

# Regional Science Inquiry



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## **Regional Science Inquiry, Vol. VIII, (2), Special Issue 2016**

### **Editorial**

Geo-politics could be regarded as a macro-scale regional analysis, focusing on spatial issues, socio-economic parameters and political economy. It would not be overstatement that geo-politics is a pass from policy-making to the so-called “history-shaping”. In the current issue, a great variety of approaches to geo-politics are presented.

George VOSKOPOULOS (University of Macedonia) analyzed situational, cognitive, spatial and time-specific dimensions of conflicts, emphasizing their multilayer and inter-party nature. Re-shaping and/or reformulating negative input is presented as a focal point of conflict management. The model of non-zero-sum games and the adoption of workable stands are regarded as theoretical and practical axes in combination with cognitive attitudes, behavioral changes and re-evaluation processes. The complexity of situations and the time limitation are also pointed out as decisive parameters.

The Mazis’s research is insightfully analyzed by the Ioannis KOTOULAS (University of Athens). This research is presented as a fundamental Systemic Geopolitical Analysis of international academic impact. This model considers various aspects of International Relations. In this paper, geopolitical orientation of states/empires and the definition of main axes of geopolitical influence are discussed in this review paper.

Ioannis MAZIS and Ioannis SOTIROPOULOS (University of Athens) explored the critical role of energy as a geo-political factor, focusing on the Greek-Cyprus-Israeli geostrategic conjunction at political, diplomatic, economic and military level. Theoretically, discovering and using the hydrocarbon neo-reserves within the Greek, Cypriot and Israeli consecutive Exclusive Economic Zones is regarded as the dynamic catalyst of this alliance. Practically, the construction of the East Mediterranean Pipeline is of the outmost significance, signaling EU’s gradual disengagement from the dependence on the Russian natural gas. Despite Ankara’s attempt for rapprochement with Jerusalem, the official Israeli position heavily leans towards an Israel-Greek-Cypriot strategic alignment.

Elena NIKOLAEVNA ZAKHAROVA, Elena EVGENYEVNA KARDAVA, Rita RAFAELOVNA AVANESOVA and Elena PETROVNA AVRAMENKO, (Branch Adygeya State University in Belorechensk) explore the issue of the regional economic capacity on the basis of the foresight, using Adygea region, Russia, as an illustration. The role of events in Ukraine, the sanctions of the West, the oil prices reduction and the decline in the ruble are regarded as decisive. They aim at describing a technology of foreseeing and identifying the most promising points of regional capacity. A analysis of economic, natural, innovative, and information- technological capacity of the region is considered to be necessary. The article reviews the methods of foresight. Uncertainty factors and trends of socio-economic changes are taken into account. The foresight is expected to enable social partnership of government, business and social community in order to better exploit opportunities.

Jose G. VARGAS-HERNANDEZ and Michelle Angeles PEREZ MARTINEZ (University of Guadalajara) explore the issue of mergers and acquisition strategies as market entry modes in new countries, studying the case of Alsea Group (operation of restaurants in Mexico, Latin America and Spain). Practices and effectiveness are discussed. The parameters of the corporate governance and social responsibility as well as the basic idea of sustainability and human resources development are considered.

Arzu TEKTAS, Asli Deniz HELVACIOGLOU (Bogazici University) and Abdulmecit KARATAS (Istanbul Development Agency) discussed the multi-dimensional challenge of integrating socio-spatial and macro-economic parameters, focusing on election studies.

They refer to the recently published European Union Regional Social Progress Index and try to suggest an empirical model explaining the election results. They conclude that social parameters seem to have explanatory value equal to the economic ones.

On behalf of the Editorial Board,  
Nikolas Hasanagas  
Maria Goula





## **Articles**



## ALTERNATIVE COURSES TO CONFLICT MANAGEMENT: SITUATIONAL, COGNITIVE, SPACE AND TIME DIMENSIONS

**George VOSKOPOULOS**

Associate Professor of European Studies, Head of the Department of International and European  
Studies, University of Macedonia  
gvoskop@uom.edu.gr

### **Abstract**

Conflict management involves a multilayer, inter-party, action-reaction process in order to eradicate or deal with friction within specific space and time environments and dimensions. In theoretical and practical terms it aims at reshaping or reformulating negative input and eventually turning it into positive or manageable ones. The process is nominally going to produce non-zero-sum games and allow parties to adopt workable stands, positions and cognitive attitudes through among, other things, behavior changes and cognitive re-evaluations. Conflict management demands action in a complex situation most often within a limited time dimension. As set by a number of scholars in the past the aim is not to seek a perfect solution but a workable solution and this is of paramount importance.

**Keywords:** conflict, conflict resolution strategies, conflict dimensions

**JEL classification:**

### **Defining a conflict situation**

Defining descriptively, cognitively and situationally the term conflict is important but also painstaking. It will allow negotiators / mediators to scrutinize the operational, situational<sup>1</sup> and cognitive elements of a conflictual situation. At the same time it will be evident that an accurate description of conflict is at times difficult<sup>2</sup> and may simply provide an oversimplified approach.

A situational definition “emphasizes the conditions that breed disagreement”<sup>3</sup>, thus looking into the specific situational and cognitive conditions and cognitive elements that produce conflict. A cognitive based definition focuses on perceptions and feelings arising in a conflictual situation, such as stereotypes, hostility and antagonism<sup>4</sup>. By contrast behavioral-based definitions focus on “resistance” or “overt aggression”<sup>5</sup>. Conflict is inherent, inter alia, to human activities, inter-personal interaction and inter-state relations in situations where incompatibility of interests and/or values is present and affects choices by limiting alternatives. It is also endemic in international relations<sup>6</sup> and defines qualitatively state relations, thus setting state choices between a spectrum of war and peace, cooperation and conflict.

In these situations perceptions and misperceptions along with expectations provide an evaluation and cognitive framework of scrutinizing the other side’s intentions, particularly within an organization setting<sup>7</sup>. One of the main axes of looking into a conflict is the degree

<sup>1</sup> See Beehr, Terry A. (1995) *Psychological stress in the workplace*, London: Routledge.

<sup>2</sup> Definition of conflict, *Journal of Organizational Behavior*, Vol. 13, pp. 265-274 (1992) Conflict and conflict management: Reflections and update Kenneth W. Thomas.

<sup>3</sup> See Brown D. L. (1983), *Managing conflict at organizational interfaces*, Reading, Mass.: Addison-Wesley, p. 4.

<sup>4</sup> Ibid.

<sup>5</sup> See Pondy L. R. (1967), “Organizational conflict: concepts and models”, *Administrative Science Quarterly* 12:2, pp. 296-320.

<sup>6</sup> For a theoretical framework of analysis see Schellenberg A. James (1996), *Conflict Resolution: theory, research, and practice*, New York: State University of New York Press.

<sup>7</sup> See Bomers B. G. & Peterson B. Richard (1983), *Conflict Management and Industrial Relations*, The Hague: Kluwer-Nijhoff Pub.

of incompatibility of views<sup>8</sup> and the environment(s) it evolves. These are crucial intermingling spatial and time factors that will define communication potential<sup>9</sup> and above all eventual outcomes.

The variety of suggested definitions of conflict proves the differentiation axis along which conflict and its evolutionary stages<sup>10</sup> is scrutinized. These space milieus produce conflicts that involve some form of interaction<sup>11</sup>. Alternative definitions define conflict as a “process in which one party perceives that its interests are being opposed or negatively affected by another party”<sup>12</sup> or “the interactive process manifested in incompatibility, disagreement, or dissonance within or between social entities”<sup>13</sup>.

### **Conflict in a corporate environment**

Due to human interaction conflict is inherent in a business environment<sup>14</sup> where attitudes differ as far as courses of action are concerned. In cases related to organizational conflict<sup>15</sup> the task of dealing with incompatibilities and divergence of views<sup>16</sup> is great and demands clarification of conflicting attitudes and communication skills. Unless it is under control it may critically affect or even threaten the very operating mode of a business<sup>17</sup> or the outcome of a selection process<sup>18</sup> due to diverging views operating as centrifugal powers.

In many cases the dichotomy between “me” and “them” or “us” and “them”<sup>19</sup> reveals the setting of the situational burden a mediator has to take. It requests the application of negotiating strategies on the part of dispute resolution practitioners<sup>20</sup> and their deep understanding of the issues at hand. These may be of substance but they may also constitute plain incompatibilities based on mis-perceived goals and courses of action. Under this spectrum a deal on a minor issue may open up options for a general accord (the piecemeal approach).

### **Causes of conflict**

Causes of conflict may differ and apply to varying situational behaviour of individual or teams. At the epicentre of all these forms of conflicts lay differences in preferences, choices,

<sup>8</sup> For a practical approach based on psychology see Kirschner Rick (1987), *How to deal with difficult people*, Career Track Publications.

<sup>9</sup> See Borisoff Deborah & Victor A. David (1997), *Conflict Management: a communication skills approach*, Pearson.

<sup>10</sup> See Likert, Rensis (1976), *New Ways of Managing Conflict*, McGraw-Hill

<sup>11</sup> See Putnam, L. L., & Poole, M. S., Conflict and Negotiation in F. M. Jablin, L. L. Putnam, K. H. Roberts, & L. W. Porter (eds), *Handbook of Organizational Communication*, Newbury Park, CA: Sage, 1987, pp. 549 - 599.

<sup>12</sup> See Wall, J. A., Jr., & Callister, R. R., “Conflict and its management, *Journal of Management*, 21, 1995, p. 517

<sup>13</sup> See Rahim, M. A. (1992), *Managing conflict in organizations* (2nd ed.), Westport, CT: Praeger, p. 16.

<sup>14</sup> See Eric Rhenman, Lennart Strömberg, Gunnar Westerlund (1970), *Conflict and Co-operation in Business Organizations*, Wiley-Interscience.

<sup>15</sup> For these cases see indicatively L. David Brown (1984), *Managing conflict at organizational interfaces*, Reading, Mass.: Addison-Wesley, 1983. Also Robert Rogers Blake, Jane S. Mouton, *Solving Costly Organizational Conflicts*, Jossey-Bass.

<sup>16</sup> For an analysis of inter-personal conflict see Robert Rogers Blake, Jane S. Mouton (1984), *Solving costly organizational conflicts*, Jossey-Bass

<sup>17</sup> For a full analysis see Lang, M., “Conflict management: a gap in business education curricula;”, *Journal of Education for Business*, 84(4), 2009, p. 240.

<sup>18</sup> See Managing public disputes: a practical guide to handling conflict and reaching agreements, Jossey-Bass, Incorporated Publishers, 1988

<sup>19</sup> See Robert Rogers Blake, Jane S. Mouton, *Solving costly organizational conflicts*, op., cit., p. 137.

<sup>20</sup> For an analysis of conflict in international relations see Roger Fisher, Elizabeth Kopelman, Andrea Kupfer Schneider (1996), *Beyond Machiavelli: tools for coping with conflict*, Penguin Books.

alternative courses of action, resources<sup>21</sup>, means to be used, implementation of policies, divergent interests, conflicting needs, stereotypes or when the parties involved are interdependent in performing their duties<sup>22</sup>.

In organizational environments conflict may affect effectiveness and productivity as well as team operational mode<sup>23</sup>. Under conflict circumstances individual and team behavior constitute major impediments to organizational efficiency. In these cases leadership and managerial efficiency is tantamount in providing solutions and reaching agreements.

Managing a conflict means producing desired outcomes and sustainable solutions under time pressure. The mediator's skills are essential to this goal. In situations where states are involved mediators are expected to have deep knowledge of the opposing views of those involved, as they express opposing wills. What is common in several aspects of conflict is ambiguity. This refers to the cognitive elements of formulating views and approaches. Ambiguity may operate as a procrastination, mis-perception and/or distortion factor. Procrastination in making choices and meeting the other side halfway or distortion of the other side's intentions constitutes a major setback to conflict management and avoidance of escalation.

The mediator wishes to affect "not what those involved say but what they think"<sup>24</sup> in an effort to affect evaluative judgements. In effect this implies a cognitive or perceptual involvement. These mediating "activities" are "investments in attitude, values and perceptions"<sup>25</sup>, eliminating mis-perceptions and building bridges of understanding. The aim is to make those involved change their mind "with regard to what they have done or threatening to do"<sup>26</sup>.

On its part a negotiator is trying to get the best results under the particular pressing circumstances and cognitive limitations. This is often evident in international relations conflict management efforts. In many cases efforts are made to start negotiating a small agreement, where nominally consensus can be found more easily. This practice has a number of pros and cons mostly but not exclusively found in many aspects of inter-state conflict. Pros can be summarized as follows:

It sets a limited objective first, which is easier to achieve due to its nominal lesser value to those involved. In a way the starting point is decisive for the rest of the process, as it might critically affect future outcomes.

In inter-state relations step by step negotiations may help to avoid escalation and eventually a warring conflict. This approach is based on the rational assumption that countries don't go to war over small, trivial issues<sup>27</sup> but instead they clash over vital, non-negotiable interests or when their survival is at stake.

Once the first step is successful, it will provide a starting point from where the parties will depart towards efficient conflict management, yet, without guaranteeing that resolution is at hand.

- a. It helps find what there is in the realm of possible, viable and thus directly or indirectly define feasibility and managerial utopia.

<sup>21</sup> This is often the case in inter-service rivalry and armaments where competition over scarce resources is acute and may affect the inter-operability ratio of the Armed Forces.

<sup>22</sup> See Rahim, M. A., "Toward a theory of managing organizational conflict", *The International Journal of Conflict Management*, 13, 2002, p. 207

<sup>23</sup> For an analysis based on personality attributes see Brent W. Roberts & Robert Hogan (eds.), *Personality Psychology in the Workplace*, American Psychological Association, Washington, 2002. As suggested "personality psychology concerns the nature of human nature – it is a view of human performance from a very broad vantage point", p. 3.

<sup>24</sup> See Roger Fisher (1971), *Basic negotiating strategy: international conflict for beginners*, Allen Lane, p. 22.

<sup>25</sup> Ibid, p. 22

<sup>26</sup> Ibid, p. 23

<sup>27</sup> Ibid

- b. An agreement on a trivial matter may alter the stakeholders' perceptions and eventually their choices, thus providing eufunctional input into the conflict equation.
- c. It buys valuable and crucial time until the right "timing" comes for an overall agreement. This presupposes situational and cognitive prerequisites.
- d. In inter-state relations and in case of war it may lead to a temporary cease-fire and thus provide valuable time for negotiation and de-escalation.
- e. A potential agreement may be taken as a promise or alternatively operate as a commitment. In many cases a promise gives the negotiator a tool<sup>28</sup> to continue bargaining.
- f. It limits disagreement to those issues on which the parties truly disagree, thus avoiding unnecessary friction over minor issues.

**Cons can be summarized as follows:**

- 1. The first failure might seriously aggravate the situation and the situational ability to produce desired win-win outcomes. In their turn post-failure side-effects might create further hurdles to conflict management and resolution.
- 2. It may lead to misperceptions about future agreements and the commitments they imply. In this case giving in may be conceptualized as an irreversible commitment that sets the whole step by step process out of control.

**1. Alternative courses: going straight to the kernel of the conflict**

The factors that support a direct policy vis-à-vis conflict management are related to time, ability and the risk involved. Focusing on risk is important because it will define the rationality – irrationality ratio of the effort, particularly when we deal with inter-state conflict that involves choices between war and peace.

**Pros**

- 1. It may save the negotiator time if the ripe moment for effective conflict management and resolution has come. The qualitative definition "ripe" refers to the time dimension, conditions, environment changes and attitudes of the people involved. This goes beyond the conventional wisdom paying primarily attention to the "proposals" parameter. Ripeness also refers to the ability of diplomats to successfully advance understanding. The last is particularly important in inter-state conflict where leaderships make decisions based on facts, perceptions and individual cognitive elements.
- 2. In case of war it may terminate it directly

**Cons**

- 1. When the process is in deadlock there is often no way out and this seriously undermines future efforts and may dramatically limit prospects for the adoption of win-win approaches.
- 2. It does not allow negotiators to use handy and useful "salami tactics". That is to break up the big issue into smaller ones and press for these separately<sup>29</sup> in order to gradually produce agreements on minor issues.

**Negotiating a small agreement: a multi-layer approach**

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<sup>28</sup> Ibid.

<sup>29</sup> See R. Fisher, op., cit.

The pros of such an approach centre around a twin cognitive and managerial axis. Nominally they may be described as follows.

- a. A mediator is trying to formulate a decision accepted by all parties outside a zero-sum framework. This decision does not pre-exist. It can't be found on its own but should rather be formulated, constructed<sup>30</sup> by introducing new input into the conflict equation. A negotiation process is not static but evolves in different stages and intensity in a way that nominally affects stances, expectations and views related, among other things, to the time dimension.
- b. Step by step approaches are often more easily manageable. Similarly it is easier to get the parties agree on a minor issue. An agreement on a minor issue might provide common ground for further negotiations at a more substantive level.
- c. If negotiators get the parties to agree on an issue, most commonly a minor issue or of minor importance, it means negotiators have managed to establish communication channels between the parties.
- d. If negotiators can't get parties to agree at least on something, then there is a very serious problem in bridging or at least narrowing the gap between them.
- e. In this way negotiators may expose the parties' stereotypes and prejudices and provide a new framework of understanding.
- f. It may allow negotiators to seize the opportunity and take advantage of the right timing, to get leaderships are ready to re-formulate attitudes.
- g. In inter-state conflict of warring nature it may lead to an immediate ceasefire.
- h. Negotiators are ready take advantage of a promise even though they run the risk of investing in promises to be broken.

### **Cons**

1) In inter-state conflict in particular, parties are usually prejudiced against one another and don't trust each other. This particularly affects the psychological milieu<sup>31</sup> in which decision-makers operate. The first time negotiations fail, especially on a relatively trivial matter, it will be difficult to re-establish communication and thus move on to a higher stake issue.

### **The predictability – unpredictability factor in organizational and interpersonal conflict**

A basic precondition in order to understand a conflict situation and be able to intervene constructively is to understand the catalytic at times role of values and the way they affect perceptions. A central feature of a conflictual situation is unpredictability. This very situational trait describes the difficulty in dealing with human behaviour and a value-dominated environment. The task of a negotiator is to enable the parties involved to cognitively realize that there are points of convergence. Alternatively these may have to be constructed through a process of re-alignment. In many cases the parties involved in a conflict or dispute are not aware themselves of potential outlets to conflict.

The task of the negotiator is to prevent conflict escalation, as it will affect further ability to bring conflict to the previous step. Negotiators adopt alternative conflict management strategies<sup>32</sup> depending on facts, perceived facts, values and attitudes formulated within a time

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<sup>30</sup> Ibid

<sup>31</sup> See R. Jervis (1976), *Perception and Misperception in International Politics*, Princeton University Press, Princeton.

<sup>32</sup> For an in-depth analysis of conflict management strategies see S. L. Carpenter & W. J. D. Kennedy, *Managing Public Disputes: A Practical Guide to Handling Conflict and Reaching Agreements* (1998), Jossey-Bass Publishers, CA, USA.



dimension. Their task<sup>33</sup> is demanding particularly when stakeholders in conflicts are not identified or operate in a non-evident way<sup>34</sup>. In this field<sup>35</sup> empirical evidence provided by numerous findings provide an insight of what is at stake and how emotional given affect cooperation, behavior<sup>36</sup> and conflict<sup>37</sup> transformation. This process will allow mediators to reduce conflict by means of a number of negotiation stages through, inter alia, bargaining.

In organization conflict where personal values seem to play a more decisive role the steps taken should ensure narrowing the gap between those involved. Inter-personal relations are complex and may be formulated outside a commonly accepted framework of rational behaviour. By contrast, in state conflicts it is assumed that actors behave in a rational way. In these organizational conflict cases mediators focus on re-shaping approaches and at the same time decode personal behaviour and motives. In ideal conditions final decisions should be justified and might provide a compass for future conflicts of the same nature.

A suggested typology of managing conflict through a step by step approach sets it within five steps<sup>38</sup>: anticipate, prevent<sup>39</sup>, identify, manage, resolve. The suggested categorization overtly or covertly refers to human behaviour and urges for a rapid solution, since psychological factors, value dichotomies<sup>40</sup> and individualism may multiply negative input into a conflict situation and seriously affect management activities.

A situational case study where conflict may be even more difficult to deal with is when those involved come from a different culture. The cultural factor is a qualitative determinant of a negotiator's ability to successfully mediate and produce results satisfactory to the sides involved.

There is a pressing need to distinguish between everyday multi-situational conflict and those cases where the stakes are high not only to the sides directly involved but also to third parties. For instance in many business/corporate situations defining incompatibilities as conflicts may be an over-exaggeration. In reality or what I call situational reality it is not a question of conflict but of plain misunderstandings. Yet, these affect the organizational efficacy and integrating capacity of a business environment<sup>41</sup>.

A misunderstanding may be built upon a non-realistic incompatibility and a mis-perceptual or distorted framework. In the case of more complex cultural conflict it is suggested that "misunderstandings, and from this counterproductive, pseudo conflicts, arise when members of one culture are unable to understand culturally determined differences in communication practices, traditions, and thought processing"<sup>42</sup>. Cultural differences stem from cultural incompatibilities existent in a globalised and at the same time parcelized world of heterogeneity.

<sup>33</sup> For the use of third parties see S. L. Carpenter; W. J. D. Kennedy, *ibid*.

<sup>34</sup> It is important to define the difference between conflict management and conflict resolution. Managing a conflict does not mean resolving it.

<sup>35</sup> For the history of evolution of conflict studies see, inter alia, Schellenberg A. James, *Conflict Resolution: theory, research, and practice*, State University of New York Press, New York, 1996.

<sup>36</sup> For a gender based axis of conflict see Leah Brusko, "Organized Chaos: A Survey of Conflict Management Strategies, Gender Roles and Status in an Organizational Setting", *UW-L Journal of Undergraduate Research* XIII, 2010.

<sup>37</sup> See Jane Yan Jiang, Xiao Zhang, Dean Tjosvold, Emotion regulation as a boundary condition of the relationship between team conflict and performance: A multi-level examination, *Journal of Organizational Behavior*, 2013, 34, 3.

<sup>38</sup> See Maccoby, M., & Scudder, T., *Leading in the heat of conflict*. T+D, December 2011, p. 50

<sup>39</sup> A prevention of conflict strategy has the advantage of escaping the time pressure factor, while at times of conflict time limit is a factor that increases the risk of failure.

<sup>40</sup> For an analysis of the role of values in conflict through an ethical and theoretical perspective see G. B. J. Bomers & Richard B. Peterson (1983), *Conflict Management and Industrial Relations*, Kluwer-Nijhoff Pub.

