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The Impact of the Eurozone Crisis on National Foreign Policy: Enhancing Europeanization in the Case of Cyprus

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Abstract

This article investigates the impact of the eurozone crisis on the foreign policy of an EU Member State, Cyprus. Drawing on the literature on Europeanization of national foreign policies, it is argued that Cypriot foreign policy, despite the general frustration caused by the financial crisis within broader society, has actually undergone further Europeanization. We show that leadership is a critical intervening variable in this enhanced Europeanization, as well as pointing to the salience of the explanatory mechanisms of social and instrumental learning. The contribution of the article is twofold. It offers an empirical account of contemporary Cypriot foreign policy and contributes to the discussion of the impact of the Eurozone crisis on national foreign policy. Both, we contend, remain relatively neglected topics in the literature.

Keywords: Europeanization; crisis; foreign policy; Cyprus

Introduction¹

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The global financial crisis (2008) and the subsequent Eurozone crisis (2009) had a disruptive effect within and throughout the European Union (EU) and this has been well-documented in the literature (e.g. Caporaso and Rhodes 2016; Matthijs and Blyth 2015; Blyth 2013; Arestis and Sawyer 2012). In this article we seek to build on this discussion investigating whether the Eurozone crisis and its impact on Cyprus had consequences for foreign policy orientation. Preliminary evidence that the leadership in Cyprus looked at alternatives to the EU to deal with the Eurozone crisis, in particular financial assistance from Russia and bilateral energy and commercial agreements with neighbouring states, prompts us to explore if and how such alternative engagement has impacted on patterns of Europeanisation in foreign policy.

This focus is important given that, whilst there is an emerging literature on how the Eurozone crisis has impacted on domestic politics¹ more broadly, the area of foreign policy remains relatively unexplored with the exception of the critical work of Stavridis et al (2015) on the Mediterranean. Thus, the article contributes to the literature on the impact of the Eurozone crisis on the Europeanisation of foreign policy and also interrogates the hitherto underexplored linkage between two different but inter-related policy issues and how far ruptures in one (financial) can cause reorientation in another (foreign policy). Concentrating on foreign policy elites, this article tests the causal significance of the Eurozone crisis² on practices of Europeanisation in the foreign policy realm and asks how important a factor it has been for reorienting foreign policy. We find that whilst issues of national interest (such as the Cyprus issue) are dealt with in an instrumental manner, the normative alignment with EU norms and practices more broadly has not led to any movement away from the EU arena as the main foreign policy provider for Cyprus. Importantly, we also demonstrate how leadership, as a mediating factor, is important in determining the exact nature of the impact of

crisis on foreign policy orientation. In the case of Cyprus we show how, following the crisis, there was a push for the strengthening of its European credentials and identity at the leadership level in terms of its foreign policy, in stark contrast to the societal reaction.

Our aim is to complement and add to the sparse literature in this area through an exploration of the Cyprus case, which is chosen as a case study for several reasons. First, Cyprus provides an interesting focus in terms of the origins, development, nature of and reaction to the crisis. Cyprus obtained a unique rescue package crafted by 'the troika' (European Commission, European Central Bank and the International Monetary Fund) and had to deal with a devastating domestic banking crisis, and has been subject to intense fiscal pressure and reform. Furthermore, compared to other EU member states that received an EU bailout, Cyprus experienced an unprecedented 'bail-in' deal leading to high levels of Euroscepticism at public and party political level. At certain moments, Cyprus recorded one of the least positive images of the EU across all members (17 per cent, only comparable to Greece's 16 per cent, Eurobarometer 2013). This Euroscepticism is striking given the historically high support for European integration among the public (Agapiou-Josephides 2011, 159³) and the high degree of Europeanisation of foreign policy (see, for example, Sepos 2008) among elites in a country with such substantial security challenges. Finally, the case study of Cyprus provides us with the opportunity to provide an important empirical contribution to the study of Cypriot foreign policy, which remains heavily under-researched (with the exception of works from Ker-Lindsay 2008, 2010, 2011 and 2012 as well as Zackheos 2011, Sepos 2008).

The article is divided into four sections. Section one outlines the theoretical and methodological approach. Section two provides a context for understanding the Eurozone crisis and its impact on Cyprus. Section three explores the impact of the Eurozone crisis on

the Europeanisation of Cypriot foreign policy and assesses alternative foreign policy orientation. The final section draws conclusions on the implications of the Eurozone crisis on the Europeanisation of foreign policy in Cyprus and beyond.

The Eurozone Crisis and the Europeanisation of National Foreign Policies

As already alluded to, this article *is not* focusing on the impact of the EU on national foreign policy but rather the impact of the Eurozone crisis on norms and policies of Europeanisation in foreign affairs. What we are interrogating, is how events such as the Eurozone crisis interrupt, disrupt or reverse existing foreign policy Europeanisation orientation. Thus, the question we are posing is not typically linear, i.e. that of asking why and how national foreign policy elites incorporate EU foreign policy norms, practices and procedures. It is rather more complex, seeking to understand how the Eurozone crisis (the policy problem) has led to potential reorientation by elites in relation to the existing Europeanisation of their foreign policy (outcomes in another policy area).

