

# BEPA MONTHLY BRIEF

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## EDITORIAL *by Stefano Bertozzi*

January's BEPA Monthly covers four main issues. In the wake of the adoption of the Lisbon Treaty, the first article, by [Jean-Dominique Giuliani](#), looks at the future of Europe. It examines what action Europe needs to take if it is to assume a more powerful role in the international arena, in particular on the strength of the new "toolbox" provided by the Treaty of Lisbon. Giuliani stresses that Europe holds a unique position on the world stage and needs to embed common European interests and goals in its action if it is to be acknowledged as a major player by other international stakeholders.

The second lead article, by [Giovanni Grevi](#), offers an articulate and compelling analysis of how the international system, seen through the paradigm of inter-polarity, will evolve in the future. Driven by increasing interdependence and by a shifting balance of power, the world will gradually change its *modus operandi* in the next decade. Mr Grevi argues that this change could have ripple effects on geopolitics and on how major powers interact. He adds that growing interdependence and common political, economic and security challenges should persuade key international players to pursue common objectives although the measures needed to attain them could sometimes differ.

The third lead article, by [Daniel Gros](#), is highly topical and provides insight into the issue of risk accumulation in the international financial system. More specifically, he warns that a further accumulation of reserves in emerging economies, particularly China, could give rise to new systemic risks in the financial system. To reduce such systemic risks, greater transparency about the holdings of the central banks of emerging economies will therefore be needed.

The fourth lead article, by [Claudia Kemfert](#), analyses the unsuccessful outcome to the Copenhagen Climate Summit and proposes ways forward. She advocates that compulsory emission reduction targets and adaptation to climate change need to become separate objectives if the international community wants to protect the environment and adjust to climate change.

January's BEPA Monthly also features "What citizens say", plus a summary of an interesting article examining the impact of green innovation on a country's growth rate by Acemoglu et al. and "Facts and figures", which provide valuable insight into patterns of aid allocation to the less developed world.

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# 1 L'après Lisbonne ou l'apprentissage de la puissance

By Jean-Dominique Giuliani\*

L'échec de la Conférence de Copenhague peut être considéré comme une cruelle désillusion européenne et une véritable déception mondiale.

Pour l'Union, elle était un test. Suffit-il d'être exemplaire dans les règles qu'on se fixe pour être forcément suivi ?

Pour le monde, elle a marqué le triomphe du principe de souveraineté, désormais porté par des Etats-continentaux soucieux de préserver d'abord leurs propres intérêts avant d'accepter de se hisser au niveau de celui de l'humanité.

A l'observateur extérieur s'imposent immédiatement des leçons à en tirer car il en sera de même sur le plan économique général pour la sortie de la présente crise.

**L'Union européenne a démontré dans cette période d'incertitudes à la fois sa résilience, sa solidité et l'ampleur des défis qui lui sont lancés.**

L'Union est la première zone de création de richesses du monde avec près d'un quart du PIB mondial. Elle est le premier marché mondial par le pouvoir d'achat moyen de ses 500 millions de consommateurs, elle concentre 40% du commerce mondial grâce au dynamisme de ses échanges intérieurs et à sa place de premier exportateur mondial ; elle est le premier investisseur extérieur dans le monde.

Mais elle paraît tributaire des autres puissances, faute d'unité de commandement et surtout de la conscience de sa propre force. Cette inconscience lui a interdit jusqu'ici de définir sérieusement ses propres intérêts et de les confronter avec les autres pôles mondiaux. Cet exercice est rendu incontournable par la compétition multipolaire qui se dessine.

**L'Union doit définir ses intérêts spécifiques.**

Il ne suffit plus de garantir l'ouverture de l'Union pour en assurer la prospérité. Les défis que lance l'émergence de nouvelles puissances continentales lui imposent de se penser en puissance. On objectera que les Etats membres ne sont pas tous d'accord sur le concept et c'est exact. Le Président Barroso a eu raison de rappeler que l'Europe ne sera jamais un empire. L'Europe a déjà donné dans ces rêves et a raison de ne plus le

vouloir. Pour autant faut-il abandonner l'objectif d'unification politique qui fut, dès l'origine, celui des Pères fondateurs ? La première mission de toutes les institutions européennes, à commencer bien évidemment par la Commission, c'est d'incarner les intérêts supérieurs de l'Union, c'est aujourd'hui de plaider pour sa puissance.

**Les intérêts propres de l'Union sont économiques et stratégiques.**

Les premiers sont monétaires, industriels et technologiques. L'Europe ne doit pas se résigner à l'instabilité et à l'usage de l'arme monétaire qui est le fait de nos grands partenaires commerciaux. Elle a le droit de définir des politiques industrielles propres qui seules lui permettront de préserver son savoir-faire et ses emplois, de créer et conforter ses champions européens, et de garantir sa place dans la course technologique.

Sur le plan stratégique plus général, sa force actuelle l'autorise déjà à disposer de son libre arbitre, de jouer de son influence et de son attractivité pour développer sa propre politique étrangère. Son alliance avec l'Amérique, dans le camp de la Démocratie et de l'Etat de droit, ne fait pas obstacle à la définition de ses propres intérêts, de positions spécifiques sur la scène internationale, de la défense et de la promotion de ses valeurs propres qui résultent tant de son histoire, de ses expériences, de sa mémoire collective, que d'intérêts qu'elle ne partage pas forcément avec ses alliés. Pour asseoir celles-ci, il faut être crédible. La constitution d'une Europe de la Défense est donc le préalable à une vraie politique étrangère. Elle est d'ailleurs le test de la volonté des Etats membres d'accepter le concept d'une Europe plus puissante.

**Ces raisonnements exigent une véritable remise en cause de certaines politiques internes et surtout des pratiques qui se sont instaurées au sein de l'Union.**

Les politiques commerciale, de concurrence, du marché intérieur, doivent être adaptées et subordonnées aux nécessités extérieures, ou du moins coordonnées autour de l'objectif de compter davantage dans le monde, de peser le vrai poids économique de l'Union. Si les Européens veulent compter vraiment, ils ne doivent plus avoir peur

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du principe de préférence qui est réclamé par les citoyens et exacerbé par la crise. Ils doivent seulement l'encadrer et le définir pour ne pas enfreindre leur adhésion fondamentale à une liberté des échanges. En bref, l'Europe doit être ouverte, elle ne doit pas être offerte !

S'agissant de la politique étrangère, celle-ci doit affirmer son autonomie et préciser ses objectifs. Ainsi la perspective de l'adhésion de certains voisins de l'Union ne doit pas faire office de politique étrangère à nos frontières. Seule une véritable politique de voisinage, bien plus ambitieuse et généreuse, peut aider les institutions de l'Union à sortir de la mécanique infernale de l'élargissement sans fin où elle s'est elle-même laissée enfermer.