<sup>41</sup> In certain cases the literature operates as a practical manual for future use. See indicatively Eric Rhenman, Lennart Strömberg, Gunnar Westerlund, *Conflict and Co-operation in Business Organizations*, op. cit.

<sup>42</sup> See Borisoff, D., & Victor, D. A. (1989), *Conflict Management: A communication skills approach*. Englewood Cliffs, NJ: Prentice-Hall.

### **Epilogue: conflict as a transition process**

Conflict refers to the efforts of numerous factors (states, individuals, gender<sup>43</sup> etc.) to bring about desired changes and impose their will on their environment. In effect in a conflict we have a clash of wills. Changes are deemed essential to those involved and they may stem from divergent values, needs, perceived or misperceived interests<sup>44</sup>, stereotypes or in the cases of states their wish to dominate.

Defining conflict as a transition process implies taking into account multifaceted, multi-layer efforts to introduce new parameters in the action – reaction framework of interplay among individuals or states. The task of a negotiator or mediator is to handle this input in a way that re-establishes workable for the sides involved conditions, bring about inter-personal balance, secure corporate efficiency and formulate positive-sum games particularly in the case of state conflict.

In the case of inter-state conflict<sup>45</sup> friction is often associated with changes in power configuration, survival and advancement of national interests. All these directly or indirectly refer to a transition process or an attempt to push forward changes that serve better one side's interests. In effect, this effort to bring about changes alters the ontology of an assumed established order and is also related to the ability of mediator<sup>46</sup>.

Mediation, at least on an international level, may be defined by dimensions related to time, space, cognitive bias, situational given, as well as the ability of the mediator to successfully intervene<sup>47</sup>. By default success is related to effectiveness, yet, as suggested in this article, it should be associated to dimensions that critically define alternative choices and outcomes.

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<sup>43</sup> See Werner Havenga, "Gender and age differences in conflict management within small businesses", *Journal of Human Resource Management*, Vol. 6 No. 1, pp. 22 - 28

<sup>44</sup> See Janie M. Harden Fritz and Becky L. Omdahl (2006), *Problematic Relationships in the Workplace, Volume I*, Peter Lang Publishing

<sup>45</sup> In the case of a sui generis union of states such as the EU conflict is dealt with more regulation through EU institutions. For an analysis see Deborah Mabbett & Waltraud Schelkle, "The Politics of Conflict Management in EU Regulation", *West European Politics*, 32:4, pp. 699-718, 2009.

<sup>46</sup> See Jacob Bercovitch & Allison Houston, (1993), "Influence of mediator characteristics and behavior on the success of mediation in international relations", *International Journal of Conflict Management*, Vol. 4 Issue 4 pp. 297-321, available at <http://dx.doi.org/10.1108/eb022730>

<sup>47</sup> See Bercovitch Jacob & Allison Houston, "Why Do They Do It Like This? An Analysis of the Factors Influencing Mediation Behavior in International Conflicts", *Journal of Conflict Resolution*, April 2000 vol. 44 no. 2, 170-202 available at <http://jcr.sagepub.com/content/44/2/170.refs>

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## GEOPOLITICAL AXES IN IOANNIS MAZIS'S SCIENTIFIC RESEARCH PROGRAMME

**Ioannis E. KOTOULAS**

Researcher in Geopolitics, Laboratory of Geocultural Analyses of Broader Middle East and Turkey,  
Faculty of Turkish and Modern Asian Studies, University of Athens  
ioanniskot@turkmas.gr

### **Abstract**

Ioannis Mazis, Professor of Economic Geography and Geopolitics at the Faculty of Turkish Studies and Modern Asian Studies of the University of Athens, is the creator of Modern Systemic Geopolitical Analysis in international bibliography. The academic publications included in the volume *Dissertationes academicae geopoliticae* (Papazisi, Athens 2015) examine various aspects of International Relations. In this paper we examine the spatial geopolitical orientation of states/empires and the definition of main axes of geopolitical influence in Ioannis Mazis's Scientific Research Programme, as this is manifested in his academic articles, published in English, French and Italian.

**Keywords:** Ioannis Mazis, geopolitical axis, Scientific Research Programme, Modern Systemic Geopolitical Analysis, vertical axis, rectilinear axis, power projection

**JEL classification:**

### **1. Introductory Remarks**

Ioannis Th. Mazis is Professor of Economic Geography and Geopolitics at the Faculty of Turkish Studies and Modern Asian Studies, School of Economic and Political Sciences, of the University of Athens. Mazis, the doyen of the Greek Geopolitical School, is the creator of Modern Systemic Geopolitical Analysis in international bibliography, a coherent neo-positivist approach to the study of International Relations.<sup>1</sup> The academic publications included in the recently published volume *Dissertationes academicae geopoliticae* (Papazisi, Athens 2015) examine various aspects of International Relations: International Relations Theory, Islamism, Turkish and Greek geopolitics and relations, power equilibrium in the Eastern Mediterranean, rivalries between state actors in the historical long run –with an emphasis on the region of Eastern Mediterranean, an area which constitutes the historical space of the Greek state.<sup>2</sup>

Enrichment of geopolitical theory with comparative history is an instrumental improvement of the neo-positivist research Programme by regarding historical facts as case studies. The comparative approach in historiography rests on comparing historical data in order to identify structural similarities between identical fields of study and in order to deduce verifiable patterns and causal factors.<sup>3</sup> The use of historical data is actually a comparison in

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<sup>1</sup> On the principles and the methodology of Modern Systemic Geopolitical Analysis see I.Th. Mazis, *Metatheoritiki kritiki Diethnon Scheseon kai Geopolitikis: To neothetikistiko plaisio*, Papazisi, Athens 2012. Cf. I.Th. Mazis, 'Prologue', in Y.H. Ferguson & R.W. Mansbach, *I anazitisi tis outopias: Theoria kai diethnis politiki*, trans. P.G. Krimbas, Papazisi, Athens 2009, 11-25 [original title: *The Elusive Quest: Theory and International Politics*, University of South Carolina Press, Columbia, SC 1988].

<sup>2</sup> I.Th. Mazis, *Dissertationes academicae geopoliticae varii generis linguis occidentalibus editae cum introduction cura Ioannis E. Kotoulas*, Papazisi, Athènes 2015. All references thereafter concerning individual articles are made to this volume.

<sup>3</sup> I.E. Kotoulas, "Sygkritiki typologia Sinikis kai Romaïkis Aftokratorias" [Comparative Typology of Chinese and Roman Empires], *Nea Estia* 1864 (12/2014), 610-651 [especially 610-15].

the dimension of time and an application of the logic of experiment –prevalent in the positive sciences– to the field of historiography.<sup>4</sup>

In this paper and with the aid of comparative history and the notion of *longue durée* of a macro-historical outlook we shall examine two specific cases of theoretical formulations in Ioannis Mazis's scientific work:

- i. the spatial geopolitical orientation of states/empires
- ii. the definition of main axes of geopolitical influence.

### **i. The spatial geopolitical orientation of states/empires**

In his work, Mazis repeatedly emphasises the methodological distinction between the vertical and the horizontal orientation of the major geopolitical powers. Thus he distinguishes various zones of influence which are articulated based on the military, economic, political and cultural pylons. In the case of state actors wielding great influence in an extended spatial unity, the zones of influence can occur in more than one axis. This typological distinction made in Mazis's work holds great hermeneutic value, as it can be applied not only in the field of current international relations, but it can also be used to interpret data of the historical past.

#### **i.1 The horizontal geopolitical axis**

In his essay *The Principles of Geopolitics and the Case of the Greek Space in South-Eastern Mediterranean* (Dissertatio V) the writer uses as his example the horizontal geopolitical orientation of Anglo-Saxon sea powers (British Empire/Great Britain and USA), which is opposed to the vertical geopolitical orientation of the continental powers (Germany in the years 1871-1945 and Russia/USSR during the Cold War): "*On the contrary, the Anglo-Saxon theorists (Mahan, Mackinder, Spykman) developed a "horizontal" geopolitical conception in relation to the above mentioned "vertical" German one. The Anglo-Saxon analysts of Geopolitics laid emphasis on the naval powers and on the so-called "base of operations" which are localized on the so-called "ring of underdevelopment" and on the "Australian ring of Development". Emphasis on these notions was crucial for the capability of the Naval Powers (USA, Britain, W. Europe) to exert counterbalancing tendencies against the geopolitical block of Eurasia (Heartland according to Mackinder), namely against the geographical zone comprising the unified Germany and the former Eastern Bloc*".<sup>5</sup>

The horizontal geopolitical orientation of the state actor of the British Empire/Great Britain/United Kingdom and of Anglo-Saxon interests in general has been analyzed by Mazis in several of his publications.<sup>6</sup> The most comprehensive presentation and definition of the said geopolitical axis is found in his essay *Greece's New Defence Doctrine: A Framework Proposal* (Dissertatio XXI): "*i. An horizontal zone of Anglo-Saxon geopolitical influence, between the 36th and the 30th parallel, which is defined by points of established Anglo-Saxon strategic power, in the form of military facilities such as:*

- (1) The pre-existing flight prohibition zones, in Northern and Southern Iraq (above the 36th and below the 32nd parallel, respectively), the memory of which is nowadays quite revealing when considering the aims of the Anglo-Saxon, but also of the French, factors in the region.
- (2) The American-Turkish base of Lefkoniko in the occupied Northern part of Cyprus [...]
- (3) The British military bases in Dekelia and Akrotiri, located in the free Southern part of Cyprus.
- (4) The US and NATO military bases in Crete.

<sup>4</sup> W.H. Sewell Jr., 'Marc Bloch and the Logic of Comparative History', *History and Theory* 6:2 (1967), 208-18.

<sup>5</sup> I.Th. Mazis, *Dissertationes academicae geopoliticae*, op.cit., 140.

<sup>6</sup> I.Th. Mazis, *Geopolitiki prosengisi gia ena neo elliniko amyntiko dogma*, [Geopolitical Approach for a New Greek Defensive Doctrine], Papazisi, Athens 2006.

- (5) Malta; and
- (6) The British military bases in Gibraltar.

*This Anglo-American zone of geopolitical influence, which divides the Mediterranean basin into a Northern and a Southern part, can exercise strategic control at a nuclear-war level, as well as at an electronic-warfare and electronic intelligence level, within a region developing from the zone of Maghreb and up to the zone of Crimea, in terms of nuclear ballistic defence. Also, it can complement the services of the American-British universal Echelon network. [...] These zones are characterized by the transport of hydrocarbons and are fully controlled by NATO and more in particular the Anglo-Saxon, defence mechanisms".<sup>7</sup>*

Mazis's observations concerning the existence of a horizontal geopolitical axis in the Mediterranean Sea are confirmed by the foreign policy of the actor in control of this axis for a long period, i.e. of Great Britain. British foreign policy during the 19th and 20th centuries was based on effective control of the horizontal geopolitical axis linking the Atlantic Ocean and the Mediterranean Sea through the Straits of Gibraltar, an axis leading to imperial dominion of the Indian Peninsula through the Middle East.

From a macro-historical point of view British geopolitical influence was initially developed with the North Atlantic as its focal point; the British victory over the Spanish Armada in 1588 facilitated British domination of the North Sea and control of the sea routes towards the northern part of the American continent, thereby facilitating the Anglo-Saxon colonization of North America and the gradual subversion of the vast Spanish Empire in the New World. Thus the British geopolitical actor obtained a significant strategic depth of westward orientation; this strategic depth included the whole North Atlantic and the east coast of North America.<sup>8</sup> Consolidation of this horizontal geopolitical axis of Anglo-Saxon interests in the region of the Mediterranean was attempted for the first time in the early 18th century through the occupation of the strategic focal point of the Straits of Gibraltar in 1704, an act ratified by the Treaty of Utrecht in 1713. The failure of the French military expedition in Egypt and Syria (1798-1801) and the British occupation of Malta (1814) solidified British strategic interests in the Mediterranean Sea. In the following decades the establishment of the Greek state (1830) and its final inclusion in the British zone of interests after 1862 led to control of the Aegean Sea and to the possibility of a British or British/Greek power projection towards the Black Sea.

The zone of Crimea –to which Mazis refers in the aforementioned passage as belonging to the horizontal geopolitical axis of Anglo-Saxon interests–, was a focal point of geopolitical tension in two distinct but parallel historical cases in the 19th and the 20th century: the Crimean War and the Western military intervention in Ukraine during the period 1918-1920. The Crimean War (October 1853-February 1856) signalled the successful collective effort of joint Anglo-French forces to avert the expansion of Russian influence in the Black Sea region and to maintain the territorial integrity of the Ottoman Empire, the latter being perceived as a containment factor regarding Russian geopolitical influence towards the Mediterranean Sea and the Middle East, where Russia presented itself as a protector of the Christian minority populations. The pro-Russian stance of the Greek state resulted in a military intervention by the Anglo-French forces and to the eviction of King Otto a few years later. From then onwards the Greek state, the only Western-type state in the Eastern Mediterranean and based on naval power, was part of the British zone of influence.

The military intervention of the Western allied powers in Ukraine during 1918-1920 was on the one hand (until 1918) actually a continuation of the war effort made by the Allies to preserve the Eastern Front against the German and Austro-Hungarian forces and on the other hand (after 1918) an attempt to contain the spread of the trans-state ideological current of Communism in Europe. Still, this intervention is related to the same Western geopolitical strategy of control over the horizontal geopolitical axis which links the Straits of Gibraltar

<sup>7</sup> I.Th. Mazis, *Dissertationes academicae geopoliticae*, op.cit., 422-3,

<sup>8</sup> J.H. Elliott, *Empires of the Atlantic World: Britain and Spain in America, 1492-1830*, Yale University Press, New Haven, CT 2006.

with the Allied-controlled Bosphorus Straits and the shores of Ukraine, i.e. the southernmost part of spatial expansion of Russian influence.

The commitment of Greek military forces in the Western allied corps in 1919 was based on calculations made by the Greek side that it would gain Allied backing for its claims in the western part of Asia Minor, an area belonging to the historical Greek space and populated at that time by hundreds of thousands of Greeks. Still, this aspiration was not the only concern of the Greek side, as it is often thought in bibliography; Greek geopolitical planning actually upheld a much more ambitious plan which included the re-institution of Greek geopolitical influence in the Black Sea.<sup>9</sup> Greek geopolitical influence in the Black Sea in the long historical run was manifested through the foundation of colonies which controlled the trade routes from the hinterland of the Dniester, Dnieper and Tanais (Don) rivers towards the Black Sea and the Aegean Sea. This same geopolitical function continued in the Eastern Roman Empire –a state controlled by the Greek population– which controlled the Crimea Peninsula through the theme of Cherson (839-1204).<sup>10</sup> After the dissolution of the Eastern Roman Empire in 1453, Greek influence in this geographical area was of economic nature, as Greek merchants controlled trade flows connecting the Aegean and the Black Sea. Finally, the recent (2014) annexation of Crimea by Russia, a consequence of the diplomatic crisis between Russia and Ukraine, but also between Russia and the Western European powers, can be thought of as belonging to the same framework of geopolitical interpretation concerning the horizontal geopolitical axis ending in the upper part of the Black Sea.

### **i.2 The horizontal geopolitical axis**

In his work, Mazis refers also to the existence of a *vertical geopolitical axis*, also of paramount importance. This is a rectilinear commercial axis connecting the port of Rotterdam in the North Sea –a major oil trade centre in the North Sea– with Skopje in FYROM and Port-Said in Egypt, the main centre of oil trade in the Mediterranean. This commercial axis is crucial for understanding the geopolitical structure of the Balkan Peninsula and of the Eastern Mediterranean. The axis is identified by Mazis in his essay *Greece's New Defence Doctrine: A Framework Proposal* (Dissertatio XXI) as thus: "ii. A zone extending vertically in relation to zone (i) and joining these two points: (1) Port Said, in the Suez Canal (the transit point of around 40 percent of the crude oil quantities transported from the M. East to the markets of Northern and Western Europe and the corresponding transatlantic markets, through Gibraltar). (2) The port of Thessaloniki and its extension to the port of Rotterdam, the world's biggest market for spot oil".<sup>11</sup>

Mazis's observations on the existence of a vertical geopolitical axis are verified if one observes the macro-historical tendencies and the spatial geopolitical orientation of Germany,

<sup>9</sup> GGS/DMH (ed.), *To elliniko ekstrateftiko soma stin Mesimvrini Rosia* [The Greek Expeditionary Corps in South Russia], Athens 1955.

<sup>10</sup> A.I. Romančuk, *Studien zur Geschichte und Archäologie des byzantinischen Cherson*, Leiden: Brill, 2005.

<sup>11</sup> I.Th. Mazis, *Dissertationes academicae geopoliticae*, op.cit., 423. Cf. Mazis's observations in *The Principles of Geopolitics and the Case of the Greek Space in South-Eastern Mediterranean* (Dissertatio V): "[...] if we draw a line starting from Amsterdam, the seaport of the free oil market of Rotterdam and ending at Port Said, the transit point of approximately 40% of oil of Middle East, this will be a straight line which crosses Germany, Austria, Slovenia, Croatia, Bosnia -the fabrication of Holbrooke-Kosovo, Skopje, the middle foot of Khalkidhiki -which the Skopje maps present as part of the unredeemed Macedonia of the Aegean Sea- and Dodecanese. The distance on this straight line between Rotterdam-Skopje is about 1500 km, while the distance between Skopje-Port Said, on the same line, is approximately 1650 km; that is, the capital of this four-nation State lies in the middle of the commercial route connecting the most important oil-exporting point with the most important point of its free market" (*Dissertationes academicae geopoliticae*, op.cit., 142). See also in the same volume *Geopolitical Analysis of the Commercial Sea Channel Dardanelles-Aegean Sea* (Dissertatio VI), *Analisi geopolitica del canale marittimo commerciale Dardanelli-Egeo* (Dissertatio XII) and *The Mediterranean Geopolitical Structure and the Matter of Resolving the Cyprus Issue in Accordance with the Annan Plan* (Dissertatio XIX).

one of the fundamental continental powers of Europe. Already from the 19th century, German geopolitical orientation was based on central Europe as its starting point and the Eastern Mediterranean/Persian Gulf as its final point of power projection. In the 19th century Prussian foreign policy aspired to create a corridor of power projection from Prussia and through the German-controlled Austro-Hungarian Empire reaching the Ottoman Empire.

The Prussian field marshal Helmuth von Moltke the Elder (1800-1891) organized the Ottoman army according to the Prussian model in 1836, after having been invited to do so by the Sultan (1808-1839) Mahmud II (1789-1839). Moltke was also military advisor during the Ottoman campaign against the Egyptian wāli (1805-1848) Muhammad Ali (1770-1849).<sup>12</sup> German military bureaucracy realized the elevated strategic importance of an axis linking Berlin with the Ottoman Empire and especially with the region of Mesopotamia. After the German unification of 1871 and especially after the formulation in the 1890s of an imperialist structure which included the Middle East, many German scholars focused on German power projection towards Egypt and Mesopotamia.<sup>13</sup> The geographer and Orientalist Hugo Grothe (1869-1954) had identified the area of German geopolitical influence as lying between 34° and 41° eastern longitude and to the south between 36° and 39° latitude.<sup>14</sup>

The proto-geopolitical formulations of Rudolf Kjellén (1864-1922) are connected to the German notion of a vertical geopolitical axis, as this was manifested in WWI. Kjellén, a Swedish political scientist strongly influenced by the texts of the German geographer Friedrich Ratzel (1844-1904), refers to a similar spatial organization of the German zone of interests during the early 20th century.<sup>15</sup> In his work Kjellén identifies the geophysical data which according to his view dictated the vertical geopolitical orientation of the German state during WWI: *"The southeastern orientation was the most suited for the fulfillment of the idea of Germany's territorial expansion, a fact indicated by geography itself. As long as the Slavic and Romanic walls surround Germany from the West and from the East and since it is impossible to expand towards the North over Scandinavia, the only exit of German advance was the southeastern one. Germany had to turn to the south in order to relieve itself from geographical pressure. This advance took on a world-wide significance [...]"*.<sup>16</sup>

In another part of his book Kjellén makes mention of an axis of German strategic interests which comprises as its focal points the port of Antwerp in the North Sea and the port of Basra in the Persian Gulf: *"The incompatibility of English and German future plans is obvious from a geographical point of view. England cannot tolerate the Eastern German Programme. This is evident if one agrees with Jäckh (in his book Deutsch-türkische Waffenbrüderschaft, 1915) on identifying the motto Antwerpen-Basra as the essence of the German Programme, a Programme aiming against London and against Bombay at the same time"*.<sup>17</sup> This observation by Kjellén concerning the Antwerp-Basra axis coincides in a large part with Mazis's geopolitical notion of the rectilinear commercial axis linking Rotterdam-Port Said, as

<sup>12</sup> H. Graf von Moltke, Briefe über Zustände und Begebenheiten in der Türkei aus den Jahren 1835 bis 1839, Berlin: E.S. Mittler, 1841.

<sup>13</sup> A. Wirth, *Die Zukunft der Türkei*, Leipzig: Verlag Deutsche Zukunft, 1908· D. Trietsch, *Deutschland und der Islam*, Berlin: Orient, 1911· E. Jäckh, *Deutschland im Orient nach dem Balkankrieg*, Strassburg: Verlag Singer, 1913· H. Grothe, *Die asiatische Türkei und die deutschen Interessen*, Halle a.d.S.: Gebauer-Schwetschke Druckerei und Verlag, 1913.

<sup>14</sup> H. Grothe, *Deutschland, die Türkei und der Islam; ein Beitrag zu den Grundlinien der deutschen Weltpolitik im islamischen Orient*, Leipzig: S. Hirzel, 1914, 14.

<sup>15</sup> Concerning Ratzel see I.Th. Mazis, *O zotikos choros tou Freiderikou Ratsel* [Freidrich Ratzel's Lebensraum], Herodotos, Athens 2014. See also in the volume *Dissertationes academicae geopoliticae* the essays *Die Boden-Staat Relation in Friedrich Ratzels politisch-geographischer Lehre* (Dissertatio XXXVII), *Der Staat als Erscheinung des neuartigen sozialen Lebens in Friedrich Ratzels politisch-geographischer Analytik* (Dissertatio XXXVIII) and *Die Förderung der Idee eines interdisziplinären Beitrags zur geographischen analytischen Methode der Geopolitik vom Geographen Friedrich Ratzel* (Dissertatio XLIV).

<sup>16</sup> R. Kjellen, *Ta aitia tou pagkosmiou polemou*, Prologue by I.Th. Mazis, Introduction by Ioannis E. Kotoulas, Papazisi, Athens, forthcoming.