Theoretically and methodologically this entails being clear about two aspects: first, how we define Europeanisation in order to ensure it remains *useful* (Moumoutzis 2011, p610); and second, on the way in which we can capture and explain the impact of the Eurozone crisis on Europeanised foreign policy norms and policies at the domestic level. This is complex, in particular as the existing literature has identified the intergovernmental foreign policy area as 'unique' with the effects of Europeanisation less easily discerned (Major, 2005, p. 182; Smith, 2008, p. 17). In this sense, we treat EU foreign policy as an area in where the intergovernmental method of governance dominates, and where the effects of the EU are considered to be more voluntary and non-hierarchical.

Whilst there are many definitions of Europeanisation in the literature (e.g. Ladrech 1994; Risse et al 2001; Olsen 2002; Radaelli 2004), on the first aspect we follow Moumoutzis (2011, p612; see also Exadaktylos 2012; Moumoutzis and Zartaloudis 2015) in arguing for a definition that incorporates change, allows an assessment of Europeanisation at the domestic level which has been the result of coordinated facilitation (reflecting the non-binding nature of EU foreign policy decisions and reflecting that Europeanisation is possible without EU laws), and ‘allows researchers to demarcate a set of empirically manageable phenomena’ not captured by other concepts. Europeanisation is thus refined through an adaptation of Radaelli’s definition (2003, pp. 30-31), as “a process of incorporation in the logic of domestic (national and sub-national) discourse, political structures and public policies of formal and informal rules, procedures, policy paradigms, styles, ‘ways of doing things’ and shared beliefs and norms that are first defined in the EU policy processes”. This definition allows us to focus on a single direction of causality and to isolate a set of phenomena for analysis.

On the second aspect, we establish the causal significance of the Eurozone crisis (independent variable) on EU foreign policy norms and policies at the domestic level through an approach outlined in the literature which seeks to provide for a more systematic analysis of cause and effect in examining the impact of binding or non-binding stimuli (Moumoutzis 2011, 2012; Exadaktylos and Radaelli 2012; Moumoutzis and Zartaloudis 2015). Our first step is to identify whether and how Europeanisation has occurred in Cyprus in relation to foreign policy. This will enable us to then identify the nature of any change as a result of the Eurozone crisis, focusing on leadership as a mediating factor and foreign policy orientation in order to ensure the phenomena under scrutiny remain manageable and relevant. We utilise process tracing, assisted by analysis of semi-structured interviews, in order to achieve this. In terms of process

tracing we use three intervening steps: Identification of the policy problem (Eurozone crisis); impact on national foreign policy norms and policies; consideration of alternative policies by national elites, in particular Cypriot Presidents. Interview questions utilised were framed in order to reflect these analytical steps and importantly, make explicit the line of causation from one policy area (Eurozone crisis) to another (foreign policy) and to explore the effects the Eurozone crisis has had on foreign policy (re) orientation. Interview evidence was thus used to verify causal evidence found through process tracing, and identify foreign policy issues that elites considered were relevant in the context of any (re) orientation. This is important in the sense that 'foreign policy' cases were not pre-selected for examination but rather identified through empirical investigation.

A final issue that remains is that of how we explain (causal mechanisms) any observable change in relation to national foreign policy (re) orientation as a direct cause of the Eurozone crisis. Numerous Europeanisation mechanisms have been explored in the literature which will allow us to be precise about what one should observe in order to substantiate any hypothesised explanation (Moumoutzis and Zartaloudis 2015, p. 3). We will focus on instrumental and socialisation mechanisms and elite actors and their actions to identify change. We do so in order to ensure manageability and because they are the most appropriate mechanisms in this instance given that we are not focusing on the European level per se (where mechanisms such as peer pressure might also have been appropriate). In this article we are explaining the extent to which foreign policy means and objectives have changed because of the Eurozone crisis; so the question becomes one of how EU-level interactions relating to the crisis (in particular austerity measures and bailout packages) - have led national leaders and foreign policy elites in Cyprus to reconsider, alter or confirm their

orientation. The answer to this question will depend on the type of learning that has previously occurred in relation to foreign policy Europeanisation and indeed how national leaders and foreign policy elites have reacted to the crisis measures imposed on Cyprus.

The literature suggests that if change occurs through instrumental learning then it is likely to lead to reorientation in terms of policy instruments rather than policy objectives – that is, it will lead to first or second order change (Hall 1993) but will not be transformative. Similarly, if change occurs through social learning then it is likely to lead to reorientation in policy objectives and goals – that is, third order change that will be transformative. For us, this puzzle is more complex as we have alluded to – as we are working across two policy areas to establish causality and identify and explain change. Thus whilst we contextualise and define the policy problem as the Eurozone crisis – this is not what we are *seeking to explain* in terms of Europeanisation – rather we test our explanatory mechanisms through an analysis of national foreign policy change. The Eurozone crisis is the independent variable and national foreign policy is the dependent variable.