Dans la pratique, cela impose des réformes évidentes. Pour l'élargissement, la conditionnalité – les fameux critères – ne suffit plus. D'ailleurs ces critères ne sont pas respectés. Le dialogue politique au plus haut niveau, la négociation politique de puissance à puissance, doit devenir la règle.

Pour la politique de concurrence, la constitution de champions européens doit devenir un objectif prioritaire. Sa gestion doit être politique au sens le plus noble du terme, c'est-à-dire volontariste et positive pour les intérêts des Européens. Il n'y a aucune raison, ici aussi, d'être « plus royaliste que le roi », c'est-à-dire en l'occurrence plus rigoureux que nos partenaires dans la mise en œuvre des principes de liberté des échanges, de libre circulation et d'ouverture. Dans le cas contraire, l'Union entendrait aborder la nouvelle compétition internationale avec des boulets aux pieds !

### [Car l'Union n'est pas une organisation internationale comme une autre.](#)

Elle est par trop conduite sur le mode diplomatique alors qu'elle demeure un projet politique. De cette confusion naissent les contradictions, les difficultés, les incompréhensions, voir les loupés comme avec la Turquie, que l'Union veut s'attacher et avec laquelle elle est en train de se fâcher.

Le rôle des institutions européennes, à commencer par la Commission, n'est pas seulement de faire appliquer les traités, qui doivent assurément

être respectés, mais d'incarner l'intérêt supérieur de l'Union et donc de le promouvoir à tout propos par des propositions concrètes. Ainsi se justifie le monopole du droit d'initiative, car les Etats membres ne le feront jamais spontanément.

Le projet européen n'est pas un projet de coopération régionale, il demeure un projet d'unification continentale, politique depuis l'origine. Il serait temps de le rappeler systématiquement à ceux qui y ont adhéré en les mettant systématiquement face à leurs responsabilités historiques !

Alors que le service diplomatique commun va être constitué, une véritable réflexion semble avoir manqué sur ses objectifs propres, sur ses méthodes de travail, sur sa conduite au quotidien. Agira-t-il partout où il sera présent comme le représentant sourcilieux des intérêts européens, jouant de l'influence, négociant donnant-donnant, ou ne sera-t-il que la vitrine d'un idéalisme bon teint qui résulterait du plus petit dénominateur commun aux Etats membres ? On voit tout de suite qu'en termes de gestion, l'Union doit aussi être conduite comme une puissance en constitution plutôt que comme une organisation internationale. Pour la méthode de travail, elle doit plus emprunter aux Etats qu'à l'ONU dans la conduite quotidienne de ses politiques, de son budget, de ses personnels.

Dans la crise, l'Europe a fait bonne figure. Elle a résisté parce qu'elle est forte et riche, bien que diverse. Dans la sortie de crise, elle n'a de chances de survie qu'en se battant pour imposer son modèle avec les armes traditionnelles de la politique internationale, et pas seulement avec sa bonne conscience. C'est cet apprentissage de la puissance qu'elle doit désormais mener à bien, malgré toutes les difficultés, y compris celle des institutions de Lisbonne qui ne sauraient être considérées comme parfaites et vont plutôt compliquer son fonctionnement. C'est par son unité qu'elle imposera son modèle, un modèle tellement moderne qu'il est envié, copié et espéré par beaucoup. Il lui faut maintenant s'assumer en puissance ou renoncer à ses légitimes ambitions.

## 2 The interpolar world

By Giovanni Grevi\*

The first decade of the new century has ushered in the great transition from the post-Cold War world to an unprecedented configuration of international relations. Sketching out the contours of the emerging international system is a precondition for a comprehensive strategy to manage the new global environment. As an international actor with worldwide interests and impact, the EU needs to engage in this exercise. To paraphrase Graham Allison, what you see is where you stand. In other words, the conceptual framing of ongoing change is not just an intellectual undertaking but informs concrete political choices. As the new Commission, the High Representative for foreign affairs and security policy and the President of the European Council take office, this is an excellent opportunity for a joint reflection on the shape of things to come. The EU would benefit from a strategic compass to chart new ground in international affairs and guide key decisions.

Two fundamental trends are driving change in the international system, namely the redistribution of power, leading to a new form of multipolarity, and deepening interdependence, affecting the prosperity and security of major powers and the international community at large. Neither trend is new per se, but both are growing in scope and pace at the same time, as the financial and economic crisis has exposed. The crucial point is that their seamless interplay, and not either of these trends separately, will define the shape of the international system in the making. Interpreting the great transition requires therefore a framework encompassing both the shifting balance of power and the demand for managing interdependence. The challenge lies in finding a new match between power and governance.

Three main features of emerging multipolarity deserve quick mention. First, power is shifting unevenly across different assets and dimensions. While the US retains military supremacy, the so-called BRIC countries are expected to contribute well over 40% of global economic growth between 2005 and 2020. By that year, three of the five largest economies will be in Asia (China, Japan and India). As fossil fuels are expected to

cover 3/4 of the projected 40% increase in primary energy demand 2007-2030,<sup>1</sup> it is notable that the twelve countries controlling 80% of proven oil and gas reserves generate only 7% of global wealth, whereas the OECD countries plus China and India, accounting for about 75% of the world GDP, control only 10% of oil and gas reserves.<sup>2</sup>

Second, and related, not all power assets equally translate into political influence. After the painful experiences of the "wars amongst the people" in Iraq and Afghanistan, the projection of force as such is likely to pay fewer and fewer political dividends at home and abroad. The opposite can be said of the endowment with energy resources, which allows large energy producers to punch above their weight and dilute external pressures by diversifying their allies. Over time, however, the capacity for technological innovation will remain one of the key sources of social dynamism, economic competitiveness and national prestige.

Third, the shifting balance of power translates in a shifting balance of worldviews. The upcoming global concert – or cacophony – includes players that have different historical traditions, disparate levels (and models) of socio-economic development and original conceptions of international relations and of their role therein. The complexity of the resulting international system cannot be reduced to stark dichotomies, such as those between democracies and autocracies or between status quo and revisionist powers. Powers align differently depending on the matters at hand.

The emerging international system presents many of the features of a multipolar one. The US remain by far the largest power but American hegemony has largely faded away. Emerging powers are projecting their interests and influence to key global regions and there is a risk that, as competition sharpens, negative power (the power to deny others the fulfilment of their objectives) prevails on the positive intent to reconcile respective priorities. That would be a lose-lose situation. The tangible reality of power politics and the ensuing tensions cannot be ne-

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glected. And yet, the diagnosis of the international system in the making as a multipolar one is inadequate because it is partial. Emphasis on the relative power of major global and regional actors misses the basic point that the very context of their interaction is a key factor in their strategic calculus. And such context is marked by deepening, existential interdependence.