<sup>17</sup> R. Kjellen, *Ta aitia tou pagkosmiou polemou*, op.cit..



mentioned above. The ports of the Low Countries in the North Sea function as a starting focal point for the German attempt to project its geopolitical power from the northern European space towards Egypt and the Persian Gulf.

## **ii. The definition of main axes of geopolitical influence**

Adopting Mazis's observations as our hermeneutic model –as those were demonstrated above in point (i)– and using as a model our own observations concerning the British zone of vital interests, it is possible to distinguish the following zones of vital interests and to identify the geopolitical orientation of some of the major state actors during modern times:

### *1. The American zone of vital interests*

The American zone developed in the American continent according to a North-South axis for a period of a century, beginning with the Monroe Doctrine (1823) and culminating with the American military intervention (1917) in the European continent during WWI. After 1945 the American zone engulfed also the East-West axis, which was manifested through the Marshall Plan in Western Europe and cooperation with the Far East, i.e. the geographical complex of Japan and South Korea. It is interesting to note that both these geographical areas lie in the same latitude with the US and share similar geophysical qualities (Japan has often been compared to England concerning both its spatial juxtaposition towards a large continental area and its imperial polity). These tendencies of spatial organization of the international system contributed to the formulation of a broad geopolitical unity in the Northern Hemisphere under Anglo-Saxon American control, a unity interrupted by the Eurasian landmass, which was under Russian/Soviet control.

### *2. The German zone of vital interests*

The German zone was crystallized in the European continent after the political unification of various German polities in 1871 and the creation of the Second Reich. It followed a North-South axis extending from the North Sea to the Adriatic and from the Baltic Sea to the Black Sea, including also the allied Austro-Hungarian Empire, controlled by the German-Speaking Austrians. The Second Industrial Revolution in the late 19th century allowed Germany to rise prominently in power and to project its zone of vital interests to a greater area and through the territory of the Ottoman Empire till the Persian Gulf.

At the same time the existence of German-speaking populations in Central and Eastern Europe –populations living in the territories of the Austro-Hungarian and the Russian Empire– created a second axis of German power projection, this time in the East-West direction. This axis was connected with the emission of population surplus of the German state and the colonization of Eastern Europe. This horizontal geopolitical orientation of the German state was maintained after 1918 and took on a radical form under the National-Socialist regime. During the period of the Third Reich, the end of German power projection to the east was considered to be the Ural Mountains, as the Russian Campaign (1941-5) demonstrated. During the post-war period the East-West axis was maintained, this time under the form of the German Democratic Republic (1949-1990), a state allied with the Soviet/Russian actor, and after the dissolution of the Eastern Bloc through extensive Russo-German collaboration during the last decades.

### *3. The Russian zone of vital interests*

The Russian zone evolved for the first time in the 16th century on the basis of an East-West axis, through the colonisation of the great geographical region of Siberia by the European Russian population. Millions of European settlers –mainly Russians and Ukrainians– spread throughout Siberia. It is estimated that during the period of 1840-1940 approximately 51 million of Slavic ethnic identity settlers colonized areas lying in the greater geophysical complex of Siberia and Central Asia widening the front of European expansion till the Pacific Ocean.<sup>18</sup>

The expansion of the Russian zone of vital interests according to an East-West axis was manifested in the temporary rule of the Russian state actor in the eastern part of Scandinavia,

<sup>18</sup> A. McKeown, 'Global Migration, 1846-1940', *Journal of World History* 15 (2004), 156. See also B.W. Lincoln, *The Conquest of a Continent: Siberia and the Russians*, Ithaca, NY: Cornell University Press, 2007.

Finland (1809-1918), the Baltic countries (1940-1991) and in Eastern and Central Europe during the post-war period (1945-1989). This expansion was successful from a strategic point of view to a large degree, considering that the creation of the Eastern Bloc offered Soviet Union/Russia an extensive buffer zone covering the routes of military infiltration towards the Russian core, as the latter is unprotected from a geophysical point of view.

The expansion of the Russian zone of vital interests according to a North-South axis, manifested in the Black Sea region and in Central Asia, met with failure. This orientation is connected to the attempt of the continental power of Russia –dominant in the geographical complex of Eurasia- to obtain access to the warm Mediterranean Sea and the Indian Ocean. The most characteristic manifestation of this failure to expand according to a North-South axis was the defeat of Soviet forces in the Afghanistan War (1979-1989).<sup>19</sup>

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<sup>19</sup> I.P. Sotiropoulos, *The International Relations Parameter as Fundamental Reason for the Soviet Defeat in Afghanistan*, Defense Analyses Institute, Athens 2006.



## THE ROLE OF ENERGY AS A GEOPOLITICAL FACTOR FOR THE CONSOLIDATION OF GREEK-ISRAELI RELATIONS

**Ioannis Th. MAZIS**

Chair of the Faculty of Turkish and Modern Asian Studies, School of Economics and Political  
Sciences, National & Kapodistrian University of Athens, Hellas, [www.geo-mazis.gr](http://www.geo-mazis.gr)  
[mazis@her.forthnet.gr](mailto:mazis@her.forthnet.gr)

**Ioannis P. SOTIROPOULOS**

Research Fellow, Laboratory of Geo-cultural Analyses, of the Greater Middle East and Turkey, Faculty  
of Turkish Studies and Modern Asian Studies, School of Economics and Political Sciences, National &  
Kapodistrian University of Athens, Hellas  
[ipshellas@hotmail.com](mailto:ipshellas@hotmail.com)

### **Abstract**

During the current historical coincidence, the geostrategic conjunction of Greece-Cyprus-Israel is a reality, in order for the three states to cope in the best possible manner with the contemporary and future challenges in the arena of international and regional relations. Having a common strategic perception of the geopolitical sub-system of the south-eastern Mediterranean, Athens, Nicosia and Jerusalem strengthen day by day their political, diplomatic, economic and military relations, aiming at the preservation of stability in the area, against any revisionist factor. For the aforementioned strategic alliance, the discovery, extraction and exploitation of the hydrocarbon neo-reserves within the Greek, Cypriot and Israeli consecutive Exclusive Economic Zones, (EEZs), is the dynamic catalyst that reinforces even further the allied cooperation and effectiveness. Amidst the geopolitical transformation of the wider region of North Africa, Middle and Near East, the construction of the East Mediterranean Pipeline, (East-Med), is a common pursuit of the outmost significance, for the strategic alliance. Indeed, if the East-Med is realized, it will be able to transfer, in the first phase, the Israeli and Cypriot hydrocarbons from the off-shore neo-reserves via Greek sovereign territory and EEZ to Italy and central Europe, signaling EU's gradual disengagement from the dependence on the Russian natural gas, allowing the EU to make its first steps of energy emancipation. Despite Ankara's attempt for rapprochement with Jerusalem, the official Israeli position heavily leans towards an Israel-Greek-Cypriot strategic alignment, as Israel's national security constitute the ultimate long-term priority for Jerusalem. Above all, such a development will upgrade the geopolitical status of all the three states of the strategic alliance in the regional geopolitical as well as the supra-geopolitical system.

**Keywords:** East Mediterranean energy neo-reserves, Levantine Basin, natural gas-field Zohr, East Mediterranean pipeline-(East-Med), south-east Mediterranean geopolitical sub-system, Israel, Cyprus, Greece.

**JEL classification:**

### **1. Introduction**

It is a fact that in late-2000s, Athens and Jerusalem have come closer on the diplomatic, political, military and economic fields. The pursuit, in one hand of the valuable strategic depth towards the Mediterranean Sea by Israel and on the other the achievement of successful deterrent regional mechanism against Ankara, primarily resulting in the adequate protection of Nicosia's legitimate rights in extracting energy mixture from its Exclusive Economic Zone, (EEZ), have automatically promoted the convergence of the aforementioned states' national interests, of the geopolitical sub-system of the South-Eastern Mediterranean. In the same, their cultural heritage has set the foundations of the western cultural model, while the current political developments, with the widespread unrest in the geopolitical sub-systems of North Africa and the Middle East contribute further to the strengthening of the relations of

Greece, Cyprus and Israel. However, the geopolitical factor of energy is the one that guarantees the seamless collaborative and allied dynamic of the three states in the long term basis. The recently discovered energy reserves in the adjacent EEZs of the three states, and notably the proposal of the East-Mediterranean pipeline, promise the turnaround of the area to a global energy strategic interest spot.

## **2. The strategic alignment of Greece-Cyprus-Israel**

The recent conclusion of a strategic alliance between Greece, Cyprus and Israel is an indubitable fact. In general terms, this is realized in all areas of activity of a sovereign state, with basic springboard the political, diplomatic and military alignment of the three states. A main motive behind the approachment of Athens and Nicosia by Jerusalem has been the gradual alienation of Turkey from Israel, resulting in the ultimate rupture in their relations, in late 2000s. Indeed, the strategic alliance between Turkey and Israel, which lasted just over ten, (10), consecutive years and provided Jerusalem with the necessary strategic-operational depth, began to tremble once Ankara attempted to implement its neo-Ottoman doctrine<sup>1</sup>, which has in store the dominant role in the wider region for Turkey, starting from the classic Middle East. Successive incidents, as the episode of the on the air disagreement between the Israeli President Mr. Shimon Peres and the, at that time, Turkish Prime Minister, Mr. Recep Tayyip Erdogan in the World Economic Forum in Davos, in January 2009, which resulted in the latter's final departure,<sup>2</sup> and the Mavi-Marmaracase,<sup>3</sup> marked the time of the definitive cessation of close political, diplomatic and military relations of Ankara and Jerusalem.

At the same time, Greece and Cyprus were facing the challenge of a revisionist Turkish policy<sup>4</sup> throughout the geographic arc from western Thrace and the northern Aegean down to the south east Mediterranean, in the Cypriot EEZ. As it was anticipated, with the objective convergence of the national interests of the three countries, Athens and Nicosia decided to proceed to the build-up of a trilateral/tripartite strategic alliance with Jerusalem, securing in this manner the full support and cooperation of the operationally powerful actor in the southeastern Mediterranean region, Israel. As a result, the historic conjuncture has been exploited to a significant extent, so that the three states can benefit to the maximum from this strategic alliance, creating a grid of multipliable power deterministically leading to geostrategic balance and political stability in the wider region. A region with inherent instability in its peripheral geopolitical sub-systems, (North Africa, Middle East, Near East), where re-structuring has begun to materialize.

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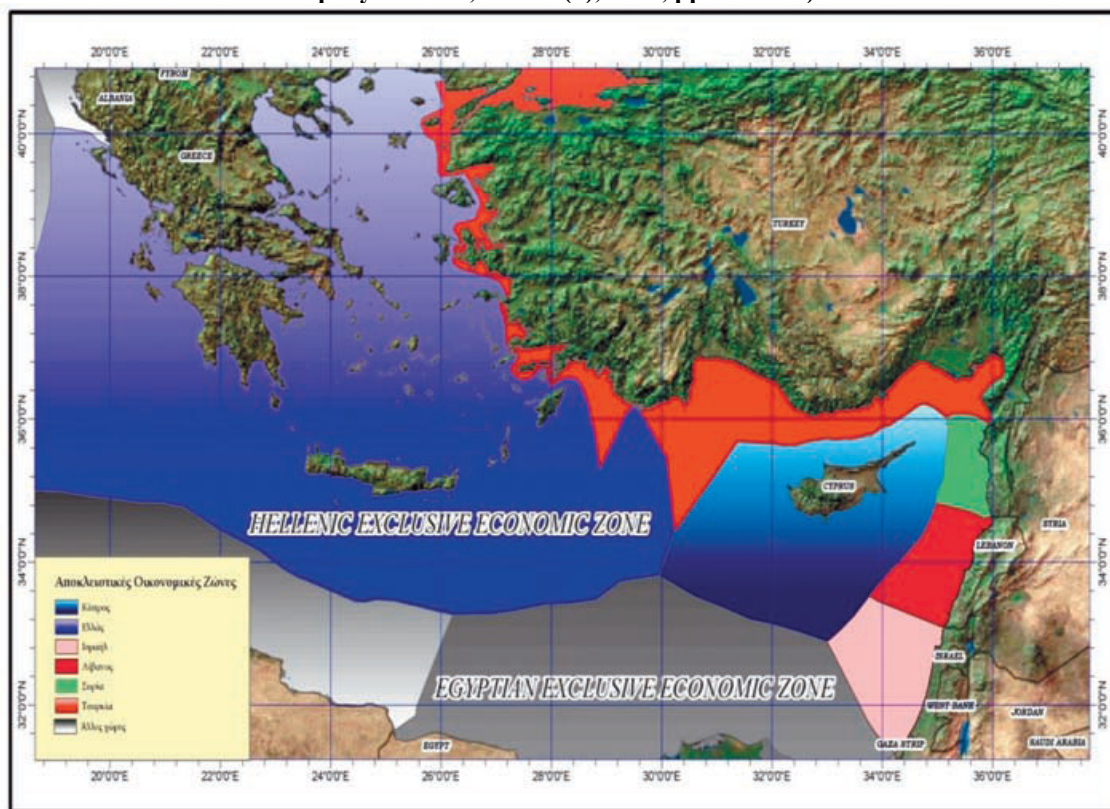
<sup>1</sup> For the neo-Ottoman doctrine and its critics, Davutoğlu, Ahmet, *Stratejik Derinlik: Türkiye'nin Uluslararası Konumu*, Küre Yayınları, İstanbul Küre, 2005, also, Davutoğlu, Ahmet, "The Clash of Interests: An Explanation of the World (Dis) Order", *Perceptions: Journal of International Affairs*, Vol. 2, no. 4, Dec 1997-Feb 1998, Mazis, Ioannis Th., *Davutoğlu and Geopolitics*, Herodotus, Athens, 2012, and Mazis, Ioannis Th., "Theoretical Perception of Geopolitics in Davutoğlu's Work: A critical Presentation", *Civitas Gentium*, 3:1 (2013), Section A, pp.9-50, accordingly.

<sup>2</sup> *Time Magazine*, 30, January, 2009.

<sup>3</sup> The Mavi Marmara incident in May 2010, in which nine Turkish activists while attempting to break the Israeli naval blockade of Gaza, with the blessings of Turkish Prime Minister, Mr. Tajip Erdogan.

<sup>4</sup> For an analysis of the Turkish revisionary politics in South-East Mediterranean, refer to: Sotiropoulos, Ioannis, P., "The Geopolitics of Energy in the South-East Mediterranean. Greece, European Energy Security and the Eastern Mediterranean Pipeline.", *Contribution in the Roundtable of the International Scientific Workshop, 'Repositioning Greece in a Globalizing World*, Collective, Joint Partnership Project, Global and European Studies Institute, (GESI), University of Leipzig and the Faculty of Turkish Studies and Modern Asian Studies, School of Economics and Political Sciences, National and Kapodistrian University of Athens, 8-11 June, 2015, University of Leipzig, 2016, forthcoming, (11.000).

**Map no 1: The EEZs of the south-eastern Mediterranean states according to the International Law, United Nations Convention on the Law of the Sea, (UNCLOS III), Montego Bay, Jamaica, 10th December 1982. (Source: Ioannis Th. Mazis and Georgios Sgouros, Regional Science Inquiry Journal, Vol. II (2), 2010, pp. 133-150).**



The initiation of the political efforts of Athens and Jerusalem to build a strategic alliance, took place on 8 August of 2013, in Nicosia, where a Trilateral Memorandum of Understanding was signed between the Ministers of Energy of Greece, Cyprus and Israel, which confirms “...their volition for the promotion of their in-between economic relations and the reinforcement of the collaboration in the area of energy.” A clause about cooperation in order to protect key infrastructures, in the hot spots of the gas-fields in the south east Mediterranean, is also included in the Memorandum.<sup>5</sup> In the same vein, on October 2013, during the proceedings of the Supreme Council of Ministers for Cooperation between the Governments of Greece and Israel,<sup>6</sup> several legal agreements between the two countries for cooperation in various sectors, were signed.<sup>7</sup> In addition, following a meeting of the three foreign Ministers, a joint communiqué was issued by the three parties, on 12 November 2014, in Athens, expressing their “...volition for the promotion of their in-between economic relations and the reinforcement of the collaboration in the area of energy...”, once again.<sup>8</sup> Moreover, in the military-defence sector, Brigadier Giora Eiland,<sup>9</sup> stated on 30 November, 2014: “We decided to have military attaché in Athens, something that only happens in 15 cities worldwide. This shows the depth of cooperation that exists now. We

<sup>5</sup> Memorandum of Understanding on cooperation in the fields of energy and water between the Ministry of Energy, Commerce, Industry and Tourism of the Republic of Cyprus, the Ministry of Environment, Energy and Climate Change of the Hellenic Republic and the Ministry of Energy and Water Resources of the State of Israel. 08 August, 2013.

<sup>6</sup> [http://www.mfa.gr/index2.php?option=com\\_content&task=view&id=1620&Itemid=318](http://www.mfa.gr/index2.php?option=com_content&task=view&id=1620&Itemid=318). The Hellenic Ministry of Foreign Affairs.

<sup>7</sup> For an analysis of the Greek-Israeli policy of rapprochement, refer to Sotiropoulos, Ioannis, P., op. cit.

<sup>8</sup> Joint Communiqué of the Ministries of Energy of Greece, Cyprus and Israel, 12 November, 2014, Athens.

<sup>9</sup> Former head of the National Security Council of Israel.

*conduct common aviation and naval exercises in Greece, the Israeli defense industry supplies the Greek armed forces, the cooperation in the field of security and exchange of information is deepening, for the common fight against terrorism. Relationships that based on mutual economic benefits, as well as energy, have their own dynamics. Of course, if the Turkish-Israeli relations continue to deteriorate, there is another reason for closer cooperation between Greece and Israel.”*<sup>10</sup> Indeed, in the military-operational field, dozens of common aeronautical and military manoeuvres have taken place in the Aegean Sea, the island of Crete (and within its EEZ limits), Cyprus, (and within its EEZ limits), in mainland Greece and the coast and deserts of Israel, something that further consolidates the strategic alliance of the three.<sup>11</sup>

Nonetheless, the energy geopolitical factor is the qualitative dynamic catalyst in this tripartite allied relationship. Undeniably, the relations of the three countries have been profoundly impacted by geography, since they have contiguous EEZs, in which large volumes of energy mixture, (Israel, Cyprus) have been, or expected to be, (Greece), discovered, as well as by the potential construction of the East Mediterranean pipeline, a project of mutual strategic benefit.

### **3. The geopolitical factor of energy as the qualitative catalyst for a closer strategic alliance between Greece-Cyprus-Israel. The hydrocarbon neo-reserves and the Eastern Mediterranean Pipeline, (East-Med).**

The coincidence of discovery, extraction and exploitation of Israeli hydrocarbon neo-reserves with those of Cyprus, along with the Greek effort to scientifically measure its own, brings closer, by default, the interests and perceptions of Athens, Nicosia and Jerusalem for regional stability and development. Especially, as noted above, the lack of a stable regional ally for Israel, and the substantial disbursement of resources required from Greece and Cyprus in order to ensure their national sovereignty in a wider area, give the said convergence, elements of Grand National Strategy.

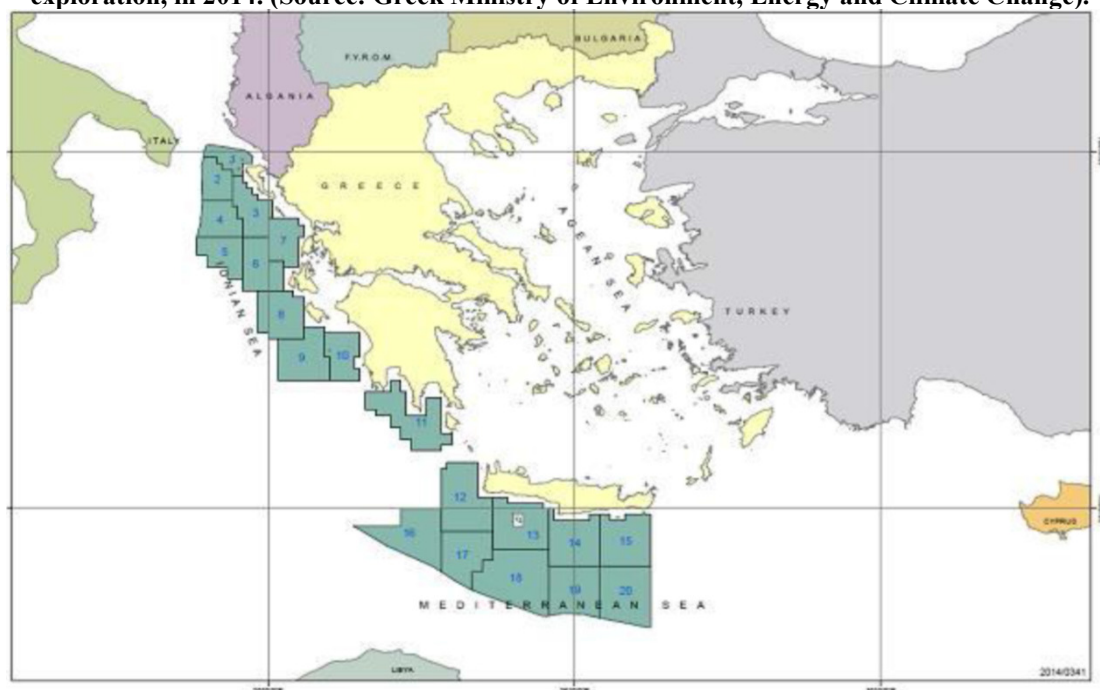
#### **3.1. The Greek neo-reserves**

Mainly three areas are the ones which are of energy interest, which objectively and without a doubt possess large volumes of hydrocarbons, natural gas and/or oil. These are the wider off-shore areas south of the island of Crete, the Ionian and the Herodotus Basin. As it frequently happens in such cases, the scientific studies do not agree as to the volume size, however in this case, they all agree on the existence of extensive neo-reserves of natural gas south of Crete and the Herodotus Basin as well as of oil reserves along the Ionian.

<sup>10</sup> *Kathimerini*, 30 November 2014.

<sup>11</sup> For an analysis of the Greek-Israeli common military manoeuvres in South-East Mediterranean, refer to Sotiropoulos, Ioannis, P., op. cit.