Based on the above conceptual premise, we can thus expect to observe the following:

- a. Where there is evidence of Europeanisation through social learning in the national foreign policy of Cyprus, and EU norms are embedded in national foreign policy objectives and practice, there is a higher likelihood of no change or changes in policy instruments rather than transformation in policy goals because of the Eurozone crisis; this is because we hypothesise that social learning processes result in much ‘deeper’ Europeanisation.
- b. Where there is evidence of Europeanisation through instrumental learning in the national foreign policy of Cyprus, and EU norms are not embedded in national foreign

policy objectives and practice, there is higher likelihood for substantive change towards change in policy goals because of the Eurozone crisis; this is because we hypothesise that processes of instrumental learning lead to a less transformative and persistent Europeanisation.

A final issue that also needs clarification beyond our explanatory mechanisms is that of how we treat national foreign policy elites and leadership. Leadership is considered as a core intervening variable in this article which can cut across our general propositions (and mechanisms). Indeed, the nature of EU foreign policy decision making means that EU-induced changes in foreign policy often depend on the conviction, resources and knowledge of national policy-makers and elites (Bulmer and Radaelli 2005, 7; Moumoutzis 2012, 242). Thus, although the impact of the Eurozone crisis on national foreign policy will depend on a variety of dynamics at play domestically, most important from our perspective are: i) the vision, ideas and beliefs of the leader ii) the extent to which these challenge EU positions, practices and norms. Whilst we recognise that other intervening factors and variables are also important in assessing the likelihood of foreign policy (re) orientation, such as the degree of domestic contestation for instance, this article, whilst not ignoring this entirely, focuses predominantly on foreign policy elites and in particular leadership in order to ensure manageability.

The Policy Problem in Cyprus

In order to establish the causal link between the Eurozone crisis and foreign policy orientation this section provides a contextual overview of the policy problem and how such a crisis evolved in Cyprus and the impact and responses from Cypriot elites to it. This will allow us to

specify and explain in more detail how disruption in one area has impacted on (re) orientation in another.

Cyprus joined the EU in 2004 and within four years adopted the Euro. Both were instrumental political decisions that sought to promote security and stability, with Cyprus in good condition financially and economically when joining the Euro. The signs of potential economic problems in Cyprus emerged as early as 2008 when the global financial crisis caused a mild recession on the island leading to stagnating growth in 2009. Demetris Christofias and his AKEL (Progress Party of the Working People) party that came to power in February 2008 in the Presidential elections, increased spending to address the fiscal problems on the island, but the crisis in Greece in 2010 and the interconnectedness of the Cypriot and Greek banking sectors increased Cyprus' vulnerability (Orphanides 2014, pp. 3-4; Zenios 2013). Pursuing a fiscal strategy of overspending led to the confidence of international lenders being damaged and subsequently, in May 2011, the loss of access to international capital markets for Cyprus.

Despite the financial risk of collapse in Cyprus clearly being identified at this point, leadership was a critical factor in the reluctance of the Christofias government to seek EU assistance. As noted by the governor of the Bank of Cyprus at the time this was because 'as a communist party they did not want to incur the political cost of adopting consolidation measures' (The Economist, What happened in Cyprus, 2013). Thus, unlike other countries that had sought assistance early from the troika to resolve their problems, 'the Cyprus government followed a policy of procrastination' (Zenios, 2014, p. 3). When Cypriot banks were subsequently exposed and suffered severe losses following a decision by European leaders to write-down Greek government debt on October 2011, 'the joint effect of public debt accumulation and deterioration of the banks' balance sheet set in motion a negative feedback loop between

banking and the public finances' (Ibid, p.5). This added to the economic (a sharp fall in GDP) and political costs emanating from the ammunition explosion on 11 July 2011, which destroyed a major power station on the island that produced half of its power supply, and for which the opposition blamed the President directly⁴.

Importantly, whilst the Christofias government refused to seek help from the EU and IMF, it was willing to turn to Russia to finance its fiscal strategy without the necessary structural adjustments that would have resolved the underlying fiscal issues. The sum of 2.5 billion euros borrowed from Russia was a substantive amount for a country with a Gross Domestic Product (GDP) of only 17 billion euros, and for some this did not address the issue of the sustainability of Cypriot debt at a time when the euro area crisis was intensifying (Orphanides 2014, pp. 3-4, 17-18). Whilst turning to the troika was still an option in 2011 the Christofias government ignored warnings from the European Central Bank (ECB) and the governor of the Bank of Cyprus, as he was not willing to accept any conditions on structural adjustment. This, combined with the inability to recapitalise Cypriot banks because of loss of market access, Parliamentary elections (May 2011) and then Presidential elections (due in February 2013) led to a politicisation of the crisis and thus a reluctance to accept or take any unpopular measures that would jeopardise re-election (Orphanides 2014, pp12-15).