The momentous conjunction of the global economic and financial crisis, the environmental crisis and the expanding demand for energy and other commodities will define the context of international relations for many years to come. How these issues, and their conflation, will be addressed will determine the outlook for the sustainable growth, the prosperity and, ultimately, the security of the international community and also of the large powers therein. The very survival of some of the countries most vulnerable to the economic and environmental shocks is at stake. In this context, the geopolitical implications of state failure may become increasingly difficult to anticipate and control.

The common denominator to all of these challenges, as well as to the security threats posed by the proliferation of weapons of mass destruction and trans-national terrorism, is that none can be successfully addressed by any one country alone. But failing to tackle them would undermine the strategic interests of all major established and emerging powers, albeit in different ways. The good news is that most key countries recognise the centrality of the challenges of interdependence to attain their strategic objectives, as the launch of the G20 in 2008/2009 attests. The bad news is that major powers rank priorities differently and often disagree on how to tackle common challenges. The disappointing outcome of the Copenhagen summit on climate change serves as a stark reminder of that.

However, it is one thing to disagree on the measures required to attain common objectives; it is quite a different one to pursue divergent, or even opposing objectives. This is not to downplay the considerable obstacles ahead, but to stress that controversy mainly revolves around the means and not the ends. Besides, as noted by Fareed Zakaria and others, we live in relatively peaceful times, where direct geopolitical confrontation between major powers is largely absent (while economic competition is in full swing).<sup>3</sup>

Taking a comprehensive look at the tensions of the emerging multipolar system and at the demand for cooperation stemming from deepening interdependence, an alternative scenario from sheer multipolarity can be put forward, namely the interpolar world.<sup>4</sup> Interpolarity is multipolarity in the age of existential interdependence. The new interpolar paradigm captures the redistribution of power as well as the centrality of major powers as enablers or spoilers of cooperation, while highlighting that their prosperity and security are interconnected as never before. Interpolarity is interest-based (as it points to the strategic interests of major powers), problem-driven (as it builds on the expanding range of challenges requiring cooperative solutions) and process-oriented (as it requires global governance innovations necessary to devise and implement shared decisions). By adopting the new interpolar paradigm, power and interests are interpreted in ways that fit an interdependent world, exposed to environmental catastrophe.

The EU stands at the crossroads between a multipolar and an interpolar world. Letting the ongoing transition drift towards unbound competition and conflict would be a major strategic failure. The EU can play a decisive role to avert this outcome, build trust and bring about international cooperation. But doing so requires four key steps.

First, formulating a shared analysis of the evolving global context of European integration.<sup>5</sup> As noted above, this is a basis to set, rank and sequence priorities for action. The concept of inter-polarity is a contribution to this exercise. Second, forging an overarching strategic narrative to guide the external action of the Union and explain to EU citizens the purpose of Europe in a changing world. The core of this message should be that the EU aims to promote the security and prosperity of its citizens not only by protecting them, when need be, but also by enhancing the well-being of others around the world. In other words, a positive agenda to spread the values of sustainable human development and human security in cooperative ways, address the real roots of instability and improve access to global public goods.<sup>6</sup>

Third, in a post-hegemonic world where emerging powers assert their interests and profile, investing in truly strategic partnerships with key global and regional actors. That requires fewer

issues on the agenda, a smarter combination of soft and hard power tools and, chiefly, team-playing by EU Member States. Besides, the EU must show leadership in linking bilateral and mini-lateral partnerships with effective cooperation at the multilateral level.<sup>7</sup>

Fourth, matching strategic ambition with strategic policy-making. That means addressing the discrepancy between fragmented institutional competences and complex challenges that ignore these distinctions. Institutional frameworks must

be flexible enough to enable truly joined-up policy making and deliver the required policy mix under clear guidelines. The representation of the Union and of its Member States in international bodies is another issue that will need addressing, as a matter of legitimacy and credibility in the eyes of our partners, including the US. As the Lisbon Treaty enters into force and new structures are set up, institutional design should respond to the strategic priorities of the Union in a world of big powers and deep interdependence.

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#### ENDNOTES

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<sup>1</sup> World Energy Outlook 2009, International Energy Agency, Paris, November 2009, p. 4.

<sup>2</sup> Vladimir Milov, *Russia and the West: the energy factor*, IFRI and CSIS, July 2008, p. 1.

<sup>3</sup> Fareed Zakaria, "The secrets of stability", *Newsweek*, 21 December 2009.

<sup>4</sup> Giovanni Grevi, "The inter-polar world: a new scenario", Occasional Paper 79, EU Institute for Security Studies, Paris, June 2009.

<sup>5</sup> For the first review of the changing international system from an EU perspective, see Nicole Gnesotto and Giovanni Grevi, "The new global puzzle. What world for the EU in 2025?", EU Institute for Security Studies, Paris, October 2006.

<sup>6</sup> For a recent proposal along these lines, see Sven Biscop (ed.), "The value of power, the power of values: a call for an EU grand strategy", Egmont Paper 33, Egmont Institute, Brussels, October 2009.

<sup>7</sup> Giovanni Grevi and Alvaro de Vasconcelos (eds.), "Partnerships for effective multilateralism", Chaillot Paper 109, EU Institute for Security Studies, Paris, May 2008. See also Luis Peral (ed.), "Global security in a multipolar world", Chaillot Paper 118, EU Institute for Security Studies, Paris, October 2009.

### 3 Economic Agenda of the G20 Process going forward A Risk Mitigation Approach to Global Imbalances

By Daniel Gros\*

Global imbalances, the euphemism used to describe the huge deficit of some advanced economies, mainly US, and the huge savings accumulation of surplus emerging economies, mainly China, are about to return in full force.

The US deficit is again increasing (since late 2009) and the surpluses in Asia might also soon turn around. The latest projections from the World Economic Outlook by the IMF suggest that the latter will soon be larger than ever. The usual assumption in projections of international institutions is that of "unchanged policies". When the IMF projects a huge increase in the Chinese (and other Asian) surpluses this is just meant to illustrate what is likely to happen if policy does not change. Given the conflict of interest between China and the US, the G20 has so far been unable to come to any agreement on what should be done to reduce the imbalances. Exchange rate adjustments have so far remained a taboo. Hence this note assumes that the G20 will not be able to agree on any meaningful steps to reduce the imbalances.

If this remains true is there still something useful that could be done at the G20 level?