**Map no 2: The Greek ‘blocks’, as appear in the second licensing round for hydrocarbon exploration, in 2014. (Source: Greek Ministry of Environment, Energy and Climate Change).**



Thus, according to the US Geopolitical Survey, it is estimated that there are substantial volumes of natural gas 70km south of the Mesara Bay in Crete, which it is claimed that Greek block no 14 between the areas of Plakias and Frangokastello has 1,5 trillion m<sup>3</sup> of natural gas.<sup>12</sup> Similarly, a Greek study estimates the total volume of natural gas in the same area to approximately 3,5 trillion m<sup>3</sup>, identifying it with the Mexico Bay, the Persian Gulf and the Caspian Sea.<sup>13</sup> In relation to the financial value of the off-shore hydrocarbon neo-reserves and the net profits of Greece from the specific area alone, Deutsche Bank has estimated it to approximately €427 bn, while the Greek Public profit is estimated to €214 bn.<sup>14</sup> A similar economic study raises the Greek Public profit to €599 bn, over a period of 25 years, from the commencement of the exploitation.<sup>15</sup> Regarding the marine area of the Greek part of the Herodotus Basin, according to the French Beicip-Franlab, it is estimated that it might come to 2.5 trillion cubic meters of natural gas,<sup>16</sup> while, the American Geological Review gives a 50% probability there are 3 trillion cubic meters in excess of the 2.5 trillion m<sup>3</sup>, (i.e. a total of 5,5 tr. m<sup>3</sup>). In relation to the Greek oil energy neo-reserves, the responsible ministry assesses that the area of the Ionian Sea, along with that south of the island of Crete can produce 20-25 mil b/y over a period of 25-30 years from the commencement of exploitation.<sup>17</sup>

<sup>12</sup> Iosiphides, Iosif, Energy Planning 2011-2030 and Geopolitics. RES, Natural Gas. 27+12 states together ... and 1 state against, Parga, Athens, 2011.

<sup>13</sup> Konophagos, Foskolos, et al, "The steps for attracting investments and the generation, as soon as possible, of mineral wealth. The delimitation of [Greek] EEZ", Secret Report to the Greek Prime Minister, July 2012, *Reuters*, 03 October 2012.

<sup>14</sup> Iosiphides, Iosif, op. cit.

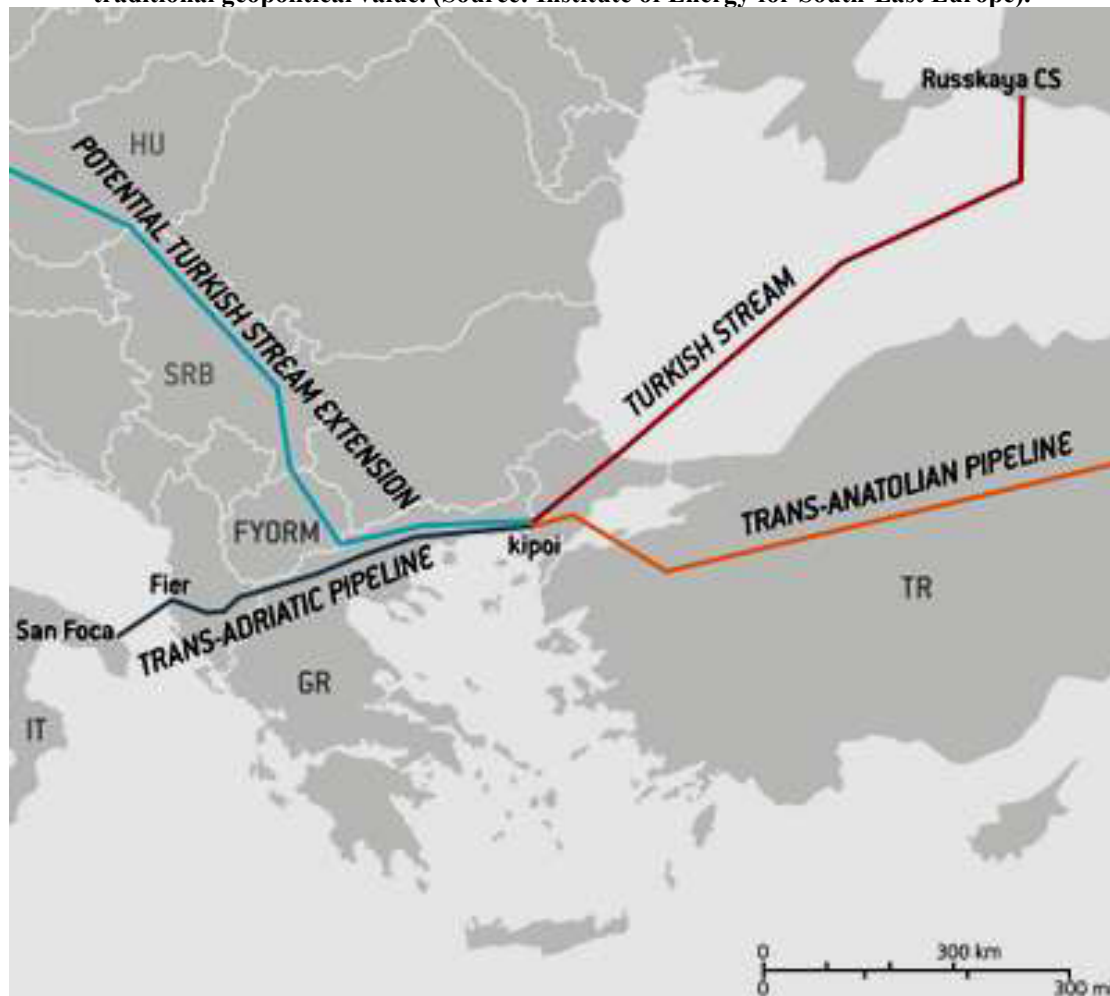
<sup>15</sup> Konophagos, op. cit.

<sup>16</sup> This conclusion was reached by Beicip-Franlab by simulating the Greek part of the Herodotus Basin with that of the Israeli part of the Levantine Basin. Mazis, Ioannis Th., "The secrets of the Israel-Cyprus-Greece axis. The European energy reality. The emergence of US and Russia. The Turkish plans for Kastellorizo", *Foreign Affairs*, Hellenic Edition, March 2012, pp. 9-10.

<sup>17</sup> Greek consumption of oil comes to 120 million bbl./y.



**Map no 3: TAP, Turkish-Stream, and the potential extension of the later, upgrade Greece's traditional geopolitical value. (Source: Institute of Energy for South-East Europe).**



Finally, as a transfer network host country, it must be noted that Greece has a strong geographical advantage, being a core transit country for the regional energyplanned network of pipelines. Greece is part of TAP, Turk-Stream (the former South-Stream), as well as the, extremely interesting, Vertical Corridor, which vertically connects the Balkan and Eastern European States, from the Aegean to the Baltic, by-passing Ukraine. Finally, Greece has signed a Memorandum of Understanding with Russia, Serbia, Hungary and FYROM for the expansion of Turk-Stream towards Austria.

**Map no 4: The Vertical Corridor connects vertically the Balkan and Eastern Europe states, from Aegean towards Baltic, can by-pass Ukraine.(Source: Institute of Energy for South-East Europe).**



### 3.2. The Cypriot neo-reserves

Recent studies have shown that the marine area of the Levantine Basin up to the area adjacent to the Herodotus Basin contain natural gas neo-reserves. According to the most moderate estimates, the Beicip-Franlab and the Institut Français du Pétrole, estimate the total volume of neo-reserves of the off-shore area within the Cypriot EEZ to 3 trillion m<sup>3</sup> of natural gas. The Cyprus EEZ has been divided in 13 so-called “blocks”. Possible areas of neo-reserves within the EEZ are blocks 12 and 9 which are the first ones explored and have been conceded to international consortia for operation. Noble Energy and Delek are the operators of Block 12 and the Aphrodite natural gas field that is located within it, 34 km west of the Israeli “Leviathan” gas field, which is also operated by the same consortium. Block 9 and the underlying gas fields “Onasagoras” and “Amathus” is operated by the Italo-Korean Consortium Eni-Kogas. With their recent announcements on 19 November 2014, the Israeli companies Delek and Avner, claim in the brief to their shareholders in the Israeli stock exchange that the natural gas quantities in ‘Aphrodite’ gas field exceed 4.5 trillion m<sup>3</sup>, 12% more than the estimates so far.<sup>18</sup> Furthermore, especially the Aphrodite natural gas field alone, in block no 12, according to the former Director of the Energy Service of the Cypriot Ministry of Commerce, Solon Casinis, contains approximately 8-12 trillion m<sup>3</sup> of natural gas, the value of which is estimated to € 350 billion, and the net profit for the Cypriot state to € 86 billion.<sup>19</sup> So far it is claimed by Noble Energy and Delek, which operate the said reserve-gas field, that it can yield a production of approximately 10 b/m<sup>3</sup>/y for the next 2-3 decades. In this view, Delek company, demonstrating its interest in the Aphrodite gas field, has entered into negotiations to buy share from Noble Energy, with its CEO Yossi Abu stating after a meeting with the Cypriot President, Nikos Anastasiades on 4 September: “We are fully committed to developing the Aphrodite gas field, in line with its strategy of supplying the Cypriot and Egyptian markets with natural gas fast and efficiently. We already started the process of marketing the gas into those markets and we have long discussions with potential buyers for this gas”.<sup>20</sup> It should be noted that given that the Cypriot economy is exclusively dependent on oil in order to cover its domestic needs, the vast majority, 80-85%, of the total production of

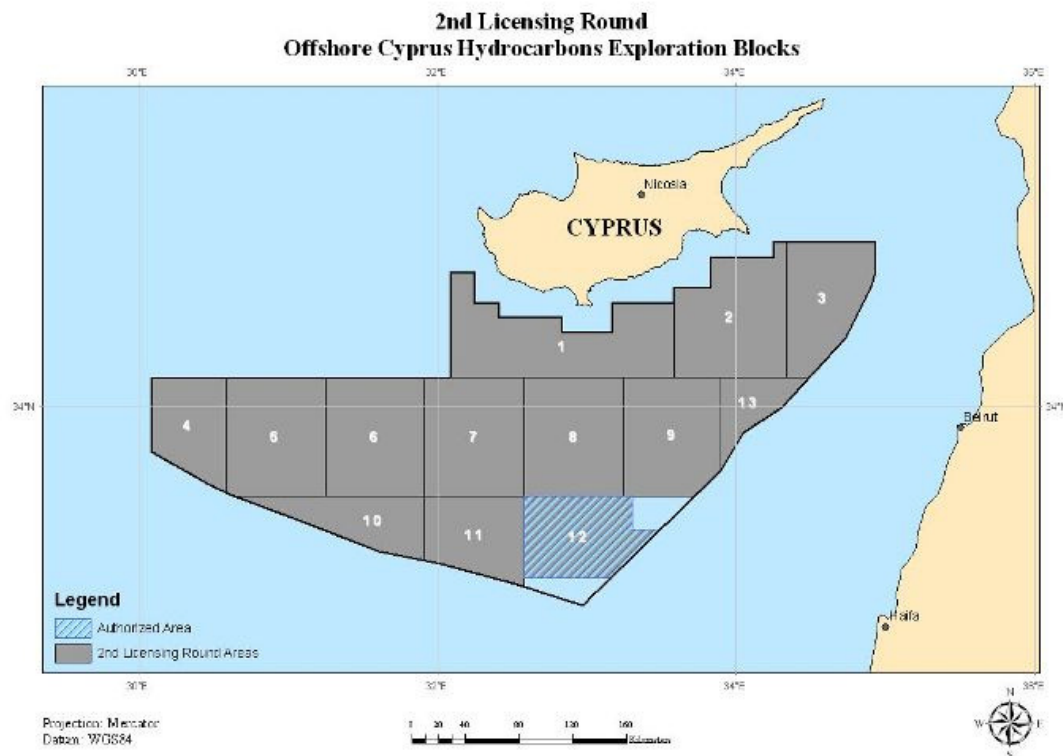
<sup>18</sup> Mazis, Ioannis Th., op. cit., pp. 9-10.

<sup>19</sup> Interview of Solon Casinis to www.Euro2day.gr, 15 April 2014.

<sup>20</sup> *Naftemporiki*, 04 September, 2015.

natural gas, i.e. 2,4 to 2,5 trillion m<sup>3</sup>, will be exported. Indeed, since 2014, advanced talks have taken place for the export of the total natural gas production from the Aphrodite gas field to Egypt. In joint statement, on 25 November 2014, made by the Egyptian Minister of Oil and Mineral Resources, Ismail Sherif and the Cypriot Minister of Energy George Lakkotrypis, the former stated that: *“Egypt can receive as much gas quantities as Cyprus can export.”*<sup>21</sup> His Cypriot counterpart also, stated that: *“It appears that the best option for export at present appears to be via a pipeline between Cyprus and Egypt and the talks focus on the existing infrastructure of Egypt’s liquefaction terminal, i.e. in Idku and Damietta”.*<sup>22</sup>

**Map no 5: The neo-reserves in the EEZ of Cyprus are divided in 13 so-called “blocks”. The energy companies, Noble Energy and Delek are the operators of Block 12 and its Aphrodite natural gas field. (Source: Ministry of Energy, Commerce, Industry and Tourism of the Republic of Cyprus).**

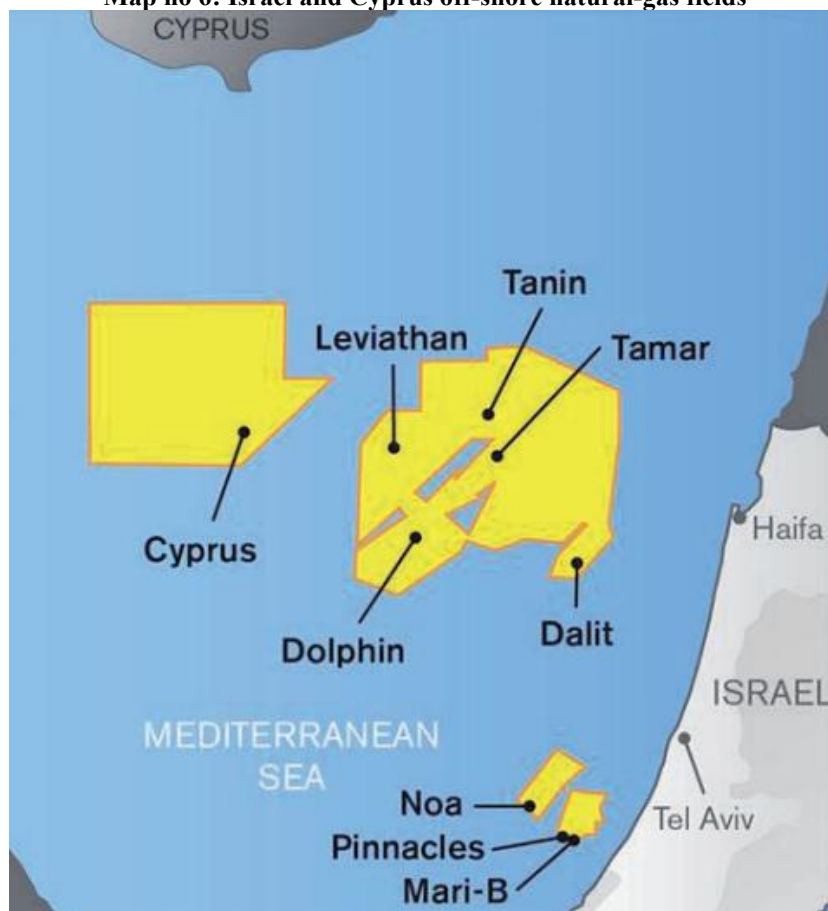


### 3.3. The Israeli neo-reserves

Until the recent discovery of the Leviathan, Tamar and Dalit neo-reserves, the Israeli deposits came to a maximum of 1, 7 trillion m<sup>3</sup>, from the traditional off-shore natural gas fields of Mari and Noa. According to the most moderate estimates, the BEICIP-FRANLAB and the Institut Franais du Petrole, the neo-reserves of natural gas in the Exclusive Economic Zone (EEZ) of Israel amount up to 800billionm<sup>3</sup>. More specifically: 1.Tamar: 90kmfromHaifaand indepth of 1.680m. Estimated reserves 142 bn/m<sup>3</sup>, 2.Dalit: 13km east of Tamar: Estimated reserves: 14 bn/m<sup>3</sup>, 3.Leviathan: 130km west of Haifa and in depth of 1.635m. Estimated Reserves: 535 bn/m<sup>3</sup>. In 2009, Israel began the extraction from the gas field Tamar, while the even larger field Leviathan is expected to yield production within 2016.Finally, it is estimated that the aforementioned volumes of natural gas can cover Israel’s energy needs for the next 2 to 3 decades, while large quantities are to be exported.

<sup>21</sup> Cyprus News Agency, 25 November, 2014.

<sup>22</sup> Ibid.

**Map no 6: Israel and Cyprus off-shore natural-gas fields**

### **3.4. The Egyptian neo-reserve natural gas-field Zohr**

A recent development comes to re-structure the plans for the exports of Cypriot and Israeli natural gas, as well as expedite the promotion of East-Med.

According to the Italian ENI<sup>23</sup>, an ‘ultra-gigantic’ neo-reserve of Egyptian natural gas in Zohr gas field, in block 9, also known as “Shorouk” which covers an area of 100 km<sup>2</sup>, at a depth of 1.450 km, 109 km of Port Side, was discovered on 30 August 2015.<sup>24</sup> Also, “*It's the largest gas discovery ever made in Egypt and in the Mediterranean Sea and could become one of the world's largest natural-gas finds*”,<sup>25</sup> the company said. Indeed, this reserve is the largest discovery of natural gas ever taking place in the Mediterranean, while according to ENI, its full utilization will be in a position to cover Egypt’s demand in natural gas for decades. More specifically, Zohr gas field is estimated to cover an area of 100 km<sup>2</sup> and can yield approximately 850 billion m<sup>3</sup> of natural gas.<sup>26</sup> An extremely important statement is that of Hamdy Abdel Aziz, Director of Communication of the Egyptian Oil Ministry, to Bloomberg Agency: “... *the entire production will be used for domestic consumption.*”<sup>27</sup>, while the quantities in Zohr gasfield, in Shorouk block, are estimated to adequately cover Egypt’s need for more than 10 years.

<sup>23</sup> The research for oil and gas reserves was signed in 2014, between the Italian ENI and the Egyptian Ministry of oil, following a call for tenders.

<sup>24</sup> ENI’s official public announcement, 30 August, 2015.

<sup>25</sup> Ibid.

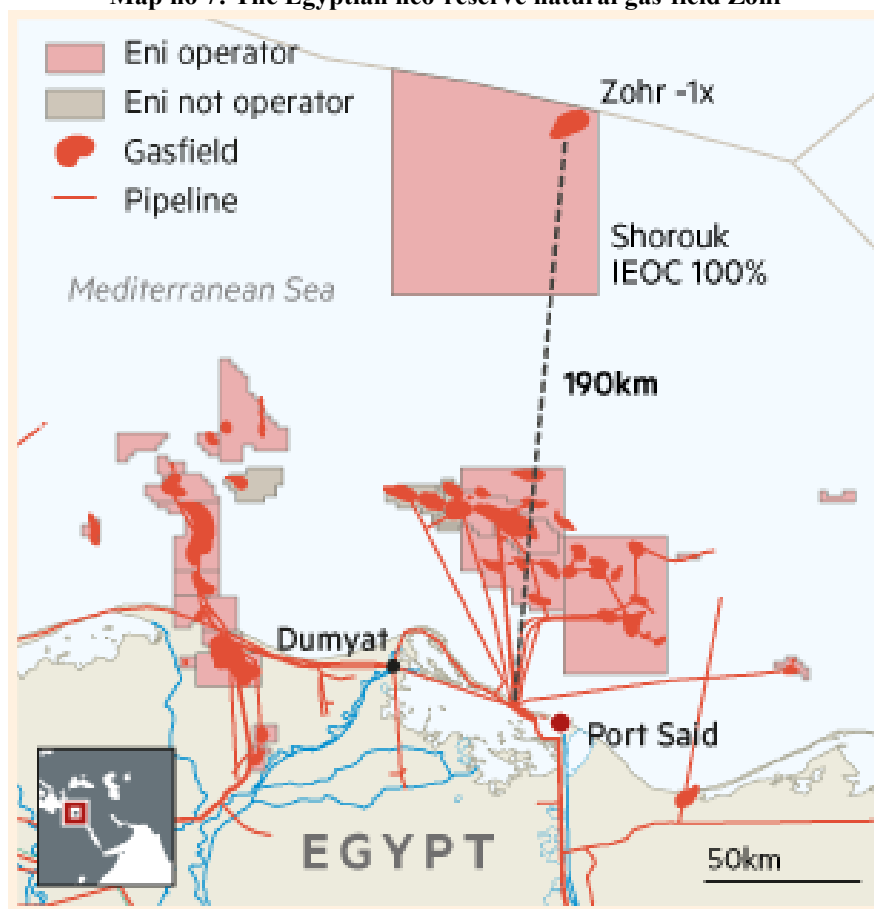
<sup>26</sup> The role of Egypt as an energy key player in the region will be significantly upgraded following the discovery of Zohr gas field. The discovery increases Egypt’s total reserves of natural gas from 65,2 trillion m<sup>3</sup> to 100 trillion m<sup>3</sup>, significantly enhancing its geopolitical position.

<sup>27</sup> Bloomberg Agency, 02 September, 2015

Also of extreme importance is the fact that Zohr gas field adjoins block 11 of the Cypriot EEZ, only 6 km away. It is worth noting that according to the Cypriot News Agency, the former Director of the Energy Service of the Ministry of Energy, Commerce, Industry and Tourism, Solon Kassinis supported that: “*Large quantities of gas will be discovered in the surrounding area and I am certain that our EEZ contains even larger quantities.*”<sup>28</sup> Consequently, what needs to be done is for the French company Total, holder of exploitation rights for the Cypriot block 11, to research whether this gigantic neo-reserve extends to the Cypriot EEZ.<sup>29</sup>

It becomes clear that once the Egyptian government directs the entire quantity of natural gas from the aforementioned neo-reserve for domestic consumption, export options towards nearby markets, such as Egypt, are dramatically decreased for Jerusalem and Nicosia. On the other hand 2,5trillion m<sup>3</sup> of Cypriot natural gas, as well as a large part of the Israeli one, approximately 600-800 billion m<sup>3</sup>, ‘await’ their distribution in international markets. As a result, turning towards further, geographically, markets is unavoidable, a fact that is favourable for East-Med’s prospects.

**Map no 7: The Egyptian neo-reserve natural gas-field Zohr**



In conclusion, it appears that the “*alea jacta est*” for the development of a wider, deeper and substantial energy cooperation between Israel, Cyprus and Greece, within the framework of the existing geostrategic alliance of the three states. Athens expedites the international licensing round for hydrocarbon exploration, Nicosia consolidates the sector of production of natural gas and Israel is expected to commence the extraction from the Leviathan neo-reserve gas field in 2016, the third largest in the world, since the newly discovered Egyptian Zohr.