Thus, though resistant to a troika solution to the crisis in Cyprus, the government did not have any policy measures in place to reduce public debt even though default seemed like an inevitable outcome. What was also inevitable following a downgrading of Cyprus to junk status by three major rating agencies (Iordanidou and Athanassios 2014, p. 65), which rendered government debt ineligible as collateral for borrowing from the euro-system (a rule suspended for Greece, Portugal and Ireland but not Cyprus), was that the government had to

approach the troika for assistance in June 2012 (Zenios 2014, p. 8). The negotiation – subject to considerable delay and taking eight months (compared to one month for other countries) – resulted in the construction of a programme of measures and Memorandum of Understanding (MoU) in December 2012. It was subsequently agreed by the Eurogroup on 16 March 2013 under the new President, Nicos Anastasiades – including a bail-in entailing a one-off levy on resident and non-resident bank deposits (6.75% for deposits under 100,000 euros and 9.9% thereafter), which the German government insisted on because of its own electoral politics (The Economist, What happened in Cyprus, 2013; Iordanidou and Athanassios 2014, p. 6). The aim was to use the money raised to recapitalise banks and write-down debt to the tune of 5.8 billion euros (Zenios 2014, p.16).

The bail-in option was unprecedented and it was not an official EU policy tool at the time (it was incorporated as part of Directive 2014/59). Nor was it officially considered as an option by the Christofias⁵ government or by the Anastasiades government that followed - the latter in particular considered to have had no choice but to accept due to pressure from other European leaders (Zenios 2014, p.15). The Cypriot Parliament rejected the original proposal amid public outcry and widespread protests, but alternatives put forward by various groups and academics were rejected or ignored (see Iordanidou and Athanassios 2014, p6-7). Thus the Anastasiades government at the Eurogroup meeting that followed on the 24-25 March, accepted a deal in which the Cyprus Popular Bank (CPB) was liquidated with covered deposits, its emergency liquidity assistance and associated collateral, transferred to the largest bank in Cyprus - the Bank of Cyprus, which would subsequently be restructured. The immediate economic consequences of such an agreement proved to be dire – GDP declined by 5.9% in the last quarter of 2013, and unemployment increased to 16.9%.

Whilst more recent figures indicate the seeds of a recovery in Cyprus, its path is very slow and the EU remains unpopular among the Cypriot public for the economic structural changes imposed on Cyprus, and in particular the one-off levy that was deemed to be 'unfair' and was certainly unprecedented (Zenios 2014, p. 24). The crisis in Cyprus led to President Christofias and his successor, President Anastasiades, turning to Russia for financial assistance; the former more successful than the latter, and the latter less to do with ideology than desperation. At the same time, Cyprus developed a new agenda of cooperation with states outside the EU, in particular in energy matters.

Such moves raise the question of what impact, if any, this had on Cypriot foreign policy and in particular Cyprus' European foreign policy orientation and identity? But, before we do that and in order to be able to reflect on potential changes, it is first important to summarise the Europeanisation of Cypriot foreign policy before the crisis, in line with our analytical steps outlined in section two.

The Europeanisation of Foreign Policy in pre-Crisis Cyprus

In the case of Cyprus, Europeanisation has historically reflected a tension between upholding its normative values and securing its national interests. The Europeanisation of the Cyprus problem and the Cypriot application to join the EU in 1990 was primarily underpinned by instrumental calculation rather than a normative affinity with the EU's values. Security concerns caused by the division of the island were the primary reason and this was a continuation of the strategy of internationalisation pursued by the Cypriot government historically (Joseph 1999). Both before and in particular after membership, Cyprus found its closest ally in Greece, in its attempts to influence the parameters of the Cyprus problem⁶.

When Cyprus joined the EU on 1 May 2004 under a government led by nationalist President, Tassos Papadopoulos (of the right wing DIKO party), the approach taken was confrontational (Passas and Katakalous 2012, 30-31) and underpinned by an instrumental logic (Sepos 2008, 133). Although new Commission policy instruments (Christou 2013, Kyriz 2015) to facilitate Turkish Cypriot development were constructed once Cyprus joined, a distinct national logic of trying to limit them or their implementation still prevailed – driven by the instrumental approach of the Cypriot President. The election of Demetris Christofias in February 2008 (of AKEL, the Communist Party) did not witness any change in the way in which EU opportunity structures were utilised to influence the parameters of the national problem⁷. The only major difference was the more pragmatic as opposed to confrontational approach taken by Papadopoulos. This is not an area where Cypriot governments, whatever the leadership, ideology and party affiliation, acquiesced to EU Member States and EU institutional requests for compromise in all areas. Any incorporation of EU constructed instruments relating to Turkish Cypriots, were implemented through the dominant national logic and parameters for a solution to the Cyprus problem. If new instruments contravened such logic they were rejected, as exemplified by the refusal of the Cypriot government to endorse or agree on the Direct Trade Regulation (DTR) (Christou 2013).