This note argues that the G20 might still be a useful forum to discuss ways to mitigate the risk emanating from the continuing imbalances. In particular I would argue that one should think about these imbalances not in terms of flows (the current account balances) but in terms of stocks (of assets and liabilities that are been accumulated). This distinction might appear minor at first sight, but it has profound policy implications.

When the US deficit first arose in the early years of the last decade it caused considerable discussion because it seemed counter-intuitive that the richest country in the world should dis-save and its excess consumption be financed by much poorer countries. However, as time went on, the US deficit not only persisted, but increased. Policy makers became used to this constellation, and, given that global growth was satisfactory,

the sense of urgency to address the issue decline over time. The opposite should have happened: as the imbalances persisted the accumulation of risk continued and the scale of the crisis we now experience was due to risks that had been accumulated in the meantime. Hence policy makers should have become more, not less, concerned as the imbalances persisted.

The same seems to be happening now: a quick US recovery, even if it accompanied by an increasing US external deficit seems preferable to the alternative: a weak global economy, but also a lower US deficit. However, with a continuing (and even increasing) US deficit the rest of the world must be accumulating ever more US dollar denominated assets.

At present it seems that most of the accumulation of US assets occurs in Asian central banks. Central banks buy only liquid and safe assets (essentially US Treasury bills and US agency debt). At present there is a natural fit between the huge issuance of US Treasury debt and the continuing reserve accumulation in Asia. But what happens if US public sector deficits are reduced? Then private sector in the US and Europe will again have to invest in risky assets. That might foster a recovery of investment, but it might also lead to the accumulation of risk elsewhere in the system as was experienced during the bubble. It might appear counter-intuitive that a reduction of the US deficit can increase global systemic risk. But something similar happened in the period of 2003-2007 when the Chinese central bank bought up the entire supply of US treasury debt which forced other investors around the world to turn to other, supposedly safe US debt, such as AAA rated mortgage backed securities. This particular market is now dead, but there is strong demand for safe assets all over the world from all those investors who lost out in previous investments. What can these investors buy if Asian central banks again dominate the market for US treasury and agency debt? They will be forced to some other type of security, which will look safe now (e.g. bank bonds?),

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but by driving up the prices of this type of assets a new bubble might emerge, resulting in another bust down the road.

The G20 should thus face up to this conundrum: as long as reserve accumulation continues in emerging Asia (and other EMEs) a sustained reduction in US fiscal deficit could again create pockets of systemic risk in the financial system.

If, as is likely, international reserves keep on being accumulated at a rapid pace during the next decade one should acknowledge that Asian central banks are becoming the largest investors (together with Middle Eastern Sovereign Wealth Funds). Emerging market economies will continue to add over 500 billion USD to their already vast stocks if the IMF projections materialize. However, little is known about the assets held by them. But, if one does not know what assets the biggest investors buy, it is not possible to determine where risk is being accumulated.

Reserve accumulating countries could thus help the reserve system to work better by becoming more transparent. For example, the Central Bank of China (and others) should publish the currency (and maturity) composition of their holdings. There is no reason for keeping these data confidential as these reserves are obviously not needed to defend the Renimbi from a speculative attack. Knowledge of the currency composition would be useful because it would indicate to markets the extent to which there is scope for further diversification away from the US dollar, which should help to stabilize the exchange rate of the euro (against the dollar).

Moreover, precisely because most of these reserves will never be needed to strengthen the home currency there is no reason why these reserves should be held only in the form of US (and some European) government debt. If only half of the Chinese foreign exchange reserves were to be managed as a sovereign fund, instead of being kept in liquid, short term government paper over thousand billion (of USD) would be become available for investment in private sector debt (and equity) which would have a significant impact on the ability of the financial system in the US and Europe to finance a sustained recovery.

In this perspective, the surplus countries can make a significant contribution to a better working of the global reserve system. To the extent they are willing to take some risks by investing in private sector assets, they will contribute to prevent risk overload that led to this crisis.

The global imbalances remain a key issue at the heart of the global economy. Little can apparently be done at the G20 level to address this issue directly. However, it should be possible to agree on some modest measures which can allow the global financial system to finance these imbalances without creating the same excessive risk positions that led to the present crisis. Addressing a symptom is always inferior to addressing the underlying problem. But the second best approach to dealing with the symptom is still better than the third best of continuing imbalances which lead to a renewed accumulation of risk that is not recognised.



## 4 The Copenhagen Climate Summit and its Consequences

By *Claudia Kemfert\**

The Copenhagen climate summit ended in failure. Regrettably, the most important climate conference ended without any concrete results and action plans. Who or what is responsible for this disaster? On the one hand, the conference plainly established that we already have many global difficulties and challenges that divide the planet into North and South, into rich and poor, and into climate-friendly and climate-unfriendly behaviours. The developing countries, on the one side, rightly call for financial support to help them better adapt to climate change. But they also demand financial aid for combating poverty and for increasing prosperity and peace. On the other hand, it must be recognised that the industrialised countries are the main perpetrators and thus the parties responsible for combating climate change. They consequently have an obligation to provide support for adaptation to climate change. The numerous negotiations before and during the climate conference in Copenhagen have made clear that it is not possible to solve all the world's problems at a single blow.

It is now time to ask ourselves whether the fundamental construct of consensual resolution within the framework of UN climate change conferences is at all suited to defining both climate protection and adaptation to climate change and to prescribing the two obligatorily. It would probably make more sense if in the future separate approaches were taken to dealing with and compulsorily prescribing two distinct problem areas: climate protection and adaptation to climate change. The countries mainly responsible for climate change, i.e. the industrialised countries and emerging economies such as China, are responsible for climate protection in the form of greenhouse-gas emission reductions. Mandatory emission reduction targets should thus be defined and laid down in legally binding form within the framework of the G20 summits. In Copenhagen, the main countries, such as the USA and to an extent China, Europe, and Japan, almost agreed on concrete steps for climate protection. They were at least able to agree on preliminary important steps towards greenhouse-gas reductions. Compliance with this agreement should be prescribed for these countries in a legally binding document.

The UN climate conferences and negotiations would then mainly concern the question of better adaptation to climate change and thus the needs of the developing countries. The developing countries rightly seek financial support for adapting to climate change. The poorest of the poor countries suffer most from the consequences of climate change and, if given financial support, could actively contribute to preventing the worst effects, whether by means of dyke construction, the implementation of water management systems or assistance with agricultural cultivation. While it is true that the developing countries are only rarely responsible for climate change, these countries can nonetheless also contribute to climate protection through the prevention of forest clearing and burning, the conservation of precious natural resources, and the improvement not only of prosperity but also of the climate itself by means of improved agricultural methods.