<sup>28</sup> *CyprusNewsAgency*, 02 September, 2015.

<sup>29</sup> The new research results for block 11 will be delivered by the French Company to the Minister of Energy Commerce, Industry and Tourism in October.



### 3.5. The Eastern Mediterranean Pipeline, (East-Med)<sup>30</sup>

All of these can only have the expected added value for the allied states, with the construction of the East Mediterranean Pipeline, which will form the backbone of the long term alliance between Israel, Greece and Cyprus.<sup>31</sup> Indeed, this pipeline is of the outmost strategic importance, since it will transport the Israeli, Cypriot and Greek natural gas reserves. The Greek Public Natural Gas Company, (DEPA) was the first to propose the option of East-Med, in 2012. The pipeline, as an option, having a length of 1.530 km<sup>32</sup> and a capacity of 8 to 12 billion m<sup>3</sup>, without the Greek neo-deposits contribution, satisfies European Union's goal of multiple suppliers in order to achieve the higher degree of energy security.<sup>33</sup> Passing entirely through European ground and sovereign space, links Israel, Cyprus, Greece, and finally is connected with the Greek-Italian interconnector, (IGI), pipeline, which crosses the Adriatic Sea.<sup>34</sup> Following the construction of the off-shore pipeline, a terminal station is planned to be constructed in Cyprus, which will be used for the liquefaction of natural gas prior to its transfer to the European markets. Besides, Brigadier Giora Eiland's statement, highlights Israel's intention: *"... the use of existing LNG facilities in Egypt is examined. The other option, the construction of the pipeline to Greece, is the preferred political and the safest way to interconnect with Europe."*<sup>35</sup> It is of extreme importance that during a meeting in Rome, 18-19 November 2014, the Israeli Minister of Energy, Shirvan Shalom, proposed the solution of the East-Med to his counterparts of the European Mediterranean countries, labeling it a monumental technical construction of immense political significance.<sup>36</sup> Indeed, with the appropriate management in the energy sector, Greece-Cyprus-Israel will be in a position to forge a long-term alliance, which, having energy extroversion as a spearhead, could substitute in time the majority of EU's, practically monopolistic, suppliers of energy mixture. For eachally individually, this has also particular political importance. Jerusalem will probably attempt to immediately capitalize on the power stemming from exporting energy mixture to the E.U., *inter alia*, in the re-orientation of certain European institutions and powers, in favour of Israeli positions, in respect to the Arab-Israeli conflict. Greece and Cyprus will agonizingly attempt to exploit the benefits of their energy sector in order to exit faster and easier from the economic depression they are experiencing. Finally, there is no doubt, that the systemic geopolitical result of the tripartite alliance, which is geometrically accentuated by the energy geopolitical factor, is the rapid upgrading of the geopolitical status of the three allies on a peripheral level, in the geopolitical system of the southeast Mediterranean, and not only, with the warm blessings of the EU.

The East-Med proposal is also officially presented to the Vice-President of the European Commission and European Commissioner for Energy Union, Maros Sefcovic by the Greek and Cypriot Ministers of Energy on 9 December 2014, accompanied with the relevant economic viability studies and research results so far.<sup>37</sup> The pipeline has been included in the Project of Common Interest, (PCI) of the European Commission for 2015, while the responsible sub-committee of the European Union will finance its further feasibility study, initially with the symbolic amount of two million euros, demonstrating its genuine interest for

<sup>30</sup> For an analysis of the Eastern Mediterranean Pipeline, (East-Med), and how it can increase the European Energy Security refer to: Sotiropoulos, Ioannis, P., op. cit.

<sup>31</sup> Ibid.

<sup>32</sup> More specifically, the off-shore distances of the East-Med from on-shore to on-shore landmark are the following: 150 km=Levantine Basin-Cyprus, 650 χλμ=Cyprus-Crete, 400 km=Crete-Peloponnesus, 500 (on-shore) km=Peloponnesus-Thesprotia and connection with IGI.

<sup>33</sup> For an analysis of the Eastern Mediterranean Pipeline, (East-Med), and how it can increase the European Energy Security refer to: Sotiropoulos, Ioannis, P., op. cit.

<sup>34</sup> Ibid.

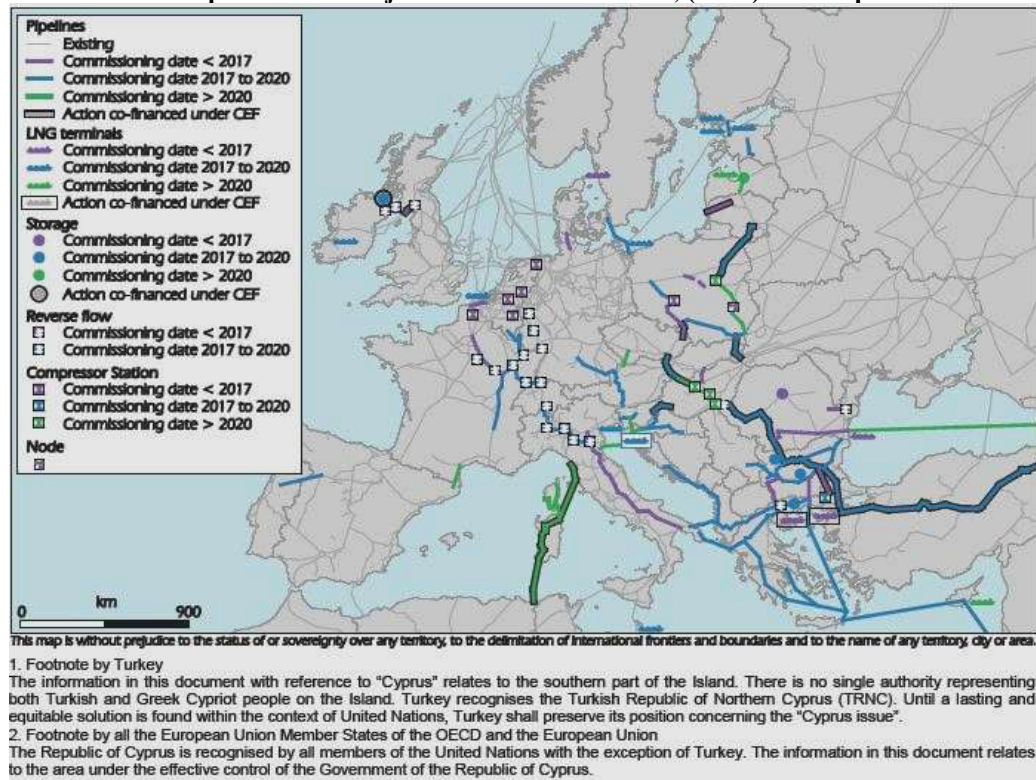
<sup>35</sup> *Kathimerini*, 30 November, 2014.

<sup>36</sup> "Building a euro-Mediterranean energy bridge. The strategic value of the euro-Mediterranean natural gas and electricity networks in the context of energy security. 'International Euro-Mediterranean High Level Conference', 18-19 November, Rome Italy.

<sup>37</sup> Sotiropoulos, Ioannis, P., op. cit.

the construction of the East-Med. The said pipeline will increase EU's energy security,<sup>38</sup> as it is estimated that the Eastern Mediterranean Basins contains more than 3,5trillion m3 of natural gas, and 1,7 billion barrels of oil.<sup>39</sup> Consequently, a strategic Mediterranean carousel has begun, originating from the south-east Mediterranean neo-reserves of Israel and Cyprus, with the involvement of certain key-state guarantors and hosts of East-Med pipeline infrastructure, such as Greece, Cyprus and Israel, and potentially new energy suppliers such as Greece and Egypt, once the former starts the exploitation of its reserves and the socio-political situation in the latter is stabilized.<sup>40</sup>

**Map no 8: The Projects of Common Interest, (PCIs) in Europe**



It becomes clear that East-Med in one hand constitutes the qualitative catalyst in the strengthening and deepening of the allied relationship between Greece-Cyprus-Israel in the long-term and on the other will play a very important role in the transport of energy mixture and the increase of EU energy security, while the development of the alliance between

<sup>38</sup> Ibid.

<sup>39</sup> 'Overview of oil and natural gas in the Eastern Mediterranean region', *Energy International Association*, August 2013.

<sup>40</sup> "Cairo has achieved variety in its energy mixture intended for consumption, while exports of oil and oil derivatives in Europe and the US, hold a significant share, at least until recently, of its total exports, although a downturn occurred since mid-2012 due of the political crisis experienced by the country.". According to CIA World fact-book, "The Egyptian production of natural gas, which is not sufficient to cover domestic needs, amounts to approximately 2,056 billion m3/y, while oil production varies from 720.000 for 2012, to 691,000 for 2013, bbl/d, i.e. 32,936 million tonnes/y, depending on the year and the source.". According to the Statistical report of the International Energy Agency, "Egypt's proven reserves in natural gas and oil amount to 2,186 trillion m3 and 4,400 billion bbl., respectively. Both oil and gas are mined in the western regions of the country, the Nile Delta and the Gulf of Suez. Finally, Egypt uses, mainly for export purposes, two large seaside terminal stations of liquefied gas, (Liquid Natural Gas-LNG) in Idko and Damietta, which remain inactive since the 2010 revolution, when Cairo decided to cease gas exports and to exclusively use it for domestic consumption and mainly the productive industry. Egypt holds the largest oil refinery capacity in Africa with 726,000 bbl/d.". Ibid.

Athens, Nicosia and Jerusalem consists an interalia geostrategic counterweight for the Turkish revisionism in the wider area.

**Map no 9: The Eastern Mediterranean Pipeline, (East-Med).**(Source: Ioannis Th. Mazis and Georgios Sgouros, *Regional Science Inquiry Journal*, Vol. II (2), 2010, pp. 133-150).



#### 4. The Turkish efforts for rapprochement with Israel

Since the shooting down of the Russian SU-24 fighter by Turkish F-16 fighters and the subsequent development, the Russian-Turkish diplomatic relations are at their nadir. On the energy field, where Turkey is vulnerable, Moscow called off the construction of the Turkish Stream, which would transfer Russian natural gas to Europe through Turkey, while Ankara has become Kremlin's energy hostage, since it imports 50% of the natural gas, it consumes from Russia.

Under these circumstances, Ankara attempts to normalise the Israeli-Turkish relationships, with the mutual energy benefits as the core argument. More specifically, the Turkish President, Tajip Erdogan, stated on 2 January 2016: *"Israel is in need of a country like Turkey in the region, ...And we too must accept that we need Israel. This is a reality in the region... If mutual steps are implemented based on sincerity, then normalization will follow"*.<sup>41</sup>

One could argue that there are reasons of mutual benefits for an Israeli-Turkish rapprochement. The future prospect of co-exploitation of the natural gas reserves in the east Mediterranean is the primary reason, since Israel wishes to export natural gas from the 'Leviathan' gas field to Europe *via* all possible routes. On the other hand, Turkey would secure a substantial amount of natural gas for domestic consumption and would enter the Eastern Mediterranean natural gas transport map towards Europe. Netanyahu's government is already trying to enter into agreements with the governments of Nicosia and Athens for the export of Israeli natural gas, while some argue that an additional route, that of Turkey would increase his negotiating power and would speed up the export of Israeli natural gas. Finally, Turkey and Israel have traditionally been the USA's strategic partners. Following a long and serious Turkish deviation from this traditional policy, which raised a number of questions by

<sup>41</sup>Kayhan International, Kayhan Group of Newspapers, 2 January, 2016.



NATO's partners as to Ankara's true political stance, a rapprochement and cooperation<sup>42</sup> between Ankara and Jerusalem, is going to be extremely satisfying to Washington, a powerful international pole of power of the acting geopolitical supra-system.

All these take place amidst the non-resolution of the Cyprus problem, the continuing blockade of the Gaza Strip by Israel and the strategic cooperation between Jerusalem-Nicosia-Athens with political, military and energy synergies. Moreover, it is extremely doubtful if whichever Turkish-Israeli rapprochement proposal from Ankara, does not disturb Israeli's relations with other regional forces.

In fact, it appears that there are business groups within Israel who find the Israeli-Turkish rapprochement beneficial to their own micro-economic interests and who actively promote it *via* energy based relations and official energy agreements.<sup>43</sup> Nevertheless, as Israel's national security is the ultimate priority for Jerusalem, the official Israeli position heavily leans towards an Israel-Greek strategic alignment. Brigadier Giora Eiland's statement though is indicative of the intentions of the Israeli state on the issue: *"... the use of existing LNG facilities in Egypt is examined. The other option, the construction of the pipeline to Greece, is the preferred political and the safest way to interconnect with Europe."*<sup>44</sup> Furthermore, the Israeli Minister of Energy, Shirvan Shalom, proposed the solution of the East-Med to the ministers of the European Mediterranean countries during the meeting in Rome between 18 and 19 November, as a monumental technical construction of immense political significance.<sup>45</sup> Finally he pointed out that the project requires investment from Europe, of tens of billions of euros.<sup>46</sup> Considering that Israel's national security and interests are at stake, it is clear that business interests will not prevail. Moreover, given that this is also the international political trend, Israel would never jeopardize its national security in such a crucial sector such a synergy. As mentioned by Raphaël Metais: *"Since the 1960s when the private oil companies 'the Seven Sisters' controlled more than 85% of international oil reserves, the trends reversed and today the 'new Seven Sisters' control the primary oil companies are of national character and possess the majority of the reserves".*<sup>49</sup> Thus, Metais explains, *"the continuously growing number of similar national companies, controlled by the governments of their states, tend to surpass the logic of the markets for the benefit of wider political and ideological aspirations."*<sup>50</sup> In addition, the reluctance of certain governments of oil producing states to accept direct foreign investments renders the goal of energy security of energy

<sup>42</sup> Reuters suggested on December 17<sup>th</sup>, (from an anonymous Israeli source) that Mossad's incoming Director, Yossi Cohen, the Israeli envoy, Joseph Ciechanover, and the Turkish foreign ministry under-secretary, Feridun Sinirlioglu, have reached a preliminary agreement during negotiations in Switzerland. Ankara denied that such a meeting has taken place.

<sup>43</sup> Sotiropoulos, Ioannis, P., "The Geopolitics of Energy in the South-East Mediterranean. Greece, European Energy Security and the Eastern Mediterranean Pipeline.", Contribution in the Roundtable of the International Scientific Workshop, 'Repositioning Greece in a Globalizing World', Collective, Joint Partnership Project, Global and European Studies Institute, (GESI), University of Leipzig and the Faculty of Turkish Studies and Modern Asian Studies, School of Economics and Political Sciences, National and Kapodistrian University of Athens, 8-11 June 2015, Leipzig, University of Leipzig Publications, Leipzig, 2016, *forthcoming*.

<sup>44</sup> Kathimerini, 30 November, 2014.

<sup>45</sup> "Building a euro-Mediterranean energy bridge. The strategic value of the euro-Mediterranean natural gas and electricity networks in the context of energy security. 'International Euro-Mediterranean High Level Conference', 18-19 November, Rome Italy.

<sup>46</sup> www.timesofisrael.com

<sup>47</sup> There are: Exxon-Mobil, Chevron, BP, Royal Dutch Shell, ConocoPhillips and Total (6 have left after mergers and acquisitions.), (in Mazis, Ioannis Th. and Balafouta, Virginia G., *Geopolitical Reality in the Dipole Greece-Cyprus, Solutions and Alibis*, Scientific series: Geo-cultures-Politics and Culture, Papazisis, 2014, p. 35.).

<sup>48</sup> Aramco (Saudi Arabia), Gazprom (Russia), CNPC (China), NIOC (Iran), PDVSA (Venezuela), Petrobras (Brazil), and Petronas (Malaysia), (in *ibid*, p. 35.).

<sup>49</sup> Frank Umbach, "Global Energy Security and the Implications for the EU", *Energy Policy*, no. 38, 2010, p. 1232, (in *ibid*, pp.35-6).

<sup>50</sup> Umbach, op.cit., p. 1232, (in *ibid*, pp. 35-6.).

*importing countries, slightly more complicated.*<sup>51</sup> The geopolitical framework based on the above information with respect to energy security may be properly analyzed by the model "Empire and regions" as developed by Aad Correljé and Coby van der Linde.<sup>52</sup> This model foresees the future of energy security issues through *"the division of the world between countries and regions, based on ideologies, religions and political arguments"*.<sup>53</sup> The main props of this view is the absence of effective international markets combined with energy companies of a high degree of integration operating on a national basis. *"The observed dimension of the UN Security Council on the issue of the war in Iraq is an eloquent example of different states or groups of states with diverse interests on a conflict where energy considerations were not absent."*<sup>54</sup> It is also remarkably instructive the case study, which justifies these approaches, of the Russian President's behavior since he was elected at the highest Russian office in 2000. President Putin has demonstrated an *"increasing by the day ability and volition to use energy as a political tool for the achievement of political and geopolitical goals [...and] the reinforcement of his international position."*<sup>55</sup> *"This fact appeared to be part of broader trends towards re-nationalisation and politicization of matters of energy matters."*<sup>56</sup>

## 5. Conclusions

From a geopolitical perspective, the area of the south-east Mediterranean, since the discovery of the energy neo-reserves has come to face a new geopolitical reality. It is a fact that the hydrocarbon neo-reserves of Greece, Cyprus and Israel exceed their domestic needs by large. As a result, a significant bulk will be exported in order to cover the needs of European, mainly industrial intensive, states. The transport of the energy mixture from Greece's, Cypriot and Israel's EEZs, via the planned East-Mediterranean pipeline, will give the EU the opportunity to expand its energy supplier portfolio, increasing its energy security, significantly.

The majority Greece's neo-reserves area concentrated east of the island of Crete. They are estimated at 6 trillion m<sup>3</sup> of natural gas and 1,7 billion barrels of oil. The sustainability of the natural gas reserves is estimated at 100 years, a fact that underlines the importance of their proper management by the Greek government or the legal beneficiaries in future. The Ionian and Aegean Seas and the East Mediterranean have reserves of energy resources that can cover further needs as an exportable product. Moreover, the geographical route of the Turk-Stream, if implemented, is suitable to directly receive the energy production of these deposits via Greek territory, while an important role will be played by the Vertical Corridor which can connect, from an energy perspective, vertically the Balkan and Eastern Europe states, starting from the Aegean, with a direction from south to north, by-passing Ukraine and without involving any of Moscow's infrastructure. Israel's energy reserves are estimated to approximately 2,5 trillion/m<sup>3</sup> and it is estimated that they are can adequately cover its domestic energy needs for the next 3 decades, along with a certain volume of exports. In addition, Nicosia's domestic needs rely on oil, which means that the biggest bulk of its 3 trillion natural gas neo-reserves, approximately 2,5 trillion, can be exported; another fact that advocates in favour of the immediate construction of the East-Med. Finally, the discovery of the Zohr gas field does not downgrade the significance of the existing neo-reserves of the area. On the contrary, adjoining the Cypriot EEZ and block 11, this discovery increases the possibility for a similar one by Cyprus. In addition, the current planning for the export of

<sup>51</sup> Umbach, op.cit., p. 1232, (in ibid., pp. 35-6.).

<sup>52</sup> Aad Correljé and Coby van der Linde, "Energy supply security and geopolitics: A European Perspective", *Energy Policy*, vol. 34, no. 5, 2006, p. 535.

<sup>53</sup> op.cit., p. 536, (in Mazis, *Geopolitical Reality in...*, p. 36.).

<sup>54</sup> Metais, Raphaël, "Ensuring Energy Security in Europe: The EU between a Market-based and a Geopolitical Approach", *EU Diplomacy Paper03*, College de l' Europe, Department of EU International Relations and Diplomacy Studies, p. 11.

<sup>55</sup> Jakub M. Godzimirski, "Energy Security and the Politics of Identity", in Fermann (ed.), *Political Economy of Energy in Europe*, Berliner Wissenschafts-Verlag, Berlin, 2009, p. 181.

<sup>56</sup> Metais, Raphaël, "Ensuring Energy Security...", ibid., p. 10).

Israeli and Cypriot natural gas to Egypt can be easily revised, inevitably channeling the lion's share towards the EU through the East-Med. Moreover, an increasing accumulation of energy mixture available for export by Israel and Cyprus is achieved, reinforcing the financial viability of East-Med, as well as its geopolitical value, exhorting Jerusalem and Nicosia towards its speedier construction, bringing Athens, Nicosia and Jerusalem even closer. Despite Ankara's attempt for rapprochement with Jerusalem, the official Israeli position heavily leans towards an Israeli-Greek-Cypriot strategic alignment, as Israel's national security constitute the ultimate long-term priority for Jerusalem.

Considering that the developments in the energy sector, and particularly the planning and the construction of pipelines, are closely related to the wider geostrategic interests and national policies, Greece, Cyprus and Israel are countries of unique energy, *inter alia*, geopolitical location. Being members of the EU, (Greece and Cyprus) and NATO, (Greece), either undeviatingly oriented towards the Western Community (Israel), they abut on the energy producers of the Middle East, North Africa and the energy channels of the Black Sea and Caspian natural gas. Particularly, the European strategy of diversifying the procurement of energy mixture is currently a favourable factor for the implementation of East-Med, the pipeline of Israel-Cyprus and Greece, which will transport natural gas from the neo-reserves of the Levantine Basin in the Mediterranean towards Europe. In this sense, Greece, Israel and Cyprus, which are extremely endowed due to their geopolitical position, including their cultural dimension, both historically as well as in the contemporary world, come even closer together, covering gaps of geopolitical nature, operational character and political-economic flitters, deterministically heading towards a closer, deeper and long-term cooperative alliance, with the geopolitical factor of energy as a functional scheme.

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## MANAGEMENT OF THE ECONOMIC CAPACITY OF THE REGION ON THE BASIS OF FORESIGHT (ON THE EXAMPLE OF ADYGEA, RUSSIA)

**Elena Nikolaevna ZAKHAROVA**

Adyghe State University, Maikop

**Elena Evgenyevna KARDAVA**

Branch Adygeya State University in Belorechensk

352630, Krasnodar region,

Belorechensk Street. March 8 57/1

mtrushin@mail.ru

**Rita Rafaelovna AVANESOVA**

Branch Adygeya State University in Belorechensk

352630, Belorechensk,

Belorechensk Street. March 8 57/1

**Elena Petrovna AVRAMENKO**

Branch Adygeya State University in Belorechensk

352630, Belorechensk,

Belorechensk Street. March 8 57/1

### **Abstract**

In connection with the aggravation of crisis phenomena in the economy of Russia caused by the events in Ukraine, the sanctions of the West, oil prices reduction and a decline in the ruble, a new approach to strategic planning is required. Foresight technology is the most appropriate one. The purpose of this article is to give a brief description of the foresight as a technology of foreseeing and identifying the most promising points of regional capacity, aimed at improving the competitiveness on the example of a particular region of the Russian Federation – the Republic of Adygea. The authors note that conducting the regional foresight project must be preceded by an analysis of economic, natural, innovative, and information-technological capacity of the region. The article reviews the methods for foresight, gives the characteristics of natural, economic, innovation and information- technological capacity of the Republic of Adygea. In the article the development problems of the region, uncertainty factors and trends of socio-economic changes in the republic have been identified. The implementation of the foresight project will allow to form the basis for social partnership of government, business and social community in order to better exploit opportunities and the implementation of the economic capacity of the region.