Under Papadopoulos, although slow in recognising the need for a more dynamic institutional and administrative system of management for European affairs (Passas and Katakalous 2012, 31), including foreign policy, there was a high degree of functional convergence and normative policy adaptation and alignment that signified a step-change with previous national foreign policy practice and orientation. For example, a major change in foreign policy objectives was the Cypriot decision to withdraw itself from the non-aligned movement on

joining the EU. In addition to this Cyprus joined other ESDP institutions including the European Defence Agency (EDA), the European Union Institute for Strategic Studies (ISS), the European Union Satellite Centre (EUSC) and the European Security and Defence College (ESDC). In general, Cyprus aligned itself with most EU CFSP positions in the Papadopoulos era, with very few exceptions (e.g. the recognition of Kosovo, even though it agreed to the creation of the EULEX mission) (Ker-Lindsay 2011, 113).

Yet, EU membership under Papadopoulos and also Christofias did not lead to further internationalisation in the form of NATO membership for Cyprus, precisely because of strategic national interest calculations; only Cyprus and Malta did not join of those countries that became part of the EU in 2004. There was a fundamental and general mistrust of NATO because of the long-standing membership of Turkey within the organisation (since 1952); and the perception therefore that it was biased towards Turkey and its interests (Ker-Lindsay 2011, 114; Sepos 2008, 133). Indeed, for AKEL (Christofias' party), there was no interest in either the Partnership for Peace (PfP) or NATO – even though during the period when Christofias was in office this position was increasingly contested by other political parties; in particular the main opposition centre-right Democratic Rally party (DISY)) that whilst sceptical of full membership, favoured joining the PfP programme (Ibid). In this instance then, despite domestic political contestation between parties, NATO was not considered to be a critical platform for the pursuit of Cypriot strategic interests by the leadership; nor was participation in NATO programmes considered important from a normative perspective with regards to the EU level. Membership of the EU was clearly not enough to alter the external identity of Cyprus towards a platform that was perceived as a threat to the national interest. The perceived strategic cost was greater than any perceived benefit.

Finally, the Christofias government established new, innovative institutional and administrative mechanisms for coordinating EU affairs and projecting Cypriot positions in Brussels. For example, the most innovative was the establishment of the Secretariat (of the Cyprus Presidency of the EU), the Director of which reported directly to the President of the Republic. In addition, European Affairs units were established in all ministries (Feb 2010) to manage EU affairs within and across ministries internally and externally with regard to coordination with the Representation in Brussels (for details see Passas and Katakalous 2012, 32-33). These institutional developments also denote a 'turn to Europe' and a domestic procedural Europeanisation of foreign policy. In this regard, whilst Christofias clearly resisted and indeed rejected many of the neoliberal solutions suggested for Cyprus when the crisis 'hit home', he was normatively and procedurally aligned in other areas, including EU CFSP objectives. This tension, however, also meant that Christofias was also willing to look to alternative partners, such as Russia, in order to address the impact of the financial crisis, as we discussed earlier.

What we can summarise from this short overview of Cypriot foreign policy Europeanisation is that whilst Cyprus has gradually learnt to 'play the game' and has incorporated EU CFSP norms and objectives – that is, there has been clear convergence between Cypriot foreign policy goals and those of the EU at a macro level – foreign policy issues (derived from Cyprus or discussed in the Council) that are sensitive to the national interest (the Cyprus problem, Kosovo) have been treated in a more instrumental manner. Thus, in the words of one diplomat, 'You might see some differences between...presidents, but the overall framework does not change' (Interview, Cypriot diplomat, Brussels, September 2013). This, however, is

not to undermine a certain, parallel normative alignment, especially during the Papadopoulos Presidency.

As a result, our propositions in section two in this instance need further nuancing – and based on this evidence – exceptions aside (as we can expect little change here) - we might expect the impact of the Eurozone crisis to lead to the search for *instrumental* alternatives to address the crisis, but through new bilateral relationships or instruments that coalesce rather than work against broader EU foreign policy objectives and norms. That is, precisely because of the normative underpinnings of Europeanisation in Cyprus, we would expect a resistance to any transformative change. Furthermore, because there are very few exceptions with regards to Cypriot foreign policy alignment and learning, we would expect to see not third order change but continued instrumentalism within the EU in dealing with such issues, in particular related to – directly or indirectly - the national problem. As we shall see in the next section, the extent to which the Eurozone crisis has impacted orientation also depends on how far decisions taken in relation to national foreign policy affect Cyprus' economic opportunities in times of crisis.

Impact of the Eurozone Crisis and Alternatives

For all the public disillusionment caused by the financial crisis (Eurobarometer 2013), and the turn to Russia financially, the leadership in Cyprus, in particular once Anastasiades was elected in February 2013, sought to remedy this not through a (de) Europeanisation of foreign policy, but rather deeper and wider alignment with the European foreign policy milieu. Thus, whilst the 'EU crisis was considered brutal, it did not have an impact on Cyprus policy...the main patterns of foreign policy did not change and Cyprus remained EU-oriented' (Telephone Interview, Cypriot diplomat, Brussels, April 2014). Moreover, 'the severe financial

crisis...affected the exercise of foreign policy *but not in terms of substance or orientation*....the new Government...adopted a more EU-centric attitude...even though... [the government was] more sensitive on issues that have economic impact' (Telephone Interview, Cypriot diplomat, Nicosia, August 2014; *our emphasis*). How, then, can this be explained, given the turn to Russia for financial assistance and in particular given the widespread belief among Cypriot elites as well as the public that the troika programme and *bail-in* was fundamentally unjust and unfair in nature?

