimir Putin's Second Cabinet. His range of responsibilities covers Russia's foreign trade, economic development and management of state ownership, programmes of regional development and some other areas of the state policy.

## VICTOR ZUBKOV

### First Deputy Prime Minister

Victor Zubkov was born on 15 September 1941 in the town of Arbat in the Sverdlovsk Region. In 1965 he graduated from the Leningrad Agricultural Institute having majored in agricultural economics, and went on to serve in the army for the next eighteen months. Between 1985 and 1991 he held the post of the First Secretary of the Communist Party Committee in the town of Priozersk in the Leningrad



Igor Shuvalov

Ministry of Foreign Affairs of Latvia

Region and several other positions, ending up as the First Deputy Chairman of the Regional Communist Party Committee. In 1992-93 he worked as the Deputy Chairman of the External Relations Committee for the Mayor's Office in St Petersburg.

As of 1993 Zubkov worked in different bodies of the state tax and revenue inspectorate system and the Ministry of Finance, ending up in the position of the Chairman of the Financial Monitoring Committee of the Finance Ministry, which was set up to fight money laundering.

On 14 September 2007 he assumed the office of Prime Minister. After Dmitry Medvedev was sworn in as President of Russia, Zubkov, along with Igor Shuvalov, became First Deputy Prime Minister in the new cabinet of Prime Minister Putin. His responsibilities mostly lie in the sphere of agriculture, antidumping policy and customs and tariff policy in the sphere of international trade. On 12 June 2008 Victor Zubkov was also appointed as chairman of the Gazprom board of directors, succeeding Dmitry Medvedev in this position.

### ALEXEY KUDRIN

**Minister of Finance of the Government of the Russian Federation**

**Deputy Prime Minister of the Government of the Russian Federation**

Alexey Kudrin was born on 12 October 1960 in Dobele, Latvia (then USSR).

In 1983 he graduated from the Department of Economics at the Leningrad State University. Two years later he contin-

ued with post-graduate studies at the Institute of Economics of the Russian Academy of Sciences. Having received a PhD in Economics, Kudrin started his political career in the Leningrad City Council in 1990, first working on its Executive Committee's Committee for Economic Reform and then becoming Chairman of the Mayor's Financial Committee by 1996. In August 1996 Boris Yeltsin appointed him Deputy Presidential Chief of Staff and later, in March 1997, First Deputy Finance Minister of the Russian Federation.

In January 1999 he became a member of the administration in the Russian Joint Stock Company UES, which is the biggest electrical energy supplier in Russia. Since August 2007 Kudrin has also been chairman of the largest Russian diamond-producing company, Alrosa.

On 18 May 2000 he was appointed to the position of Finance Minister of the Russian Federation and was reappointed several times, retaining this position to the present day. The notorious social welfare monetisation reform was carried out in 2005 during his term of office, this setting off a huge wave of popular protest. He was reprimanded by the President but has managed to retain his office so far.

### IGOR SECHIN

**Deputy Prime Minister of the Government of the Russian Federation,**

Of all Putin's aides and deputies, Igor Sechin is the only one who has accompanied him all the way since his period of working in St. Petersburg. In 2009 the Russian edition of *Newsweek* named him "politician of the year", since the



**Victor Zubkov**

Israel Ministry of Foreign Affairs



**Alexei Kudrin**

World Economic Forum



current Prime Minister entrusted him with the most pressing issues.

Igor Sechin was born on 7 September 1960 in Leningrad (now St Petersburg). He studied at Leningrad State University (1979 - 1984), majoring in Romance languages, namely French and Portuguese, and worked as an interpreter for Soviet missions in Mozambique and Angola.

He started working with Vladimir Putin in 1994, when the latter occupied the position of the First Deputy Mayor of St. Petersburg. Over the eight years of Putin's presidency, Sechin worked as Deputy Presidential Chief of Staff.

In May 2008 he was appointed Deputy Prime Minister and, at present, is mainly concerned with supervising the work of governmental committees in the spheres of industrial development and energy resources. Furthermore, since 2004, Sechin has occupied the position of chairman of the board of directors of the state-owned oil company Rosneft, which acquired the assets of the former oil giant Yukos in 2007.

### SERGEY LAVROV

#### Minister of Foreign Affairs of the Russian Federation

Sergey Lavrov was born on 21 March 1950 in Moscow. In 1967 he enrolled at the Moscow State Institute of International Relations (MGIMO). As a student in the Eastern Department, he learned the Sinhalese language of Sri Lanka. He also studied English and French. Immediately after his graduation in 1972 he was offered a position as an interpreter at the Soviet Embassy in Sri Lanka.

In 1976 he moved back to Moscow and started working at the Department of International Organisations under the auspices of the Ministry of Foreign Affairs.

From 1981 until 1988 he worked in the Permanent Delegation of the USSR for the UNO, moving up from the position of secretary to the office of Senior Advisor. In 1988 he became Deputy Head of the Department of International Economic Relations and, two years later, Director of the Department of International Organisations and Global Issues of the Ministry of Foreign Affairs.

In 1992 Lavrov was appointed Deputy Minister of Foreign Affairs of the Russian Federation. When the Minister of Foreign Affairs, Andrei Kozirev, resigned two years later, Lavrov was mooted as the main candidate to succeed him, but the position was eventually given to Evgeny Primakov. Lavrov was appointed the United Nations Ambassador of the Russian Federation. He held the position until 2004, when he was offered the position of the Minister of Foreign Affairs of the Russian Federation, which he still occupies.

Lavrov is a renowned specialist in the sphere of international diplomacy. His considerable experience of working at the UNO and active participation in discussions on the most pressing issues, for example the conflict in Kosovo, the Iranian nuclear problem and the problem of international terrorism, has secured for him the image of an ardent supporter of the principles of international law and multilateral diplomacy.



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**Igor Sechin**



Presidencia de la Republica del Ecuador

**Sergei Lavrov**





Anatoli Serdyukov

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Rashid Nurgaliyev

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### ANATOLY SERDYUKOV

#### Minister of Defence of the Russian Federation

Anatoly Serdyukov was born on 8 January 1962 in the town of Kholm'sky in the Krasnodar region. In 1980 he moved to Leningrad (now St Petersburg) to enrol in the Department of Economics at the Leningrad Institute of Soviet Trade. Following his graduation in 1984, he served one year in the army and, in 1985, started working in the Leningrad Furniture Company. By 1991 he was employed as deputy head for commercial affairs in the company. In 1993 he started working as marketing director in the Furniture-Market Company. Two years later he became Chief Executive Officer of the company and held that position until 2000.

After receiving a PhD in Economics, in 2000 he obtained the position of deputy head of the St Petersburg branch of the Federal Tax Service, which was then headed by Victor Zubkov. Upon Zubkov's promotion in November 2001, Serdyukov took over his position as head of the St Petersburg branch. That year he also completed his second degree, this time in Law at the St Petersburg State University.

On 27 June 2004 Serdyukov was appointed head of the Federal Tax Service and held that office until 15 February 2007 when he was appointed to the position of Defence Minister. By that time he was married to Victor Zubkov's daughter and, when in September 2007 his father-in-law was appointed Prime Minister, Serdyukov handed in his resignation to the President. However, it was not accepted and in May 2008 he was reappointed as Defence Minister.

### RASHID NURGALIYEV

#### Minister of the Interior of the Russian Federation

Rashid Nurgaliyev was born on 6 October 1956 in the town of Zhetigar of the Kustanai region in Kazakhstan (then the USSR). His parents worked for the police. By the time Rashid was finishing school his family were living in the town of Nadvoitsy in the Republic of Karelia. In 1974 he enrolled at the O. V. Kuusinen Petrozavodsk State University. Five years later he graduated, having majored in Economics and two years after his graduation he was working as a physics teacher at a school in the town of Nadvoitsy. Some time later he would also receive a PhD in Economics.

The year of 1981 marked the beginning of his career in the KGB. He started as a police agent in the Kostomuksha city branch and, after several years of service, became head of the Medvezhyegorsk regional department and head of the Counter-terrorism Department of the Republic of Karelia. From 1992 to 1994 he served under Nikolai Patrushev, who later became head of the Federal Security Service (FSB). In 1995 he was transferred to the central body of the Federal Counter-intelligence Service, which was later transformed into the Federal Security Service.

In 1998-1999 Nurgaliyev was Chief Officer of the Main Supervisory Department in the Presidential Administration. In 1999-2000 he was appointed to the position of Head of the subdivision within the Department of Economic Security, which was dealing with issues of drug-trafficking and smuggling.



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**Alexander Bortnikov**

From 2000 until 2002 he occupied the position of Deputy Director of the FSB. In 2002 he was appointed as First Deputy Minister of the Interior of the Russian Federation, as well as head of the Criminal Police Service.

Since March, 2004 Nurgaliyev has occupied the position of the Minister of the Interior of the Russian Federation. During his office, the Ministry of the Interior has been criticised on several occasions and is currently facing the need for substantial reforms.

### **ALEXANDER BORTNIKOV**

#### **Director of the Federal Security Service (FSB)**

Alexander Bortnikov was born on 15 November 1951 in Perm. In 1973 he graduated from the Leningrad Institute for Railroad Transport Engineers and the next two years worked for the railroad enterprises in the Leningrad region. By 1975 he had also completed courses at the Higher School of the KGB under the USSR Council of Ministers and joined the operative and management personnel in the subdivisions of counterintelligence in the Leningrad Region KGB Directorate. He took part in dozens of counterintelligence operations.

By June 2003 Bortnikov was occupying the office of Deputy Head of the Directorate of Federal Security Service (FSB) for St Petersburg and the Leningrad Region. On 8 June 2003 he was promoted to become the Head of the aforementioned Directorate.

In March 2004 he was offered the position of Deputy Director of the FSB, as well as the position of the Chief Officer

of the Department of Economic Security of the FSB. The same year due to the reorganisation of the FSB, the department headed by Bortnikov was converted into the Service for Economic Security. Since 2004 Bortnikov has also been a member of the board of directors of the state-owned shipping company Sovkomflot, which deals mostly with oil and gas maritime transport.

In December 2006 he received the title of Army General. When Dmitry Medvedev officially became President on 12 May 12, Alexander Bortnikov was appointed Director of the FSB. The same month he took office as the chairman of the Council of Directors of Security and Special Service organs of the CIS countries.

#### **Sources:**

The official web site of the Government of the Russian Federation <[www.kremlin.ru](http://www.kremlin.ru)>

The official web site of the President of the Russian Federation <[www.government.ru](http://www.government.ru)>

RUSSIA PROFILE Biographies of the Russian political leaders. <[www.russiaprofile.org/resources/whoiswho](http://www.russiaprofile.org/resources/whoiswho)>





# Historical chronology of the Russian Federation

**862**

Arrival of Varangians: Rurik is summoned to Novgorod. The beginning of Russia's statehood.

**862-1613**

The rule of the Rurikov dynasty.

**882**

Rurik's successor Oleg of Novgorod conquers Kiev and moves the capital there.

**907**

Oleg's expedition against Constantinople. Russia's first treaty with the Byzantine Empire is signed.

**957**

Princess Olga baptised in Constantinople.

**988**

Baptism of Prince Vladimir and conversion of Russia to Christianity. Among the Russian people, Christian and pagan beliefs are combined throughout next centuries.

**11th century**

First birch-bark documents appear, proving literacy of the Slavs.

**1030**

Prince Yaroslav starts the first school in Novgorod.

**1054**

Schism between Eastern and Western Catholicism. The Russian clergy is inclined towards orthodoxy with the centre in Constantinople, although acknowledges the power of the Pope and treats Catholicism with respect.

**1054-1073**

*Russkaia Pravda*, the first Russian law, is written.

**1095**

First election of the prince in Novgorod.

**1116**

"Primary Chronicle" composed (the oldest manuscript).

**1147**

Moscow is founded by Prince Yuri Dolgoruki.

**1195**

Signing of first Novgorod treaty with German towns and Gotland.

**1223**

First Mongol invasion of Russian territories. Russian troops are defeated at the Kalka river.

**1237-1242**

Mongol conquest of Russia.

**1240-1480**

The Tatar-Mongol yoke.

**1240**

Sweden attempts to conquer north-western territories of Russia. Alexander Nevsky leads and wins the battle against the Swedes on the Neva River.

**1242**

Battle on the Ice: Nevsky's victory over the Teutonic Knights on Lake Peipus.

**1270**

Novgorod signs treaty with the Hanseatic League.

**1326**

Establishment of Metropolitan (Bishop) in Moscow.

**1337**

Foundation of Trinity Monastery in Sergiev Posad near Moscow.

**1328-1340**

Rule of Ivan Kalita, who greatly extends the Moscow principality, turning Moscow into the most influential Russian city.

**1359-1389**

Rule of Dmitry Donskoi.

**1380**

Victory of Dmitry Donskoi over the Tatars at Kulikovo Field.

**1382**

Moscow is sacked and burned by the Mongol warrior khan Tokhtamysh.



**1395**

Defeat of the Golden Horde by Tamerlane. Decline of the power of the Golden Horde.

**1430-1466**

Disintegration of Golden Horde.

**1439**

Council of Florence Reunion of eastern and western churches.

**1448**

Church of Russia declared autocephalous.

**1453**

Capture of Constantinople by the Ottomans.

**1462-1505**

Rule of Ivan III the Great. He consolidates separate Russian principalities around Moscow and throws off the Mongol yoke.

**1471**

Campaign of Ivan III against the Novgorod Charter of the city of Novgorod.

**1472**

Marriage of Ivan III with Zoe (Sophia), niece of the last Byzantine Emperor.

**1478**

Incorporation of Novgorod into the Moscow state.

**1480**

The Great Standoff on the Ugra River between the army of Akmat, khan of the Golden Horde and the Russian army under the command of Ivan III. The Mongols retreat putting an end to the Mongol yoke.

**1497**

*Sudebnik* is promulgated (legal code of Ivan III).

**1510**

Incorporation of Pskov into the Moscow state.

**1517-1519**

Printing of the first books in Russian in Prague.

**1547-1584**

The rule of Ivan IV the Terrible.

**1552**

Annexation of Kazan to Moscow.

**1556**

The city of Asktrakhan is defeated and integrated into the Moscow state.

**1558-1583**

Livonian war against Poland and Sweden for domination in the Baltic Sea.

**1560s**

Edition of *Domostrai*, the famous book of principles of the patriarchal lifestyle.

**1564**

First book printed in Moscow.

**1565-1572**

Ivan the Terrible's *oprichnina* (mass purges and reign of terror).

**1566**

First Zemskii Sobor is elected (Consultative Land Assembly).

**1571**

Crimean Tartars burn Moscow.

**1571-1600**

Fortification of the southern frontier. Beginnings of the Don, Zaporozhian, and Ural Cossacks.

**1582**

The expedition of Yermak and the beginning of the conquest of Siberia.

**1584**

Privilege of St. George's Day, *Iur'ev Den'*, November 26 (the day when serfs were permitted to change their masters, the day of freedom, albeit limited), is abolished, which reinforces and conserves serfdom.

**1598-1613**

The "Time of Troubles", when Russia suffers Polish-Lithuanian occupation, famine, numerous civil uprisings and frequent changes of rulers.

**1589**

Creation of the Moscow Patriarchate.

**1591**

Dmitry Tsarevich killed in Uglich.

**1601-1603**

Mass famine.

**1610-1612**

The Poles occupy Moscow.

**1612-1613**

Minin and Pozharsky lead popular militia against Poles in Moscow.

**1613**

Mikhail Romanov becomes tsar.

**1613-1917**

The rule of the Romanov dynasty.

**1649**

*Ulozhenie*: Legal Code of Tsar Alexey.

**1653**

Last full meeting of Zemskii Sobor. Establishment of absolute monarchy in Russia.

**1654**

Church Council adopts Nikon's reforms, which leads to schism in the Orthodox Church.

**1660s**

Moscow linked with Amsterdam and Berlin by regular postal service.

**1666**

Church Council deposes Patriarch Nikon.

**1670-1671**

Revolt of Stepan (Stenka) Razin against Moscow rule.

**1672**

Russian embassies established in all major European states.

**1682**

Peter the Great becomes Tsar of Russia, with Sophia as regent.

**1689-1917**

The period of the Russian Empire.

**1689-1725**

Rule of Peter the Great.

**1695**

Beginning of the Russian navy.

**1697-1698**

Conquest of Kamchatka in the Far East.

**1703**

Great Northern War with Sweden.

**1703**

Founding of St Petersburg.

**1709**

Establishment of the *gubernii*s (provinces).

**1711**

First census (household and tax).

**1716-1717**

Transfer of capital to St Petersburg.

**1721**

Treaty of Nystad: Livonia, Estonia, Karelia, Ingria acquired from Sweden. Peter assumes the title of Emperor.

**1755**

Lomonosov founds Moscow University.

**1762-1796**

The rule of Catherine II the Great.

**1765**

Final secularisation of Church lands. Submission of the Church to the State.

**1767-1768**

Peasants forbidden to submit complaints against landowners. Toughening of serfdom.

**1773-1775**

First partition of Poland: Belorussia annexed to Russia.

**1782-1785**

Full absorption of the Ukraine into the Russian Empire.

**1783**

Incorporation of the Crimea.

**1801-1825**

The rule of Alexander I (of the Romanov dynasty).

**1801**

Acquisition of eastern Georgia.

**1802**

Sale of landless serfs prohibited. First projects for abolishing serfdom appear but remain unimplemented.

**1806-1815**

Conquest of Dagestan and Baku.

**1809**

Annexation of Finland.

**1812****August 14**

Napoleon attacks Russia.

**September 7**

Battle of Borodino.

**September 14**

Napoleon seizes Moscow.

**October 19**

Napoleon leaves Moscow.

**1812-1815**

Alexander's pursuit of Napoleon to Paris.

**1819-1829**

University of St Petersburg founded.



**1825-1855**

Rule of Nicholas I (Romanov).

**1825**

Decembrist Uprising.

**1832**

Uvarov's three principles enunciated: autocracy, orthodoxy, nationality.

**1837**

First Russian railroad built from St. Petersburg to Tsarskoe Selo.

**1854-1855**

Crimean War.

**1855-1881**

Rule of Alexander II the Reformer.

**1859**

The conquest of Caucasus completed.

**1862**

Abolition of the serfdom; liberation of serfs.

**1864-1885**

Great Reforms: Law and education reform; *Zemstvo* instituted as a form of stimulating development of local self-government.

**1866**

Conquest of Central Asia.

**1867**

Alaska is sold to the United States of America.

**1870**

Tolstoy's *War and Peace* is published.

**1877—1878**

War with Turkey; Treaty of San Stefano.

**1880**

People's Will Party and Black Partition established (birth of the radical revolutionary anti-monarchist movement).

**1881**

Assassination of Alexander II by People's Will terrorists.

**1881-1894**

Rule of Alexander III.

**1884**

Reactionary reforms.

**1891-1893**

Beginning of the Trans-Siberian railway.

**1892**

Forging of the Franco-Russian alliance (the Entente).

**1894-1917**

Rule of Nicholas II.

**1898**

1st Congress of the Russian Social Democratic Party (Minsk).

**1903**

2nd Party Congress (Brussels). The party splits into two fractions: the Bolsheviks headed by Lenin, and the Mensheviks headed by Martov.

**1904-1905**

Russo-Japanese War.

**1905**

General Strike and Bloody Sunday. First Russian Revolution.

**1906**

Constitutional Democrats Kadets: Programme published. The First Duma is convened. First Constitution of Russia.

**1907**

The Stolypin Land Reforms, aimed at intensification of agricultural production on the basis of small private farms. Formation of Triple Entente (France, Britain, Russia) against the Triple Alliance (Germany, Austro-Hungary, Italy).

**1912**

The Balkan Wars start.

**1914**

World War I begins.

**1917****February 23–27**

The February Revolution.

**March**

Abdication of Nicholas II in favour of his brother Mikhail who then transfers power to Provisional Government under the chairmanship of Lvov. The period of diarchy (*dvoevlastie*) begins, when the Petrograd Soviet of Workers' Deputies and the Provisional Government jointly rule the country.

**July**

Uprising against the Provisional Government. Prince Lvov resigns; Kerensky becomes premier with dictatorial powers.

**August**

The Kornilov uprising.

**October 25/November 7**

October Revolution

**December 20**

Armistice negotiations at Brest-Litovsk.



**1918****March 3**

The Treaty of Brest-Litovsk.

**March-August**

The foreign intervention begins. British troops land at Murmansk; Japanese at Vladivostok; Americans in Archangelsk; and French at Odessa. The Entente supports former Provisional Government members and tries to prevent the Bolsheviks from gaining control of Russia.

**May 14**

beginning of Civil War in Russia (between Bolshevik Red Army and White Army, the loosely-allied anti-Bolshevik forces).

**July**

The RFSFR Constitution ratified.

The Bolsheviks murder Tsar Nicholas II and his family in Yekaterinburg

**November**

Soviets repudiate Treaty of Brest-Litovsk.

**1919****March**

Kolchak launches drive against Bolsheviks

**June**

Treaty of Versailles.