The advantage of such an approach would also be that cost-efficient climate protection instruments such as emissions trading could still be employed. Many economists would like to see all countries – industrialised and emerging economies and developing countries alike – participating in emissions trading. However, a solution of this kind will unfortunately always founder on the resistance of the industrialised countries, who wish to prevent the developing countries obtaining proceeds through the sale of emission allowances that are then not necessarily used for climate protection.

The failure of Copenhagen is first and foremost a failure of the global instruments for climate protection, and especially of global emissions trading. Let it be said at this point to those economists that perennially recommend to politicians only this one solution as the cure-all answer, that in the near future this will probably be the most unlikely way out of the problem. After all, every country wants first and foremost to decide independently whether and how it will pursue climate protection. Effective climate protection is nonetheless affordable. Energy saving and the improvement of energy efficiency both reduce the pressure on national economies. Invest-

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ment in climate protection technology not only creates a competitive advantage, but is also the right way out of the financial crisis. In economic terms, these investments increase growth and prosperity – unlike the defrayal of damages caused by climate change, which is detracted from national accounts as a “sunk cost”. Another lesson of Copenhagen is the evidence that the race for green markets has already begun and that nobody is willing to relinquish a share of the pie. This is a further reason why Copenhagen failed. Thus, every country is now on its own to establish and implement the appropriate climate protection instruments.

Europe, at least, would be well advised not to abandon its current course. Oil, especially, will become more scarce over the next decade and, in particular, will become more expensive. The improvement of energy efficiency can massively reduce the burden on the European economy! The European economy, and especially the German economy, can benefit like no other from the boom in the renewable energy sector, but can also continue to expand world market potential, through the enhancement of energy efficiency and the development of innovative power plant and power transmission technologies, also in the areas of mobility and the classical environmental protection sectors such as waste processing, recycling, and water purification. For the Copenhagen summit also showed that countries such as China and the USA have entered the competition for green markets. These two countries are going to invest heavily in these markets, even or especially without a Copenhagen agreement. And this is exactly where the economy can benefit. Up to one million new jobs are possible in Germany alone in these areas over the next ten years.

It would be profoundly wrong if enterprises were to wait for global climate protection targets. Acting now is the only way to turn things around and manage to prevent the worst consequences of climate change. Enterprises are already being assessed in accordance with their medium- to long-term goals and a sustainable approach to energy and the environment. In addition to actual climate protection, enterprises are also assessed in relation to social responsibility and ethical corporate management. Enterprises, that take on the main challenges of climate protection and adopt sustainable use of energy and resources, will have an extra edge in the market economy

because investors – especially following their recent negative experiences on the financial markets – will be taking a closer look at where their money is going. Enterprises, that already opt today for sustainable energy sources and climate protection, will emerge stronger from the crisis. Enterprises that get involved in the new areas of business in good time will be considered particularly attractive by investors. The markets belong to those who see them.

However, it is also important that policymakers smooth the course towards an energy-efficient, sustainable and climate-friendly economic world. Renewable energies must be further fostered and financial incentives for energy saving must be created. There are undreamed-of potentials for energy saving in the building sector. The right signals can be established here through targeted financial support, tax savings and improved possibilities for property owners to pass on costs. In the area of mobility, too, there is much that can be improved: rail traffic and short-distance public transport must be strongly supported, air traffic must be included in emissions trading schemes, and the German car sector must be rendered fit for the future. Instead of paying scrappage premiums for old cars, car companies should be given more direct financial aid for the introduction of innovative and climate-friendly products and fuels to the market.

Climate protection is the way out of the crisis. Climate protection is a driving force behind the economy and it creates jobs, be it in the area of low-emission energy technologies and energy production, as demonstrated by the renewable energy sector, or in sustainable mobility, climate protection technology, and energy and financial services. All of these sectors will profit or are already profiting from climate protection today.

We should not wait for a global deal which solves all problems in one go. We need to start now. Climate protection and a secure energy supply are compatible goals! Climate protection is the economic engine of the coming decades! Instead of falling into climate depression, we can thus view the future with great optimism if we take determined action. Climate protection is not a burden but the driving economic force of the future. Climate protection is the way out of the crisis, for it allows us to kill three crises with one stone: the economic crisis, the energy crisis and the climate crisis, too.

## 5 Facts and figures that matters

By Alina Ujupan

### Patterns of aid allocation to the less developed world

The European Union is the largest world donor, providing 55% of the world aid. Although important and necessary, the amount of aid per se is not a guarantee that its allocation is carried out efficiently. Aid effectiveness depends very much on the way in which foreign aid is provided and distributed to the people it is intended to. The objective of a recent OECD Working Paper<sup>1</sup> by E. Front and J. Santiso is to measure and compare aid fragmentation, target sectors and patterns of implementation. Its main conclusions are presented below.

The first trend underlined in the paper is the dramatic shift of allocation from economic (transport, communication, energy, and banking) and production (agriculture, forestry, fishing, industry, mining, construction, trade, and tourism) sectors to social areas (health, education, population, water supply, government, and conflict prevention) (Fig. 1). The redirection of aid to new sectors since the early 1990s reveals a change in donors' investment priorities. One of the explanations for this gradual shift is the low-efficiency rate of investment in infrastructure. Although infrastructure has already been built in least developed areas, maintenance is scarce and do not often meet international standards.

As regards donors, aid is more fragmented than in previous decades (Fig 2).<sup>2</sup> Small scale projects in the social sector are more likely to grow in quantity than large infrastructure projects. As a consequence, due to its high degree of aid fragmentation, social sector implementation calls for better coordination between stakeholders than was the case for past large aid projects. Fragmentation up to a certain level is a necessary feature of aid implementation, as it avoids monopoly in aid disbursements and favours competition for projects. On the other hand, too much fragmentation risks leading to lack of coherence and increased transaction costs that decrease aid efficiency. On the recipient side, fragmentation is understood as the number of donors that account for less than 10% of total aid provided to a recipient country. The education sector is the most fragmented from a recipient point of view,

with an average of 10 donors and 56% of them distributing less than 10% of aid.

Finally, the paper examines which country characteristics are linked to fragmentation in recipient countries, defined as the number of donors representing collectively less than 10% of total aid. The study endeavours to test the link with variables such as the influence of GDP per capita, population and democracy. Out of these, democracy<sup>3</sup> in recipient countries seems to have no influence. However, GDP positively influences the degree of fragmentation of aid (Fig. 3). The positive effect of GDP translates into the fact that, for a given number of donors, richer countries are more fragmented than poorer ones. In addition, countries tend to have the same level of fragmentation if they have the same number of donors, regardless of their democracy scores.