At one level it can be explained precisely because of the instrumentality within which Cypriot foreign policy elites perceived the importance of the EU for leverage in resolving the Cyprus problem. The Cyprus problem is front and centre of all Cypriot foreign policy engagement and objectives. In this sense the cost of moving away from Europeanisation and the EU and seeking alternative alliances would reduce the power of a small state such as Cyprus to pursue its main goal – the resolution of the Cyprus problem. For one Cypriot diplomat, 'Cyprus is a small country, with little influence, so we rely on the institutional structures of the EU' whilst others also highlighted that the crisis actually meant that 'people (in the EU) now hear Cyprus when we talk about Turkey or other [security] issues, and this is an added value' (Interviews, Cypriot diplomats, Nicosia/Brussels, September 2013/April 2014).

Thus the EU platform allowed Cyprus to protect its strategic national interests in relation to the Cyprus problem, and to prevent the imposition of 'red line' policies such as the DTR being agreed and implemented in Cyprus. The crisis, in this sense, did not have a direct bearing on Cypriot foreign policy (for elites at least) relating to the national problem. Whilst there was a severe and painful financial cost, the benefits of membership far outweighed the cost of any potential alternatives; reorientation away from the EU platform included the risk of losing the

credibility, power and voice to maintain leverage and ensure its national interests were protected – in particular in relation to Turkish conditionality.

However, whilst such an explanation is certainly convincing, especially given the centrality of the Cyprus problem, we must also capture the broader indirect and leadership effects of the crisis on Cypriot foreign policy Europeanisation, which cuts across the mechanisms of instrumental but also social (normative) learning. Instrumental learning does not explain fully the increased enthusiasm for *more EU* in terms of practices and procedural norms and indeed more alignment with the West given the heavy costs imposed on Cypriot society during the crisis; and it also ignores the ‘embedded rationalism’ (Jacoby 2004) of the Cypriot approach in relation to the Cyprus problem, i.e. that EU norms and practices such as conditionality in the Turkish accession process were welcome additional instruments at national level.

Turning, therefore, to leadership, one Cypriot official noted that the ‘crisis was not a determinant factor in foreign policy [orientation]...the change of government was’, going on to emphasise that ‘Anastasiades wanted to be more mainstream European and had a vision to come closer to Euro-Atlantic structures and more specifically to apply for joining [NATO’s] partnership for peace, which was an anathema for the Christofias government. This was well-received as marking a new direction for Cyprus’ (Telephone Interview, Cypriot diplomat, Brussels, April 2014). Indeed the normative predisposition of Anastasiades – despite increasing public frustration with the EU - not just towards EU and Western security structures but also the structural reforms required in Cyprus, can explain more fully why whilst there were possible foreign policy ‘alternatives...for example Russia, Israel and the US...’ there was no real choice but to remain inside and politically committed because Cyprus ‘shared the same ideas as the EU...and for this reason we did not see other alternatives’ (Ibid). Indeed,

additional engagement with other countries was not conceived as an alternative rather it was seen 'as a natural development [after the gas findings], which does not contradict EU policies...this is similar with Russia and China' (Ibid). Beyond this, the fact that Anastasiades' Foreign Minister, Ioannis Kasoulides, had been a former MEP made him more amenable to adapting and orientating Cypriot foreign policy towards EU norms and goals.

Such a predisposition clearly had an impact on Cypriot national foreign policy elites and the way in which the EU foreign policy platform was utilised procedurally and in terms of practice. There was more appreciation of the strengths of the collective, consensual approach inside the EU; and Cypriot diplomats aligned themselves with EU Member States even where there was instrumental reasons not to do so. For example, Cyprus chose to work collectively with EU Member States on Libya. In addition, agreeing to sanctions within the EU against Iran was clearly against Cypriot strategic interests; it meant the deregistering of Iranian companies affected by sanctions, from Cyprus, and more importantly, that all trade and investment would be rerouted through Turkey, increasing its power in the region. Thus domestic normative alignment to the EU position was the primary consideration and was viewed as more appropriate and constructive for Cyprus than acting strategically within the EU milieu (Telephone Interview, Greek Cypriot official, Nicosia, March 2014). This was more difficult under Christofias because of his ideological stance on Western security structures such as NATO and indeed his opposition to the imposition of a neoliberal solution on the crisis in Cyprus.