**April-August**

Allies withdraw from the territory of Russia.

**1920**

Civil War ends in Russia; the White Army forces are defeated and broken up.

**1921**

The New Economic Policy (NEP) is launched.

**1922****April 3**

Stalin becomes Secretary General.

**April 22**

Treaty of Rapallo with Germany.

**December 28**

The USSR is officially formed.

**1924**

USSR recognised by Great Britain, France, Italy.

**January 21**

Lenin's death.

**January 31**

USSR Constitution ratified at the 13th Party Congress.

**1927**

Trotsky, Zinoviev and followers are expelled from the Communist Party. Iósif Stalin comes to power.

**1927-1953**

The rule of Stalin.

**1928**

First Five-Year Plan adopted.

**1929**

Collectivisation and industrialisation begins.

**1932**

Soviet - French non-aggression pact.

**1933**

USA recognizes USSR.

**1934**

Soviet Union joins the League of Nations.

**1937-1941**

The Stalin Terror. Mass purges and creation of labour camps.

**1939****August 23**

Nazi-Soviet Nonaggression Pact.

**September 17**

Germans invade Poland. World War II starts.

**November**

Soviet attacks on Finland.

**1940****June**

End of Russia's war with Finland: Baltic States are annexed.

**1941****June 22**

Germans attack USSR.

**1943**

German surrender at Stalingrad.

**1945****February**

Yalta Conference on post-war settlement.

**April-May**

Vienna and Berlin taken by Soviet troops.

Communist government in Bulgaria installed.

**1948**

Czechoslovakia joins Soviet bloc. The blockade of Berlin.

**1949**

USSR tests the atomic bomb.

**1953**

Khrushchev becomes the Secretary General in the Kremlin after the death of Stalin.

**1955**

Geneva Summit (the USA, Great Britain, France and USSR)

Warsaw Pact established.



**1956**

Khrushchev's "Secret Speech" at 20th Party Congress. The CPSU condemns "cult of personality" (it was only in 1961 that Stalin's body was removed from the Lenin Mausoleum)

**1957**

First Sputnik launched.

**1959**

Khrushchev visits USA.

**1960**

Khrushchev delivers a speech at UN Assembly in New York.

**1961****August**

Yurii Gagarin is the first man in space.

**October**

The Berlin Wall is built.

**1962****October**

Cuban Missile Crisis.

**1963****August**

US-USSR "hotline" established.

**August 5**

USSR, USA and Britain sign nuclear test ban treaty.

**1964**

Khrushchev is expelled from the Kremlin, Brezhnev becomes First Secretary.

**1967**

Outer Space Treaty.

**1968**

Dissident *inakomyshlyashchii* movement begins.

**January-August**

The "Prague Spring" and the Soviet invasion of Czechoslovakia.

**1969**

Preliminary round of SALT talks.

**1970-1971**

US-Soviet SALT talks.

**1970**

Nuclear Non-Proliferation Treaty.

**1972**

Nixon in Moscow for US-USSR summit.

**May 26**

SALT Treaty signed.

**1974**

The Jackson-Vanik amendment approved by the US Congress. In 2007 this amendment still remains one of the obstacles to Russia's admission to the WTO.

**1975**

Apollo-Soyuz space mission.

**1979**

Soviets invade Afghanistan.

**1980**

Moscow Summer Olympics boycotted by 64 countries in protest against the Soviet invasion of Afghanistan.

**1985**

Gorbachev becomes the CPSU General Secretary; anti-alcoholism programme ('dry law') initiated; Gorbachev calls for economic reforms (Perestroika).

**1986****April 26**

Chernobyl disaster.

**October**

The US-Soviet summit in Reykjavik (Reagan and Gorbachev).

**1987**

The US-Soviet summit in Washington; the signing of the INF Treaty to eliminate all intermediate-range nuclear weapons in Europe.

**1988**

Anti-communist unrest in the Baltic republics.

**February**

Gorbachev proclaims the right for every socialist land to have the "freedom to choose" its own social system.

**May**

Soviets begin pullout from Afghanistan.

**May 29**

The US-Soviet summit in Moscow.

**June-July**

I Congress of Peoples Deputies of the USSR begins political reforms towards the introduction of parliamentary-style elements. The power held by the party apparatus is limited and the rights of Soviet voters are strengthened.

**December**

Gorbachev's speech at UN announcing significant cuts in Soviet military strength

**1989****March**

First multi-candidate elections; supporters of Yeltsin and Sakharov overwhelmingly win seats in the Congress of People's Deputies.

**May**

Soviet-Chinese summit in Beijing.

**November**

The Berlin Wall falls.

**1990**

Mikhail Gorbachev awarded Nobel Peace Prize.

**March 11**

Lithuania becomes the first Soviet republic to declare independence.

**March 15**

Gorbachev becomes the President of USSR.

**June 12**

I Congress of Peoples Deputies of RSFSR passes "Declaration of State Sovereignty of Russia".

**July**

28th Party Congress: Boris Yeltsin announces resignation from Communist Party membership. He becomes first democratically elected Russian President. Supreme Soviet passes law to lift censorship from the press.

**November**

Law on Peasant Farms allows *kolkhozniks* to own private farms.

**November 10**

CFE Treaty signed in Paris.

**1991****August**

The coup attempt in Moscow.

**September**

Gorbachev resigns as head of CPSU; Yeltsin closes the communist *Pravda* newspaper and temporarily disbands CPSU.

**December 25**

Presidents of Belarus, Russia and Ukraine sign treaty to abolish USSR and form Commonwealth of Independent States.

Gorbachev announces his resignation and USSR ceases to exist.

**1992****April**

Government liberalises prices, a major step in moving from the centralised Soviet economy to a market economy. The rouble plummets; prices sky-rocket; economic crisis starts.

Western nations announce \$24 billion aid package for Russia.

**May**

Treaty on Collective Security (Russia, Armenia, Kazakhstan, Uzbekistan, Tajikistan, Kyrgyzstan).

**1993**

Escalation of conflict between the President and the Congress of People's Deputies.

**March**

Congress of People's Deputies passes resolution limiting powers of government to implement reforms. Yeltsin introduces 'special presidential rule'.

**April**

The Speaker of Congress Khasbulatov calls for impeachment of Yeltsin.

**August**

Referendum supports the president and the reforms.

**September**

The President dissolves the Congress of People's Deputies and Supreme Soviet of Russian Federation and calls for election of Federal Assembly.

**October**

Storming of the Parliament by the Yeltsin forces; Parliamentary forces attack Ostankino TV and the Mayor's office.

**December**

The Supreme Soviet is dissolved; elections to the Federal Assembly, the newly established parliament, are held.

**1994****January**

Referendum to ratify the new Russian Constitution. The Constitution significantly expands presidential powers.

**October**

Rouble crashes.

**November**

Russian Security Council votes to send troops to the breakaway republic of Chechnya.

**December**

Russian troops invade Chechnya.

**1995**

CPRF under Gennady Zyuganov prevails in parliamentary elections.

**1996****March**

Kozyrev resigns as Foreign Minister; replaced by Primakov.

**April**

Russia, Belarus, Kazakhstan and Kyrgyzstan sign integration accords in Moscow.

**July**

Yeltsin is re-elected for second presidential term.

**August**

Chechen rebels re-take Grozny. Full-scale combat operations end in Chechnya.

**November**

Alexander Lebed and Aslan Maskhadov sign peace accord in Chechnya. Russian troops begin withdrawal from Chechnya.

**1997****April**

Yeltsin and Clinton meet in Helsinki to discuss expansion of NATO.

**June**

Presidents Yeltsin and Clinton sign "Founding Act on Mutual Relations, Cooperation and Security between NATO and the Russian Federation".

**1998****August 17**

Massive sell-off of Russian bonds, securities and roubles. The eruption of the Russian financial crisis. Prime Minister Sergey Kiriyeenko announces devaluation of the rouble; market is paralysed by liquidity shortages; share prices plunge, and Russia defaults on foreign loans.



**1999****May**

Yeltsin sacks cabinet.

**September**

Vladimir Putin is appointed prime minister.

**December 31**

Yeltsin resigns and declares Vladimir Putin his preferred successor as Russia's new president.

**2000****March 26**

Vladimir Putin is elected president.

**May 13**

Putin introduces seven federal districts ("large regions") as a new system of territorial governance.

**August 12**

Russian submarine "Kursk" sinks during exercises in Barents Sea. All hands, 118 seamen, die trapped inside.

**2001****January 1**

Flat scale of income tax, 13%, is introduced.

**April**

NTV channel suffers crisis, top-managers are replaced and the majority of journalists quit their jobs. Arguably, NTV was the last opposition channel in the country and these changes were a symbol of Putin's victory over freedom of speech on television.

**July 11**

New law "On political parties" is passed, setting barriers for small parties and preventing them from participating in elections. By 2004 electoral legislation is changed: the proportion of the vote necessary for parties to qualify for party-list seats is raised from 5% to 7%; the threshold for voter turnout is abolished; the option "Against all candidates" in the ballot is cancelled. All this gives grounds for speaking of authoritarian trends in Putin's presidency.

**October 25**

Putin approves a new Land Code, where forms of ownership of land are clearly defined. The New Land Code stimulates business in the construction sector and lets people privatise their parcels of land.

**2002****October 23**

Terrorist attack in "Nord-Ost" musical theatre in Moscow. The theatre is captured by Chechen terrorists; 129 people are killed during counter-terrorist assault.

**2003****October 25**

The head of the oil company YUKOS Mikhail Khodorkovsky is arrested on charges of tax evasion. The property of YUKOS is gradually handed over to the "Rosneft" state corporation. Khodorkovsky is sentenced to eight years' imprisonment and is believed to be a political prisoner.

**2004****September 1**

A school in Beslan, North Ossetia, Caucasus, is captured by terrorists. 330 people, mostly schoolchildren, are killed. After this attack Putin announces a policy of strengthening "vertical power" through the cancellation of direct popular elections of regional governors who, henceforth, are appointed by the President.

**2005**

Large-scale social reforms launched, starting with monetisation of benefits to privileged categories of citizens, such as pensioners or the disabled. Welfare benefits are cancelled in exchange for higher state payments to these citizens. Numerous protests against these reforms made the government review the initial plans, and the reforms were slowed down.

**November**

Medvedev is appointed First Deputy Prime Minister of the Russian government.

**2006****January**

Gas conflict with Ukraine. Russia switches from "privileged" to market prices for gas delivered to Ukraine, which can afford to pay for gas at the new price but contests the terms of new contract. The situation was repeated in January 2007 with Belarus. Russia steadily loses its allies in near abroad: transportation and mail blockade of Georgia is imposed; export of wines from Moldova is banned.

**2007****February 10**

At the Munich Security Conference Putin makes a speech accusing the USA of unilateral action which destabilises the international relations system.

**March**

March of dissidents in St Petersburg sets off a series of similar marches in many other Russian cities. The opposition protests against Putin and his team, demanding a change of political regime in Russia.

**July**

Sochi is selected as host city for the Winter Olympics 2014. A number of amendments to the Land Code are passed, facilitating the transfer of land from private to state ownership. Russia declares a moratorium on the CFE Treaty.

**2008****March 2**

Dmitry Medvedev is elected as President of Russia. Soon afterwards Putin is appointed as Prime Minister.

**August 8-12**

Russian-Georgian armed conflict over Georgian breakaway republics of South Ossetia and Abkhazia.

**August 26**

Russia recognizes the independence of South Ossetia and Abkhazia. No country follows suit except for Nicaragua and Nauru.

**September**

Russia is hit by financial crisis. Oil prices plummet by 2.5 times, shrinking the national income dramatically and rapidly.

**2009****March 6**

The US Secretary of State Hillary Clinton visits Russia with the offer to “reset” relationships between the two countries.

**April**

The regime of the counter-terrorist operation in Chechnya is abolished.

**May**

The National Security Strategy of the Russian Federation is approved by Medvedev.

**April-September**

The legal framework of allied relations with Abkhazia and South Ossetia is drawn up. Agreements on the protection of state borders (April) and in the military field are signed.

**June**

The first BRIC (Brazil, Russia, India, China) summit is held in Yekaterinburg.

**July**

Barack Obama visits Moscow. Intergovernmental agreement on the transit of American military equipment, arms, military equipment and personnel through the territory of Russia to Afghanistan is signed. Negotiations on the Treaty on Further Reduction and Limitation of Strategic Offensive Arms begin (to replace the START Treaty expiring in December, 2009).

**August 17**

Anthropogenic disaster with Sayano–Shushenskaya hydro-electric power station. 75 people killed.

**September**

International conference “Modern State and Global Security” takes place in Yaroslavl. Initiated by the Russian President, the conference is attended by Prime Ministers of France, Spain and other high-ranking officials. The problems of post-crisis development, the social responsibility of the state, the variety of democratic experience, the effectiveness of global institutions, the fight against terrorism, separatism and xenophobia are discussed.

**November**

Medvedev sends the Russian project of the European Security Treaty to the heads of foreign states and international organisations.

**November 27**

Terrorist attack on the “Nevsky express” train, 28 people are killed, 95 injured. Chechen terrorists (under the command of Doku Umarov) claim responsibility for this attack.

**December**

Plenary ministerial meeting of the NATO-Russia Council (the first after the 2008 Caucasus crisis) decides to hold throughout 2010 a joint review of the common challenges and threats to security in the XXI century.

**2010****January 19**

As a result of deteriorating security in the south of Russia, a new North Caucasus federal district is formed by the Presidential decree.

**March 29**

Violent terrorist attacks in Moscow underground; 40 people are killed. Chechen separatists are considered to be behind the attack; world mass media blame Putin for failure of his Caucasus policy.





# Foreign policy of the Russian Federation

## SOVIET FOREIGN POLICY (1945-1985)

Soviet diplomacy after the Second World War was grounded in a number of assumptions dating back to Leninist doctrine. First, it was taken for granted that capitalism is doomed and should be replaced by the communist system as the incarnation of social progress. Second, the class-based theory of world revolution was believed to be universally valid. Third, the Soviet Union was considered to be the vanguard of what was dubbed "progressive mankind". Fourth, since wars were believed to be brought about by the imperial powers, peace could be achievable only with a systemic demolition of imperialism. In the meantime, the Soviet rulers drew a distinction between "unjust wars" provoked by capitalist countries, and "just wars" of national liberation that Moscow pledged to support by all means for the sake of "world revolutionary progress".

As the direct outcome of World War Two, the Soviet Union became one of most politically influential countries of the world. Yet it still lacked economic power comparable to the West. Hence, in the first post-war months the Soviet leadership sought to portray the USSR as a peaceful nation ready to compromise with its partners from the West. Yet the anti-fascist coalition soon fell apart, and the Soviet Union started to seek predominance in Eastern Europe. Accordingly, the United States were declared – first unofficially, then publicly – Russia's main challenger and contender. Taking into account the growing enmity between Moscow and Washington, the Soviet leadership started investing resources in putting an end to the nuclear monopoly of the United States and going ahead with the Soviet atomic bomb project which, after its successful implementation, gave rise to the nuclear arms race between the Soviet Union and the United States.

In 1953, with the death of Stalin, Soviet foreign policy underwent sweeping changes. The new Soviet leader Nikita Khrushchev declared the policy of peaceful co-existence between two types of countries (socialist and capitalist) and questioned the feasibility of "exporting the revolution" abroad. Khrushchev also acknowledged the multiplicity of transitory pathways from capitalism to socialism, and called for a more tolerant and flexible attitude towards the experience of European social democracy. Peaceful coexistence was equivalent to the repudiation of war as a means of solving political conflicts and recognition of the endurance of the capitalist system. The arms race, according to the new logic of Soviet foreign policy, was considered to be dangerous and wasteful.

In 1964 the new Secretary General, Leonid Brezhnev,

came to power in the Kremlin. Under his rule, the Soviet Union strengthened the policy of "socialist internationalism" which, in practice, meant expansion of the USSR-controlled geopolitical sphere, as well as enhanced assistance to the Third World national liberation movements. The Brezhnev doctrine was interpreted in the West as a declaration of "limited sovereignty" in relations between socialist countries that are destined to "help each other" in solving their domestic problems. The Soviet invasion of Czechoslovakia in 1968 was justified by this doctrine, which prevented the Soviet allies from making domestic policy changes and blocked transformation in the Soviet-imposed model of socialism.

In relations with the West, Brezhnev supported the policies of detente which, in his view, did not challenge the primacy of the class-struggle approach to world politics. Soviet-American relations at the time were characterised by the policy of nuclear deterrence and the conflict arising from by the Soviet Army's invasion of Afghanistan in 1982.

## RUSSIA'S FOREIGN POLICY DURING THE PRESIDENCY OF MIKHAIL GORBACHEV (1985-1991)

Gorbachev drastically changed the previous approach to foreign policy, which was based on the Marxist-Leninist concept of irreconcilable conflict between capitalism and communism. He proclaimed that foreign policy must be based on cooperation instead of a military balancing act. In the spirit of a policy of "New Thinking", Gorbachev made a number of concessions in the resolution of regional conflicts and arms negotiations that would have been unimaginable during the Soviet era. In 1987, the Soviet Union agreed to eliminate its intermediate- and short-range missiles in Europe, and secured this obligation in the Intermediate-Range Nuclear Forces (INF) Treaty signed by Reagan and Gorbachev at the Washington Summit. In February 1989 the Soviet Union withdrew its troops from Afghanistan.

Gorbachev's conciliatory policy brought an end to the Cold War, but also led to results his administration had not foreseen: the communist governments in Eastern Europe were overthrown during 1989-1990. This came about as a result of Gorbachev's rejection of the Brezhnev Doctrine and his proclaiming the principle of "the sovereign right of each people to choose their own social system", which he mentioned for the first time in his speech to the Council of Europe. In keeping with this principle, the Soviet Union did not attempt to restore communist rule in Eastern Europe and neither did



it stand in the way of reunification in Germany. Moreover, by the middle of 1990, Gorbachev and Chancellor Helmut Kohl had worked out an agreement by which the Soviet Union consented to the NATO membership of a unified Germany.

In the beginning of the 1990s, Soviet-controlled international organisations in Eastern Europe were disbanded. In January 1991, the Council for Mutual Economic Assistance was dissolved, although member states agreed to recast their multilateral ties. In July 1991 the Warsaw Pact followed suit. Soviet troops were withdrawn from Eastern and Central Europe over the next four years, from Czechoslovakia and Hungary by mid-1991 and from Poland in 1993.

The United States-Soviet relations were steadily improving. At a summit in Malta in the end 1989, Gorbachev and President George H. W. Bush declared an end to the Cold War. In August 1990, the Soviet Union joined the United States in condemning the Iraqi invasion of Kuwait and supported United Nations resolutions to restore Kuwait's sovereignty. By 1991, the United States-Soviet relationship showed even more significant signs of improvement, when Bush and Gorbachev signed the Strategic Arms Reduction Treaty (START I). Under START, large numbers of intercontinental ballistic missiles were to be eliminated: the parties agreed on a reduction of approximately 35 per cent in the United States of ballistic missile warheads and about 50 per cent of Soviet ballistic missile warheads within the following seven years. In November 1990, the United States, the Soviet Union, and most of the European states signed the Conventional Forces in Europe Treaty (CFE Treaty), agreeing to reductions in battle tanks, armoured combat vehicles, artillery, and fighter aircraft.

Within the framework of Gorbachev's New Thinking policy, the Soviet Union established diplomatic relations with Saudi Arabia, South Korea, and Israel. Gorbachev considered that one of the country's top priorities was to develop closer relations with China. The Soviet Union resolved a number of problems which were stumbling blocks for Sino-Soviet relations: it rolled back Soviet support for the Vietnamese military presence in Cambodia, withdrew troops from Afghanistan and significantly reduced the number of Soviet troops and weapons deployed along China's northern border. As a result, the Chinese government agreed to hold a summit with Gorbachev in Beijing in 1989, which was the first meeting between Soviet and Chinese leaders since the 1950s.

### RUSSIA'S FOREIGN POLICY DURING THE PRESIDENCY OF BORIS YELTSIN (1991-1999)

After the collapse of the Soviet Union at the end of 1991, Russia was recognised by states around the world and international organisations as the Soviet Union's successor. As an independent state it now had to work out a new foreign policy strategy. This process was rather controversial due to the lack of clarity in Russia's new identity, which had to replace communism and Cold War ideology. Nevertheless, from the first days of Russia's independence, the West was defined as its political ally, a prototype for Russia's economic and political development, and, finally, as a potential

source of financial assistance which was desperately needed for economic reforms. This type of worldview was especially widespread in the immediate aftermath of *perestroika* and the demise of the Soviet Union, and exemplified by the so-called Kozyrev diplomacy, an explicitly pro-Western stage in Russian foreign policy associated with Russia's first Foreign Minister. It is at this time that the ideas of Russia's eventual membership in NATO were aired. Andrei Kozyrev's avowed interest in strategic partnership with the West was based upon a number of shared premises, first of all, the desirability of bolstering multilateral institutions and support of universal human values as distinct from narrow national interests. Kozyrev's worldview was grounded in recognition of the "centrality of the United States as the only truly global power ... It is around the United States that a core of international society is formed, which shares basic values and common interests" (Trenin, 2000). Seen from this perspective, it was believed that a unipolar international society would be the best-equipped system for facilitating the thrust of globalisation and fostering unification of the world. Yet the unipolarity accepted by Kozyrev was seen not as Pax Americana but rather as a joint leadership of a group of Western nations (Bogaturov, 2003). Kozyrev's vision represented a sort of "soft unipolarity" where American superiority was mediated by a number of institutional filters and constraints that Washington had to respect. In other words, America's leadership was broadly accepted, but not in its capacity as the sole "superpower".