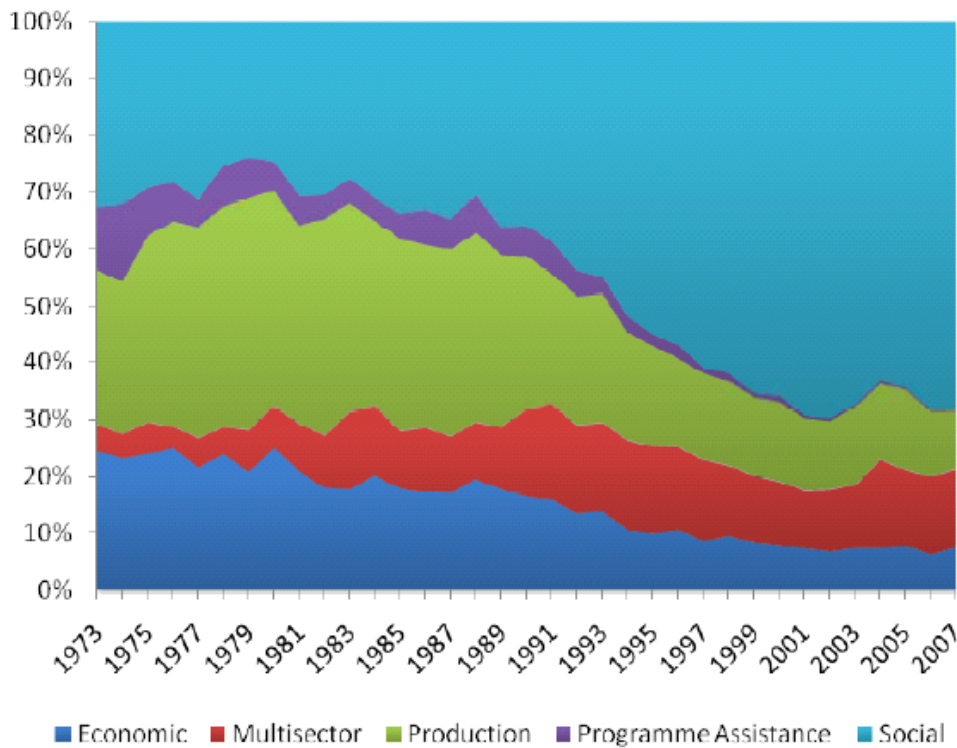
### ENDNOTES

<sup>1</sup> Front, E. and J. Santiso, "Crushed Aid: Fragmentation in Sectoral Aid", OECD Development Centre, Working Paper No. 284, January 2010.

<sup>2</sup> Fragmentation on the donor side is understood as the percentage of projects that are significant relative to all partnerships, projects are "significant" when in a recipient-sector-year a donor's share of aid is larger than its share at the global level

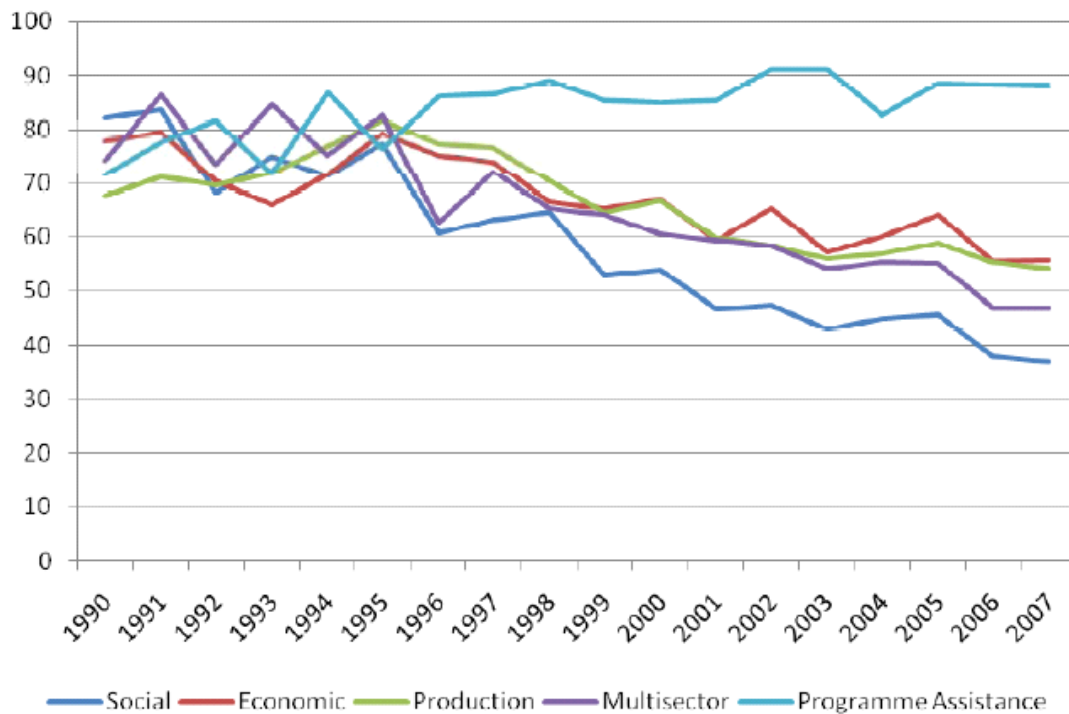
<sup>3</sup> The democracy level is proxied by the polity2 variable of the Polity IV dataset "Polity IV Project: Political Regime Characteristics and Transitions, 1800-2008", George Mason University and Colorado State University; <http://www.systemicpeace.org/polity/>

Figure 1: Project sector repartition, 1973-2007, commitment data



Source: Fort & Santiso (2010); based on OECD DAC data, 2009.