The normative predisposition of Anastasiades towards the EU is also critical in understanding the link between the crisis and Cyprus' relations with Russia⁸. Christofias secured a £2.5 billion loan to ease Cypriot liquidity problems caused by the crisis; but subsequent events had

important consequences domestically for Russian as well as Cypriot bank deposits. When Anastasiades came to power he faced a difficult dilemma: there was a large Russian community in Cyprus and Russia was a staunch supporter of Cyprus in the UN Security Council in relation to the Cyprus problem. However, a lack of any credible alternative to the EU, added to Anastasiades commitment to neoliberal 'structural' economic reform domestically⁹ meant he accepted a 'painful yet, given the circumstances, the best agreement that they could secure' (Presidency of the Republic of Cyprus 2013).

When the issue of sanctions against Russia was discussed in the Council for its actions in Ukraine, this created tension between Cyprus' normative procedural alignment with the EU and its broader national goals and interests relating to the Cyprus problem and its future financial interests that would rely on continued Russian investment. Here the two explanatory mechanisms are not mutually exclusive in explaining Cyprus' stance. The new commitment to align further with the EU objective of imposing sanctions meant that instrumental interests had to align within such a commitment 'to retain our credibility and support decisions of the EU, while making clear that Russia needs to remain a strategic partner of the EU and that sanctions that cost member states are to be avoided' (Interview, Greek Cypriot official, Brussels, March 2014). Similarly, Cyprus 'voted yes in the General Assembly [which condemned the Russian annexation of Crimea] and this was to align with EU foreign policy' (Interview, Greek Cypriot official, April 2014). It was also, however, an instrumental decision related to upholding the principle of territorial integrity¹⁰ in the context of the Cyprus problem (Interview, EEAS official, November 2015) and the secession of Turkish Cypriots as well as the role of Turkey in the north part of Cyprus.

Away from the Cyprus problem it was strategic interests linked to the energy agenda, rather than any sense of EU-normative alignment that led to the Cypriot government's immediate recognition of the post-Morsi Egyptian government (July 2013) prior to any announcement on an EU common position by the European External Action Service (EEAS) (Telephone Interview, Cypriot diplomat, Nicosia, September 2013). More broadly on energy, the crisis gave impetus to Cyprus' energy agenda as an avenue for revitalising the Cypriot economy through bilateral alliances, but importantly, within EU energy security objectives and through utilising EU policy initiatives and instruments (Cyprus Mail 2013; Interview, Greek Cypriot official, Brussels, April 2014). This can be explained through the *instrumental* need to maximise the exploitation of the opportunities offered by its Exclusive Economic Zone (EEZ) for Cyprus, but also Europe more broadly in the long term in terms of energy security. Thus whilst it can be argued that the instrumental logic dominates in its energy calculus – precisely because of its importance to Cyprus' economic future - such a calculus is not seen as exclusive, as Cyprus is keen to develop its energy agenda within the bounds of the EU's normative energy framework. Furthermore the EU is perceived as a critical facilitator and politico-security actor in relation to its energy agenda – in particular given Turkish objections to Cypriot exploration of its EEZ – but also through the instruments that it offers Cyprus to capitalise on its energy opportunities (Interview, Greek Cypriot official, March 2014).

Conclusions

Using a case study of Cyprus, and focusing primarily on foreign policy elites (leaders), this article has traced the causal significance of the Eurozone crisis on practices of Europeanisation in the foreign policy realm; with a particular focus on revealing its impact on reorienting foreign policy. This is a topic that has not received the academic or policy attention that it

deserves in comparison to other policy areas (with the exceptions noted), and our findings have multiple and important implications.

In terms of explaining the impact, it is clear that our mechanisms are not mutually exclusive and must be nuanced to capture the complexity of the Cyprus case. Thus, in accordance with our proposition on social learning – there was an (albeit gradual) level of normative convergence and embedding of EU CFSP norms within Cypriot national foreign policy practice. Similarly - and conversely - we have shown that in areas of national sensitivity – and in particular the national (Cyprus) problem and issues related directly or indirectly to this (Kosovo) – Cypriot leaders have been consistently instrumental in protecting the Cypriot interest. This has involved refusing to agree to EU institutional proposals relating to the Turkish Cypriots, not aligning to EU positions on issues such as Kosovo, not to mention utilising the EU arena to ensure that Turkey complies with EU protocols, but more importantly, to maintain leverage with regards to resolving the Cyprus problem within agreed international parameters.

What then of the impact of the Eurozone crisis and the role of leadership? We have revealed that in the above context – which resembles that of Jacoby's 'embedded rationalism' (2004), where the two mechanisms are not easily separable but are rather intertwined – leadership under Anastasiades was critical in explaining more 'Europe' after the crisis hit home. Whilst Christofias and indeed Papadopoulos were not averse to general convergence in relation to CFSP norms and objectives, they were staunchly against more Europe and integration into Western security structures such as NATO – mainly because of Turkish membership. When the crisis impacted on Cyprus, Christofias was clearly against any troika solution in the financial sense; but his turn to Russia was related to his underlying beliefs. The loan secured

from Russia then, was an instrumental means to finding an alternative way (or buying more time to avoid the inevitable for some) of addressing the financial problems Cyprus faced; but this did not affect his overall commitment to EU CFSP norms. Thus there was a fundamental tension between these two areas with regards to Europeanisation.