However, the pro-Western policies of the beginning of 1992 began to falter in 1993 over such issues as the war in Yugoslavia and NATO expansion. Critics started pushing for a more self-reliant and independent foreign policy in Russia. A number of other events, including the intensified NATO bombardment of Bosnian Serb targets in September 1995, unleashed harsh criticism of the Kozyrev brand of diplomacy from both the nationalist camp and President Yeltsin himself. Kozyrev's resignation was announced by Yeltsin in January 1996. His successor, Yevgeniy Primakov, came up with a different foreign policy philosophy grounded in the idea of multipolarity.

In the minds of many Russian politicians, the NATO intervention in the Balkans presented a perfect example of the drawbacks of unipolarity. Primakov voiced strong objections to the policies of NATO expansion, reminding the alliance of its alleged promise given to Gorbachev not to move into the spheres of Moscow's interests. Under Primakov, Moscow's new worldview came very close to resembling a "balance of power" concept that assumed Russia's ability to consolidate in the post-Soviet area and challenge the global hegemony of the United States.

### RUSSIA'S FOREIGN POLICY DURING THE PRESIDENCY OF VLADIMIR PUTIN (2000-2008)

#### The Idea of Russia's resurgence

Fast recovery of Russia's economy in Putin's first presidential term reduced Russia's dependence on foreign economic



assistance, allowing Russian leaders to offer more vigorous resistance to Western policies that failed to meet Russia's expectations. The 1990s were assessed by his administration as the period of Russia's subjugation to the West. The feeling that Russia's interests were being disregarded was fuel for more assertive and aggressive behaviour from Russia in the international arena. Putin turned reaffirmation of Russia as a great power into the mainstay of his foreign policy, while pragmatism and pursuit of Russia's national interest became its key guiding principles. The five-day war in Georgia in August 2008 was one climax in Russia's international self-assertion in post-Soviet space as well as in Europe. It is worth mentioning that many analysts attribute the aggressive tone of Putin's foreign policy discourse to his domestic strategy of exploiting Russian patriotism for gaining support to his leadership and unifying the nation by promoting the idea of a perpetual external threat.

#### **Russia's resistance to US hegemony and multipolarity discourse**

Russia under Vladimir Putin increasingly identified itself as being in opposition to US hegemony, as a result of which Putin's foreign policy is usually described as rather confrontational. In the beginning of Putin's presidency there was great hope for US-Russian cooperation, based on the change of administration in both countries. The disagreements of the Yeltsin-Clinton era were expected to be overcome by new leaders. From the first days in office, Putin was inclined towards building stronger ties with the United States. In April 2000 he convinced the Duma to ratify START II. This treaty provided for a significant reduction in strategic nuclear warheads for both the United States and Russia by 2007. The next opportunity to reach new levels of cooperation with the United States came with the appearance of the counter-terrorism coalition. After 11 September 2001, Putin expressed his willingness to join efforts in the "war on terrorism" declared by the United States. It seemed that the counter-terrorist strategy could hold out a good opportunity for expanding general cooperation between Russia and the United States. Indeed, Russia supported the NATO operation in Afghanistan and stepped up cooperation on disarmament. During the US-Russia Summit in May 2002 in Moscow, the presidents of both countries, Vladimir Putin and George Bush, signed a Strategic Offensive Reductions Treaty, pledging to cut down their nuclear arsenals by two-thirds, bringing the number of warheads to about 2,000 each. However, less than a month later the Bush administration withdrew from the 1972 Anti-Missile Treaty claiming that it was detrimental to US protection against possible terrorist or "rogue-state" ballistic missile attacks. Russia saw this step as the intention of the United States to build up military supremacy at the expense of other states' security, and retaliated by withdrawing from the nuclear arms reduction treaty START II.

When the United States' intention to attack Iraq became clear, Putin faced a choice of either remaining neutral on the issue, thus implicitly supporting the Americans, or siding with "old Europe" in their protest against the US-led Iraq

invasion. Putin chose the second option and, during his visit to Paris in February 2003, he and President Chirac officially announced their intention to block the US draft of a new UN resolution that would authorise the war in Iraq. Joined by the German leader Gerhard Schröder, they confirmed adherence to the principles of counter-terrorism but insisted that the war in Iraq was not an appropriate response to the terrorist threat.

Joining the "global war on terror" fitted in with Russia's interests as it gave justification and legitimacy to its policy in Chechnya. In other respects, Russia's contribution to the war on terrorism was not as expansive as the United States expected it to be. Russia contributed to the NATO operation in Afghanistan but never sent its own troops to this country. Moreover, as a counterweight to American presence in Central Asia, Russia built up its own military contingent in Tajikistan and Kyrgyzstan. Again, Russia never sacrificed to anti-terrorism goals its partnership with Iran and Syria in the arms trade, despite the fact that both states were accused by the United States of supporting terrorism. Neither did Russia suspend construction work at a nuclear plant in Bushehr, which is being built on the basis of the Iran-Russia inter-governmental agreements dating from 1992. The United States was extremely dissatisfied with Russia for supplying these countries with arms and refusing to support sanctions against Iran. In Latin America, Russia was building ties with Venezuela, led by the anti-American president Hugo Chavez. Striving to further diversify its foreign policy, Russia declared as one of its top priorities partnership with India, China and Brazil (BRIC).

Consistently undermining the international relations system based on United States unilateralism, Russia put forward its own idea of the optimal world order, which was the multipolar world. The concept of multipolarity was not new to Russia's foreign policy discourse, but after Sergei Lavrov was appointed Foreign Minister in 2004, this idea prevailed. Putin eagerly promoted the idea of "democratic multipolarity". In his speech at the Munich Security Conference of 2007 he accused the United States of seeking global domination and lambasted the American concept of the unipolar world as being premised upon "one single centre of power" and "one single master, one sovereign", a situation that arguably "has nothing to do with democracy". In the Kremlin worldview, multipolarity fits with the idea of democracy which, in this reading, is void of political meanings and is basically reduced to a mere multiplicity of sovereign states, regardless of the nature of their political regimes. It is worth mentioning that Russia employs the concept of "democratic multipolarity" mainly in communication with countries like China, Belarus, Iran, Venezuela, India, Cuba and others, all of them lacking a convincing record of democratic rule. By the same token, the multipolarity discourse does not seem to be employed in Russia's communications with the EU. Instead Russia prefers to use the concepts of "common Euro-Atlantic space" and "larger Europe".

The Kremlin's concept of multipolarity had been criticised by many Russian experts, who point out that it may foster



conflicts among competing poles and thus lead to further destabilisation of international society, the specific consequences of which may be escalation of the conflict in the Middle East, the strengthening of Iran, the military advancement of China and North Korea, and so on.

### Russia as a regional power

From the start of Putin's presidency, Russia turned its attention to the CIS region and declared post-Soviet space a sphere of special interest. Russia was striving for deeper economic and security integration with the CIS states within the framework of existing CIS institutions and the Collective Security Treaty Organisation (CSTO). The main sphere of cooperation between Russia and its eastern neighbours was energy transportation. A number of inter-governmental agreements with Kazakhstan, Azerbaijan, Uzbekistan and Turkmenistan were signed, deepening cooperation in the oil and gas sector. The countries were also working to reduce customs tariffs on other categories of the goods and to intensify trade.

The "Rose Revolution" in Georgia in November 2003 was the first significant blow to Russia's policy of strengthening its influence across the former Soviet space. This event, along with the "Orange Revolution" in Ukraine in late 2004, when the pro-Western candidate Viktor Yushchenko came to power, were deemed in Russia to be the result of US-led western interference in the Georgian and Ukrainian presidential elections, and the United States' attempt to exert its influence over the countries allegedly located in the sphere of Moscow's strategic interest. Despite the fact that Russia itself was using every available instrument to influence those elections, the fiasco of the pro-Russian candidates was followed by a stepping up of Moscow's defensive anti-American rhetoric. The Kremlin also reacted extremely negatively to NATO's decision to offer Georgia and Ukraine the prospect of membership in the alliance.

Throughout Vladimir Putin's second term the relations with the new Ukrainian government led by Viktor Yushchenko were somewhat complicated. As for Russian-Georgian relations, the tensions were escalating into open hostility. Disputes with Georgia arose in the beginning of the 1990s when both Russia and Georgia became independent countries. Separatist tendencies which were accelerating in post-Soviet space made Georgia face the prospect of secession of two of its republics, South Ossetia and Abkhazia. In order to prevent this, the Georgian government embarked on armed attacks in 1991 and 1992, which led the South Ossetian and Abkhazian governments to appeal to Russia for protection. Russia mediated the ceasefire and, as a result of the Sochi Peace Agreement, established a peacekeeping mission in these republics. Since then the Georgian government has redoubled its efforts to maintain a distance from Moscow. After Mikhail Saakashvili came to power in 2004, Georgia intensified its demands for a withdrawal of Russian peacekeeping corps from the territories of South Ossetia and Abkhazia. Georgia's main accusation against Russia was its increasing political cooperation with these two republics, and the ex-

tensive financial support it was giving them, thus encouraging breakaway tendencies in both territories. In 2005-2006 tensions flared. Moscow claimed that Chechen rebels were hiding in Georgian territory (in the Pankisi gorge). Georgia arrested five Russian officers on spying charges in September 2006 and imposed visa requirements on Russian peacekeepers in Abkhazia. In response, Russia introduced a visa regime for Georgia and imposed an embargo on the importation of Georgian goods. A number of Russian officials publicly warned Georgia against joining NATO. Under the pretext of a possible military invasion by Georgia of Abkhazia, Russia announced a build-up of its peacekeeping corps in the latter republic. In the ongoing bellicose rhetoric, Georgia recalled its ambassador from Moscow.

As for Ukraine, two main points of discord between Moscow and Kyiv have been the Russian gas transit to Europe and the Russian naval presence in the Ukrainian peninsula of Crimea. Both sides have been engaged in a long-running argument over the naval base in Sevastopol, which is currently leased by Russia from Ukraine. The Ukrainian government insists that it will not renew the lease which expires in 2017, whereas for Russia this naval base is of top strategic priority. If the lease is not to be extended, Russia has to start preparing for the relocation of its naval base, which is a time-consuming and expensive matter.

Gas conflicts started in 2005 and periodically flared up until mid-2009. The disputes revolved around the price of natural gas sold to Ukraine and passing through Ukrainian territory to the European Union countries, which became the hostages in this conflict. In 2005, Russia announced that it was going to sell gas to Ukraine at the international market price instead of continuing with the former preferential tariffs. In addition, Russia was trying to recover an enormous debt that Ukraine owed to Gazprom for its gas purchases. As a result, Russia cut off gas supplies to Ukraine in January 2006. In response, Ukraine withheld some Russian gas being transported to Europe, which became an additional source of discord. Several days later, Ukraine and Russia reached a preliminary agreement, but the Ukrainian debt kept growing. Almost identical situations recurred in 2007, 2008 and 2009, each time resulting in the cutting-off of supplies to European consumers. Russia described its motives as purely rational, based on market logic, whereas Ukraine accused Russia of politically-motivated energy diplomacy. During 2009 Prime Minister Putin engaged in negotiations with his Ukrainian counterpart Yulia Timoshenko and the parties reached a mutually acceptable agreement according to which Russia establishes market gas prices for Ukraine, but Ukraine raises the gas transit price by 60%.

By the end of Putin's presidency Russia had strained relations with both its closest neighbours (Georgia, Ukraine, Byelorussia and the Baltic States) and its strategic allies (European Union and the United States), which gave ground for pessimistic projections of Russia's isolation and consequential marginalisation from world politics. The next Russian President Dmitry Medvedev faced the challenge of breaking this trend.

### Russia as an energy superpower

Extremely favourable oil and gas prices have had an effect not only on Russia's economic development, but also on its political self-identification. This is when the term "energy superpower" became current, mostly due to the fact that the Russia government considered its energy supply as one of its most important sources of international competitive advantage. Nevertheless, it was precisely the period of Putin's presidency when Russia chose to switch its energy policy towards a more technocratic and pragmatic one. During his tenure Vladimir Putin presented Russia's energy strategy as being based on "technical-economic thinking", which gave rise to numerous discussions about Russia's implicit intentions with this transformation, including accusations of using energy as a political instrument to influence both transit and consuming countries.

In order to understand properly the controversy raging around this issue, one should recall that Russia traditionally practised a politicised approach to energy supplies, offering exceptional conditions of gas and oil delivery to a limited number of countries considered to be its most loyal allies. The pricing policy of Russia was never governed by the logic of "market prices". On the contrary, at the core of Russian energy diplomacy was a series of politically motivated exceptions extended to a number of "special partners". In 2005, Gazprom with the support of the Putin administration announced that it was unifying its pricing policy and setting same-level prices for all its consumers, including Ukraine and (later) Byelorussia. Considering Russia's negative reaction to the Ukrainian "Orange Revolution" of 2005, the new strategy was perceived as a "political move". Russian officials kept insisting that this strategy could be explained by purely economic reasoning. Many analysts came to the conclusion that this was indeed true: Russia's self-positioning as the "energy superpower" was driven not "by the desire to restore the empire [...] but to boost profits earned by 'Gazprom', 'Rosneft' and other major corporations close to the Kremlin [...]. The logic of pragmatism and profit are indeed replacing imperialism as the major factor determining the development of Russia's foreign policy" (Morozov, 2007). In this context, the Russian government's determination to charge Russia's neighbours for gas supplies at non-preferential market prices could be regarded as a victory of "Gazprom" over the more traditional Kremlin approaches, or, in other words, as a preponderance of business logic over the (geo)political one.

Nevertheless, Russia's transition from the rather traditionalist exception-based policy in the oil and gas sector attracted accusations that it was using energy as a manipulative tool. In the domestic sphere, the concept of the energy superpower is criticised because of the critical imbalance of Russian exports and its being heavily dependent on raw materials, which became especially evident after the world financial and economic crisis erupted. At the end of 2008 the Minister for Economic Development of Russia, Elvira Nabiullina, admitted that the model of a Russian economy based on oil and gas exports had been substantially faulty (Elvira Nabiullina, 2008).

## RUSSIA'S FOREIGN POLICY DURING THE PRESIDENCY OF DMITRY MEDVEDEV (2008-2009)

### Russia's foreign policy priorities under the presidency of Dmitry Medvedev

The gist of Dmitry Medvedev's foreign policy is Russia's integration into the international community on an equal footing with the EU and NATO, but without shedding the pragmatic approach to international politics based on the pursuit of Russia's national interests. This is reflected in foreign policy documents issued by the Medvedev administration: the new *Russian Foreign Policy Concept*, approved in July 2008 and *the Russian National Security Strategy until 2020*, released in May 2009. Both documents replace older versions adopted during Putin's presidency. They mostly reproduce the same content stating that Moscow is seeking to establish a world order based on collective decision-making, security indivisibility, the primacy of international law while, at the same time, Russia safeguards its sphere of "privileged interests", preventing any unfriendly interference therein. The difference between these documents and their older versions is in Russia's self-positioning as a fully-fledged, influential international actor. Along with this idea both documents imply that Russia's interests in the international arena are not taken into proper consideration. In other words, Russia's international status does not match its real potential. On the practical level, this controversy is reflected in the main issue of Russia's international policy for the year 2009 – the dispute over the American anti-missile system in Europe. On the one hand, Medvedev does not want to confront the West and start a new arms race but, on the other hand, Russia cannot tolerate NATO's attempts to bring its anti-missile defence system close to its borders and thus increase its influence in the spheres of Russia's strategic interest. Russia's proposal of new Euro-Atlantic security architecture has the purpose of preventing this system from being deployed.

### Medvedev's proposal on the New European Security Architecture

Dmitry Medvedev often claims that "in international affairs as well as in domestic affairs we will first and foremost insist on the supremacy of law" (Medvedev, 2008a). The proposal of developing a new European Security Treaty follows from Medvedev's aspiration to form a broad legal basis for international cooperation in the sphere of security. The practical demand for this treaty, as Medvedev states, comes, first, from Georgia's arbitrary and irresponsible actions towards South Ossetia in August 2008 and, second, from NATO's plans of boosting its security at the expense of Russia's security. To avoid similar clashes in the future, Medvedev suggests signing a security treaty based on the primacy of the principles of international law; a multi-polar world; a non-confrontational approach to international relations; peaceful conflict resolution; and avoidance of alliances and blocs in the sphere of security.

Soon after his inauguration, during his visit to Berlin in June 2008, Medvedev called on European countries to start work-



ing out a new all-European security treaty “which would finally clarify the role of the power factor in relations within the Euro-Atlantic community” (Medvedev, 2008a). He expanded on his vision of the new European security architecture at the World Policy Conference in Evian on October 8, 2008, where he blamed the United States for “creating dividing lines in international relations” by its “series of unilateral actions” (Medvedev, 2008b). Medvedev emphasised the importance of the indivisibility of security by suggesting “building an integrated and solid system of comprehensive security” where “no development and expansion of military alliances at the expense of other parties” is to be allowed. He insisted on the necessity of a new security treaty for the entire Euro-Atlantic space. By the end of November 2009, these suggestions had taken the form of the Draft Treaty on European Security (2009) that the Russian Foreign Minister Sergei Lavrov presented in Athens during the OSCE ministerial council in December 2009.

The European leaders were not very enthusiastic about the treaty. Dmitry Medvedev’s proposal was criticised mainly for its lack of substance, since the chief principles of his project are already fixed in the Helsinki Final Act and the UN Charter. This proposed treaty is said to be purely reactive, created in response to further potential NATO enlargement and USA missile defence negotiations with Eastern European countries. The critics also say that by means of this treaty Moscow is attempting to gain more authority in European international relations, because the implicit demand of the Medvedev’s security concept is that Europe must take into consideration Russia’s interests and security concerns.

Another critique of Russia’s initiative is that Medvedev’s strategy is rather inconsistent and that many of his appeals are pure rhetoric. Thus, although in his proposal Medvedev continues to develop the concept of multipolarity, he also rather easily drops multipolarity discourse in favour of unilateral decision-making: “As far as our military contingent (in South Ossetia) is concerned, I should like to draw your attention to the fact that not a single document, including our joint plan with President Sarkozy, envisages that this contingent would abide by any rules ... It is up to us to define what troops we need there, where they will be based and what kind of military bases will be deployed over there” (Medvedev, 2008c). In Russia’s Foreign Policy concept, this inclination to unilateralism is veiled by the wording, “Should our partners be unprepared for joint efforts, Russia, in order to protect its national interests, will have to act unilaterally, but always on the basis of international law” (“The Foreign Policy...”, 2008).

Summarising Russia’s foreign policy in one of his interviews in 2009, Sergei Lavrov said that Russia was going to keep promoting Dmitry Medvedev’s initiative even if it had not received the proper response from the European community (“Russia to promote...”, 2009).

The significance of Medvedev’s proposal is evident in at least one aspect of this issue – Russia is more determined than ever to establish an institutional partnership with the EU and NATO. During Putin’s presidency Russia’s priority was bilateral relations with individual European countries instead

of cooperation with the EU institutions. Putin’s administration doubted the political subjectivity of the European Union and sought to establish relations with actual decision-makers, who were, from Moscow’s point of view, Germany, Italy and France. Medvedev, by suggesting a Euro-Atlantic security treaty, shifted towards recognition of the EU as a fully-fledged and trustworthy partner.

The improvement of EU-Russia relations throughout 2009 was substantiated by the EU-Russia summit held in Stockholm in November 2009. It was acknowledged as the most successful to be held in the past few years. The European Union agreed to start negotiations on abolishing the visa regime between Russia and the EU and to accelerate the work on the New Basic Agreement which is to replace the Agreement on Partnership and Cooperation (which expired in December 2007 and is automatically extended every year). Moreover, the European Commission President, Jose Manuel Barroso, the Swedish Prime Minister, Fredrik Reinfeldt, and the Russian President Dmitry Medvedev have agreed to launch a bilateral programme “Partnership for Modernisation”, designed to assist Russia in remedying the fact of its lagging behind in technological matters. Again, the issue of Russia’s joining the WTO was duly discussed. Jose Manuel Barroso stressed the importance of Russia’s membership in this organisation (European Parliament, 2009).