Figure 2: Average donor fragmentation per sector, 1990-2007, disbursement data



Source: Fort & Santiso (2010); based on OECD DAC data, 2009

**Figure 3: Country-sector fragmentation determinants in recipient countries**

(dependent variable: fragmentation = number of donors representing collectively less than 10% of total aid)

	All years				After 2003			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
GDP per capita	-0.15*** (0.032)	-0.18*** (0.034)	0.025*** (0.0057)	0.023*** (0.0057)	-0.25*** (0.049)	-0.30*** (0.055)	0.037*** (0.012)	0.031** (0.012)
Population	0.0028*** (0.00034)	0.0029*** (0.00033)	0.00049*** (0.000098)	0.00049*** (0.00010)	0.0052*** (0.00061)	0.0053*** (0.00063)	0.0010*** (0.00017)	0.0011*** (0.00018)
Democracy	0.033*** (0.010)		0.00095 (0.0026)		0.074*** (0.019)		0.0010 (0.0053)	
Number of donors			0.62*** (0.0090)	0.62*** (0.010)			0.64*** (0.0089)	0.63*** (0.012)
Observations	23772	23772	23772	23772	7692	7692	7692	7692
R <sup>2</sup>	0.387	0.528	0.910	0.912	0.129	0.511	0.890	0.897

*Source: Fort & Santiso (2010); based on OECD DAC data, 2009*

Notes: Standard errors clustered at the country level in parentheses. Sector and year fixed effects included in all the regressions. \*p<0.10, \*\*p<0.05, \*\*\*p<0.01

## 6 What Citizens Say

By Anna Melich

### Les Espagnols se prononcent sur leur vie et sur l'Union européenne

A quelques semaines du début de la Présidence espagnole de l'UE, le Centro de Investigaciones Sociológicas (CIS) a dédié son baromètre de novembre 2009<sup>1</sup> à sonder les sentiments et les opinions des Espagnols à l'égard de l'UE, ainsi qu'à mesurer leurs préoccupations principales du moment, comme lors de chaque baromètre mensuel.

Dans le cadre actuel de crise économique, il n'est pas étonnant que la grande majorité des interviewés (78%; +5 par rapport à octobre 2009) soient préoccupés par le "chômage" ou par des "problèmes à caractère économique" (45.9% ; -14 par rapport à juillet). Par contre, il est moins habituel que "la classe politique/les partis politiques" arrivent en troisième place (16.6%) dans la liste des préoccupations d'un pays (Tableau 1). C'est justement l'indicateur de confiance dans la situation politique actuelle qui a le plus diminué (-19.1) entre décembre 2008 et décembre 2009 (Tableau 2). D'ailleurs, dans son baromètre d'automne 2009, l'Institut de Ciències Polítiques i Socials de Barcelone (ICPS) parvient à des résultats très semblables pour la Catalogne.<sup>2</sup> Dans ce sondage, les personnes les plus cultivées et avec le plus de satisfaction personnelle sont les plus mécontentes du "fonctionnement de notre démocratie". Il ne s'agit pas là des électeurs de la droite conservatrice, mais des électeurs Verts et du parti de gauche indépendantiste catalane (ERC).

En ce qui concerne l'Europe, seuls 32% des Espagnols se considèrent très ou assez informés à son sujet et plus de la moitié (52%) ignorent que l'Espagne présidera l'UE pendant le premier semestre de 2010. Malgré tout, 58% croient que la présidence espagnole aura des effets positifs sur le pays (Tableau 3).

Le soutien des Espagnols à l'appartenance de leur pays à l'UE s'est quelque peu adouci ces derniers temps mais reste très haut. 71% sont très ou assez ou quelque peu en faveur de cette appartenance. Politiquement, le soutien à l'UE ne se différencie pas trop entre électeurs des partis "nationaux" lors des dernières élections, mais il est un peu plus bas au sein des électeurs de Convergència i Unió, parti nationaliste catalan

(Tableau 4). Aussi, un Espagnol sur deux croit que si l'Espagne n'appartenait pas à l'UE les choses iraient beaucoup moins bien que maintenant dans le pays (Tableau 5).

Malgré ce soutien, seuls 24% des interviewés considèrent que leur gouvernement défend convenablement les intérêts de l'Espagne devant l'UE et 30% pensent le contraire. Aussi, 20% pensent que le gouvernement espagnol a une grande ou une assez grande influence sur les décisions que l'on prend au sein de l'UE, mais 70% estiment que cette influence est petite ou nulle (Tableau 6), tout en reconnaissant que ces décisions influencent grandement (72% beaucoup ou assez) la vie quotidienne des espagnols (Tableau 7). 32% croient que l'Espagne est un contributeur net au budget de l'UE (Tableau 8).

Les opinions sont très partagées quand à savoir si les politiques de l'Union européenne contribuent à diminuer les inégalités de richesse et de développement entre les divers pays qui la composent (40%) ou que ses politiques ne bénéficient qu'aux pays riches (41%) (Tableau 9).

### ENDNOTES

<sup>1</sup> [http://www.cis.es/cis/opencms/FR/Novedades/Documentacion\\_2820.html](http://www.cis.es/cis/opencms/FR/Novedades/Documentacion_2820.html)

<sup>2</sup> <http://www.icps.es/archivos/sondeigs/SC2009.pdf>

Tableau 1

Quel est le problème principal qui se pose en Espagne aujourd'hui ? Et le deuxième, et le troisième ? (Spontané)

Le chômage	78.4
Les drogues	1.2
L'insécurité	11.4
Le terrorisme, ETA	13.1
Les infrastructures	0.4
La sécurité sociale	5.6
Le logement	10.3
Les problèmes économiques	45.9
Les problèmes en rapport avec la qualité de l'emploi	2.8
Les problèmes de l'agriculture, l'élevage et la pêche	0.7
La corruption et la fraude	10.4
Les pensions	2.0
La classe politique, les partis politiques	16.6
Les guerres en général	0.2
L'administration de la Justice	2.3
Les problèmes sociaux	3.6
Le racisme	0.1
L'immigration	13.7
La violence de genre	1.5
Les problèmes en rapport avec les jeunes	1.5
La crise des valeurs	2.2
L'éducation	5.9
Les problèmes de l'environnement	0.9
Le Gouvernement, les politiques et les partis	3.6
Le fonctionnement des services publics	0.7
Les problèmes en rapport avec la femme	0.1
Les préoccupations et situations personnelles	0.1
Le statut de la Catalogne	0.2
Autres	0.2
Aucun	2.7
N.S.P	1.1
N.R.	0.7
(N)	(2490)

Tableau 2 : Indicateurs mensuels

	Indicateur	Taux antérieur (%)	Taux du même mois de l'année antérieure (%)
Indicateur de confiance économique	36.1	3.7	22.8
Indicateur de la situation économique présente	24.5	2.5	-9.9
Indicateur des attentes économiques	47.7	4.6	50.9
Indicateur de confiance politique	37.6	3.9	-7.4
Indicateur de la situation politique présente	31.3	7.9	-19.1
Indicateur des attentes politiques	43.9	1.2	3.1
Auto-placement idéologique moyen	4.77	0.6	0.2

Source: Baromètre CIS de décembre 2009

Tableau 3 : Selon vous, la présidence espagnole de l'UE aura des effets positifs ou négatifs pour notre pays ?

Positifs	57.7
Négatifs	11.3
Ni positifs ni négatifs (NE PAS LIRE)	13.7
N.S.P.	16.7
N.R.	0.6
(N)	(2490)

Tableau 4 : En ce moment, et en termes généraux, quelle est votre attitude envers l'Union européenne ? Etes-vous très en faveur, assez en faveur, un peu en faveur, un peu contre, assez contre ou très contre l'Union européenne ?