**Keywords:** foresight, forecasting, anticipation, socio-economic development, regional capacity, long-term strategy, uncertainty.

**JEL classification:**

### **Introduction**

Expanding opportunities of the strategic development of Russian regions is a prerequisite for the formation of a competitive economy of the country. Leadership position of the subjects of the Russian Federation are determined by their ability to actively integrate in the development processes, corresponding to the phase of formation of post-industrial society, as well as by the ability to produce new promising activities, consumption formats and lifestyles.

In today's economy the strategic decision-making takes place in an uncertain and challenging macroeconomic conditions and, therefore, requires new practical approaches to the assessment of the current regions capacity and identification of breakthrough areas in which a real socio-economic impact can be achieved [1, 16].

Regional policy should be based on understanding of long-term trends in development of social, economic and technological capacity of the territory. The foresight technology is one

of the most effective technologies with such opportunities, that allows to anticipate the possible development processes in the long term [2, 18].

International companies use foresight studies in order to identify the future corporate strategy. The foresight methodology is used in the regional development in order to prepare long-term regional concepts and identify promising directions of the region development. In addition, the foresight studies are recommended by the European Commission as a tool for promoting long-term thinking [3].

An overall goal of the regional foresight is to make a valuable contribution to the strategy and development plans of the regions, municipalities, communities, as well as mobilize collective strategic actions [4, 273; 17]. The systematic use of the regional foresight and related approaches in the public and private sector is becoming increasingly important, as the regions play a critical role in creating a unified research environment in Russia.

Theoretical and methodological aspects and problems of practical application of the foresight technology in the development of long-term development strategies of Russian regions were considered in the works of Sokolov A.V., Tretyak V.P., Kalyuzhnaya N.Y., Ageev A.I., Voronov Y.P., Kovalchuk M.V., and other authors. At the same time, it should be stated that when carrying out foresight studies more or less standard sequence of actions is not sufficiently reflected in the literature [5].

In this regard, the analysis of the practice and methodology of foresight, determination of possibilities of applying the foresight technology for development of long-term strategies of the region development acquire a particular relevance.

The purpose of this article is to give a brief description to the foresight as a technology of anticipation and identification of the most promising points in the regional capacity development aimed at improving the competitiveness on the example of a particular region of the Russian Federation – the Republic of Adygea.

## **Methodology**

Foresight as a special practice of the future planning has been developing since 60-ies of XX century, constantly expanding the scope of application: firstly, a technological foresight for large companies and branch ministries; then a social, regional, national foresight used for professional communities, authorities and governments.

Foresight is a specially organized process of systematic assessment of long-term development prospects of the region with the participation of business, academia, public authorities and civil society institutions. Foresight allows to estimate the possible specialization of a particular region and coordinate the projects development with key stakeholders as an inevitable part of the goal achievement [6].

The foresight methodology allows to predict, and, in some cases, form the future, taking into account all possible changes in such spheres as: science and technology, economics, public administration, social and public relations and culture.

Specifics of the foresight is that it contains three complementary areas of activity [7]:

- Anticipation of the future. Identification of the underlying trends in socio-economic development of the region. The foresight is aimed at identifying different long-term scenarios for the future, including zones of inevitable, possible and impossible future.
- Management of the future. The harmonization of views of key stakeholders on possible options for the future, selection of the most promising scenario, combination of strategic objectives and co-organization of the efforts of all stakeholders, the formation of a broad coalition for the future.
- Routing of the future. Development of the "road map" of the future, which presents future targets of the desired future, "points" of changes in the public discourse, priorities and tasks that need to be solved, the necessary administrative decisions, targeted research and developments. The road map allows making key changes providing the possibility for movement into the desired future.

The totality of foresight methods can be structured around three categories.

The first category includes qualitative methods. They are often used to represent the meaning of events and observations. Such interpretations are usually based on certain attitudes, beliefs and knowledge that are quite difficult to track, because the methods give a great scope for creative and subjective thinking. This category also includes such methods as

retrospective analysis, brainstorming, expert panels, futures workshops, simulation games, interviews, literature review, morphological analysis; questionnaires and surveys; SWOT analysis [8].

The second category consists of semi-quantitative methods based on the use of mathematical calculations, for example, for a quantitative assessment of expert opinion. The database of the foresight study includes several methods: structural analysis, Delphi-survey; key/critical technologies; multi-criteria analysis; quantitative scenarios (statutory minimum wage index), mapping technologies for road mapping.

The third category of foresight methods involves quantitative methods. They are often used for monitoring measurable variables, and the statistical methods are used for processing and analysis of "fixed parameters". These methods include modeling and simulation, bibliometrics and extrapolation of trends.

A variety of methods, the multiplicity and diversity of expert knowledge allow to "look beyond the horizon" and/or find the "gaps" – essentially new (lying outside the permitted existing ontologies of forecasts and models) possibilities of the future.

The set of methods used in foresight studies is chosen taking into account possible resource and time restrictions, the availability of experts of the required qualification, an access to information sources, etc.

The foresight process is considered as the interaction of four forces, which can be represented in the form of a quadrangle ("foresight diamond"): cooperation, creativity, expertise, conclusiveness. These attributes are not mutually exclusive. In fact, they are often intertwined and connected in different sequences and therefore can be considered as "genetic" components of the method.

The foresight consists of three stages:

The first stage (pre-foresight). At this stage, the characteristic of the conditions of the study is given, the external and internal environment of the region is analyzed, a comprehensive analysis of the economic, social, infrastructural, natural, technological capacity of the Republic of Adygea is carried out. At the same stage the uncertainty factors of the future are identified, the goals and objectives of the foresight are determined; parameters and indicators of the foresight study are established.

The foresight process is the second stage. At this stage, opinion polls are conducted in the republic, including an analysis of public opinion on the problems and prospects of the regional development; preferred futures; possible mechanisms of development of the republic (focus groups, expert sessions, mass opinion polls, etc.). At this stage, the expert knowledge about the problems and prospects of development of the republic is accumulated, the likelihood and significance of implementation of possible scenarios are estimated, potential drivers of changes are identified (Delphi survey). The final documents are developed, for example, the road map for the regional development, including the targets of the desired future; priorities and tasks that need to be solved, a list of specific activities and the required management decisions.

Post-foresight is the third stage. This stage includes monitoring of changes in the future of the republic, monitoring the implementation of the selected scenarios of the process development, recording the actions of the authorities and citizens in the transition from one scenario to another, conducting repeated research stages, verification of anticipated events [9].

### **Results of the analysis of natural, economic, innovation and information- technological capacity of the Republic of Adygea**

Cherkess (Adygea) Autonomous Region was established in 1922 by separation from Krasnodar and Maikop departments of the Kuban-Black Sea region. On September 13, 1937 it was part of the Krasnodar Territory under the name of Adygea Autonomous Region. On October 5, 1990 Adygea Autonomous Republic was established. In 1991 Adygea received the status of the subject of the Russian Federation.

Currently, the Republic of Adygea is a part of the Southern Federal District of the Russian Federation. It is located in the north-western part of the Caucasus, on the left bank of the rivers Kuban and Laba; it covers an area of 7.8 thousand sq. km. Most of the land fund of the



Republic of Adygea is occupied by the agricultural land and forests: their area amounts to 3.43 thousand sq. km. and 2.38 thousand sq.km. respectively.

Natural conditions for the life of population are among the most favorable. The climate is temperate continental. Anthropogenic impact on the environment in the republic is incomparably lower than in other regions of the Russian Federation.

Mineral resources of Adygea are as follows: high-quality oil, molybdenum, tungsten, barite, lead, copper, zinc, phosphate, raw materials used for the production of construction materials – clay, sand, sand and gravel mixes, trim stones. Silver and gold can also be found.

In Adygea there is the Caucasus State Biosphere Reserve, four state nature reserves, nature monuments. The protected areas, declared a World Natural Heritage by UNESCO, occupy 14 percent of the territory of Adygea.

The Republic of Adygea has a developed transport infrastructure, which is integrated into the transport network of the South of Russia and represented by rail, road, air and pipeline means of transport. Maikop is the main transport hub (railway line, 5 motorways, airport). The operational length of railways is 160 km. Loading of rail freight in Adygea amounted to 1,272 thousand tons in 2010.

As of January 1, 2014 the population of the republic comprises 446.6 thousand people. Population density includes 56.6 people per 1 sq. km, which is almost three times higher than a Russian average indicator.

The region's economy is actively developing. At the end of 2014 the Republic of Adygea ranked first among the regions of the Southern Federal District for the index of industrial production, the growth rate of residential commissioning, the growth rate of public catering and the volume index of paid services rendered to the population (Table 1).

**Table 1 The rate of development of main economic branches of subjects of the Southern Federal district in 2014 (in percent (%) by 2013)**

The subjects of the Southern Federal District	The index of production (for the full range of enterprises)	The index of agricultural production	The volume index of investments in fixed assets	The amount of construction work performed	The growth rate of residential commissioning,	Retail trade turnover	Public catering turnover	The volume index of paid services rendered to the population
Republic of Adygea	118.3	101.3	82	96.1	by 2.5 times	103.7	117.9	112.5
Republic of Kalmykia	100.9	111.6	110.7	196	109.2	105.5	99.4	97.9
Krasnodar region	102.6	102.7	72.8	67.3	120.3	106.6	110.8	106.7
Astrakhan region	101.5	101.4	80.7	76.7	102.8	103.7	108.3	100.5
Volgograd region	100.7	108.7	120.1	108.1	140	101	102.8	101.1
Rostov region	104.9	111.7	101.5	116.5	109	102.5	103.3	103.7

The economic capacity of the region includes 7,299 enterprises of different activities.

The dominant economic sector is agriculture. The favorable geographical position of Adygea and favorable soil and climatic conditions may contribute to its further development. Crop farming is the basis of the agricultural production; pig, sheep, poultry and pedigree breeding should also be noted. The republic ranks second in Russia, after the Krasnodar Territory, for the yield of grain – 39.3 centers per hectare. Adygea is among the top three among the subjects of the Southern Federal Region for the growth rate of production of milk and eggs, respectively; it takes the first and third places.

Industrial production relates mainly to food processing, woodworking, pulp and paper industries; there are also machine-building and metal-working enterprises. Over the years, the industrial complex of the republic demonstrates positive dynamics: the index of industrial production for 2010 amounts to 115.2%; for 2011 – 107.2%; for 2012 - 108.7%; for 2013 – 102.7%; for 2014 -118.3% [10].

Adygea is one of the unique tourist regions of Russia. The republic attracts tourists in any season, allowing to develop all types of tourism. Currently in the sphere of tourism includes approximately 165 companies, including health resorts, hotel companies, sightseeing tour agencies, etc.

The information-technological capacity of the Republic of Adygea is rapidly developing (Table 2).

**Table 2 Dynamics of indicators of information-technological development of the Republic of Adygea in 2010-2013.**

Indicators	2010	2011	2012	2013
The number of organizations using ICT, units	515	522	454	531
The number of personal computers, units	14,657	15,275	14,172	16,862
The number of personal computers with an access to global information networks	6,044	7,334	8,175	9,702
Costs of information and communication technologies (ICT), million rubles.	225.7	244.8	309.1	1,052.3

For 2010-2013 the costs of information and communication technologies have increased by 4.7 times.

The number of organizations using ICT (except small businesses) has increased from 515 to 531 units, the number of personal computers has increased by 2,205 units (by 15%), during the same time period.

### **Problems of development of the Republic of Adygea**

Despite the positive trend of development of the region as a whole, currently the Republic of Adygea has a number of acute problems.

1) The lack of development of the innovative capacity of the republic.

Currently in Adygea there are only 9 organizations engaged in research and development, including 3 research organizations, 2 universities, 1 pilot plant and 3 other organizations. The total number of employees of these companies amounts to 326 people (excluding research and teaching staff of universities, performing scientific research and development along with their teaching activities).

The underdeveloped innovation infrastructure is one of the key problems: in the republic an innovation-technological center, a technological cluster or technopark have not been established yet. In addition, the region has not implemented any large-scale innovative project that could significantly increase the volume of the gross regional product.

2) Problems in the social sphere.

Although in recent years the number of pre-school children is growing, in the Republic there is an acute shortage of places in municipal kindergartens. Thus, the coverage of children by preschool educational institutions in the Republic of Adygea is 55.7% of the number of children of appropriate age (for comparison: on average across Russia this indicator is equal to 63%, in the Southern Federal District – 58.4%).

Another important problem of the social sphere is the lack of staffing and low-skilled workers of educational medical institutions.

Another pressing issue in the region is weak adaptation of the social infrastructure to the needs of disabled people.

3) Low living standards

Per capita income is one of the most important indicators of living standards [11]. In 2013, per capita income of the regions of the Southern Federal District ranged from 11,311 rubles (in the Republic of Kalmykia) up to 25,777 rubles (in the Krasnodar region). On average in Russia this indicator amounted to 25,928 rubles, in the Southern Federal District – 21,842 rubles. In the Republic of Adygea per capita income in 2013 amounted to 18,512 rubles per

month [12]. According to this indicator, the region takes the 61st place among 83 Russian regions.

The high unemployment rate is one of the most challenging socio-economic problems in the Republic of Adygea at this stage of its development. Despite a steady decrease in this indicator in recent years, the unemployment rate in the region in 2013 amounted to 7.9%, which is much higher than a similar indicator in Russia on average (5.5%) and in the Southern Federal District (6.5%).

#### 4) Demographic problems.

The Republic is a region with a high population load: 1 thousand people of working age account for 740 people of unemployable age (in Russia on average dependency ratio in 2013 amounted to 687 people, in the Southern Federal District – 711 people).

The determining factor of the demographic development of Adygea is a natural population decline: by the end of 2013 this indicator was 0.6, while in Russia on average there is a natural increase by 0.2. The mortality rate in the region (13.1) is higher than the birth rate (12.5). At the same time, in the Russian Federation the inverse dynamics can be observed: the number of births per 1,000 people (13.2) exceeds the death rate (13.0).

#### 5) Energy-deficiency of the region.

The Republic of Adygea is one of the most energy-deficient regions of the Russian Federation. This circumstance is a factor impeding the development of the productive capacities of the Republic of Adygea and increase in the revenues of the Republican budget of the Republic of Adygea. For example, in 2012, taking into account the total electricity consumption of 1 billion 192 million kilowatt-hours, the Republic of Adygea generated only 65 million kilowatt-hours. When considering the average price of electricity in the retail market, we can imagine the amount of revenue that the Republican budget of the Republic of Adygea loses every year [13].

The high energy consumption of manufactured goods affects the cost of the output products, and consequently the competitiveness of these products on product markets. The lower the energy capacity of the products, the higher its competitiveness.

The regional energy system becomes outdated. Thus, at the end of 2013, depreciation of fixed assets in the production and electricity, gas and water distribution in the Republic of Adygea amounted to 61.2% (in Russia on average this indicator is 39.2%, in the Southern Federal District – 33.7%).

### **The uncertainty factors of the future**

Despite the development capacity, the region's prospects remain uncertain. This uncertainty is caused by two important external factors:

#### 1. The global situation of uncertainty.

An increase in the global public debt, the economic problems in Europe and slowdown in Chinese economic growth – these are the signs of destabilization of the world economy [14]; "slate" and "methane" revolution could lead to a redistribution of global commodity markets.

Increased geopolitical tensions could be long-term, hindering reconstruction in the directly affected countries and weakening confidence in other countries. At the same time, the exacerbation of these tensions can lead to a sharp increase in oil prices, lower asset prices, and additional economic hardships.

The risks associated with the financial market, include a reversal of recent contraction of spread upon the risk and volatility as a result of a larger increase in long-term rates of the USA than expected, — which also would lead to tighter financial conditions for emerging markets. Long-term stagnation and low potential growth in developed economy countries remain a major medium-term risk due to low and uneven growth in these countries, despite very low interest rates and easing of other factors hampering the economic revival. In some major emerging markets, the negative effects of supply constraints on the economic growth may be more prolonged.

Tightening of foreign policy could lead to new foreign and economic tensions. Certainly, all this will have an impact on the economic and social situation in Russia, in the Southern Federal District and the Republic of Adygea.

#### 2. Complex socio-economic and political situation in Russia.

A key characteristic of the socio-economic and political development of Russia in 2014 was the alignment or mutual superposition of several crises. In this case, we mean not a crisis in one strict sense (for example, in the economic sense), but a number of trends and events, each of which goes beyond the scope of sustainable, inertial trend and substantially complicates the adoption of economic and political decisions [15, 11].

There are the following crises and problems that emerged in the present time in Russia:

- continuation of the global structural crisis, leading to profound changes in the economy and politics of the leading countries, the emergence of new geopolitical and geo-economic balances;
- worsening of the geopolitical situation, which is partly due to the significantly increased foreign policy activity of Russia;
- foreign policy shock from sanctions against Russia;
- external economic shock due to the fall in oil prices as the main source of the state budget of the Russian Federation;
- the emergence of a currency crisis as a result of the double foreign policy shock (fall in oil prices and financial sanctions);
- cyclical crisis, caused by the fall in investment activity.

The combination and superposition of these crises complicates Russia's economic development and imposes special requirements for its economic policy. It is important to apply a balanced analysis of the negative trends and problems associated with them, as well as understanding of the positive elements that can be used to counteract the crisis.

a) Deceleration of economic growth in Russia, which began in 2012. In 2015, the growth rate may become negative. The economic downturn is not such a significant problem, if it is short-term. However, the prolonged recession and the associated risks of inadequate anti-crisis economic policy could be dangerous for the Russian economy.

b) The structural problems of the Russian economy may lead to a further destabilization of the national currency.

c) Increased political uncertainty will reduce the business and investment activity.

d) Prohibition on access of Russian companies to the capital markets of countries that officially announced anti-Russian sanctions (USA, EU, Canada, Japan) have a negative effect on the ability to attract loans and place shares abroad.

At the same time, a number of positive trends should be identified in the macroeconomic situation, which may contribute to the Russian economy development:

a) a "fiscal rule" allowed to save a balanced budget;

b) low public debt of the Russian Federation, especially denominated in foreign currency;

c) availability of substantial foreign exchange reserves of the Government and the Central Bank of the Russian Federation;

d) relatively low level of unemployment as a factor of social stability in the country.

### **Recommendations for the conduct of foresight in the Republic of Adygea**

Currently in the Republic of Adygea a socio-economic development strategy, developed by scientists and practitioners, has been adopted until 2025. But the next crisis breaks all primary data and basic parameters, which are the basis for the implementation of the Strategy, and they begin to change so much that the implementation of this Strategy becomes unreal. A new approach to strategic planning is needed. The foresight technology is the most acceptable approach, which has been used for 30 years in west countries and in some regions of Russia; for example, in Bashkortostan it has been applied for more than 10 years.

The goals of the foresight:

- Discussion of the future of the Republic of Adygea till 2035;

- Drawing up 3-5 alternative scenarios for development of the region.

The main objectives of regional foresight project:

- Identification of the key trends affecting the development of the region in the future 20 years, the identification of bifurcation points and critical situations;

- Definition of industrial priorities of economic development, drivers and key subjects of changes, breakthrough projects in each area of the economy.

As a part of the foresight project it is planned to implement the following measures:

- the conduct of thematic expert sessions on the following aspects: the economy of the region; management of the region; socio-cultural space; infrastructure of the republic;
- the conduct of the foresight session on formation of a future image of the Republic of Adygea till 2035.

A key technological objective of the foresight session is to provide a high intensity and efficiency of participants' communication.

The foresight session consists of an introductory foresight and a number of operating stages, each of which includes three mandatory procedures [16]:

- general affirmation – setting the field of meanings and specific problem description;
- group communication of members, including the problematization of a breakthrough and a new vision;
- formation of a new space of meanings, ideas and suggestions.

The first event is an introductory foresight. Key actions include expert reports on the current situation and the future of the republic, an overview of case studies on the regional foresight.

Stage 1. Trend mapping. The key action is an individual work, special creative and analytical procedures in groups (up to 20 persons) and small groups (3-5 people). Trend maps, the product of this stage, are the main trends correlated with the time scale, which, according to participants, will determine the situation of the Republic of Adygea in the long run up to 2035.

Stage 2. Scenario planning. This procedure involves the development of more comprehensive visions of the future, each of which is specified in the form of a specific scenario. In the foresight technology scenario planning is projective and cannot be reduced to the traditional forecast scenarios as a combination of a number of external and internal factors.

Stage 3. Development of project ideas and solutions. The final part of the foresight session involves specification of the vision of the long-term future of the city in accordance with the selected trends and baseline scenarios, selected by the participants of the foresight session. Participants develop project ideas and management solutions that will contribute to the implementation of the specific scenario. Results of the third stage of work comprise packages of project ideas and management solutions for the implementation of each basic scenario for the development of the Republic of Adygea till 2035.

The result of these activities should be a "future map" of the Republic of Adygea, which includes project changes made for the implementation of the existing capacity and achievement of the desired image of the future of the region.

## **Conclusion**

Each region is unique and needs its own development strategy, taking into account the specificity of the territory, as well as existing processes and development trends. The task of each regional foresight is directly related to solution of the long-term problems of the region and fulfillment of its capacity (innovation, economic, technological capacity, etc.) in order to solve these problems.

The foresight will bring an opportunity to develop the economy of the Republic of Adygea on the basis of the growth of its innovative component, taking into account global trends and experiences, features of its own scientific, technological and industrial base, with clearly defined priorities.

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## **MERGERS AND ACQUISITIONS STRATEGIES FOR MARKET PENETRATION IN NEW COUNTRIES: THE CASE OF ALSEA GROUP**

**José G. VARGAS-HERNÁNDEZ**

University Center for Economic and Managerial Economics, University of Guadalajara  
Periférico Norte 799 Edif. G.201-7, Núcleo Universitario Los Belenes.  
Zapopan, Jalisco, 45100, México  
Tel: +523337703340 ext. 25685, jgvh0811@yahoo.com, josevargas@cucea.udg.mx  
jvargas2006@gmail.com

**Michelle Ángeles PÉREZ MARTÍNEZ**

University Center for Economic and Managerial Economics, University of Guadalajara  
Periférico Norte 799 Edif. G.201-7, Núcleo Universitario Los Belenes.  
Zapopan, Jalisco, 45100, México

### **Abstract**

The principal subject matter of this document is to present the use of mergers and acquisitions as market entry modes, through the international strategy and global standardization. How practical part will be held strategic analysis of Grupo Alsea a Mexican company dedicated to the operation of restaurants in Mexico, Latin America and Spain, will show how it has managed to penetrate the Latin American market and beyond the European market, what were their strategies for penetrating markets in other countries? And how effective are these strategies? Thus, concluding that the use of mergers and acquisitions for Alsea group represented its main strategic key coupled with the synergy of corporate governance, social responsibility, sustainability and development of its employees.