#### **NATO as a primary external rival of Russia**

The sphere of Russia-NATO relations is one where the legacy of the Cold War was the most difficult to shake off. Russian opposition to NATO has been premised on two mutually exclusive arguments. On the one hand, NATO is said to be a dangerously strong (even omnipotent) and unfriendly military bloc that threatens Russian interests. On the other hand, it is said to be a relic of the Cold War, incapable of providing security in today’s completely altered international environment in which security challenges are not bound to specific territories. For both Putin and Medvedev, “bloc thinking” and, accordingly, territorial expansion are not the right remedies for non-territorial threats.

To discredit the idea of Ukraine’s and Georgia’s joining NATO, Russia is wielding normative links between democracy and security. It argues that Ukraine should not join NATO since most Ukrainians are against membership in the alliance. In Georgia’s case, where popular support for NATO is unquestioned, Russia pushes the democratic dimension by asserting that Georgia does not meet Western standards of democracy and should therefore be unwelcome as a NATO member. When tensions were especially heated, some officials resorted to an aggressive tone. Dmitri Rogozin, Russia’s representative to NATO, said that it was unlikely that Ukraine would be able to maintain its current borders if it joined the alliance. The same argument was made – well before the August 2008 war – with regard to Georgia: since neither Abkhazia nor South Ossetia support NATO membership, they have the right to refrain from going into NATO with Georgia. In both cases Russia was not threatening the governments of these countries, but implying that it would

support breakaway tendencies when it came to the issue of joining NATO. With this belligerent rhetoric Russia was trying to force Kyiv and Tbilisi to make a choice between territorial integrity and NATO membership, which is certainly a rather controversial strategy in the light of Russia's continued opposition to Kosovo's independence.

In many contexts of Russia's foreign policy discourse NATO is mentioned as an unfriendly actor undermining Russia's security and provoking distrust and irritation. Nevertheless, NATO can hardly be considered to be a real enemy to Russia. Rogozin says that nobody in the Russian political establishment believes in the possibility of armed conflict with NATO: "Both NATO and Moscow understand that real threat can emerge only in the South" (Zygar', 2009).

#### **War in Georgia and its impact on Russia's relations with Euro-Atlantic community**

The armed conflict between Russia and Georgia in August 2008, when Moscow intervened in the territory of Georgia to protect South Ossetia after an armed attack was launched against it, became the most important issue of Russia's defence discussions with the EU, the United States and NATO. On 26 August, Russia officially recognised the breakaway regions Abkhazia and South Ossetia as independent states, which thenceforth constituted a thorny issue for Russia's relations with Europe. The resolution of the conflict in these republics had been achieved with the active participation of the French President Nicolas Sarkozy acting on behalf of the European Union. Medvedev and Sarkozy charted a plan for overcoming the Caucasus crisis, which was later signed by the Abkhazian and South Ossetian presidents and amended and signed by the Georgian president. The plan included such terms as non-renewal of the use of force, free access to humanitarian assistance, international monitoring procedures backed by observers from the OSCE and the EU, withdrawal of Russian forces to a line that precedes the zone of military conflict, and the beginning of international discussions on the future status of South Ossetia and Abkhazia.

The latter issue provided the basis for numerous rounds of Geneva talks throughout the end of 2008-2009. During these negotiations Georgia gained international support in demanding that South Ossetia and Abkhazia must be recognised as an integral part of Georgia, whereas Moscow had consistently insisted on the signing of legally-binding non-aggression treaty between Georgia, Abkhazia and South Ossetia, arguing that both republics must be made secure from Georgia's attempts to preserve its territorial integrity by the use of military force.

In June 2009, Russia vetoed a plan to extend the UN peacekeeping mission in Georgia, because the UN resolution on extending this mission was based on the premise of Georgia's territorial integrity. Russia labelled the argument of its opponents on the inviolability of frontiers as "politicised and ideologised formulas". This position was perceived as somewhat debatable because, in the case of Kosovo, Russia refers precisely to the principle of territorial integrity when condemning the "illegal unilateral declaration of independ-

ence of Kosovo" (*O pozitsii Rossii ...* 2009). It claims that the secession of Kosovo is a dangerous international precedent. Besides, the independence of this territory "did not contribute in any way to addressing the key problems of Kosovo". Despite the evident inconsistency of Russia's argument, it kept insisting on a new peacekeeping mandate, which would be void of any assertion of Georgia's territorial integrity. Due to Russia's veto the mission was not extended and the UN peacemakers withdrew from Georgia.

September 2009 saw the publication of a report prepared by the EU commission chaired by the Swiss diplomat Heidi Tagliavini. It gave an account of the causes of the Russian-Georgian war in August 2008, accused Georgia of starting the hostilities and Russia of overreacting and breaking the territorial integrity of Georgia, thus violating international law.

#### **"Reset" in Russia's relations with the United States**

The Obama Administration changed its policy towards Russia in favour of improving bilateral relations with Moscow. In March 2009 the Secretary of the State Hillary Clinton visited Moscow and offered to "reset" relations between the two countries. The offer was willingly accepted by her counterpart Sergei Lavrov. The most significant decision in the framework of "resetting" the relations concerned anti-missile systems in Eastern Europe. Since 2006 the United States' plans on deployment of ballistic missile defence in Poland and the Czech Republic have been a source of irritation for Moscow. The turning point of this issue came in 2009. In September that year the Obama Administration announced the cancellation of plans to deploy the missile defence system in these two countries. The United States explained the decision by referring to a change of strategic priorities but was apparently expecting Russia to reciprocate this step by supporting more rigid sanctions against Iran and discontinuing sales of S-300 air-defence missiles to Teheran. Nevertheless, neither the Russian President nor the Russian Foreign Ministry made any move in this direction. In his interview with CNN on 20 September 2009 Dmitry Medvedev mentioned that Russia did not feel obliged to make reciprocal concessions and stated that selling arms to Iran did not contravene international law. These events gave grounds for questioning the success of the much-vaunted "reset" as neither with the case of Iran nor with that of Georgia was there any alleviation of tensions. In addition, by the end of 2009, the two sides still had to overcome a lot of disagreements over the terms of the treaty on reduction of strategic nuclear arsenals.

#### **An overview of basic foreign policy documents of the Medvedev Administration**

Under the presidency of Medvedev, the conceptual framework for foreign policy has been renewed. A number of basic strategic documents, such as Foreign Policy Concept, Military Doctrine and The Russian National Security Strategy, have been revised and updated. Most of them were worked out in the Security Council of Russia.



### Foreign Policy Concept of the Russian Federation

The Foreign Policy Concept was issued on 12 in July 2008. The document states that Russia "has now acquired a fully-fledged role in global affairs" and "exerts a substantial influence on the development of a new architecture of international relations". One of the key objectives of Russian foreign policy is exerting influence in "global processes to ensure the formation of a just and democratic world order" based on cooperation and supremacy of international law.

According to the Concept, Russian foreign policy is based on "its national interests", which coincide with the interests of international community when it comes to "terrorism, drug trafficking, organised crime, spread of weapons of mass destruction, regional conflicts, demographic problems, global poverty, illegal migration and climate change". To combat these threats, the "architecture of international relations ought to be based on recognition by the international community of the principles of indivisibility of security".

The interests of Russia are directly related to the globalisation of world economy, multilateral diplomacy, integration processes, et cetera. In order to stimulate further development of these positive trends, Russia suggests joining efforts towards the "emergence of a stable system of international relations based on the principles of equality, mutual respect and cooperation as well as international law". The document is critical of arbitrary interpretation of legal norms, especially when related to the use of force, and "the attempts to portray violations of international law as its 'creative' application". It criticises unilateralism, especially the application of military force bypassing the Security Council. Yet, in the meantime, the Concept reserves for Russia the right to act unilaterally in cases when its partners are "unprepared for joint efforts".

The priority strand in Russia's foreign policy remains cooperation with Commonwealth of Independent States (CIS) countries. The European question is next in Russia's priorities and, here, Russia's main objective is creating a transparent and democratic system of collective security "ensuring the unity of the Euro-Atlantic region [...] in such a way as not to allow any new fragmentation and reproduction of bloc-based approaches". The expansion of NATO is considered to be a serious obstacle to building such a system, since it hinders further enhancement of good-neighbour principles, trust and cooperation. Russia views NATO's intentions of bringing its military infrastructure closer to Russian borders as a violation of the principle of indivisible security. Russia is ready to cooperate with NATO in order to ensure predictability and stability in the Euro-Atlantic region, but such cooperation depends on "the degree of the Alliance's readiness for equal partnership". The Concept suggests using the OSCE instead of NATO as a "forum for equitable dialogue between the OSCE member states for collective consensus decision-making" in the security sphere.

The Concept also stresses the importance of developing mutually advantageous bilateral relationships with Germany, France, Italy, Spain, Finland and other European states. Russia's relations with Great Britain and Baltic states are mentioned as lacking deep-rooted cooperation, but it is declared that Russia is willing to establish strong ties on the basis of reciprocal consideration of interests.

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# Defence policy of the Russian Federation

Russia's emergence as a sovereign state in 1991 led to turmoil within and the disintegration of Soviet military structures. Due to mass reduction of personnel, army organisation fell into disarray, the industrial process was disrupted for lack of raw materials or components formerly supplied by other republics and regions, while logistic routes became unviable. The political and economic crisis of the transitional period between 1992 and 1999 and the disastrous war in Chechnya brought about a far-reaching crisis in the armed forces and the military-industrial complex. It was not until the end of the 1990s that the situation began to stabilise. During the decade of 1999-2009 the industrial and technological sectors underwent a large-scale restructuring process which was clearly necessary for restoring Russia's defence capability.

## THE RELATIONS WITH NATO

In the latest Military Doctrine of 2010, NATO's current policy is characterised as a potential danger to Russia's security: "The intention of the North Atlantic Treaty Organisation to use its power-based potential for performing global functions without due respect for international law, its intention to bring the military infrastructure of NATO member-states to the borders of Russia, including the enlargement of the bloc" represent a *danger* (though not a *threat* which, in the Doctrine's terminology, is far more crucial than danger) to national security.

Russia's current conflict with NATO originates from the time of the fall of the Berlin wall. In opposing NATO territorial expansion, Russia refers to the alleged promise given to Mikhail Gorbachev by NATO officials not to expand into the territories which are crucial for the country's security. In return, Russia pledged to remove its troops from Eastern Europe and the Baltic states. Russia honoured its obligations, but the NATO countries failed to keep their word. Nevertheless, in 1997 Russia and NATO signed the Founding Act on Mutual Relations, Cooperation and Security between NATO and the Russian Federation. This agreement established the NATO-Russia Permanent Joint Council (PJC) as a forum for political dialogue and cooperation. In 1999, when NATO started its military operation in Kosovo, sidelining Russia from decisions concerning Yugoslavia, relations between Russia and NATO entered into a period of deep crisis and mutual distrust. NATO's decision on bombing Belgrade was perceived as a potential threat to Russia's territorial integrity as it is not difficult to draw parallels between Kosovo secession and the situation in Chechnya. After Kosovo pro-

claimed independence in 2008, Russia refused to recognise it, fearing that this case could become a precedent for all separatist-tending territories.

The next escalation of tensions occurred in 2004 with NATO expansion towards south-east Europe. As early as 2000, in the previous Military Doctrine, NATO enlargement was assessed as representing a serious threat to Russia's security. The question of NATO membership for Ukraine and Georgia constitutes a red line for Russia. Having very little influence on the current Ukrainian and Georgian political establishment, Russia opts for harsh arguments when discussing their potential membership in NATO: State officials claim that Ukrainian and Georgian aspirations to join NATO could be a perfect justification for the secession of Crimea from Ukraine and the permanent separation from Georgia of the breakaway autonomous regions of Abkhazia and South Ossetia.

On the operational level, however, Russian officials do recognise the importance of military cooperation with NATO. Russia and NATO have established a working relationship in the area of theatre missile defence, this being based on exchanges of information and joint exercises. Despite evident opposition to NATO enlargement, at the Bucharest summit of 2008, Putin accepted that should NATO be consistent in its intention to develop an in-depth strategic partnership with Russia, the latter would eventually cease to react so negatively to Alliance activity in neighbouring countries. Agreements were also achieved to ensure access to Afghanistan across Russian airspace and territory for the deployment of the forces and equipment of the International Security Assistance Force (ISAF). Another positive factor is Medvedev's initiative of common Euro-Atlantic security to be based, in his judgment, on a trilateral US-EU-Russia partnership.

By the end of 2009 positive trends in NATO-Russia relations began to emerge. The NATO Secretary General, Anders Fogh Rasmussen, declared that NATO gives priority to restoration of close partnership with Russia. In his speech in the Carnegie Center in Brussels in September 2009, Rasmussen stated it is necessary to work out a project of a common NATO-USA-Russia missile defence system; stated that Georgia and Ukraine do not meet criteria of the alliance membership; declared that NATO is willing to cooperate with Russia on the exploration of the Arctic; pledged to consider Russia's interests in the alliance's security policy; and said he would take into consideration Medvedev's proposal on new European security architecture (NATO—Russia..., 2009).



## THE RELATIONS WITH THE UNITED STATES

Defence cooperation between the United States and Russia lies in the sphere of nuclear arms limitation and reduction. One of the most important treaties in this area is SORT (Strategic Offensive Reductions Treaty) signed in 2002, while in 2006, the Russian Federation and the United States launched a Global Initiative to Combat Acts of Nuclear Terrorism. The number of states participating in the Initiative had reached 75 in 2009. With regard to global ballistic missile defence, the United States and Russia hold regular negotiations seeking a compromise position.

Nonetheless, the United States has been quite dissatisfied with the fact that Russia has developed a complex network of partnerships and relations of cooperation with countries interested in having access to Russian military equipment. This network includes some states that are denied such cooperation by the United States and Europe (for example, Iran, Syria and Venezuela) which, in the opinion of the United States, does not contribute to global and regional security.

More serious points of discord arose in 2006 when the United States began bilateral negotiations with Poland and the Czech Republic on deploying elements of the American global missile defence system on the territories of these countries. Russian officials claimed that this defence system would be useless in case of missile attack by Iran and that, in fact, the true intention of the United States is deterrence of Russia and interference in its sphere of interests. In an attempt to prevent these deployments and prove their inconsistency, Russia suggested several initiatives as possible alternatives to the US missile defence system. These included providing the United States with access to data on Iranian missile developments from the Russian-leased Gabala radar station in Azerbaijan, use of an almost-constructed radar installation in the southern part of Russia, involving other European governments in anti-missile defence construction through creating new European security architecture, and establishing joint warning data centres in Moscow and Brussels. When these initiatives failed to receive a positive response from the Bush administration, Russia announced its intention to deploy intermediate-range and tactical nuclear weapons along the borders with Ukraine, Belarus or in Kaliningrad. Russian officials also started raising the question of renewing the strategic weapons arsenal. Negotiations on the issue of the missile defence system were deadlocked. Russia was apparently waiting for the outcome of the presidential election in America and counted on cooperation with the incoming administration. Indeed, soon after Obama took office, the US Department of State offered to "reset" relations between the two countries. In September 2009, the Obama administration officially renounced its plans for deploying its missile defence system in Poland and the Czech Republic.

## THE RELATIONS WITH THE EUROPEAN UNION

Russia seeks to establish relations with the EU in the sphere of security, mostly because the EU is deemed prefer-

able to NATO as a partner in security projects. Yet differences in approach to energy security and to conflict resolution in Georgia and Moldova hampered further development of EU-Russia relations throughout the last decade. Occasionally joint military exercises of Russian, French, British, German and American troops take place and some EU countries buy Russian equipment.

The Treaty on Conventional Forces in Europe (CFE) was signed in Paris in 1990 and supplemented in 1992 within the framework of the OSCE. These documents set ceilings on the equipment and armed forces the signatory states might have and deploy on their territory. They include measures to enhance mutual trust and exchange of information as well as provisions for inspections. In 1999, the CFE Treaty was complemented with an "Agreement on Adaptation" (including the so-called Istanbul Commitments) which reflected such changes as the dissolution of the Soviet Union, and the increased number of NATO members. However, the new treaty was ratified only by Russia, Ukraine, Belarus, and Kazakhstan. Other parties refused to ratify it until Russia complied with the terms of the Istanbul Commitments concerning the withdrawal of Russia's remaining armed forces and military equipment from the territories of Georgia and Moldova. Russia insisted that these issues should not block ratification of the CFE Treaty but gradually pledged to withdraw all its military bases from both countries. In 2007, the situation changed drastically. The United States announced its plans to install elements of the American global missile defence system in Poland and the Czech Republic. In addition, NATO started speaking of the prospect of enlargement by giving membership to Georgia and Ukraine. Having considered that these actions jeopardised the security of Russia, President Putin issued a decree bringing into effect a moratorium on Russian compliance with the CFE Treaty. However, Russia continues to propose reopening negotiations on this Treaty. As the Deputy Prime Minister, Sergei Ivanov, put it during Munich Security Conference of 2009, "...The long-lasting reluctance of NATO to bring the 1990 Treaty on Conventional Armed Forces in Europe (CFE) in line with the new realities and expansion of the Alliance - despite certain countries' security interests, has forced Russia to suspend the Treaty. At the same time, Russia has proposed a distinct programme to restore viability of the European control regime over conventional armaments. Our proposal still applies. We are prepared to continue and intensify the dialogue".

## THE PROBLEM OF CHECHEN SEPARATISM

The origins of Chechen separatism date back to the period of Russian Empire. After the collapse of the Soviet Union, Chechen separatists formed an independence movement and attempted to secede in 1994. Between 1994 and 1996 Russia led a devastating war against the Chechen guerrillas. By 1999, it had become clear that Chechnya was again out of Moscow's control, as Chechen separatists invaded the neighbouring Republic of Dagestan and launched massive terrorist attacks in several Russian cities. The second Chechen war broke out on 26 August 1999, soon after Vladimir Putin

was appointed Prime Minister of Russia. In February 2000, Russia recaptured the Chechen capital of Grozny, regaining control over Chechnya. Federal forces put it under the strict security regime of a counterterrorist operation for the next few years. In 2007, Putin appointed Ramzan Kadyrov as President of the Chechen Republic. Kadyrov was in fact given freedom in his choice of methods of stabilising the situation in the region. Many analysts agree that Chechnya now enjoys quite a high level of autonomy, with Kadyrov remaining loyal to Moscow. "The flip side is that Chechnya's internal political issues are largely resolved without Russia and with minimal adherence to federal laws" (Markedonov, 2009).

In April 2009, President Medvedev called off the regime of counterterrorist operation, which marked an end to the strict security regime imposed in Chechnya. Some analysts warn that with this decision of the Kremlin local authorities led by Kadyrov are going to gain more control in the Republic. The National Antiterrorism Committee commented that abolition of this regime would be a chance for Chechnya to continue restoring and developing its economic and social infrastructure.

### THE EASTERN DIMENSION OF RUSSIAN DEFENCE POLICY

In Asia, Russian defence policy is implemented within the framework of regional security alliances (the Collective Security Treaty Organisation (CSTO) and the Shanghai Cooperation Organisation (SCO)), and in bilateral defence projects with China, India, Kazakhstan, Kirghizstan, Uzbekistan, Tajikistan, Iran, and some other countries.

The members of CSTO and SCO organise joint military exercises, while seeking to avoid presenting them as being aimed against any third party. Again, these organisations facilitate cooperation among their members in border monitoring, prevention of separatism and fighting against terrorism and organised crime. The Chief of Staff of the Russian Army, Yuri Baluyevsky, stresses SCO neutrality: "We are not acting as a counterweight to anyone and believe that in today's world there is no place for military confrontation between coalitions of states, or for military-political blocs. The SCO member states condemn any attempts to rely exclusively on military force in international relations" (Na voenno-politicheskikh..., 2007).

China is one of Russia's biggest partners in terms of arms and military equipment supply. Despite the fact that China's defence budget is almost double that of Russia, the latter still has the advantage in defence technologies and avoids transfer of technology to China. Russia is competing with China in the region for the gas and oil reserves of the Central-Asian countries, which have the option to export their energy reserves either to Russia (which re-exports them to Europe) or to China.

India is also a major partner with which Russia has embarked on several defence programmes, including the BrahMos missile, the loan of a nuclear attack submarine "Admiral Gorshkov", and a prospective programme for a so-called "fifth generation" Stealth fighter plane. For India, defence coop-

eration with Russia is quite important since it gives India a military edge over Pakistan.

In such countries as Kirghizstan and Uzbekistan, Russia has established a permanent military presence and achieved a certain level of influence and control over decision-making processes concerning security issues and the energy resources of these countries.

### THE RUSSIAN ARMED FORCES

As the main successor of the Soviet superpower, the Russian Federation inherited about 70% of the Union's military might. The entire decade after the collapse of the Soviet Union was characterised by processes of large-scale redeployment of Russian armed forces and weaponry from post-Soviet republics and several Eastern European countries - former participants of the Warsaw Pact alliance. As early as 1994, about 30 infantry, tank and airborne divisions, over 50 missile, artillery and anti-aircraft brigades, as well as over 60 aviation regiments had returned to Russia. With over 45,000 units of weaponry and almost four million tons of strategic reserves also taken back to Russia, this was one of the largest redeployments in history.<sup>1</sup>

As the economic and political situation in the country took a turn for the worse, finance for the armed forces was significantly cut. Between the years of 1991 and 1997 the Russian defence budget shrank eightfold. The main manufacturers of military equipment in the country were therefore obliged to reorient their production to foreign countries, while the Russian military forces had significantly depleted their operational potential by 2000.