Under Anastasiades this tension somewhat dissipated. That is, whilst he was clearly not supportive of the severity of the troika solution to the Cyprus crisis, he was more normatively predisposed to neoliberal restructuring of the Cypriot economy. This, alongside his support more generally for Western security structures – and the disconnect between the public and foreign policy decision-making we can argue, is a critical factor in explaining why the reaction to the crisis in terms of foreign policy orientation was to pursue more EU. This is not to argue that under Christofias this would not have happened – but rather to assert that the change in leadership was significant in Cyprus seeking to actively pursue – and indeed accelerate - its economic and foreign policy future through greater integration with EU norms and practice. Again we cannot argue given the evidence that instrumentalism is not important in continuing to explain certain foreign policy decisions or new bilateral orientations and instruments under Anastasiades during and after the crisis. But we have shown that any such instrumentalism during and after the crisis has been pursued not as an alternative to the EU but rather as a means of securing Cypriot national interests through embedding Cyprus further into EU foreign policy and external policy norms. Moreover, the Cyprus case has demonstrated the critical significance of the link between economic recovery and foreign policy orientation under Anastasiades; to the degree that third order change away from the EU was never considered as a normatively credible or desirable alternative for the security and future prosperity of Cyprus.

Finally there are broader implications that can be extrapolated from the Cypriot experience. First, further comparative research must be done on the relationship between crisis, democracy and foreign policy orientation in and across Europe (within and beyond the Mediterranean). Given the focus of this article we were not able to delve into the broader societal and policy dynamics of crisis and the impact that this might have on alternative foreign policy orientation; in Cyprus the evidence suggests a disconnect between the foreign policy elites and society and thus minimal impact, but it would be interesting to explore this further and the implications this has for EU foreign policy learning and integration in the future. Second, the case of Cyprus points to a certain broad resilience in foreign policy orientation towards the EU despite the severity of any economic or financial crisis; further work, however, remains to be done on how the medium and longer term effects of crisis and political marginalisation rupture patterns of Europeanisation and the conditions under which such ruptures lead to third order transformative change. Leadership was an important *normative* driver (intervening variable) for pursuing more foreign policy objectives through the EU at a general level albeit through an instrumental lens in relation to the Cyprus problem – and indeed, as revealed during the crisis under Anastasiades specifically, in terms of securing its economic future.

Endnotes

¹See, for example, Special Issues of *Review of International Political Economy*, Volume 22, Issue 3, 2015, *Journal of European Public Policy*, Issue 3, 2012; Special Issue of *Journal of Common Market Studies*, Issue Supplement s1, Volume 48, 2010.

² To be clear, whilst we categorise the Eurozone crisis as the exogenous trigger for change, we acknowledge that the crisis in Cyprus was also a result of domestic macroeconomic mismanagement and decisions taken by the troika and EU members.

³ See also Stavridis et al (2015) for a discussion of crossloading in the context of Europeanisation and negative popular attitudes in the context of crisis (including in Cyprus).

⁴ The explosion was caused by munitions stored at the Evangelos Florakis naval base near Zygi, Cyprus. The munitions, confiscated in 2009 from a Cyprus-flagged ship en route to Syria and stored in 98 containers in an open space at the base were left exposed to the elements - despite repeated warnings from many about the potential risks - until the day of the explosion. The explosion killed 13 people in total – among which were the Captain of the Navy (Andreas Ioannides) and the Commander of the base (Lambros Lambrou). The blast destroyed the island's largest power station located nearby, which in turn had a devastating impact on the already depressed economy. It also meant that people in many areas of Cyprus were left without electricity.

⁵ Even though the Christofias government appears to have discussed this with the ECB and troika (see Zenios 2014, p.16)

⁶ The most notable exception to this was the Annan 'Peace' Plan in 2004, which was supported by Greece, despite being rejected overwhelmingly by the Greek Cypriots.

⁷ For detailed analysis of the structures of Cypriot foreign policy decision making in the context of the Cyprus problem see Ker-Lindsay (2012). See also Zackheos (2011) for a diplomatic perspective of the various phases of the Cyprus problem and Cyprus's outreach immediately prior to and immediately after the accession of the Republic to the EU in 2004.

⁸ See Christou (2011) for a fuller exploration of Cyprus-Russia bilateral relations in the EU context.

⁹ Even though he did not accept the severity of what was being offered by the troika as a way to achieve this.

¹⁰ Note we are not arguing here that Cyprus – and the Ministry of Foreign Affairs - aligned closely with the EU on all questions of territorial integrity. The case of Abkhazia demonstrates how Cyprus has in fact adopted a very pragmatic and instrumental approach that has deliberately tended to play down Russian transgressions despite the clear equivalence to Turkey's actions in Cyprus. Indeed the case of Abkhazia demonstrates the tension between Cyprus' increased normative alignment with EU foreign policy positions and its broader security and economic (instrumental) interests.

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