**Keywords:** Acquisitions, Global Standardization, International Strategy, Mergers

**JEL classification:** D220, D430, D470, M160, M210

### **1. Introduction**

Most established and stable companies to become known in their environment decide to seek new horizons either in the same country or in different countries. They analyze the market and often detected very attractive opportunities for maximizing their profits. But everything takes time and process. A company with experience knows that even when it can know its market, there is always something new to learn especially when it comes from other countries, with a different culture, with institutions that handle different rules and with consumer preferences that may differ with the well-known market.

Companies seek to maximize their profits, and for this should consider strategies to use to enter new markets. For example, they should study their competition in the new market; establish the kind of competitive advantage that carried out on companies already established. It is important to clarify their orientation, as this is what will define its course within their environment, their performance will be based on them, and the activities will be prosecuted to do this. Paramount for an entrepreneurial company is how it intends to break into the market, how to do something that distinguishes it from existing.

It is necessary establishment of a strategy. According to David (2013, page 214), this will be the implementation of the result obtained in the process of formulating. For purposes of this study will discuss the strategy of global standardization, which aims according to Hill and Jones (2009) reducing costs through the optimal choice of where the company wants to place, according to the resources that meet the needs of the company. This strategy seeks efficiency in the activities, greater innovation and product quality plus it has to have global presence in different countries.

### **2. Theoretical framework**

Globalization in some way generated a business entertainment worldwide, with companies that not only had presence in their home but went out to conquer other markets, which led to undertake changes in their strategies and invest in them before they did not invest, such as



product innovation. Globalization brought a business competitiveness that made important distinction on others to stand out from the preferences of consumers and therefore maximize its profit (Garcia-Canali, and Martinez-Noya, 2009).

That is why the strategy of global standardization is an option for companies that want their way. However, as the great strategist Sun Tzu said, "Know yourself, know your opponent, fight 100 battles, get 100 victories", it is essential to know the company, its strengths, capabilities and weaknesses, and based it then to develop its strategic plan. According to Peng (2010), the strategy can be approached from three perspectives, strategy and plan, such as action and integration. In the first it is outlined the plan to continue to achieve the goal. The second is the implementation of that plan and the last talks about permanence, creating long-term strategies aimed at ensuring the success of the company any longer.

The strategy of global standardization allows the company to increase its innovation, quality and efficiency. This strategy is the search for the reduction of bureaucratic costs of transfer of resources, usually in this type of strategy it is developed a group structure which allows expand the picture of the activities to be carried out and where, so that efficiency is considered a privilege (Hill and Jones, 2011). Work under this structure means creating a central office to coordinate the activities of the company.

Once the strategy has been established to follow when analyzing input mode comes, there is various ways to penetrate a market, and may be through the creation of new companies: This would mean starting from scratch. It involves generating an investment in the organization, areas, personnel and administration. Besides, this company even created under the umbrella of the corporate would have some independence. Collective enterprises, consists of a team, where two or more companies join forces and share resources. Limit it should be set at the beginning of the contract, so the companies know where it is allowed to meet each other, setting limits, for thus protect their resources. As a risk of this method it is stealing technology and most companies usually end badly.

Mergers and acquisitions are other entry modes, generally the most used by companies. It is the union of two or more companies to generate a new combined (Mergers). Through this method is noted more strengthened market. It means the existence of competitive opportunities for change if the merger takes place between companies can create competitive advantages. The other is when a company acquires another (Acquisitions) (Vargas-Hernandez, Guerra, and Bojorquez Bojorquez, 2014). This method is simply the purchase of a company by another. This method positions the companies in the market, create new competitive advantages in their quest for leadership globally extending through the acquisition of companies (Luna, 2010).

Mergers and acquisitions mainly seek to bring together resources to enable them to companies involved in growth. But conflict can be generated in this type of method, because usually the company with greater power, exercise control over that that has less, even in situations that begin as mergers may end up becoming acquisitions. Previously mergers and acquisitions gave more by US companies. However, the market diversification and globalization in response to other countries have exercised this method. Developed countries such as BRICS are considered as main recipients of European business investment that they have seen in these countries the opportunity to market (Feito-Ruiz and Mendez-Requejo, 2011).

For Mexico the opening of new markets generated from the FTA (Free Trade Agreement) that although some believe the country is not in a position to participate, others consider that opened the opportunity for new companies to come in and generate a market more competitive, driving companies to invest in innovation and technology processes. This brought the country to give an emerging change their policies to allow new business coexistence, placing companies belonging to government provision of public offerings generating privatization of certain sectors. According to Coelho and Castillo-Giron (2010) for Mexico, conducting mergers and acquisitions it is considered as a response to three points: competitiveness, environmental changes and capital market inefficiency.

Para México la apertura a nuevos mercados se generó a partir del TLC (Tratado de Libre Comercio) que aunque algunos consideran que el país no se encontraba en condiciones de participar, otros consideran que abrió la oportunidad para que nuevas empresas entraran y

generaran un mercado más competitivo, impulsando a las empresas a invertir en procesos de innovación y tecnología. Esto trajo consigo que el país diera un cambio emergente a sus políticas, para permitir una nueva convivencia empresarial, colocando empresas que pertenecían al gobierno a disposición de ofertas públicas generando así la privatización de ciertos sectores. De acuerdo con Coelho y Castillo-Girón (2010) para México, la realización de Fusiones y adquisiciones se considera como respuesta a tres puntos: competitividad, cambios del entorno e ineficiencia del mercado de capitales.

Competitiveness: as a way to cover most of the market share, several companies made horizontal acquisitions which made the market became oligopolistic in some sectors. Responding other companies made the same but for the opposite purpose, to join forces and avoid being acquired by companies that became oligopolies. It was also used as a mechanism for reducing transaction costs to enter through a company already established which reduces both risk and costs that would be generated if independently entering. Either vertically acquisition of companies also reduces transaction costs (Williamson, 1985).

Changes in the environment: If the economic environment changes and the indebtedness of a company grows, merges or be acquired by another company may be the solution. Even when the environment becomes more competitive companies, seek others with whom to share resources. Here's another solution, then it generates a feedback technology.

Capital market failures: In this case mergers and acquisitions work to reduce information asymmetries, and reduce costs, which would otherwise be rough.

There are several reasons why a company may acquire another company, this it is talked about different types of acquisitions:

A. The horizontal acquisition happens when both companies operate in the same country. They are distinguished by their administration and resource management. Usually they are most effective when integrated asset, but must ensure to evaluate their ability before doing so.

B. Vertical acquisitions, is to acquire part of the value chain (suppliers, distributors,

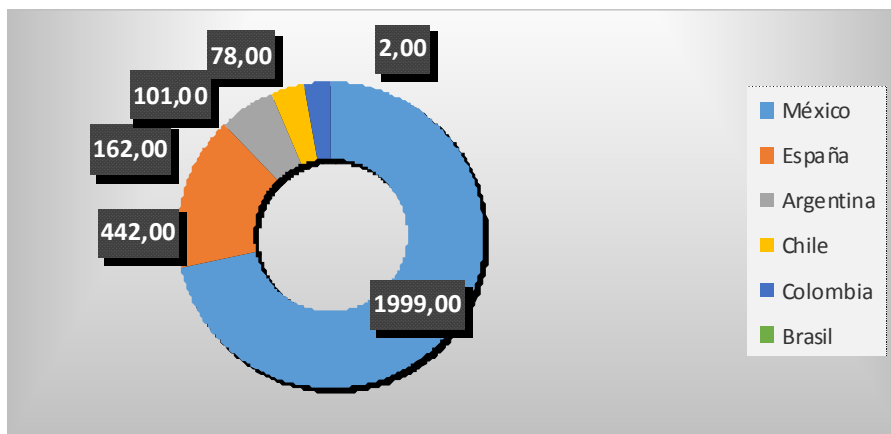
C. Related procurement is done when a company is acquired within an industry. And finally

D. Trans border acquisitions, for purposes of this research will be one of the most important to deal with. This is done when it is decided to buy companies in other parts of the world. Thus providing greater control, unlike strategic alliances (Hitt and Hoskisson, 2008).

### **3. Development**

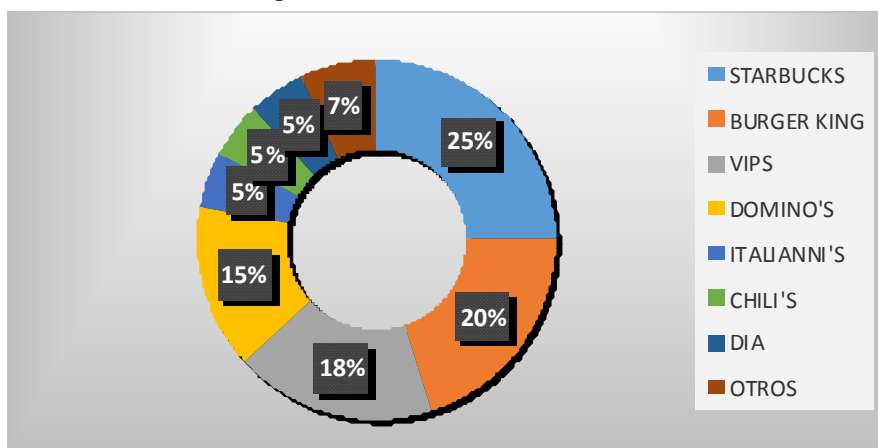
A way to explain the action to carry out acquisitions or mergers, it is taken the case of Grupo Alsea discussing its career, its achievements, accomplishments and explaining the reason for its actions. ALSEA Group is a Mexican company dedicated to the operation of restaurants in Latin America and in Spain. It is aimed at 4 segments, fast food, coffee shops, casual dining and family restaurant, thus covering different socioeconomic levels. Its mission is "exceed customer expectations" purpose "to be the best and largest restaurant operator ..." (Annual Report, 2014, page 61).

Alsea group is now considered one of the best companies to labor, with more than 20 years in the market, already it has more than 6,000 employees, has a presence in 6 countries around the world, Mexico, Brazil, Colombia, Chile, Argentina and recently Spain, with around 2784 units in total of the 15 brands that account. Mexico and Argentina account for 75% of its portfolio.

**Graph 1. Units per country.**

Source: ALSEA (2010).

With sales for each of its brands:

**Graphic 2. Sales for each of its brands.**

Source: ALSEA (2014)

Great successes represent Alsea Group, but like everything has had its ups and downs. However, Alsea Group was not formed for the overnight. It all started in 1989 with the establishment of the company Torquin by Torrado brothers and so two years later began acquiring the rights to work with the brand Domino's Pizza, pledging to care, exploitation and development of Domino's Pizza system in Mexico until the year 2025. Thus, Alsea becomes the sole bearer of the brand throughout Mexico. This represents the first acquisition made by Alsea group.

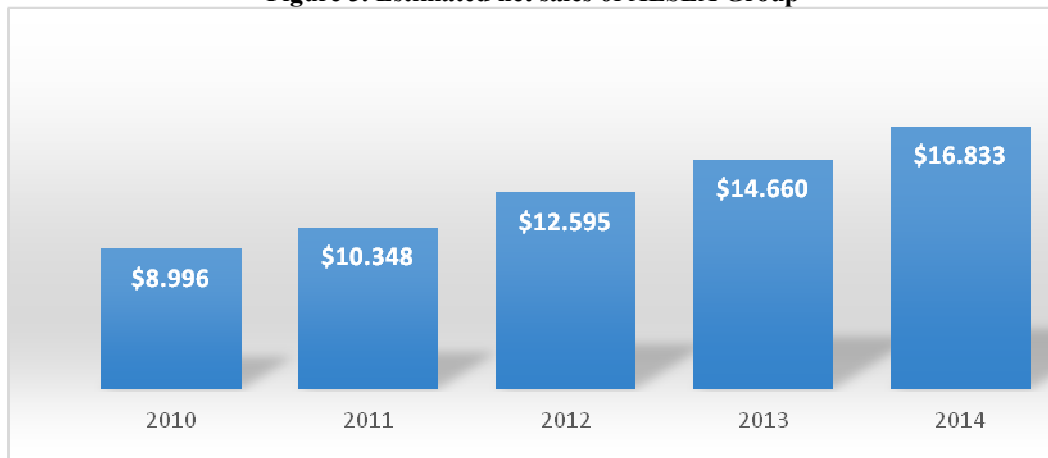
Two years later, in 1991, Burger King has a presence in Mexico, but even if Alsea Group already was working with this brand in Mexico, shared the franchise with around 7 franchisees. It was not until 2013; Alsea acquired 80% Burger King Franchise Mexico, thereby covering more of the market share. By 1992 created the first distribution center in Mexico, Distributor and Importer of Alsea (DIA). For 1999, Alsea Group joins the Mexican Stock Exchange, beginning its public offering.

So well successful that for 2002 Starbucks ventures into Mexico and Alsea Group is its "manager". The acquisition of Alsea Group on the rights of Starbucks is specified at 100% for 2015, which extends until 2027 and becoming the sole operator by legal rights to the brand in Mexico. This major acquisition brought Alsea great opportunity to grab a large segment expanding, the middle class; they are mostly those who frequent the Starbucks coffee shops. Thanks to the acceptance of Starbucks in the market and the growth thereof affects their demand, Alsea begins to generate goals, creating a vision of opening about 50 Starbucks year.

In 2005, Alsea entered the casual dining segment in 6 states in Mexico (Mexico City, Puebla, Queretaro, Hidalgo, Morelos and Mexico State) through the Chili's restaurant, even though its competitor CMR has a higher proportion of restaurants, this has not diminished the income Alsea obtained by the introduction of this restaurant.

For 2008, Alsea decides it's time to add California Pizza Kitchen restaurant to his repertoire. A year later in 2009, Alsea Group makes a contract to perform FP operations Chang's in Mexico, and thus is the first time that this restaurant is operated outside the United States. By this time, Alsea had prognosticated of net sales for the coming years:

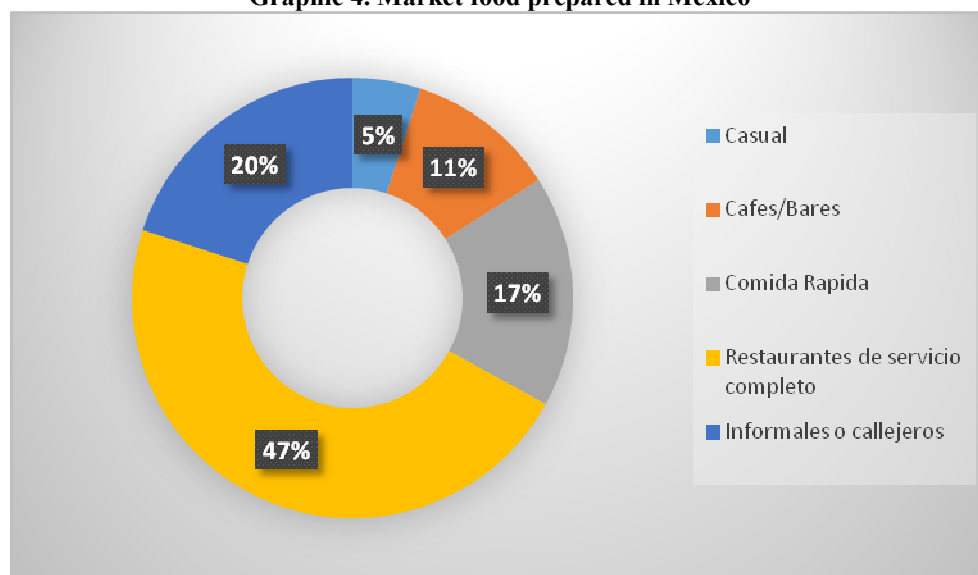
**Figure 3. Estimated net sales of ALSEA Group**



Source: Based on data from Sánchez E. (2011)

These projections were made taking into account the projected data for industry to undertake the company regarding the issue Euromonitor Consumer Food Service in Mexico 2010, regarding the percentage share of the market for food prepared in Mexico. In 2012 Alsea Group ingratiated with getting the hallmark of Socially Responsible Company and in the same year added the restaurant brand Italianni's on their menu, as a restaurant in the casual segment dining, which emits a capital of 1,150 million pesos in the Mexican market. After demands by inconsistencies, finally the acquisition is carried out favorably, and predicting a great battle for the most representative of Alsea rival, CMR (Corporacion Mexicana de Restaurants), according to Ugarte (2011).

**Graphic 4. Market food prepared in Mexico**



Source. Ugarte (2011).

2014 was an important year for Alsea Group because it represented a watershed in for the start of new markets. First, to the May 5th through the Mexican Stock Exchange (Bolsa Mexicana de Valores, BMV) Alsea confirms its acquisition of VIPS restaurants throughout the Republic. After it was authorized the processing by the Federal Competition Commission (COFEC), who for the purposes of the acquisition asked group Alsea remove exclusivity clauses, not condition the rental leases in shopping centers (FORBES, 2014).

Alsea group agrees to comply with the requirements and thus acquire a whole line WALMEX VIPS, which means a total of 361 restaurants, 263 VIPS, 90 El Portón restaurants,

6 restaurants Ragazzia and 2 restaurants La Finca. Everything was acquired in the amount of \$ 8.200 million. It seems that even when forecasts indicate that the acquisition of VIPS by Alsea Group it could mean to get a low return on investments. This made its calculations well and decided to take the risk and making it part of its repertoire of restaurants.

Thus Alsea Group in Mexico represents more than eight unit's brands being distributed as follows:

**Table 1. Units in the Mexican Republic.**

RESTAURANT	No. of units
DOMINOS	604
STARBUCKS	456
BURGER KING	438
CHILIS	47
CALIFONIA PIZZA KITCHEN	22
P.F. CHANG'S	19
ITALIANNI'S	66
VIPS	259
EL PORTON	85

Source: Based on data from ALSEA (2014).

Major acquisitions achieve Alsea Group in Mexico. But is not limited to Mexico, for 2006 Grupo Alsea decides to internationalize and this is how acquires the right of Burger King in Argentina and Chile. Following its expansion for 2008 with the purchase Domino's Pizza and Burger King in Colombia, in 2010 Alsea continues its way to doubling its income over a period of five years taking advantage of the increase in sub-penetration that fast food was leading this year. The company had income of \$ 8.996 million dollars and estimated growth for the next four years remaining.

For 2011 expands M.P. Chang's in Argentina, Chile and Colombia. In the same year developed the baking plant, Idea Food Concepts (2012). In 2013 it begins with the exclusive restaurant operations PF Chang's in Brazil, and acquired the master franchise to operate in Latin America the Cheesecake Factory. Thus, this is recognized as one of the best companies to work for. It is in this year when Alsea acquired 25% of the share capital of Grupo Axo; and acquires while in Mexico 100% of Starbucks operations in Argentina and Chile.

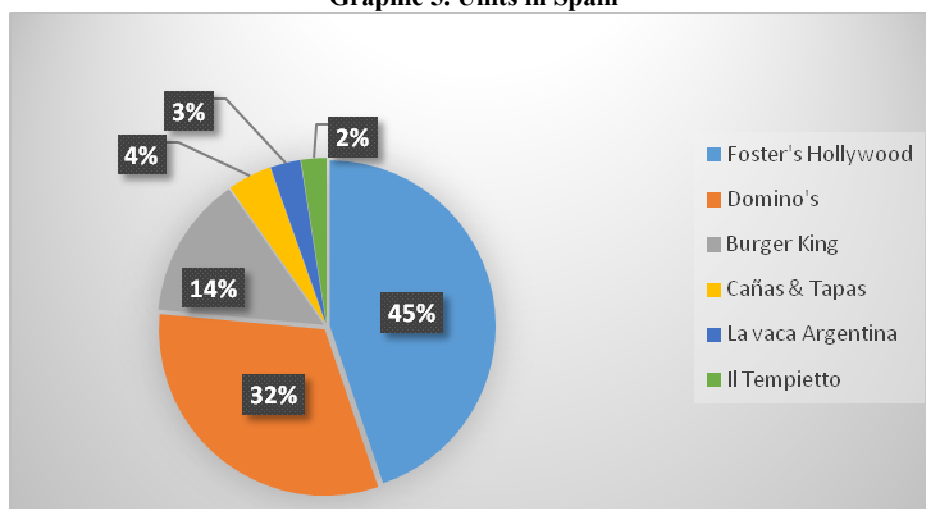
Meanwhile, after a long wait, finally manages to reach an agreement with Colombia to introduce Starbucks in the country, thus ending 2014 with the opening of the first Starbucks in Bogota Colombia. Thanks to the agreement made with Nutresa which is the creation of a joint venture in which Alsea will hold 70% equity and 30% Nutresa. This agreement includes an exclusive agreement of operations until the year 2033 with one goal opening around 51 stores within the next five years. The variety is offering roasted espresso and packaged locally produced coffee, as a major restrictions by the Colombian government is no cafeteria can sell roasted coffee or grown abroad within Colombian territory. Starbucks in certain way has formed ties with the Colombian coffee industry, because from its beginnings in the 97 with the creation of its brand VIA instant coffee roasted coffee in Colombia.

In this case, due to Colombian institutions, market penetration in Colombia had to be generated through the creation of "joint venture" with the company Nutresa leader in roast and ground coffee in the country. With a market share 55.8% and 41.6% market share in terms of soluble coffee (Nutresa Group, 2015). In this way, Alsea considers in a very clever way different market penetration, integrating its stores the delicious taste of Colombian coffee is the only that can be sold in Starbucks coffee shops. Well worth noting that Colombia is a country with roots coffee because this is its identity. However, neither the threats of boycotts on the opening of the brand of "Mermaid" prevented this opening, thus forming long lines at its opening and thereby motivating the opening of around 50 stores in the country over the next 5 years (Wallace, 2014).

On the other hand, 2014, after the great acquisition of VIPS in Mexico, Alsea decides to go out to conquer the European market through the acquisition of 71.76% of Grupo Zena according to data obtained by Forbes (2014). The acquisition includes a range of 430 restaurants in Foster's Hollywood, Cañas y Tapas, La Vaca Argentina e il Tempietto brands which are owned by Zena group. Likewise, the acquisition also includes the rights of franchises Burger King and master of Domino's Pizza in Spain, all for a total of 107 million

euros, starting with bank debt in Mexican pesos approximately 1,900 million pesos a credit throwing by five years.