After Vladimir Putin became President, he promised that the military share of the defence budget would increase to 3.5% of the country's GDP. In 2008, the government announced the beginning of a new military reform, the main purposes of which were reduction of the total number of troops to one million servicemen, transition from the four-tiered structure (military district-army-division-regiment) to a three-tiered one (military district-operative command-brigade), and large-scale renovation of military equipment.

The Commander-in-Chief of the Armed Forces of the Russian Federation is the President. The main administrative body, which supervises all the activities in the military sphere, is the Ministry of Defence.

Contemporary Russian Armed Forces include three branches, these being Ground Forces, Navy and Air Force; three independent branches of troops, which are Strategic Missile Troops, Military Space Troops and Airborne Troops; as well as Rear Armed Forces, Railroad Troops, Chief Administration of Military Medical Service, military units and organisations, responsible for housing and procurement, and troops that do not belong to any of the abovementioned branches of the Armed Forces.

A branch of the Armed Forces is usually active in a particular environment (air, land, water) and has specific armaments. A branch of troops, unless it is independent, is a part of a certain section of the Armed Forces, and operates with a specific kind of weaponry, has a specific structure and is capable of performing certain functions.



## THE GROUND FORCES

Established in 1946 as one of the branches of the Russian (Soviet) Armed Forces, the Ground Forces were the prime object of the 2008 reform. These are the country's main land forces that are responsible for the protecting the state borders, repelling enemy attacks, defeating enemy forces and capturing enemy territory if necessary.

As the largest branch of the Armed Forces, it is comprised by various divisions belonging to different branches of troops: motorised rifles, tanks, artillery and rocket forces, air defence and also special corps (reconnaissance, signals, radio-electronic warfare, engineering, radiation, chemical and biological protection, technical support, automobile and rearguard protection). The structure of the Ground Forces includes six military districts (Moscow, Leningrad, North Caucasus, Volga-Ural, Siberian and Far Eastern Military Districts), where nine armies and one army corps are located; as well as fortified districts, individual military units, military establishments, enterprises and organisations.

For better administration all the structural parts, the Ground Forces are divided into three components: first, administrative bodies and military units in constant combat readiness, which are capable of repelling enemy attacks in local conflicts; second, reduced military units and bodies, the main purpose of which is enlargement of the units in constant combat readiness during local or regional wars; third, strategic reserve forces, which are used for expanding the main military forces in regional warfare.

The current personnel of the Ground Forces consist of about 360,000 troops, which is about 36% of the total number for the Russian Armed Forces. According to data published on the Global Security website, in 2008, the Russian Ground Forces had 21,820 tanks, 25,975 armoured fighting vehicles, 9,900 armoured personnel carriers, 15,000 armoured infantry fighting vehicles, 4,705 self-propelled artillery vehicles, 10,060 towed artillery pieces, 2,606 artillery rockets and 2,670 air defence missiles. According to information on the website Warfare, out of these only 6,500 tanks, 6,400 armoured personnel carriers, 6,000 armoured infantry fighting vehicles, 3,500 self-propelled artillery vehicles, 7,550 towed artillery pieces and 900 artillery rockets were active.

## THE AIR FORCE

The history of the Russian Air Force dates back to the end of the nineteenth century. As the Air Force of the Russian Federation, it was established in 1992. Its chief functions include protection of state borders and territory from the air, participation in combat operations, supporting ground and naval forces, reconnaissance and transportation of military forces and equipment.

Several branches of troops constitute the basis of the Air Force: aviation (bombardment, ground attack, air defence fighter, reconnaissance, transport and combat support aviation), anti-aircraft missile troops, radio-technical troops, special support troops and logistics support echelons.

At present, the Russian Air Force is undergoing a process of restructuring, as a result of which it will consist of four Commands with command centres in St Petersburg,

Novosibirsk, Khabarovsk and Rostov-na-Donu, these including a long-range aviation command, a transport aviation command and a strategic command of aerospace defence. It will also include 33 airbases and 13 brigades of aerospace defence. In 2008, there were 71 aviation, 18 helicopter and 37 surface-to-air-missile regiments, with the total number of personnel equalling 183,000 troops.

This year, the number of Air Force aircraft in operational service was estimated at being around 2,800.

## THE NAVY

The regular Russian Navy was originally established under Peter the Great in October 1696. Today it is the main military force for protecting the country's interests and maintaining its security in the water domain, which entails protection of the state's water borders, maintenance of the necessary conditions for effective economic activities and monitoring activities of other countries in its territorial waters, in the exclusive economic zone and the more remote areas of the world's oceans, as well as prevention and repelling of enemy aggression and monitoring foreign naval activities.

The Navy is divided into two main parts: naval nuclear forces and general-purpose naval forces. Regarding the branches of troops, it includes submarine and naval surface forces, naval aviation, and naval and coastal defence infantry. Vessels, ships, unconventional and rear-based units also form a part of its structure.

In total, the Russian Navy is comprised of four fleets and one flotilla: the Baltic Fleet, the Black Sea Fleet, the Pacific Fleet, the Russian Northern Fleet and the Caspian Flotilla. The overall manpower of the Navy is about 142,000.

During the 1990s the number of combat vessels and naval weaponry shrank significantly, especially in comparison with Soviet times. Today, the number of vessels in active service is estimated to be 233 warships, among them one aircraft carrier, sixteen light amphibious war ships, five cruisers, fourteen destroyers, six frigates, nine ballistic missile submarines (SSBNs), five nuclear-powered cruise missile submarines (SSGNs), fourteen nuclear attack submarines (SSNs) and eighteen conventional attack submarines (SSKs).

## STRATEGIC MISSILE TROOPS (SMT)

In March 2001 the SMT were transformed from being a branch of the Armed Forces into a branch of troops. Today the SMT are the basis of the Russian strategic nuclear forces, accounting for some 47% of all the nuclear warheads Russia possesses. This branch of troops is in charge of land-based Intercontinental Ballistic Missiles (ICBM) in the so-called "nuclear triad".

The SMT are comprised of three missile armies: 27<sup>th</sup> Guards Missile Army (with headquarters in Vladimir), 31<sup>st</sup> Missile Army (Orenburg), and 33<sup>rd</sup> Guard Missile Army (Omsk). In 2009, these armies consisted of eleven divisions. According to the military reform plan launched in 2008, their number will be cut to nine by 2016, with four of them being armed with fixed missile complexes and five with mobile ones.

At present the SMT number approximately 110,000 troops, about 30,000 of them civilians.



In January 2010, the SMT had at their disposal 367 missile complexes of four different types, which were capable of carrying 1,248 nuclear warheads. They included 59 SS-18 model missiles, 70 SS-19, 171 SS-25 and 67 SS-27. The operational phase of the first three types ends in the next 5-10 years, while SS-27 and newly developed SS-X-29 missiles are expected to become the basis of SMT weaponry by the end of 2016, accounting for 80% of all the missiles.

### SPACE TROOPS

After the merger with the SMT in 1997, the Russian Space Troops were re-established in 2001 as an independent branch of troops. The Space Troops control Russia's early-warning, missile defence system, space object tracking, and military satellite launching and flight control assets.<sup>2</sup> The main tasks of the Space Troops include informing the highest military and political administration about a missile attack, antimissile defence of Moscow; creation, development, maintenance and control of the orbital group of space vehicles of military, dual, socioeconomic and scientific application.

Space Troops operate three cosmodromes (spaceports): Baikonur, Plesetsk and Svobodny. It also includes the Military Formation of Space Missile Defence System, the Main Testing and Controlling Centre of Aerospace Vehicles, named after G. S. Titov, and other military training centres.

It also consists of three divisions, these being the 1st Division of Missile Attack Warning (with headquarters in Solnechnogorsk), the 9th Division of Anti-missile Defence (Sofrino), and the 45th Division of Outer Space Surveillance (Noginsk). About fourteen radar sites under their control are located around the country and nearby countries such as Azerbaijan, Belarus, Kazakhstan and Tajikistan.

Today, Space Troops operate about 100 space vehicles, 40 of which are vehicles of defence application, 21 of dual application, and 39 of scientific and socioeconomic application. By 2009 the GLONASS system, which is considered to be the main rival navigation system to the American NAVSTAR GPS, had sixteen vehicles, and is expected to have nineteen in 2010.

### AIRBORNE TROOPS

The birth date of the Russian (Soviet) Airborne Troops is considered to be 2 August 1930. However, it was only in 1991 that it was established as an independent branch of troops. This is an elite mobile branch of troops responsible for conducting combat operations in rapid response to enemy attacks, engaging the enemy in the air and with rearguard military activity. These troops often form part of peacekeeping forces as well.

Structurally, they consist of four divisions – 7<sup>th</sup> Guards Air Assault Division (with headquarters in Novorossiysk), 76<sup>th</sup> Guards Air Assault Division (Pskov), 98<sup>th</sup> Guards Airborne Division (Ivanovo), 106<sup>th</sup> Guards Airborne Division (Tula) – the 31<sup>st</sup> Guards Airborne Brigade (Ulyanovsk), the 38<sup>th</sup> Signal Regiment, the 45<sup>th</sup> Detached Reconnaissance regiment (Kubinka), the Ryazan Institute of Airborne Troops, the 242<sup>nd</sup> Training centre (Omsk), and a separate helicopter squadron.

By 2005 their personnel numbered about 35,000 troops, having at their disposition about 1,038 airborne armoured combat vehicles, 894 armoured personnel carriers, 308 gun mounts and other weaponry.

### MILITARY DOCTRINE

The New Military Doctrine was published in February 2010. In this document one can clearly trace conventional "realpolitik" considerations in the balance of power between the United States, NATO and Russia. Although the Doctrine is presented from a defensive viewpoint, it intrinsically implies that Russia will not agree to being sidelined from decision-making in those international problems that are related to its national interests. It asserts that Russia would not hesitate to take unilateral action, if this is required by its most vital national interests.

The Doctrine evaluates current and potential threats to national security. It mentions that military instruments are now less significant than in the past, considering that, along with conventional threats such as separatism, regional and international instability, there are also asymmetrical risks such as extremism and terrorism, organised crime, drug and arms trafficking, mass migrations, resource depletion, climate change, and so on. The central purpose of the Russian armed forces according to the Doctrine is safeguarding territorial integrity and control of energy resources, which are two recurrent themes in official discourse on defence issues. The Doctrine also asserts the importance of civilian control over defence structures.

### REFORM OF THE RUSSIAN ARMY

Putin's defence policy was based on the intention of returning to the Russian Federation the status of world power. In this aspiration Putin's team was relying on fossil fuel resources and modernisation of defence capabilities. The latter goal required large-scale, thoroughgoing restructuring and reorganising of the armed forces. With this in mind, the Russian government set about a long-term process of reform in the armed forces.

Putin gave strong political support to the military establishment, and during his presidency, the first attempts to start a structural reform of the Russian armed forces were made. The decision to restructure the political and military defence structures was approved by the Duma in 2004. During his tenure, Defence Minister Sergei Ivanov worked on revamping the operational command structures, which corresponded to Putin's own policy of building "vertical power" aiming at strengthening presidential control in the regions and increasing the speed and accuracy of implementation of the President's decisions in all executive bodies at both federal and regional levels. Ivanov's reform established a chain of command with the president as the supreme commander of the armed forces; ensured that the government would have the efficient and well-supplied army necessary to accomplish its missions; and shifted operational authority over the armed forces to the Minister of Defence (a function that formerly belonged to the General Staff). Since 2004 the General Staff must implement decisions made by the Minister of Defence under the authority of the President).

## RUSSIAN MILITARY FACILITIES ABROAD

Country	Location	Type of Military Facility	Number of Troops	Contract valid till <sup>1</sup>
Azerbaijan	Gabala	Radar station	900	2012
Armenia	Erevan, Erebuni, Gyumri	Military and air base	4,000	2020
	Gantsevichi	Radar station	2,000	2020
Belarus	Vileika	Communications center	350	2020
	Gulshad	Radar station	500 <sup>2</sup>	2016
	Baikonur	Cosmodrome	3,000	2050
	Karaganda	Aviation command center	50	2016
Kazakhstan	Aktyubinskaya, Karagandinskaya, Kzyl-Ordinskaya, Zapadno-Kazakhstanskaya and Zhambylskaya Oblasts	Multipurpose firing ranges	-	2016
	Atyrauskaya and Zapadno-Kazakhstanskaya Oblasts	Flight test centers	-	2016
	Kostanai	Transport air force base at Kostanai airport	-	2016
Kyrgyzstan	Kant	Air Forces	400	2067
	Kara-Balta	Communications center	-	2013
	Karakol	Test Base for Anti-Submarine Weapons	-	2013
Moldavia	Transdnistria	Military base <sup>3</sup>	1,000	-
Syria	Tartus	Material and technical support station for navy	50	-
Tajikistan	Base, Dushanbe, Kulyab, Kurgan-Tyube	Military base	7,000	2014
	Nurek	Ground-based space-monitoring complex	-	2043
Ukraine	Crimea	Naval base	13,000* y 16,000**	2042
<b>Military bases to be built on the basis of signed agreements</b>				
Abkhazia	Gudaut, Ochamchir	Military and naval base	1,700	2058
South Osetia	Djava, Tshinval	Military base	1,700	2058
* Military				
** Civil				
<sup>1</sup> Most contracts are automatically extended for 5 / 10 years unless an objection arises.				
<sup>2</sup> Estimated data.				
<sup>3</sup> It has no official status as a military base.				
Sources: RIA Novosti Information Agency; 'Kommersant – Vlast' magazine www.rian.ru/spravka/20100215/209344182.html www.kommersant.ru/doc.aspx?DocsID=766827				
Produced by: CIDOB				

Putin also established a new defence unit - the Military-Industrial Commission (MIC) in 2006. Its main functions are defining the strategy and operational management of defence research projects, supervising the restructuring of the Russian military-industrial complex, and introducing a system for monitoring and auditing the cost of defence equipment procurement programmes.

The most significant step in the reform was made in February 2007 when Anatoly Serdyukov was appointed Head of the Defence Ministry. As many analysts agree, Putin counted upon Serdyukov's managerial skills, which would allow him to implement the reform of such a vast and inertia-tending structure as the Russian Army. The reform of the armed forces that he conducted during 2008-2009 includes modernisation of equipment, reducing the army in quantitative

terms, extension of the contract system of recruitment, and improving the terms of employment of soldiers, their preparation, training and living conditions (accommodation, sanitary and social conditions, and military discipline). The reform is meeting strong though concealed opposition, first of all because of the swift, large-scale cutback in the number of officers. The Head of General Staff, Nikolai Makarov, gives an estimate for the reduction of about 2/3, from 355,000 officers to 150,000 (Gol'tz, 2010). Second, many high-ranking officers disagree with the general strategy undertaken by Serdyukov, saying that the reform damages the foundations of national security (Zygar', 2009). The latter argument was easily demolished by Serdyukov's team in 2008, after he made a statement that the Russian Army had proved its operational inefficiency in Georgia in 2008. By demonstrat-



ing poor coordination and the undesirable results of Russia's actions in Georgia, Serdyukov overcame resistance to the reform. In order to proceed with its implementation, Serdyukov had to carry out numerous personnel replacements. He also admitted that corruption in Russian Army had taken on intolerable dimensions and that fighting it is one of the top priorities of the reform. Due to the opposition and to the scale of the planned changes, the reform has dragged out into an interminable process where intentions are often declared and not always implemented afterwards.

Modernisation of Russia's armed forces heavily depends on a military-industrial complex (MIC) which is still in the process of recovery and restructuring. *De facto*, Russia is a major producer of defence equipment of all kinds and possesses critical defence technologies in the aviation, submarine, nuclear, space and shipbuilding sectors, but its MIC is still suffering from the Soviet legacy of human failings and structural problems. In spite of mass exportation of military land equipment, the equipment available within Russia is not replaced at the same rate, and modernisation of existing supplies is progressing slowly. The MIC is facing great financial, technical and human limitations as well as lack of qualified personnel. These problems have a negative impact on external cooperation in the sphere of the arms trade, as illustrated by incidents with India over the Admiral Gorshkov aircraft carrier and with Algeria over MiG-29 aircraft, when Russia was not able to meet the demands of its customers due to a lack of qualified staff and outdated machinery and technological procedures.

## NUCLEAR WEAPONS

Despite numerous self-imposed restrictions and cutbacks within the framework of different treaties on nuclear weapons control between the Soviet Union / Russia and the United States, Russia still has an impressive nuclear arsenal. Although the nuclear arms complex always has been of higher priority than conventional forces, a great part of it is still in need of modernisation.

In 2008, with the growing tensions between Russia, on the one hand, and the United States and its European allies, on the other, some Russian military officials started placing greater emphasis on the importance of nuclear weapons. Despite some harsh statements made by a number of generals (*Demonstratsiya reshivosti...*, 2008), the new Military Doctrine does not include provisions for a preventive or pre-emptive nuclear strike. Use of nuclear weapons would only be permissible in a counter-strike against a nuclear attack on Russia. Russia also reserves the right to use nuclear weapons to counter-strike in an attack using conventional means of destruction (in large-scale war, regional war) but only if the existence of the state is jeopardised. Along with this Doctrine the Russian President signed a document on nuclear deterrence policy until 2020, which is not available to the public. Current reforms in the Russian Army demonstrate that the Russian government considers that it is not sufficient to rely on nuclear deterrence alone, and that it views nuclear weapons as coming under the heading of "non-use" except in the extreme case of last resort.

At the Munich Security Conference 2009, the Deputy Prime Minister, Sergey Ivanov, urged universalisation of the basic international agreements such as the Treaty on the Non-proliferation of Nuclear Weapons (NPT) and the Comprehensive Nuclear-Test-Ban Treaty (CNTN). He also spoke of the necessity of working out a new treaty to substitute the START I Treaty which expired on 5 December, 2009. During their July 2009 summit, the US President Barack Obama and the Russian President Dmitry Medvedev issued a joint statement outlining the basic content of a new strategic arms reduction agreement. Since then, experts from both sides have been working on the text of the agreement. The main stumbling block was legally-binding interdependence between strategic nuclear reductions and missile defence. At the negotiations, the Russian delegation has insisted that the decisions on deploying offensive and defence weapons should be interrelated. Russia also took a stand on the prohibition of strategic nuclear deployments outside of national territories. The Americans did not want to include any binding statements on missile defence systems. Other issues that split the parties were sharing missile data known as telemetry, methods of arms reduction and the verification regime. By the beginning of 2010, the terms of the new treaty were still subject to negotiations between the United States and Russia. The parties were planning to finish the work and sign START II before the Nuclear Security Summit in Washington, D.C. in April 2010.

As for the issue of the nuclear programmes of Iran and North Korea, Russia's position on non-proliferation is declaredly tough, but much more moderate than, for example, that of the United States. Russia calls for settlement on the nuclear issue of North Korea by means of political and diplomatic methods, stressing the role of the Six-party talks with Pyongyang. Influence exerted on Iran should be also exclusively peaceful by nature, in Russia's view. Russia (together with China) has kept blocking UN resolutions imposing sanctions on Teheran in the UN Security Council. According to Russia's official position, "sanctions should not be regarded as a cure-all. Resort to this instrument has to be carefully weighed and be proportional to the level of Iran's cooperation. If sanctions are to be used at all, they have to be aimed exclusively at resolving non-proliferation matters" (Ivanov, 2010). Nevertheless, during his speech at the 64<sup>th</sup> UN General Assembly in September 2009, President Medvedev pledged that Russia would join UN sanctions against Iran if Teheran failed to prove the peaceful nature of its nuclear programme. As for the North Korean nuclear programme, on 30 March, 2010 Russia made the decision to join UN sanctions against this country.

## RUSSIAN NATIONAL SECURITY STRATEGY UNTIL 2020

The National Security Strategy until 2020 is a document articulating Russia's strategic priorities in defence policy in the medium-term prospect. It was issued by the Security Council on May, 12, 2009.

The definition of security given in the Strategy is rather broad, which is obvious from the titles of chapters: "National

Defence", "State Security and Civil Protection", "Improvement of Living Standards", "Economic Growth", "Research, Technology and Education", "Healthcare", "Culture", "Ecology", "Strategic Stability and Partnership on Equal Terms" and "Organisational, Regulatory and Informational Measures". Strategic goals of national security policy cover the spheres of technology, healthcare, education and ecology. The document states that building national security is impossible without "cooperation with the institutions of civil society".

It is apparent from the document that most threats to national security are deemed to be of domestic origin, these including nationalism, separatism, xenophobia, extremism, and religious radicalism. Such factors as a high unemployment rate, a growing income gap, the problematic demographic situation, heavy dependence upon raw materials exportation, and economic imbalances between Russian regions are also acknowledged as being major threats to national security.