	TOTAL		Rappel du vote lors des élections législatives de 2005								
	PSOE	PP	IU/ICV	CiU	Autres	N'avait pas l'âge	En blanc	N'a pas voté	Ne se rappelle pas	N.C.	
Très en faveur	9.6	11.1	10.3	8.5	12.9	12.6	0.0	12.5	6.0	4.2	10.3
Assez en faveur	36.3	40.3	38.5	37.8	35.7	36.1	36.2	43.8	29.3	20.6	33.8
Un peu en faveur	24.8	23.1	25.9	29.3	22.6	30.3	38.3	12.5	23.4	31.3	26.0
Ni en faveur ni contre (NE PAS LIRE)	15.5	11.3	14.6	7.3	9.7	8.4	8.5	20.3	25.1	27.1	16.3
Un peu contre	5.2	5.4	5.3	6.1	6.5	4.2	8.5	1.6	5.6	0.0	4.8
Assez contre	3.1	2.5	2.1	3.7	6.5	4.2	0.0	4.7	4.6	2.1	2.4
Très contre	1.3	1.0	0.6	3.7	3.2	0.8	0.0	4.7	4.6	2.1	2.4
N.S.P.	4.0	4.9	2.1	3.7	0.0	3.4	8.5	3.1	3.3	12.5	4.5
N.R.	0.3	0.0	0.6	0.0	0.0	0.0	0.0	1.6	0.4	2.1	0.3
(N)	(2490)	(772)	(514)	(82)	(31)	(119)	(47)	(64)	(482)	(48)	(331)



Tableau 5 : Si l'Espagne n'appartenait pas à l'Union européenne, comment croyez-vous que les choses iraient pour nous ? Mieux, égal ou pire que maintenant ?

Mieux	14.5
Egal	19.7
Pire	50.3
N.S.P.	15.4
N.R.	0.2
(N)	(2490)

Tableau 6 : Croyez-vous que l'Espagne a beaucoup d'influence, assez d'influence, peu d'influence ou aucune influence sur les décisions qui se prennent au sein de l'Union européenne ?

Beaucoup	1.4
Assez	19.0
Peu	56.8
Aucune	13.0
N.S.P.	9.5
N.R.	0.3
(N)	(2490)

Tableau 7

Jusqu'à quel point croyez-vous que les décisions qui se prennent au sein de l'Union européenne affectent la vie des Espagnols : beaucoup, assez, peu ou pas du tout ?

Beaucoup	21.3
Assez	50.3
Peu	18.4
Pas du tout	2.3
N.S.P.	7.3
N.R.	0.4
(N)	(2490)

Tableau 8 : Dans l'ensemble, pensez-vous que l'Espagne reçoit du budget de l'Union européenne moins que ce qu'elle y apporte ou plus que ce qu'elle y apporte ? ou qu'elle reçoit plus ou moins la même chose ?

L'Espagne reçoit de l'UE moins que ce qu'elle y apporte	32.1
L'Espagne reçoit plus de l'UE que ce qu'elle y apporte	26.3
L'Espagne reçoit plus au moins la même chose de l'UE que ce qu'elle y apporte (NE PAS LIRE)	10.3
N.S.P.	30.8
N.R.	0.5
(N)	(2490)

Tableau 9 : Comme vous le savez, il y a des différences de niveau de richesse et de degré de développement entre les différents pays qui intègrent l'Union européenne. Selon vous, est-ce que les politiques de l'UE contribuent à diminuer ces inégalités ou, au contraire, privilégient plus les pays riches ?

Contribuent à diminuer ces inégalités	40.2
Privilégient plus les pays riches	41.0
N.S.P.	17.9
N.R.	0.8
(N)	(2490)

## 7 What Others Say

*By Pierre Dechamps et Luca Marcolin*

Synthesis of the article:

D. Acemoglu, P. Aghion, L. Bursztyn, D. Hemous, "The environment and directed technical change", NBER WP 15451, October 2009

This paper investigates the impact of green innovation on a country's growth rate under the assumption that future production technologies depend on current ones. It also explores the possibility for the policy maker to direct technological change towards clean production processes.

Results are presented for an economy which produces one final good starting from two inputs, only one of which exploits environmental-friendly technologies. The dirty technology, however, is initially cheaper to exploit and more productive. Consequently innovation, which can in principle target either input sectors, concentrates on the polluting production if the policy maker does not intervene. The productivity of this technology thus increases, leading to further concentration of resources and research on the same sector. In the long run, if growth is positive, the economy heads towards environmental disaster.

Public intervention can avoid such outcome. Optimal fiscal policy, by increasing the cost of polluting production, can direct innovation towards green technologies. In the case where public intervention is most effective, that is to say when the two inputs can be perfectly substituted one with the other, environmental safety does not require sacrifices in terms of long run growth. Action, however, should be immediate, as the pace of environmental deterioration increases with the delay in public intervention. On the other hand, the intensity of production in exhaustible resources for the polluting input makes it easier to revert to clean production, as the progressive depletion of the resources increases their prices and reduces the profitability of dirty technologies. These features of the model provide an additional argument in the Nordhaus vs Stern

debate over public intervention to prevent environmental disaster, the former calling for limited and gradual intervention, the latter for permanent and immediate steps necessarily leading to a reduction in long-run growth.

According to the model, optimal fiscal policy should take place in the form of both a carbon-tax (or cap&trade system, treated equivalently in the model) and subsidies to green R&D, where the tax reduces emissions and the subsidies direct innovation towards the desirable technologies. Although a carbon-tax by itself would also discourage research in the polluting sector, the cost of such policy in terms of current consumption is excessive. An additional appealing feature of the model is the possibility for public intervention to be temporary and reducing over time. As soon as clean technologies have gained sufficient productivity advantage over dirty ones, market forces alone suffice to direct further investment towards clean production. However, the longer intervention is delayed, the longer it needs to be implemented.

Finally, the article analyses the implications of the model when more than one country is involved in the production of the final good. This condition is represented by dividing the world into a Northern, more technologically advanced region, and a Southern one. In the absence of global policy coordination, public intervention in the North alone may lead to concentrate innovation on the clean input sector at the global level. Indeed, once the North has achieved a sufficient improvement in green productivity, it becomes profitable for the South to imitate the North. In this setting, openness to trade increases the risk of production leakage from North to South, thus undermining the environmental sustainability of unilateral intervention. The North should therefore provide the South with cheap, up-to-date technologies unless carbon tariffs on imports from the South are implemented.