**Graphic 5. Units in Spain**



Source: Own creation with data from ALSEA (2014).

#### **4. Strategies Group ALSEA**

The strategy employed by Alsea group to achieve a success as it has been, is acquiring 100% of certain brands and other above 50% in each country where it operates. In this way it removes the uncertainty and forgets minority dealings to businesses, but what is it that makes Grupo Alsea attractive for these brands that allow it to purchase from your management?

Alsea Group has a strategic Menu, where its main areas to address are very well established.

- A. Customers: The customer is paramount, as it is the *raison d'être* of every business, and knows Alsea group. So, it seeks to assure a great experience looking through its product, service and image.
- B. Collaborators: The main actors of Alsea Group and who will meet the goals of it are its members. That is, why Alsea Group has earned one of the best companies to labor, offering its employees opportunities for development.
- C. Synergy: Making critical mass in each management area.
- D. Results: A profitable and sustainable growth which ensures the company.
- E. Social responsibility: Grupo Alsea is known to have a commitment to society, which is why it is recognized as the best responsible practice in the sector.

But that's not all. Alsea group has an attractive business model that offers support for each of its brands across 5 areas of support, supply chain, finance, human resources, technology, real estate and development. Also it has corporate governance which it is divided into three parts: Administrative Board, committee of internal audit and corporate practices committee, made up of 10 adviser and 5 independent and an equity advisor. Incorporating independent directors is for the purpose of generating fairness in company decisions.

As part of Alsea Group responsible both to society as formal institutions, has decided to incorporate the nutritional traffic light brands, under the phrase "food and beverage blend perfectly with the pleasure of responsible consumption". So it has entered calorie information on menu boards, and provides nutrient audit to all and each of its brands, in addition to quality processes that ensure their products as excellent for consumption wellness

As social fairness, Alsea Group respects gender equity. From their total number of employees have 28618 women and 31433men, providing training and development to encourage their growth and quality of life. Among the benefits that the company provides to its partners is life insurance, additional days off with pay, food coupons, discounts brand,

disability coverage or disability, maternity or paternity leave, etc. As well as part of their training, all its employees received anti-corruption reporting something they call a code of conduct for the purpose of creating awareness among its collaborators and have more ethical and responsible employees. Also Alsea Group conducts evaluations colleagues to measure their performance. As a contribution to the planet and society, Alsea works to reduce company costs. Alsea is also working on reducing energy consumption, and in the sustainability of optimizing water consumption in each of its restaurants and cafes.

In 2014 Alsea Group was crowned as the leader in 4 of its 5 categories. Burger King obtaining 41% of the market and Domino's Pizza with 58% market share with its strategy of growth in sales and margins. Starbucks with 41% to 423 units for the second quarter of 2014 and last control to 50% of the market for casual dining with blemished Chilli's, Italianni's, PF Chang's, California Pizza Kitchen and Pei Wei. Therefore it can be said that as part of their external strategies are added to these five:

- A. Its brands do not generate competition among themselves.
- B. It has a growth through aggressive organic expansion, increasing its range of brands and formats and an increase in the acquisition of brands.
- C. Holds faithful to each of its brands, which holds a sales growth of 22 percent annually.
- D. Take advantage of the growing middle class.
- E. Thanks to its diversity of brands can sell to all income segments.

All this is part of the strategy that makes use Alsea group with its franchises, which ensures a correct use of the mark, an excellent market management to ensure the effectiveness of its processes and especially that becomes profitable its brands. This is why and for better management and maximizing the potential of geographic growth and its good economic returns. Alsea Group announced in April 2015 to carry out the division of its operations into two business units, creating, Alsea Mexico by Federico Tejado who already has more than 22 years of experience and Alsea International by Fabian Gosselin who is currently the CEO of Alsea. These two business units report to the Board of Directors Alsea by Alberto Torrado.

## **5. Conclusions**

Alsea group is a Mexican company that has proven to be one of the large companies that have conquered abroad, based on effort, strategies and best practices. Its primary market penetration strategy is the acquisition of the majority of its business to 100% and others above 50%. This gives much of the control over company decisions and the responsibility of the actions practiced, which has managed to properly handle. So it is a very smart strategy, and one can say that it has worked and it worked very well. Contrary to what some authors consider about purchasing company as a strategy for market penetration, it is important that business foundation is necessary to ensure proper use of these.

The synergy created between the different brands of Alsea group, responsibility for each of its brands and loyalty, and good treatment to their colleagues have opened the doors in several countries and has earned a placement of leadership in its field. Its internal structure enables it to detect the step that is going to give, so it knows there are ways to get to where it wants to go, such was the case of the Starbucks in Colombia, which was conducted through a merger the company Nutresa. However, this does not mean a setback in their strategies, because it was wise to take the 70% stake, and even though there are customers who reject the idea, Alsea know is on the right path.

Its long-term vision has made this company great things. The acquisition of much of Zena group in Spain is just the beginning of a great opportunity. Without losing the floor Alsea Group is expected to continue to grow without losing the social responsibility that distinguishes creating jobs and to foster the development of its employees and increase the quality of life of people, and also, without losing sight of its new competitors.

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## THE POTENTIAL IMPACT OF REGIONAL BEYOND GDP INDICATORS ON ELECTIONS

**Arzu TEKTAS**

Bogazici University – Center for Innovation and Competition-Based Studies, Department of  
International Trade, Professor, Bogazici University – Department of International Trade Hisar Kampus,  
Etiler, Istanbul, Turkey, Tel. +90 212 359 66 83 / +90 533 372 58 58  
tektas@boun.edu.tr  
(corresponding author)

**Asli Deniz HELVACIOĞLU**

Bogazici University – Center for Innovation and Competition-Based Studies, Department of  
International Trade, Associate Professor, Bogazici University – Department of International Trade  
Hisar Kampus, Etiler, Istanbul, Turkey, Tel. +90 212 359 45 10 / +90 531 921 50 05  
asli.helvacioğlu@boun.edu.tr

**Abdilmecit KARATAS**

Istanbul Development Agency, Associate Professor, Havaalanı Kavşağı EGS Business Park Blokları  
B2 Blok Kat: 16 34149 Yeşilköy Bakırköy / Istanbul, Turkey, Tel. +90 212 468 34 00  
abdilmecit.karatas@istka.org.tr

### **Abstract**

Beyond GDP approach has become a milestone for the efforts that try to integrate social indicators to the studies that were previously tracing traditional macro-economic indicators like GDP, inflation and unemployment. It not only paved the way for novel indicators but also stimulated the establishment of new multi-dimensional indexes. The recently published European Union Regional Social Progress Index defines itself within this scope and aims to measure the regional social progress as a complement to traditional measures of economic progress. Our study gets the inspiration from this new index. The construct of the study is built upon the question whether non-economic regional indicators, particularly social, are capable of explaining the support for the incumbent in elections. This is one of the first studies integrating Beyond GDP approach to election studies by using the social indicator sets. It analyzes the impact of the social indicators on incumbent party votes for all of the 81 cities in the 2011 Turkish general elections. Our findings depict that social indicators affect the votes for incumbent as powerful as economic ones.

**Keywords:** Beyond GDP, Regional Social Indicators, Regional Social Progress Indicators, Elections, Incumbent Party, Turkey

**JEL classification:** R5, R11

### **1. Introduction**

The study that establishes the current foundations of Beyond GDP approach is Stiglitz, Sen and Fitoussi Report (Stiglitz et al., 2009). The report develops a discussion on the aggregate GDP data and proposes a new approach to capture what is really important for common people's well-being (Stiglitz et al. 2009). Beyond GDP foresees the limits of GDP as an indicator of social progress and paves the way for sophisticated efforts to reflect the real dynamics of growth. In the scope of Beyond GDP studies, regional development emerges as a favorable and novel indicator set as it is considered as the central objective of national economic policy. Beyond GDP approach proceeds from the belief that simply measuring economic output offers too little insight into regional performance and extends the boundaries to include non-economic dimensions such as social progress. The recently published European Union Regional Social Progress Index derives from this context and aims to measure the regional social progress as a complement to traditional measures of economic progress. The Index contributes to the Beyond GDP debate by proposing a solid metric to complement GDP rather than to replace it (Europa, 2016). It presents a region's strengths and

weaknesses on a relative rather than absolute basis, comparing a region's performance to that of its economic peers (European Commission, 2016:7)

The contributions of this new index may not be limited with the given targets. It also provides a new regional data set for election studies stimulated with the question of what affects the voters' support for the incumbent party. Elections offer an interesting case study to observe the impact of the improvements in well-being on the political choice of citizens. The factors impacting the voting decision of the electorate has been of significant interest in the literature. Vast number of studies focus on the impact of economic indicators on the choice of the electorate. These mainstream models of voting provide a generic economic performance approach and frequently use panel data of macro-economic indicators like GDP growth rates, unemployment, and inflation as the basic determinants of voters' choices (Wilkin et al., 1997; Chappel and Veiga, 2000; Nadeau and Lewis-Beck, 2001; Van der Brug et al., 2007; Duch and Stevenson, 2008; Belanger and Gelineau, 2010; Palmer and Whitten, 2011; Singer 2011; Lewis-Beck and Nadeau, 2012; Dassonville and Lewis-Beck, 2013; Alt et al., 2014; Ansolobehere et al., 2014). This approach neglects the social conditions affecting the voters' choice and therefore may remain insufficient to identify the transformative forces that affect the electorate. Recent literature highlights this and points the need for a multi dimensional analysis such as including social factors (Kanji and Tannahill 2013, Reeves and Gimpel 2012, Stevenson and Duch, 2013, Ansolbehere et al., 2014).

Based on these two novel discussions, the emergence of regional social progress indicators in the scope of Beyond GDP approach and the need to include social conditions to the election studies; we argue that extending election analysis to include Beyond GDP approach can be noteworthy. Beyond GDP approach derives from the need to rethink the criteria for measuring the welfare as there is an increasing gap between the information contained in aggregate GDP data and what is really important for common people's well-being (Stiglitz et al., 2009). The evolution and the scope of Beyond GDP approach corresponds to the quest in election studies with regard to the development and further improvement of indicators that adjust and complement the traditional ones namely GDP, inflation and unemployment. It has long been clear that the traditional indicators, mainly GDP, are considered as inadequate metric to gauge well-being over time particularly in its economic and social dimensions (Stiglitz et al., 2009:8).

To our best knowledge it is one of the first studies that integrates Beyond GDP approach to election studies by defining novel social indicators related to regional progress in order to explain the support for the incumbent party in elections. Thus, the study aims to provide an innovative outlook to regional election studies. It aims to identify the impact of regional social progress indicators on voting for the incumbent. The set of regional social progress indicators are selected in line with the new European Union Social Progress Index. The impact of the regional social progress indicators on the incumbent party votes are analyzed statistically for all of the 81 cities in 2011 Turkish general elections. Our findings depict that social progress indicators explain the voters' choice for incumbent as strong as the economic indicators.

The paper proceeds with a conceptual discussion on Beyond GDP, regional social progress and elections. The next section provides data, methodology and empirical results. Conclusion includes discussion on the findings and provides policy recommendations for future elections emphasizing the potential role of regional social progress in election results.

### **Conceptual Discussion on Beyond GDP, Regional Social Progress and Elections**

Beyond GDP approach takes its roots from some of the most respected economists of the 20th century that contribute to the discussions on the imperfections of GDP (two articles by Antal and Van den Bergh (2014) and Van den Bergh (2009) provide a detailed list of the literature on the alternatives to GDP; including Kuznets (1941); Hicks (1948); Galbraith (1958); Samuelson (1961); Mishan (1967); Nordhaus and Tobin (1972); Easterlin (1974); Hirsch (1976); Sen (1976); Scitovsky (1976); Daly (1977); Frank (1985, 2004); Hartwick (1990); Tinbergen and Huetting (1992); Arrow et al. (1995); Vellinga and Withagen (1996); Weitzman and Löfgren (1997); Dasgupta and Mäler (2000); Dasgupta (2001); Ng (2003); Kahneman et al., (2004); Layard (2005); Fleurbaey (2009) and Victor (2010)). However, the most reputable study that establishes the current foundations of Beyond GDP approach is

Stiglitz, Sen and Fitoussi Report (Stiglitz et al., 2009). The Report is motivated with the idea that there is an increasing gap between the information contained in aggregate GDP data and what is really important for common people's well-being (Stiglitz et al. 2009). It identifies the limits of GDP as an indicator of economic performance and social progress and paves the way for sophisticated efforts to capture the real dynamics of growth. Anand et al., (2013) distinguishes the patterns of studies that tend to explain well-being under the scope of Beyond GDP under five characteristics. Those studies are naturally multidimensional, covering nearly-all economic, social and sustainable growth indicators. They involve tailor-made subjective indicators for citizen satisfaction such as happiness index. They try to measure distribution of well-being in the society. They focus on the opportunities provided by the market and lastly they seek to measure income by utilizing more direct and comprehensive indicators of progress. Beyond GDP studies results in establishment of alternative indicator sets (Bandura, 2008; Costanza et al., 2009; Bleys, 2012; Fleubaey, 2009; Boarini and D'Ercole, 2013; Kubiszewski et al., 2013; Smith et al., 2013; Stern et al., 2014) aiming at achieving a better interpretation of well-being. Bleys (2012) provides a classification for the alternative measures of the Beyond GDP. He proposes three categories of indicators that form the basis of emerging indexes. Accordingly, indicators adjusting GDP target including monetized environmental and social factors whereas indicators replacing GDP try to assess well-being more directly than GDP, for instance by assessing average life satisfaction or the achievement of basic human functions like Human Development Index, Ecological Footprint, Happy Planet Index, Environmental Sustainability Index. Indicators supplementing GDP complement GDP with additional information on the environment and social conditions, either by the creation of satellite accounts or by relating GDP to other social and environmental indicators.

The reflections of Beyond GDP at the regional level may be traced in different versions of global indexes bearing regionally designed tools. OECD has developed two regional statistical databases; OCED Regional Database and OECD Metropolitan Database. Both of these databases include social and economic indicators. OECD Regional Well-being is introduced with the aim of understanding people's level of well-being and its social determinants to advance the measurement of indicators at the regional level. None of these regional indexes solely focus on social indicators even though there is an increasing tendency to have a special focus on social progress and its positive spill-over effects on regional well-being. Social Progress Index (SPI) which is a multi-dimensional index, developed by Michael Porter in 2014 includes a set of social and environmental indicators without an economic dimension. However, it lacks the regional focus, only providing a national level data.

The need for a regional social progress index is strongly marked by the European Union Committee of the Regions in 2010 (European Parliament Briefing, 2016:9). The findings of a survey conducted among local and regional authorities to learn about their views and experiences with 'Beyond GDP' indicators showed that the majority of contributors considered GDP insufficient to capture broader social and economic aspects of regional development and supported the development of additional comparable indicators, taking better account of regional characteristics. In 2016, European Union Index on Social Progress is published with the aims of covering this gap, establishing a total social outlook with particular region-level coverage. The Directorate-General for Regional and Urban Policy of the European Commission, the Social Progress Imperative and Orkestra – Basque Institute of Competitiveness developed a pilot regional version of the Regional Social Progress Index for Europe.

These promising indexes outline the social dimensions of regional progress and can be used as instruments of assessment. For Beyond GDP studies, it is significantly important to determine the regional progress through the employment of social indicators. However, it is also possible to utilize it as a tool to test the impact of regional social progress indicators on regional well-being, as perceived by the citizens. At this point, integration of the discussion on elections to Beyond GDP approach may be of interest due to the fact that decision to vote for the incumbent party is heavily dependent on well-being of citizens. Research on election results have been solely based upon the economic performance of the incumbent party. So a vast amount of literature covers studies on the relationship between economic performance and election results. Along with the developments on Beyond GDP approach, there appeared

a tendency and a need to explain election results by using non-economic indicators as well as economic ones. A more comprehensive definition of regional well being which encompasses factors such as social progress besides economic is developed by regional studies related to elections. It is expected that voters that are better off in terms of social progress indicators tend to award incumbent. Hunter and Power (2008) provide that the provision of material benefits to the voters by employing government investment in social policy that would end up with a societal change, mobilizes the votes for the incumbent. Prosperity and well-being appear to be influential factors for electoral support towards the incumbent. Johnston and Pattie (2001) show that prosperity of the local area influences voting behavior more than changes in the personal financial situation. Reeves and Gimpel (2012) find that housing market, inflationary gasoline prices, and accumulating home foreclosures have impact on voters' choice.

### **Research Methodology**

The objective of this research is to demonstrate through an empirical study that the regional social progress can also be as important as the economic progress in shaping the election results. The study employs city level data as the indicators of regional progress.

Methodology is based on the analysis of the statistical relationship between city performance and the incumbent party votes in a city. City performance is covered in two dimensions; social and economic. The economic performance is related to physical infrastructure, transportation, ICT, industrial input advantages, market advantages, labor quality, investment coherence whereas the social performance is composed of dimensions related to social services infrastructure, health, education, cultural activities and safety. Although the major objective of the study is to analyze the impact of social progress indicators on the incumbent party election results; it is preferred to test both economic and social progress indicators with regard to their relative comparative impacts on elections.

Data is acquired from the Report on the Sustainability of Turkish cities (Türkiyenin Şehirleri Sürdürülebilirlik Araştırması, 2011). The report aims to reflect the relative success of the cities in Turkey through dimensions such as economic performance and social performance. Methodology of the report involves the development of an index for each dimension utilizing the sub-indicators listed in Table 1.

**Table 1. Economic and social performance indicators**

<b>Economic performance</b>	<b>Economic performance sub-indicators</b>
Physical infrastructure	Commercial vehicle per person; railway ; airport; harbor; ICT infrastructure( telephone ownership, internet access)
Access to domestic/ international markets	Export volume per person; free zone commerce; proximity to international markets; domestic market potential
Labor market	Active labor force ratio
Economic activity	Active participation in labor force; new business openings; gross salary per person; new constructions; agricultural production per person; industry electric consumption per person; number of hotels; number of beds in touristic sites
Labor capital	Private sector daily earnings; literacy rate; average number of school years completed; university graduation rate
Banking and financial services	Number of bank branches per person; total bank credits per person; total bank accounts per person
Research & Development	R&D funding for academia; R&D funding provided for firms
<b>Social performance</b>	<b>Social performance sub-indicators</b>
Social fragilization	Poverty ratio; illiteracy ratio; ratio of people not protected under social security
Health	Number of doctors; number of hospital beds; ratio of people protected under social security
Culture	Newspaper sales; museum visits; theater tickets; movie tickets
Shelter infrastructure	Ratio of water and sanitation service provided
Safety	Crime rate
Education	Female participation rate in primary education; student/teacher ratio in primary education; student/teacher ratio in secondary education; ratio of university students

## **Hypotheses and Data**

Two hypotheses are constructed for this study as presented below.

- Hypothesis 1: City social performance has a positive impact on the change in the percentage of votes gained by the incumbent party between 2007 and 2011 elections.
- Hypothesis 2: City economic performance has a positive impact on the change in the percentage of votes gained by the incumbent party between 2007 and 2011 elections.

The dependent variable for both hypotheses is the change in the percentage of votes gained by the incumbent party at each city between 2007 and 2011 national elections. The dependent variable is defined as the change in percentage of votes gained by the incumbent party at each of the 81 cities in Turkey.

**Table 2: Regression Results of Hypothesis 1**

Model 1	R-Square	ANOVA
	0,374	F=47,251 (p<0,000*)
Coefficient	Beta	t-test
	0,788	t=6,874 (p<0,000*)
Independent Variable: Social Performance		
* Significant at the 0,01 level		

In Model 1, regression analysis is applied to test Hypothesis 1. Table 2 provides a summary of the results of the regression model. Results show that the model is meaningful (p<0,000); therefore, Hypothesis 1 is supported and it is accepted. This implies that social performance level of each city has an impact on the change in the percentage of votes gained by the incumbent party. In addition, the beta coefficient of social performance is statistically meaningful at 1% significance level where t value of coefficient is considerably high (t=6,874). Overall, social performance variable explains 37,4% of total variance alone, which is noticeably a high value.

**Table 3: Regression Results of Hypothesis 2**

Model 2	R-Square	ANOVA
	0,297	F=33,408 (p<0,000*)
Coefficient	Beta	t-test
	0,6	t=5,780 (p<0,000*)
Independent Variable: Economic Performance		
* Significant at the 0,01 level		

In Model 2, regression analysis is applied to test Hypothesis 2. Table 2 provides a summary of the results of the regression model. Results show that the model is meaningful (p<0,000); therefore, Hypothesis 2 is supported and it is accepted. This implies that economic performance score of each city has an impact on the change in the percentage of votes gained by the incumbent party at each city. The beta coefficient of economic performance is statistically meaningful at 1% significance level and t value of coefficient is considerably high (t=5,780). Overall, economic performance variable explains a considerable part of the total variance (29,7%).

Both of our models indicate that economic performance and social performance are noteworthy in explaining the vote for the incumbent. The majority of the election studies emphasize the significant impact of economic performance on the elections as supported by our study. Furthermore this study puts forward the significant impact of social performance with a high explanation ratio of 37.4%. So, the major contribution of our study derives from its ability to integrate Beyond GDP indicators of social performance in election analysis, showing the potential impact of social indicators in increasing the votes for the incumbent.

## **Conclusion**

In our study, we examine the relationship between regional social indicators and the support for incumbent party. Our inspiration derives from the Beyond GDP approach which provides the basis for efforts to expand the studies towards non-economic parameters. Even though economic performance is the traditionally preferred indicator in explaining election results, our study provides an extended outlook where the social indicators bear a considerably high impact in election results.

This study contributes to the literature in two ways; first, by integrating Beyond GDP indicators, particularly regional social progress indicators to election studies and secondly by covering the assessment of the city-wise variances in incumbent party analysis. Our findings show that regional social indicators bear a high ratio of 37.4%, meaning that advancing regional social performance, may have an impact of nearly 40% in voters' support for incumbent. So, the major contribution of our study may be marked as its ability to integrate Beyond GDP indicators of social performance in election analysis, showing the potential impact of social indicators in increasing the votes for the incumbent.

The findings of this study highlight the importance of regional social conditions in elections. It may also provide an insight for political parties and politicians. Increasing the emphasis on regional social progress may increase the support for the incumbent. This may be included in election campaign designs. Depiction of regional social progress as one of the major determinants of voting for incumbent, may lead to an increasing the role of social promises in election manifestos, bringing into sight the actual contribution of social policies to the votes earned.

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