As for external threats, first of all is 'the policy of some leading states which aims at achieving superiority especially in strategic nuclear weapons'. Expanding on the issue of arms proliferation, the Strategy states that the militarisation of space and the unilateral installation of global missile defence systems are likely to lead to a new cycle of the arms race and the proliferation of weapons of mass destruction.

The Strategy envisions cooperation with the United States in disarmament and arms control, nuclear non-proliferation, anti-terrorist strategies and regional conflicts. At the same time, it claims that the possibilities of maintaining global and regional stability are undermined by the United States' intention of locating elements of its anti-missile defence system in Europe. Furthermore, the Strategy states that Russia will not tolerate any expansion of NATO to the Russian borders or NATO's arbitrary decisions which disregard international law.

In Europe, Russia seeks to build a new system of binding collective security. As for Russia's policy in the CIS region, the Collective Security Treaty Organisation is considered to be the main instrument for dealing with threats arising in the region.

The Strategy attempts to predict threats that are likely to arise in next decades. Future conflicts over energy are considered to be one of these threats: "The attention of international politics in the long-term will be concentrated on controlling the sources of energy resources in the Middle East, on the shelf of the Barents Sea and other parts of the Arctic, in the Caspian Basin and in Central Asia". As a country possessing vast natural resources, Russia is considered especially vulnerable to this kind of threat.

Accordingly, Russia continues to give priority to its interests and policy in the Arctic region, which is mentioned several times in its May 2009 National Security Strategy. Russia is striving to secure exclusive control over the Arctic's natural resources, tending to see the future in terms of a global "struggle for resources". Russia is increasing its military presence in the region, intensifying its Northern Fleet and strategic aviation activity in the Arctic. This reflects Moscow's reliance on military force as the ultimate instrument in the geopolitical competition over natural resources.

## Notes

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2. The Nuclear Threat Initiative <http://www.nti.org/db/nisprofs/russia/govt/ministry.htm>

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# Economic and social indicators of the Russian Federation

## THE CURRENT ECONOMIC SITUATION

In 1991 the Russian economy looked very like a helpless child. Taking its first steps towards the free-market, it was dazzled by the idea of swift successful reforms that would help it integrate into the world market without delay and at low cost. Time proved these expectations to be illusive.

Lack of inherent self-stimulating mechanisms, the country's aloofness and militarisation were some of the heaviest burdens inherited by the Russian economy from Soviet times (Yasin, 2008). It is due to these structural factors of the planned economy that Russia's transition to the liberal economy was not as easy as some reformists proclaimed it would be.

In 1995, the mortality rate rose by 70%, compared with 1989, amounting to 2.2 million people a year. The period between 1990 and 1995 was also characterised by a huge growth of income disparity among the population, this being spurred on by the process of privatisation. For instance, in 1995 the top 20% of total population accounted for 46.3% of total income in Russia, while the figure for the bottom 20% was a mere 6.1%.

Since 1990 the Russian GDP has been constantly shrinking, reaching its lowest point in 1999, after which GDP growth rate stabilised above zero. The country only returned to the 1990 level in 2004.

1998 and 1999 were probably the worst years for the Russian economy. In 1999 external debt totalled about 90% of GDP. As a result of the 1998 economic crisis, the Russian rouble was devaluated fourfold so as to give impetus for future economic development.

The first decade of the 21st century was very positive for the Russian economy, especially against the background of the 1998 default. With oil prices rocketing and the rouble exchange rate going down, Russia managed to accrue huge benefits, which made it possible to pay off the greater part of its external debt. By 2008 it was already down to 9% of GDP. Putin's administration also came up with an idea of setting up a stabilisation fund into which all the surplus "petrodollars" would go with a view to using them to stabilise the economy during future periods of recession. Although criticised, it was put into practice, a move that was to be invaluable for the Russian economy in the face of the global financial crisis. Consisting of about 157 billion dollars, the fund was split into two parts at the beginning of 2008: the Reserve Fund and the National Welfare Fund.

The latter fund was set up to become a part of the pension system, providing leverage to balance possible deficits in this sphere in future.

The Reserve Fund has practically replaced the Stabilisation Fund, mostly being used to deal with current economic problems. In the midst of the financial crisis it became the main linchpin of the government's anti-crisis campaign. Hence, by the end of March 2010 its resources had shrunk drastically, to a total of \$58.9 billion, which is only 47% of the initial sum.

All in all, the cost of anti-crisis measures taken by the Russian government in 2008 and 2009 amounted to 3,000 billion roubles, the equivalent of 6.7% of GDP for these years. A significant part of this spending was directed at strengthening the financial sector and supporting the real economy. At the same time, the government managed to implement several social welfare programmes, some of which had been planned even before the crisis. The budget plan for 2010 stipulates that about 1.4% of GDP will be aimed at alleviating the impact of the crisis on the economy.

According to the 21<sup>st</sup> Russian Economic Report issued by the World Bank, by and large the anti-crisis measures in Russia have proven to be successful. Although in 2009 its GDP contracted by 7.9%, the growth rate started to recover as of the third quarter of the year, showing a contraction of only 3.2% in the fourth quarter, compared with 9.9% in the first three quarters. The Russian Ministry of Finance forecasts that in 2010 the country's GDP will grow by 3.5%, in 2011 by 3.6%, and in 2012 by 4.7%. These estimates are supported by World Bank projections.

The main cause of such a sharp contraction in GDP was a significant decrease in domestic consumption, which shrank by a total of 5.4% in 2009, compared with a growth of 8.5% in 2008. On the supply side, only the public sector (public administration, health and education) showed modest growth, while construction and manufacturing suffered most, contracting by 16.4% and 13.9% respectively.

For Russia, the 2009 recession turned out to be more severe than that of 1998. The latter was characterised by a sharp drop in GDP production (5.3%) and a swift V-shaped recovery, which by the end of 1999 had resulted in a growth in GDP of 12%. Favourable external conditions, coupled with devaluation of the national currency allowed for a swift export-led recovery, which was overwhelmingly supported by a flood of "petrodollars". In contrast, the current recession is obviously going to be more prolonged since it is more an international trend than an internal crisis.

In Russia the crisis was mostly triggered by external factors, which were expressed in declining demand for Russian exports, plummeting oil prices, and a significant outflow of foreign invest-



ment. As the world GDP shrank by 2.2% and since oil prices started to recover from the downturn only towards the end of 2009, total Russian exports for this year fell by about 35%. However, with the gradual recovery of oil prices in the second half of the year, the Russian trade balance significantly improved and, in the first quarter of 2010, it is expected that it will be almost 2.5 times higher than for the same period of 2009.

In 2008 the country suffered a huge net outflow of capital totalling \$133 billion, which brought on an enormous deficit of \$135.8 billion in the capital account for that year. The following year the situation improved with the net outflow of capital being \$52.4 billion and the capital account deficit contracting three-fold. Positive trends in the Russian economy in the second half of 2009 also stimulated quite a sizeable inflow of foreign investments in the fourth quarter. Nevertheless, their total amount was 21% lower than previously.

Economic slowdown influenced the inflation rate as well. During 2009 it was characterised by a tendency to deceleration, which led to a figure of 8.8% for the year's inflation (CPI) compared with 13.3% in 2008. This allowed the Central Bank of Russia (CBR) to cut its interest rates little by little. On 29 March 2010 the refinancing rate was set at the level of 8.25% which, in inflation-adjusted terms, means an almost zero interest rate for commercial banks.

The Central Bank (CBR) also continued the policy of limited interference in the foreign exchange market, ensuring that the currency rate of the rouble fluctuates only within the established bounds of the bilateral currency basket, which are easily adjusted by the Central Bank to respond to the current situation. At present, these limits are 34.75 – 37.75 roubles per 0.55 USD / 0.45 euro. Although quite volatile during the year, the currency exchange rate showed signs of stabilisation near the point of 29.5 roubles per US dollar by the middle of March 2010, making the situation more favourable for foreign investors and importers. The current CBR policy in the sphere of exchange rate management is characterised by low predictability, the aim of which is to avoid any destabilising speculation on appreciation of the rouble.

The consolidated budget of Russia showed a GDP deficit of 5.9% in 2009, the equivalent of 2.427 trillion roubles, as against the 2.012 trillion roubles estimated in 2008. This huge disparity was due to the anti-crisis stimulus package and increased social expenditure. The latter measure, although successful in cutting down the numbers of people below the poverty threshold (14% instead of estimated possible 16.9%), freezing the unemployment rate (a growth of only 0.4% per year) and supporting domestic consumption, may place a significant burden on the budget in future and might therefore be curtailed. According to the estimates of the Ministry of Finance, in 2010 the deficit will reach 6.8 – 7.2% of GDP. However, the budget is based on the condition that the average oil price for the year will be \$58 per barrel. According to the Russian Minister of Finance, Alexey Kudrin, if the price of oil stays close to \$80 per barrel for the most part of the year, the Russian budget will be able to compensate for the deficit foreseen in the budget plan.

At the same time, such precaution on the part of the Russian government might be not out of place. The stability of the Russian financial sector is still debatable. According to the es-

timates of different international rating agencies, the amount of non-performing loans was expected to reach a level estimated at 20% (Moody's), 25% (Fitch), or 50% (Standard & Poor's) by the end of 2009. This issue raises the possibility of a second wave of the crisis in Russia (a W-shaped recession). For the banks it also gave rise to great concern over the quality of their assets, which resulted in their being less risk-averse and led to further stagnation of lending rates.

The IMF, the OECD and the World Bank concur in the opinion that, up to this point of the recession, the anti-crisis measures taken by the Russian government have been adequate but they should be eventually followed by large-scale structural reforms, which would ease the economy's heavy dependence on raw materials. While the government managed to solve the liquidity problem of the banks at an early stage with its sizeable stimulus programme, future reforms should be more elaborate and should target specific problems of the Russian economy. These recommendations are especially advisable given the country's shrinking reserve budget.

The 2009 recession vividly exposed the vulnerability of the Russian economy to external contingencies. Record oil prices and large investment inflows, which made Russia one of the main world investment recipients in 2007, were the main driving forces behind the rapid economic growth after the 1998 crisis. A major downturn in both of these indicators in the last three years has deprived Russia of a considerable part of the leverage it could use to stabilise the situation from the inside. For instance, in 2009, the Russian non-oil deficit reached 13.75% of GDP. Moreover, the indispensable pillar of the economic stimulus package was oil revenues saved in the period 1999 – 2007.

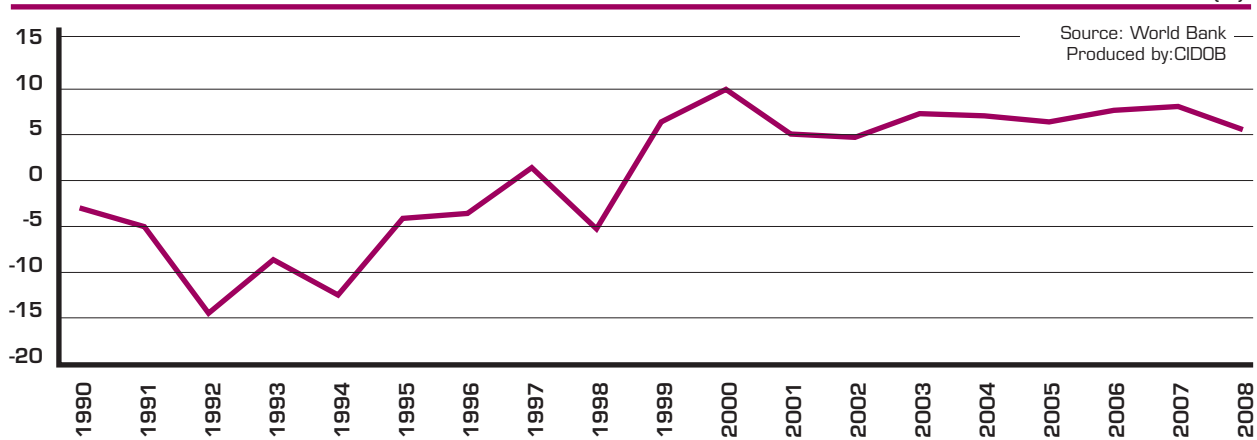
The present situation all comes down to the fact that favourable external conditions cut both ways: they were responsible for an upwards trend in the Russian economy after 1998 but, on the other hand, it is due to these selfsame conditions that most of the problems pertaining to the country's economy remained unaddressed.

The transition of the Russian economy to the free market in the 1990s was characterised by the process of adaptation without restructuring (Yasin, 2008). Unlike other transitional countries, the liberal reforms in Russia failed to raise productivity of the economy. In conditions where the large sector of ineffective state-owned enterprises was conserved, unemployment was held back by a gradual decrease in wages – the index of real wages shrank by more than half from 67.3% in 1992 to 33.4% in 1999. According to the research of the Russian economist Yasin, in which he applied the criterion of gross value added (GVA) – the contribution to the economy of each individual producer, industry or sector – 20% of all enterprises, which accounted for about 15% of the total labour force, were operating ineffectively by 2003. Their survivability could only be explained by the fact of their state ownership. Today, according to the Russian Minister of Finances, about 50% of all the economy is controlled by the government.

Enlargement and strengthening of state control has also had significant implications for foreign investors. The law on strategic sectors, effective since May 2008, defined 42 sectors in which foreign investment will need the authorisation of a special governmental commission. In terms of enhancing transparency

## I. GDP GROWTH OF THE RUSSIAN FEDERATION (1990-2008)

(%)



## II. RUSSIA'S LARGEST TRADING PARTNERS 2008

(million \$)

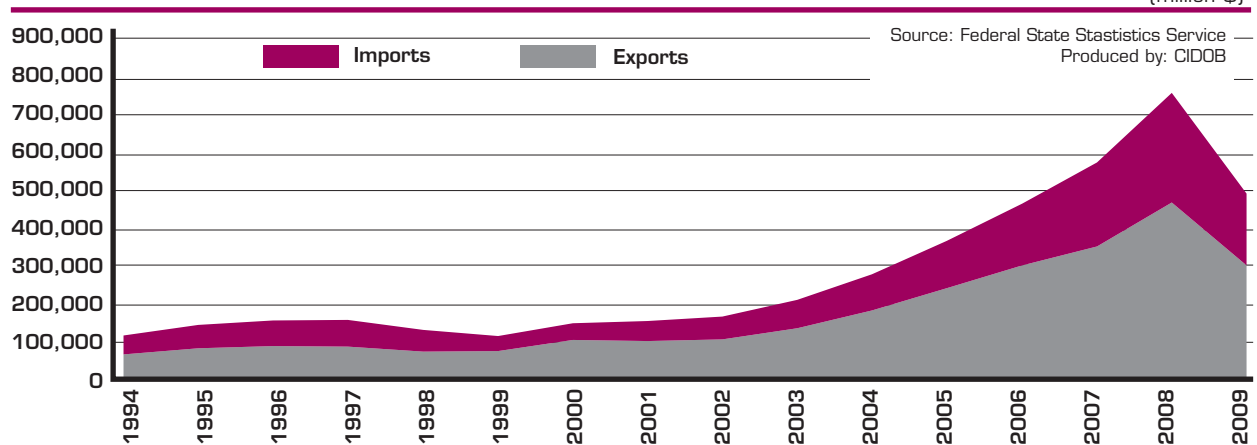
Country	Exports	Imports	Total	% over all
Germany	33,185	34,091	67,276	9.1
Netherlands	56,972	4,813	61,785	8.4
China	21,152	34,763	55,915	7.6
Italy	41,922	10,995	52,917	7.2
Ukraine	23,567	16,245	39,812	5.4
Belarus	23,507	10,552	34,059	4.6
Turkey	27,666	6,138	33,804	4.6
Japan	10,429	18,584	29,013	3.9
USA	13,484	13,779	27,263	3.7
Poland	20,193	7,049	27,242	3.7
UK	14,864	7,620	22,484	3.0
Finland	15,780	6,634	22,414	3.0
France	12,193	10,057	22,250	3.0
Kazakhstan	13,301	6,369	19,670	2.7
Republic of Korea	7,789	10,521	18,310	2.5
<b>Top 15</b>	<b>336,004</b>	<b>198,210</b>	<b>534,214</b>	<b>72.7</b>
<b>ALL COUNTRIES</b>	<b>467,912</b>	<b>267,040</b>	<b>734,952</b>	<b>100.0</b>

Source: Federal State Statistics Service

Produced by: CIDOB

## III. RUSSIAN INTERNATIONAL TRADE. EXPORTS - IMPORTS AND TRADE BALANCE (1994-2009)

(million \$)



and predictability, this law was of major importance. However, the emergence of large state-owned corporations, which usually consist of several smaller enterprises and enjoy dominance in different industrial sectors, brought about a significant deterioration in the investment climate in Russia since the participation of foreign investors in such projects is strictly controlled. Neither do these changes fit well with the policy of modernisation on which the Russian government proclaims it has embarked.

Another challenge that the Russian economy has to face is diversification. In the period of GDP growth during 2002 – 2008, mineral resource extraction was the only sector which significantly enlarged its share in the structure of the GDP, from 6.79% in 2002 to 9.50% in 2008, with the highest value of 11.25% in 2005. In 2008 mineral resources accounted for 69.7% of all Russian exports. Due to this bias towards exportation of energy resources, all the other spheres of the country's economy are lagging behind.

The flaws in the Russian economic system are very graphically revealed in the 2009 competitiveness assessment carried out by the World Economic Forum. Out of 133 countries appraised this year Russia only achieved 63rd place, losing 12 points in comparison with previous year. This drop looks still more unfavourable against the background of the positions of the other BRIC countries (China – 29; India - 49; and Brazil - 56). Of all four countries, which are showing quite positive results during this recession, Russia is the only one that has suffered a decline in GDP. It also showed the worst drop among the G8 countries as well. Comparison of the main global competitiveness indices of the BRIC countries also reveals that Russia is significantly lagging behind in the sphere of business and finances.

## ENERGY AND NATURAL RESOURCES

As the largest country on the Earth, Russia possesses some of the richest reserves of natural resources. Their abundance has not only conditioned Russia's low dependence on foreign resources but also came to constitute one the main pillars of the economy, which is clearly export-oriented today. According to the Minister of Natural Resources and Ecology, Yuri Trutnev, mineral and raw material production make up 60% of all the income of Russia's budget.

Russia has the world's largest forests, which occupy about 50% of its territory. In 2008, the total amount of forest-covered territory equalled some 1,182.923 million hectares. In 2008, about 22.3% of that was used for industrial purposes. The overall timber reserves, according to data for 2008, constituted 83.3 billion cubic metres. During the last four years, timber processing enterprises accounted for about 5% in the structure of the manufacturing sector as a whole. The share of timber, pulp and paper goods in Russian exports shrank slightly over the last five years, constituting only 2.5% in 2008.

The country's mineral wealth is also quite considerable. According to calculations by the Centre for Strategic Research at Moscow State Mining University, in 2006 Russia was the leading country in the world in the number of minerals it mined. In 2008, the total sum represented by all the extracted minerals, including those from the fuel and energy sector, was 5,271.7 billion roubles (9.50% of GDP). However, in Russia's export structure, mineral products accounted for 69.7%, while ferrous and non-

ferrous metals, precious stones and goods manufactured thereof accounted for 13.2%.

The proportion of explored diamond reserves in Russia accounts for almost 60% of world reserves of this mineral. In 2006, the total amount represented by all the mined diamonds was \$2.75 million. However, the share of this sector in the volume of annual exports is usually less than 1%.

The Russian metallurgical industry constitutes about 22% of the manufacturing sector. The country produces about 10% of the world's primary aluminium, 25% of the world's platinum-group metals, 20% of the world's titanium, while it mines about 4% of the world's copper and 2% of the world's lead. It is also among the leading producers of chrome, molybdenum and zinc. At the same time, most of the reserves of these minerals are unexplored or unreachable due to harsh climate conditions. Out of 20,000 mineral deposits discovered in Russia's territory, only 40% are being developed for commercial production. The situation has been aggravated until recently because of an absence of adequate geological investigation. According to the Russian scientist V. Chanturiya, Russia is capable of meeting its current metal consumption needs except for chromite, lead, manganese, molybdenum and tungsten.

Objectively speaking, the sector of fuel and energy resources is better developed in the country. Russia's coal reserves are enough to ensure coal output for centuries, even at a level of twice or three times the country's current output (Mineral Yearbook, 2006). Russia possesses about 18% of the world's explored coal reserves and is second only to the United States. In 2008 total coal production was 328 million tons, which constituted 11.8% of all Russian primary energy resources produced that year. However, current production still does not reach the level of output during the Soviet times. Among the world's leading net exporters of coal Russia occupied third position in 2008, accounting for 9.58% of the total amount of net coal exports in the world.

Constant growth is seen in uranium production. In 2007 Russia was the biggest nuclear fuel supplier on the world market, providing 17% of the total supply. Significant growth in this area was boosted by a Presidential initiative to ensure that the nuclear power industry will generate 25% of the country's energy by 2030.

The biggest and the most lucrative sectors of the Russian mining industry are, of course, oil and gas extraction. In 2007, the country's proven oil reserves totalled 9.9 billion tons, which represents 6.1% of the world's proven reserves. This is enough to ensure production for the next 50 years, according to the *Oil & Gas Eurasia* magazine. In 2008, oil accounted for 38.9% of the country's total production of primary energy resources. The total amount of oil produced in 2008, including gas condensates, was 488 million tons, which accounted for 12.3% of net world oil production. That year, worldwide, only Saudi Arabia had larger output. According to the Energy Strategy of the Russian Federation for 2020, this figure will stay within the range of 450 – 520 million tons, of which about 310 million tons will be exported. For instance, in 2007 about 256 million tons of Russian oil were exported (13.08% of world oil exports) (Key World Energy Statistics, 2009). According to OPEC, Russia's share of the world oil supply in 2008 was 11.42% and by 2030 it will shrink to 10.00% (*World Oil Outlook*, 2009).

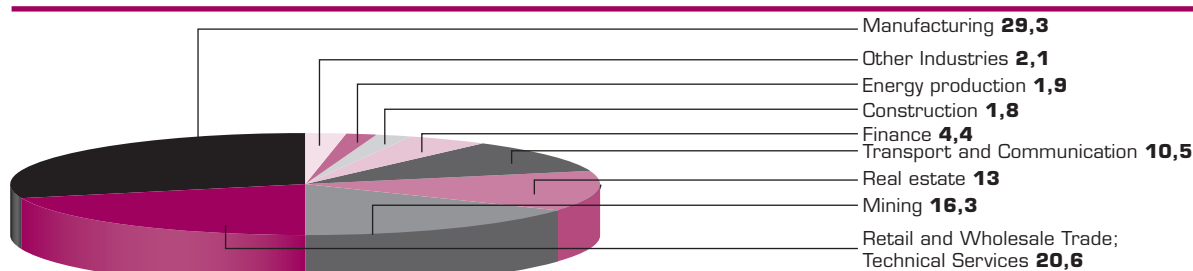
#### IV. RUSSIA'S DIRECT INVESTMENT ABROAD BY COUNTRY 2009 (million \$)

Country	Total
Switzerland	34,877
Netherlands	10,717
Austria	10,716
Belarus	6,542
Cyprus	5,956
UK	1,777
Ukraine	1,566
USA	1,507
Virgin Island (Brit.)	1,095
Luxemburg	416
Armenia	445
Other countries	7,426
<b>Total</b>	<b>82,595</b>

#### V. FOREIGN DIRECT INVESTMENT IN RUSSIA BY COUNTRY OF INCOME 2009 (million \$)

Country	Total
Luxemburg	11.723
Netherlands	11.640
China	9.757
Cyprus	8.286
Germany	7.366
UK	6.421
Japan	3.020
France	2.491
Virgin Islands (Brit.)	1.792
Ireland	748
Other countries	18.683
<b>Total</b>	<b>81.927</b>

#### VI. SHARES OF FOREIGN DIRECT INVESTMENT BY INDUSTRY 2009 (%)



#### VII. BASIC ECONOMIC INDICATORS (1992-2009)

Year	GDP Constant price billion rubles	GDP annual variation %	GDP Current prices billion \$	GDP per capita current prices \$	GDP based on purchasing-power- parity (PPP) per capita GDP \$	Gross domestic product based on purchasing-power- parity (PPP) share of world total %	Annual inflation rate %	Unemployment rate %	External debt GDP %	General govern- ment balance % GDP
1992	25,500.442	n/a	85.592	576.378	7,885.018	4.19	n/a	5.2	n/a	-2.8
1993	23,281.903	-8.7	183.816	1,236.983	7,353.122	3.76	874.62	5.9	27.10	-2.7
1994	20,325.102	-12.7	276.901	1,865.912	6,563.374	3.18	307.63	8.1	32.07	-7.0
1995	19,491.772	-4.1	313.451	2,112.203	6,425.391	2.96	197.47	9.4	33.55	-3.4
1996	18,790.069	-3.6	391.775	2,641.772	6,316.293	2.75	47.74	9.7	39.06	-4.7
1997	19,053.130	1.4	404.946	2,736.124	6,531.005	2.68	14.77	11.8	45.14	-5.5
1998	18,043.314	-5.3	271.038	1,833.815	6,263.200	2.48	27.68	13.3	69.53	-5.9
1999	19,198.086	6.4	195.907	1,328.181	6,775.842	2.55	85.74	13.0	90.96	-0.9
2000	21,117.894	10.0	259.702	1,767.880	7,645.891	2.68	20.78	10.6	61.61	1.9
2001	22,194.907	5.1	306.583	2,095.579	8,251.085	2.76	21.46	9.0	47.72	2.9
2002	23,238.068	4.7	345.071	2,376.524	8,845.268	2.80	15.78	7.9	44.08	0.9
2003	24,934.447	7.3	431.429	2,975.372	9,708.681	2.91	13.67	8.2	43.11	1.3
2004	26,729.727	7.2	591.902	4,104.731	10,740.060	2.97	10.89	7.8	36.08	5.7
2005	28,440.429	6.4	764.256	5,325.824	11,832.451	3.02	12.68	7.2	33.64	8.1
2006	30,630.342	7.7	989.428	6,928.769	13,223.148	3.09	9.68	7.2	31.62	8.4
2007	33,111.400	8.1	1,294.383	9,102.550	14,765.562	3.19	9.00	6.1	36.50	6.0
2008	34,965.638	5.6	1,676.586	11,806.947	15,947.941	3.28	14.10	7.8	29.85	4.9
2009	32,327.433*	-7.5*	1,254.651*	8,873.614*	15,039.048*	3.33*	8.8**	8.2	38.30*	-5.9

\*IMF estimates on the basis of 2008 data

\*\* Federal State Statistics Service,

Source: IMF

Produced by: CIDOB

There are presently about 30 main oilfields in Russia, which are worked by approximately eleven large enterprises and some 150 smaller companies. The largest of them is Rosneft, which is 75.16% state-owned. In 2008 it produced 21.75% of Russia's total amount of oil.

The situation in the area of gas production is characterised by the unrivalled dominance of the Gazprom Company, which is one of the largest energy corporations in the world. The 50.002% controlling share belongs to the State. In 2008, it produced 549.7 billion cubic metres of gas and associated gas, which accounts for 83% of total gas production in Russia and 17% of world gas output. In total, in 2008 Russia produced 664 billion cubic metres of gas, which is almost 21% of world output. In the meantime, Russia's extractable gas reserves are estimated as being about 48 billion cubic metres, which is about 27% of the world's gas reserves. According to the *Oil & Gas Magazine*, this is sufficient to meet domestic demand for the next 75 years. Russia's total gas reserves are estimated as being the largest in the world, with 43-44 trillion cubic metres (*World Oil Outlook*, 2009).

Gazprom also owns the world's largest gas transmission system, the Unified Gas Supply System of Russia, which extends 156,900 km, exporting gas to 31 countries. In 2008, about 111.2 billion cubic metres were exported through this transmission system. The company's share in the European net gas supply for 2008 was 32.7%<sup>m</sup>, while its net profit totalled \$23 billion (RIA Novosti). Again, in 2006 Gazprom accounted for 25% of the country's total federal tax revenues (*Minerals Yearbook*, 2009). All in all, in 2008 Russia represented 23.38% of the world's net gas exports (*Key World Energy Statistics*, 2009), occupying the first place in this sphere. However, in 2009 it lost its leading position to the USA.

At the same time, out of all the explored oil and gas reserves in the country, only about 30-35% is extracted. The unexplored oil reserves are considered to equal 58% of ultimate potential oil resources today. The prevalence of state-owned enterprises in this sector is a tremendous impediment for foreign investment which, as acknowledged by the Russian government, the industry desperately needs for further development. The state's overwhelming control is guaranteed by the Law on Subsurface Resources (2007), according to which the largest oil and gas fields, copper and gold deposits, as well as all deposits of diamonds, pure quartz and uranium cannot be developed by a company without the state having the controlling share. Possibilities for foreign investment in these sectors are therefore strictly limited.

The process of exploitation of deposits is also characterised by a high degree of wastefulness. As the deposit becomes increasingly depleted it is more tempting for the enterprise to abandon it and start working on a new one, which will be more profitable. Large corporations are more prone to such logic, and in the current absence of small and medium-sized enterprises in this sphere, the production process is very inefficient. The situation is also complicated by significant wear and tear on infrastructure in the fuel and energy industry, which is estimated to affect 50% of the totality of equipment.

The same problem of inefficiency appears in the energy production and distribution sector. According to the Minister of Energy, about 35% of energy produced is wasted every year. The

government therefore embarked on a programme of reducing the amount of wasted energy by 30% by 2030. First of all, this entails more energy efficiency in housing and public utilities and, second, greater use of solid fuels, biofuel and associated petroleum gas. The latter will also help to ease dependence on natural gas as the main element in the structure of power consumption. At present its share in power consumption is about 60%. This is easily explained by its low price, which is subject to governmental deliberation. The amount of coal consumed does not exceed 15%, whereas renewable sources of energy account only for 0.5% - 1% of energy consumption.

The total amount of electricity produced in Russia in 2008 equalled 1,040 billion kWh, of which 68.3% was produced by thermal power stations, 16.05% by hydropower stations and 15.67% by nuclear power stations. The total electricity consumption for the same year equalled 1,022.8 billion kWh. The greatest part (57.79%) fell to the sectors of mineral resources extraction, manufacturing and electricity, gas and water production and distribution. According to the Minister of Energy, the annual rate of growth in electricity consumption between 2001 and 2007 was 1.8%, while it will rise to 2.5% - 2.8% in 2005-2030.

However, according to government plans, the share of the fuel and energy sector in the structure of the Russian GDP is expected to decrease to 19.8% from the current approximate 25%. This will be achieved through reducing the GDP energy intensity, which is now 2-3 times higher than in most developed countries.

If this strategy is successfully implemented, Russia will be capable of maintaining the amount of CO<sub>2</sub> emissions at the level of 80%, which is equivalent to 82% of those for 1990. At present its emissions amount to only 47% of the 1990 level. Such successful implementation of the Kyoto Protocol standards was secured mainly due to the significant drop in Russian industrial production during the 1990s. At the beginning of 2008 the industrial production index was only about 80% of the 1990 index. In the very near future this factor might become the source of huge financial benefits accrued from the trade in carbon dioxide emission quotas. According to different estimates, Russia could occupy 10% of the whole emission quotas market. The accomplishment of several joint implementation projects might result in a significant inflow of investments to Russia, worth 40 billion euro, according to the Russian Information Agency of Fuel and Energy Industry (RIATEC).

## DEMOGRAPHY, HEALTH AND EDUCATION

With the gradual stabilisation of the Russian economy, the situation in the social sphere has also improved. However, due to some demographic problems, finding a swift effective solution is hardly possible.

For instance, since 1995 the Russian natural population growth rate has been showing a negative trend. In 2009, however, the natural decline in the population was 113,000 people less than in 2008 (time period: January-November). In comparison with the year 2000, when the level of natural decline was the lowest for the last half century, in 2009 this decline was reduced almost fourfold. In 2007, the birth rate recovered and showed a significant growth rate of 8.8%. This was the most rapid growth since 1975. The government programme of aiding families with a second child born after 2006 by means of an allowance from



## VIII. GLOBAL COMPETITIVENESS INDEX OF RUSSIA

(1996-2008)

Governance Indicator	1996	1998	2000	2002	2003	2004	2005	2006	2007	2008
Voice and accountability	34.9	32.2	33.7	38.9	33.7	31.3	27.9	22.6	21.6	21.1
Political Stability	15.4	21.2	23.1	28.4	23.1	17.8	19.2	22.1	21.2	23.9
Government Effectiveness	34.6	39.8	33.2	46.9	50.7	47.4	41.7	39.8	40.8	45.0
Regulatory Quality	28.3	29.3	19.0	37.1	40.5	47.3	43.4	30.2	35.0	31.4
Rule of Law	28.6	20.5	14.8	21.0	19.5	21.4	21.9	17.6	17.6	19.6
Control of Corruption	23.3	20.9	13.6	20.9	28.2	25.7	27.7	22.3	17.4	15.5

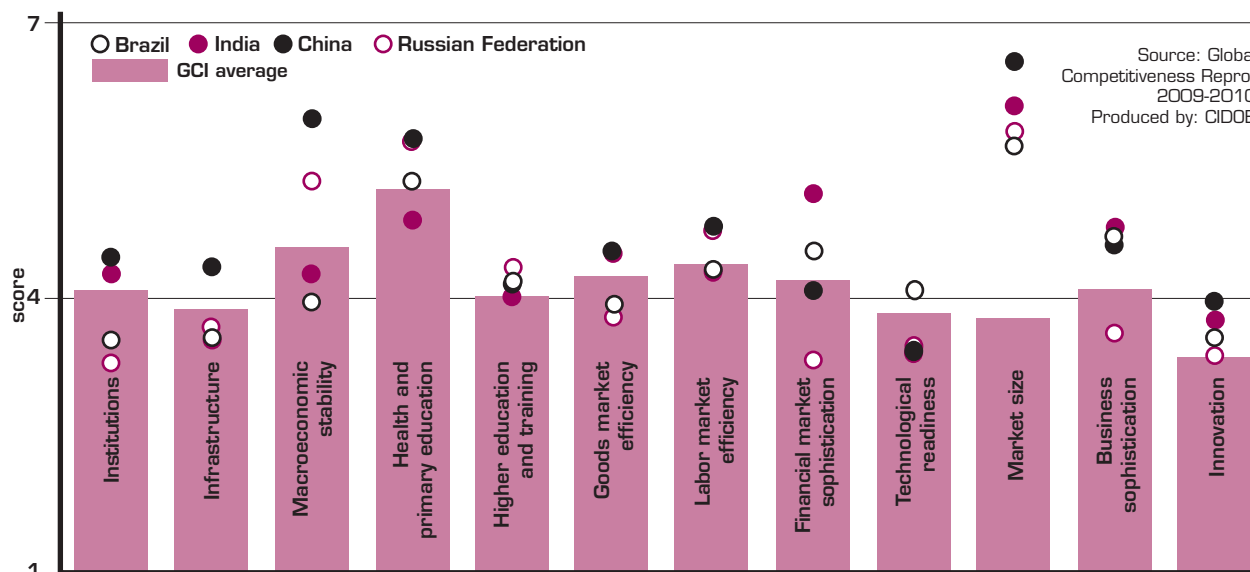
Rate 100 is the maximum in all the categories

Source: The Worldwide Governance Indicators Project

Produced by: CIDOB

## IX. BRIC COUNTRIES' GLOBAL COMPETITIVENESS INDICES 2009

Comparison of GCI scores for the four BRIC economies and the 133 country sample average



## X. RUSSIAN GDP GROWTH BY SECTORS 2002-2008

(value added, in basic prices, % GDP)

Sector	2002	2003	2004	2005	2006	2007	2008
Agriculture, hunting, forestry	6.42	6.26	5.72	5.19	4.78	4.40	4.79
Fisheries and aquaculture sector	0.31	0.52	0.42	0.35	0.30	0.20	0.22
Extraction of mineral resources	6.79	6.74	9.59	11.25	11.14	10.20	9.50
Manufacturing	17.65	16.96	18.06	19.00	18.24	18.60	17.99
Electricity, gas, and water production and distribution	3.75	3.67	3.81	3.41	3.29	3.00	3.07
Construction	5.45	6.15	5.80	5.46	5.28	5.70	6.66
Retail and wholesale trade, maintenance of vehicles, home appliances	23.04	22.22	20.43	19.69	20.75	20.20	21.29
Hotel and restaurant business	0.93	0.82	0.95	0.92	0.87	0.90	1.02
Transport and communication	10.37	10.82	11.17	10.39	9.95	9.20	9.65
Finances	3.11	3.41	3.44	4.10	4.58	4.60	4.79
Real estate operations, leasing, and services provision	10.74	10.81	9.55	9.96	10.22	10.10	11.30
Public management and provision of military security; necessary military provision	5.10	5.59	5.39	5.18	5.18	5.00	5.08
Education	2.93	2.73	2.69	2.67	2.71	2.70	2.66
Health care and social services	3.36	3.23	3.18	3.07	3.37	3.30	3.20
Provision of other public utilities, social and personal services	1.91	1.89	1.85	1.76	1.87	1.90	1.80

Source: Federal State Statistics Service

Produced by: CIDOB

the so-called maternity fund might be considered as one of the causes that has boosted the birth rate. With this programme every family gets a one-off payment of 343,278 roubles (in 2010 some amendments adjusted these terms) for the birth of the second child, which can be spent on improvement of the family living conditions or for educational purposes. At the same time, the death rate has been slowing and the net migration in 2009 was high enough to surpass the natural decline of the population by 1.4%, which resulted in a slight population growth of 3,200 people (0.002%), the first in a long time.

Nevertheless, the serious impact of the turbulent nineties will be felt for many years to come. According to estimates of the Federal State Statistics Service, on 1 January 2010 the population of Russia totalled 141,914,509 people. Thus, the country lost about 5.7 million people over the past nineteen years. The population estimates for the year of 2030 made by the Ministry of Public Health and Social Development vary from 128.5 to 146.5 million people, depending on the favourability of development conditions. Judging by these forecasts the two driving forces behind possible population growth in Russia in the near future will be a stabilised birth rate and increasing gains from migration.

These forecasts also reflect one of the main challenges that Russia is going to face in the immediate future: a shortage of labour force. In the meantime, the able-bodied population accounts for 62.9%, while people older than 65 account for 13.3%. According to UN standards, when this figure exceeds 9% the problem of population aging starts to arise. Over the next two decades the number of working-age people is expected to decrease by 7% - 9% and this will determine the desperate need for labour immigrants in the country where the potential for economic development is far from being exhausted.

When tackling the topic of Russian economic development one cannot avoid another burning issue in the sphere of demography. At present, 73.02% of all the people in Russia live in its European part, which occupies only about 24% of the territory. In 2002, the 30 regions with the highest population density occupied only 6.5% of the country's territory and accounted for 50% of its population. In the far eastern zones of Russia this problem is felt most acutely. The population density of the five Russian regions bordering on China is 3.1 people/square kilometre, while the same indicator in the two adjoining Chinese regions is 37.74 people/square kilometre.

The overall situation is also worsened by the problem of the so-called mono-cities, in which more than 25% of the citizens are employed at one major enterprise, or not less than 50% of all the output is produced in one industrial sector. According to the statistics of the Ministry of Regional Development, at the beginning of the year 2010 there were 335 mono-cities, which accounted for 25% of all urban population and 40% of the aggregate Gross Regional Product.

The social policy of the Russian government seems to be bringing positive results. Since 2000 the average per capita income has increased almost sevenfold and the number of people below the poverty line has shrunk more than twofold. The share of government spending on public health, physical education and sport in the total amount of government spending has grown by 3.3% since 2000. Nonetheless, in 2008, the share of Russia's spend-

ing on public health with regard to GDP was almost half that of the developed European and North American countries in 2005.

In the summer of 2009 the Russian President publicly acknowledged that the problem of alcohol consumption in Russia has started to loom large. According to the Minister of Public Health and Social Development, the average amount of alcohol consumed per capita equals eighteen litres a year, while the UN qualifies the amount of nine litres per year as detrimental to the nation's health. The Russian government is planning to embark on a programme to reduce this amount to fourteen litres by 2012.

Russia traditionally occupies one of the top places among the countries with the biggest number of students. In 2008 out of every thousand citizens seventy were students. However, the Russian universities are usually not listed among the best of the world. For instance, in the 2009 rating of *Times Higher Education* supplement the Moscow State University was given only 155<sup>th</sup> place, while the St. Petersburg State University took 168<sup>th</sup>. Representatives from the Russian educational system claimed that the Russian universities simply cannot fully comply with the system of measurement that is implemented in the aforementioned rating. It is hoped that with Russia's complete transition to the Bologna system the problem will be resolved.

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**XI. DISTRIBUTION OF REVENUE AND AVERAGE INCOME BY POPULATION GROUP 1970-2008** (%)

Including 20% group of total population with:	1970	1980	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
lowest income	7.8	10.1	9.8	6.1	5.9	5.7	5.7	5.5	5.4	5.4	5.4	5.1	5.1
income between lowest and medium	14.8	14.8	14.9	10.8	10.4	10.4	10.4	10.3	10.1	10.1	9.9	9.7	9.7
medium income	18.0	18.6	18.8	15.2	15.1	15.4	15.4	15.3	15.1	15.1	14.9	14.8	14.8
income between medium and highest	22.6	23.1	23.8	21.6	21.9	22.8	22.7	22.7	22.7	22.7	22.6	22.5	22.5
highest income	36.8	33.4	32.7	46.3	46.7	45.7	45.8	46.2	46.7	46.7	47.3	47.9	47.9
The Gini Coefficient	-	-	-	0.387	0.395	0.397	0.397	0.403	0.409	0.409	0.416	0.423	0.423

Source: Federal State Statistics Service  
Produced by: CIDOB

**XII. FISCAL ANTI-CRISIS MEASURES IN RUSSIA** 2008-2009

	Billions of rubles			Total % of GDP	Distribution of each policy measure as percentage of total		
	2008	2009	Total		2008	2009	Total
Strengthening the financial sector	785	625	1410	3.3	72.08	34.06	48.23
Supporting the real economy	304	798.3	1,102.3	2.50	27.92	43.51	37.70
Protecting the vulnerable	-	111.5	111.5	0.25	-	6.08	3.81
Transfer to regions	-	300	300	0.67	-	16.35	10.26
Total	1,089	1,834.77	2,923.77	6.69	100.00	100.00	100.00
<b>% of GDP</b>	<b>2.62%</b>	<b>4.07%</b>	<b>6.69%</b>				

Excludes quasi-fiscal and monetary measures, state guarantees in the amount of 300 billion rubles planned for 2009, measures planned before the crisis, such as increasing the minimum wage, indexing pensions, as well as external crisis-related lending to CID countries and Mongolia

Sources: World Bank staff estimates, Government of Russia  
Produced by: CIDOB

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# Migration in the Russian Federation

Despite its geographical position and vast territory, historically Russia was not favoured by immigrants, probably due to its rather harsh climatic conditions. Other nations were usually subsumed into Russian society through a process of territorial expansion of the Russian State. However, the assimilation of foreigners was not always complete: hence the cultural and ethnic diversity of contemporary Russia.

A drastic change in migration policy occurred when, in 1917, Tsar Nicholas II relinquished the crown and the Provisional Government decided to grant Russian citizenship to all subjects of the former Russian Empire. This was an unprecedented act of naturalisation in modern times. Subsequently, Soviet Union migration policy was inextricably linked with industrialisation policy, which conditioned the high level of flows of immigrants from all the Soviet Republics to future industrial centres. Nevertheless, starting with the 1960s and to the present day, net migration in the Russian Soviet Federative Socialist Republic (until 1991) and then the Russian Federation (since 1991) has never dropped below zero.

## EVOLUTION OF MIGRATION POLICY

The issue of migration policy has become really acute for the Russian Federation since the collapse of the USSR in 1991, when about 25 – 30 million ethnic Russians living in other former Soviet republics suddenly became foreigners. Prior to this, little attention was devoted to the issue of immigrants. However, with the first flows of displaced people into the country as a result of ethnic conflicts erupting on USSR territory at the end of 1980s and early 1990s, Russia faced the need to draw up new migration policy and legislation for immigrants.

The Law on Citizenship of the RSFSR (1991), the paper "Migration" (1992), the Federal Migration Programme (1994) and other migration policy bills, passed in the early 1990s were mostly concerned with the rights of refugees and displaced peoples and the procedures of their settling in the territory of the country. As a result, all other spheres of migration policy, especially irregular immigration, were mainly overlooked.

1994 was the year with the highest rate of immigration, which totalled 1,358,000 people. Previously, since the mid-1980s the migration rate had been quite stable, at around 800,000 people per year. Immigrants from the countries of the newly-formed Commonwealth of Independent States

(CIS) and other former Soviet republics accounted for the vast majority. Between the years of 1991 and 1995, net migration from the CIS and Baltic countries was more than 2.5 million people. However, ethnic Russians accounted for 67% of all the migration gain during the period of 1989 – 2004.

1995 saw a significant decline in the number of immigrants coming to Russia. The Government's failure to meet most of the obligations declared in the first migration laws exacerbated the situation. However, the main reason for the decline was clearly the increasing instability of the internal political situation and military confrontation in the breakaway republic of Chechnya in particular.

Later, the economic crisis of 1998 in Russia contributed to a further decline in international immigration to the country. It also brought about a slight rise in the rate of emigration.

All in all, by the end of the century the immigration rate in Russia was showing a clear downturn. The capacity of neighbouring countries to contribute towards any immigration increase in Russia was increasingly dwindling, and flaws in legislation and an apparent disregard by the Russian government for the importance of a well-elaborated migration policy and other factors were the driving forces of this trend. The situation was aggravated still more by the rise in the numbers of irregular immigrants and pressing demographic problems inside Russia.

Nevertheless, over the period of 1992 – 2000 the total net migration in Russia was almost 3.3 million people. By way of comparison, the figure for the period of 1975 – 1990 was 2.64 million.

The newly elected government was aware of these trends so the year of 2000 represents a turning point in the migration policy of the Russian Federation. The initiatives of the new Administration showed a clear streak of restrictive tendencies in its policy towards immigrants.

As a result of several presidential decrees in 2000-2001, the Federal Migration Service was subjected to reform and its leverage for influencing migration policy was significantly curtailed. The instruction of the Ministry of Internal Affairs, approved in August 2000, obliged all immigrants from the CIS states to obtain a residence permit before registration, a requirement that was previously applicable only to residents of non-CIS countries. On 30 August 2000 Russia withdrew from the Bishkek Treaty of 1992, according to which the CIS countries established a visa-free regime for their citizens within the borders of the organisation. This move



was immediately followed by the establishment of a visa regime with Georgia.

The Concept of Migration Processes Regulation in the Russian Federation adopted on 1 March 2003 mainly addressed the problems of registration, control and deportation of illegal immigrants, while also promoting the idea of eradicating irregular migration.

The year of 2003 was also a time when the downwards-tending immigration rate reached its lowest point and the tendency for net migration to rise was revived. However, it is quite probable that the actual situation remained unchanged as the latest improvements in the registration system allowed many irregular labour immigrants to legitimate their presence in the territory of the country through an easier procedure of obtaining temporary registration. Tougher legislation against illegal employment was also conducive to this.

Since then, labour immigration has been given special attention, mostly due to an increasing scarcity of labour resources inside Russia. Accordingly, major changes in labour migration policy were made in 2007, significantly liberalising Russian migration policy.

President Putin's speech at the meeting of the Security Council of the Russian Federation on 17 March 2005, in which he called for facilitation of the processes of legal migration, gave impetus to the new migration policy of Russia.

Introduced in 2007, the new system of registration of labour immigrants contributed to the significant increase in the number of legal immigrants coming to Russia that year. Registration procedure was largely eased by substituting the licensing system of registration with the notification-based one.

Another key constituent of this policy was the quota system, which was first introduced in 2003 and revised in 2006. According to this system, the Ministry of Health and Social Development announces each year the number of labour immigrants allowed to enter from countries with visa-free access. This number was determined on the basis of the capacity of regional governments to provide these immigrants with job opportunities.

It was not long before the fruits of the new migration policy were tangible. In 2007 alone, the migration growth rate was 1.7 %. It had previously taken four years (2003-2006) to reach the same level. Moreover, despite the economic recession and subsequent cut in labour immigrant quotas, 2009 was the first year since 1994 when migration gain outweighed the natural decline in population.

### ENTRY MECHANISMS

According to the Federal Law on Migration Registration of Foreign Citizens and Stateless Persons in the Russian Federation, and the Governmental Regulation of the Russian Federation on Approving the Rules of Exercising the Migration Registration of Foreign Citizens and Stateless Persons in the Russian Federation, all foreign citizens and stateless persons are required to go through the process of registration at the place of their sojourn. This means that the relevant territorial office of the Federal Migration Service must

be informed of arrival within three working days. Indeed, all registration procedures should be carried out by the Host Party, which can be represented by a citizen of the Russian Federation, a legal person, a foreign citizen or a stateless person having permanent residence in the Russian Federation. The Host Party completes the form of notification of the foreign citizen's arrival at the place of sojourn and presents or sends it to the nearest territorial office of the Federal Migration Service (FMS). The immigrant subsequently receives the detachable part of the form as proof of registration. If a foreigner is a citizen of any country with a visa-free regime established with Russia, the term of his/her sojourn is limited to 90 days.

In the case of labour migration, a foreigner must first go through the same procedure of registration. Afterwards he/she must apply for a work permit at the nearest FMS office. A work permit is issued within the range of a pre-established quota and entitles its holder to work strictly within the territory of the region where it was issued. Unless a labour immigrant obtains employment during the following 90 days he/she will have to leave the country.

A special migration regime, aimed at the repatriation of ethnic Russians has been in effect since 2007. The programme of facilitating the return of ethnic Russians was worked out at the initiative of Vladimir Putin and mainly targets Russian communities in the former Soviet republics. Participants of this programme are given state assistance with accommodation and employment but strictly on the condition that they choose a place to live out of a state-compiled limited list of regions. Nevertheless, all participants are entitled to a simplified procedure of obtaining Russian citizenship.

### NEW CHALLENGES OF MIGRATION POLICY

Despite the positive tendencies in the sphere of migration policy, Russia still faces several inevitable problems.

While the total number of immigrants is on the rise, the main concern of the Russian government is the quality of labour force entering the country. In 2006, only 13% of all the labour immigrants had higher education qualifications. Only half of all the people coming to work in Russia have completed vocational education and training. The majority of immigrants are non-qualified workers.

While these people are employed in spheres that are unpopular among Russian citizens and although in future the country's dependence on them is expected to be even greater, officials have admitted on several occasions that there is an urgent need to improve the law, which will not only oblige labour immigrants to comply with certain procedures, but will also provide them with certain rights and make their stay in Russia easier.

This should also serve the aim of curbing irregular immigration. According to the head of the FMS, the estimated number of irregular workers in Russia in September 2009 was about four million people. Earlier he had claimed that irregular immigrants accounted for not more than 2% of the total number of immigrants. However, according to some unofficial estimates the figure could be as high as 10 million people.



Such problems are looming still larger owing to the fact that, every year, ethnic Russians constitute a smaller part of all immigration flows into the country. Since the end of the 1980s, their contribution to net migration has been steadily decreasing, the figure for 2007 being only 32%. Neither are the results of the State Programme for Assistance to the Voluntary Resettlement of Compatriots Living Abroad to the Russian Federation as encouraging as originally expected. During the period 2007 - 2009 only 14,000 immigrants took part in this programme, while the FMS initially estimated that the number would be between 50 and 100 thousand people a year. These figures raise the problem of assimilation strategy which, in the meantime, is completely lacking.

In sum, contemporary Russian migration policy suffers from the absence of a well-elaborated, long-term strategy, which might have helped to avoid discord in the activities of different governmental and social institutions working in this sphere, and to improve the working and living conditions that usually await labour immigrants in Russia.

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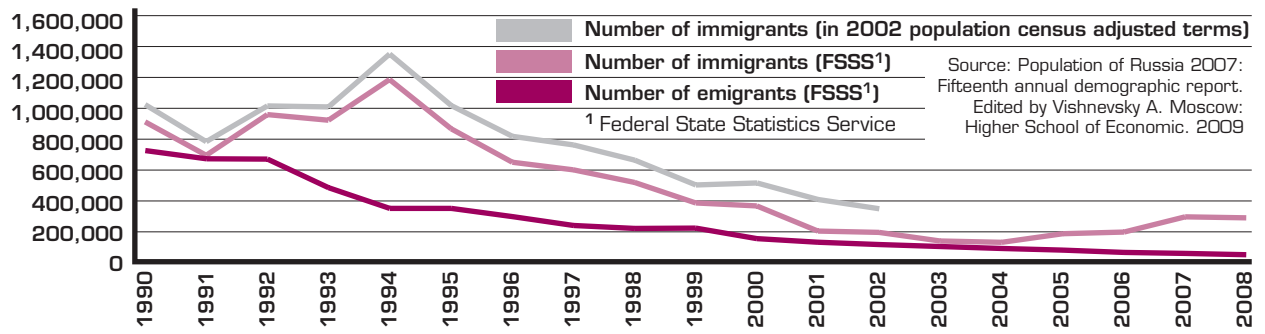
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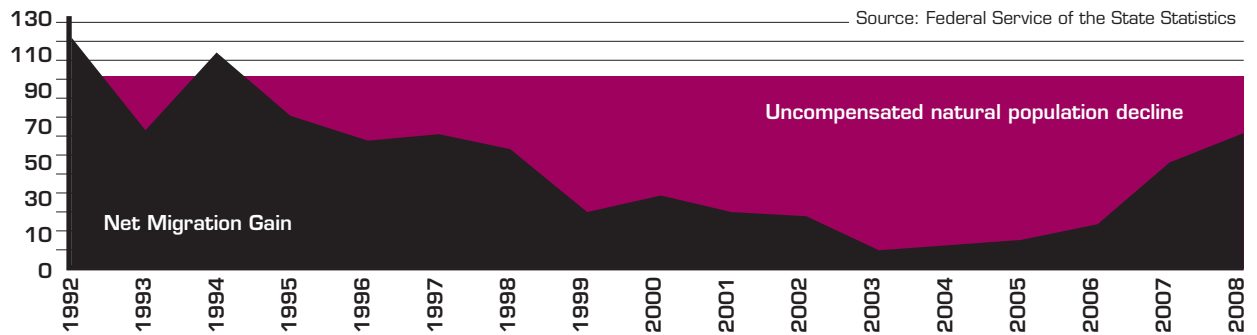
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<<http://archive.kremlin.ru/text/appears/2005/03/85300.shtml>>

**I. MIGRATION FLOWS IN AND OUT OF RUSSIAN FEDERATION 1900-2008**



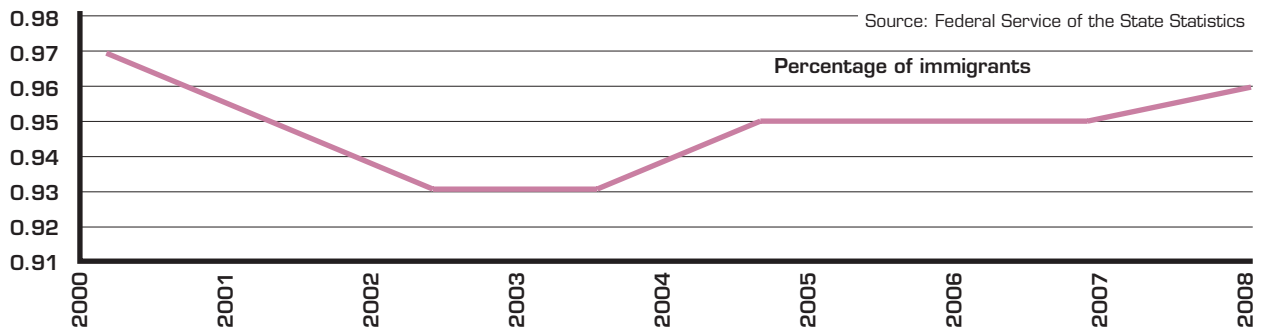
**II. NET MIGRATION GAIN 1992-2008**

(% of natural decline in population)

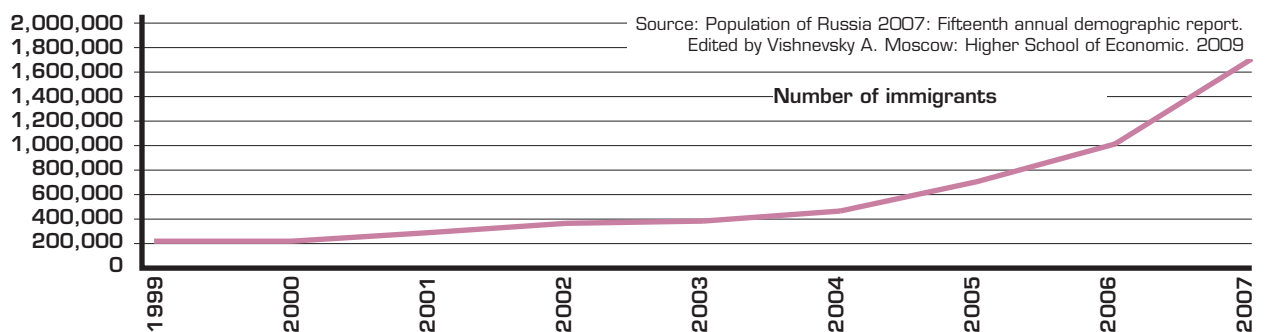


**III. IMMIGRANTS FROM THE COUNTRIES OF THE COMMONWEALTH OF INDEPENDENT STATES 2000-2008**

(% of international net migration)

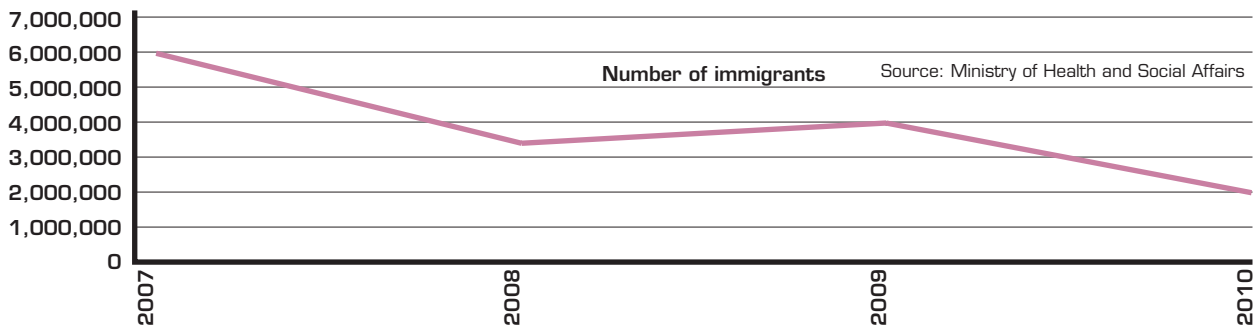


**IV. NUMBER OF REGULAR LABOR IMMIGRANTS IN RUSSIA 1999-2007**



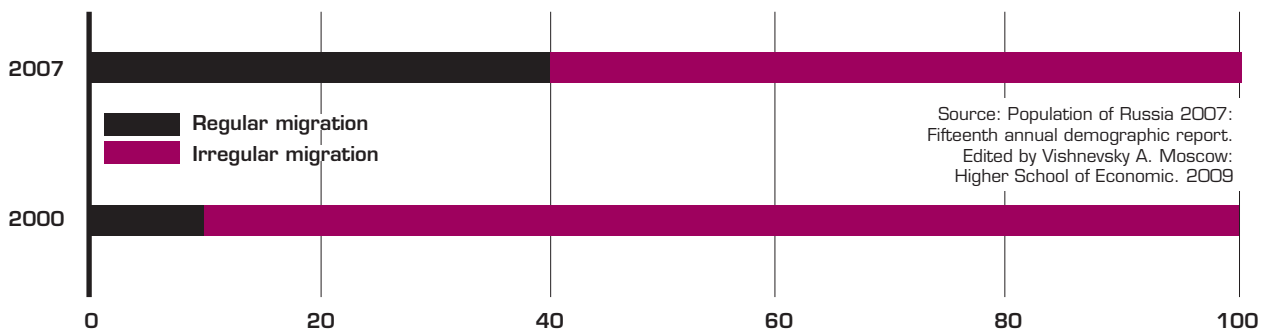


**V. THE AMOUNT OF QUOTAS ON LABOR IMMIGRATION 2007-2010**



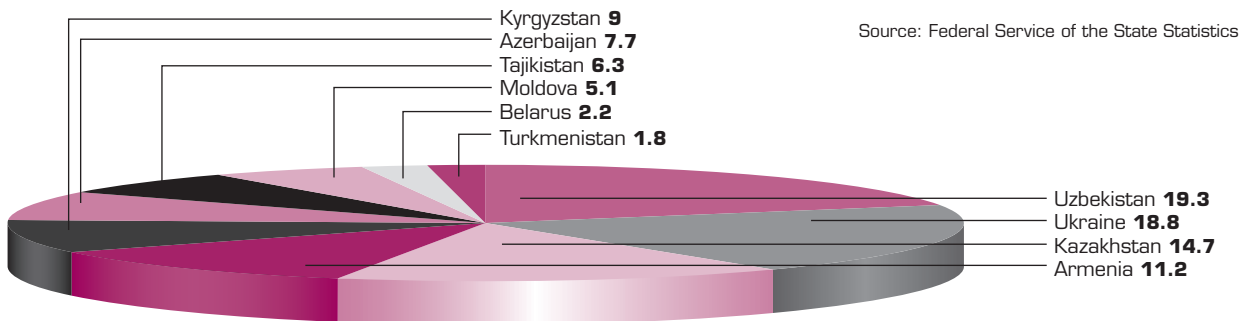
**VI. IRREGULAR LABOR MIGRATION IN RUSSIA 2000-2007**

(% of total labour migration)



**VII. IMMIGRANTS FROM CIS COUNTRIES ACCORDING TO THEIR COUNTRY OF ORIGIN 2008**

(%)



**VIII. PERCENTAGE OF LABOR IMMIGRANTS ACCORDING TO THE AREA OF THEIR EMPLOYMENT 2006-2007**

(%)

The area of employment	2006	2007
Construction	41	40
Commerce	27	19
Manufacture	7	7
Agriculture	7	7
Public utilities and private service	-	5
Transport	4	4
Mining operations	-	2
Other areas	13	16

Source: Population of Russia 2007: Fifteenth annual demographic report. Edited by Vishnevsky A. Moscow: Higher School of Economic. 2009.

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