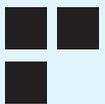
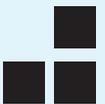




# **Cornell International Affairs Review**



**Inaugural Issue**



**Volume I, Issue I, Fall 2007**

---



# Mission Statement



---



Cornell International Affairs Review endeavors to provide the Cornell community with a medium to engage others in discourse on the most current transnational and international issues. It seeks to accomplish this with the establishment of a three-pillared strategy:

*To Inspire* an interest in issues beyond one's local sphere in undergraduate society by hosting and attending lectures by academics and professionals and of events hosted by the University to supplement one's education in international relations.

*To Engage* students in the current debate through the establishment of a collaboration-based, biannual journal.

*To Provide* opportunities for students to become proactive in changing their social and political environments.



# Inaugural Issue

At his visit to Cornell University and the community of Ithaca, New York on 9 October, 2007, His Holiness the 14<sup>th</sup> Dalai Lama greeted his sold-out audience in an elegant informality: "Titles," he stated, "are not very important. I think, comparatively, we are human beings. That is more or less absolute. That is, different names are relative. Whenever I talk, I prefer to use the words "brothers" and "sisters" because truly, we are brothers and sisters. We are members of the same human family."

It is in this spirit that this inaugural issue of the *Cornell International Affairs Review* comes to you. In this journal we bring together thoughts on international issues that affect us all – neither as professor nor student, professional nor Cornellian, American nor French citizen – but as inhabitants of our one world.

Since our inception in the spring of 2007, the members of the *Cornell International Affairs Review* have endeavored to create a dynamic intellectual community – one in which ideas of the world and of ourselves in it are constantly being formed, analytically discussed, and transformed. In doing so, we have hoped to enrich not only our own personal interests, but to engage and spark the interests of others.

And now, through this journal, we hope to bring this mission to our larger community. In these articles' making and presentation, we have sought to engage rather than to simply present, to question rather than to blindly agree, and to use the knowledge we have been given to effect change.

I thank you for your support and interest in the *Cornell International Affairs Review*. It is our hope that you enjoy reading this issue as we have enjoyed crafting it.

Best regards,  
Gracielle R. Cabungcal  
Founder & President

## Acknowledgements

### **Faculty Advisor**

-Professor Ross Brann, Department of Near-Eastern Studies

### **Board of Advisors**

-Professor Peter Katzenstein, Department of Government  
-Professor Isaac Kramnick, Department of Government  
-Professor David Lee, Department of Applied Economics and Management  
-Professor Nina Tannenwald, Brown University  
-Professor Hubert Zimmerman, Department of Government

### **University Contributors**

-Alice Cook House  
-Department of Government  
-Institute for European Studies  
-Department of Near-Eastern Studies  
-Office of the Vice-Provost for Undergraduate Education  
-Department of Policy Analysis and Management  
-SAFC

### **Individual Contributors**

-Atrium Pharmacy Provider, LLC  
-Wenceslao and Priscilla Azana  
-Bartels Family  
-Grace & Benedicto Cabungcal  
-Charo Horhota  
-Concepcion R. and Rodolfo M. Leal  
-Lencquesaing Family  
-Micouloud Family  
-Neron – Bancel Family  
-Pedraza Family  
-Reyes Family  
-Schoonover Family  
-Singer Family  
-Craig Yunker



# Inaugural Issue

The variety of contributors to *Cornell International Affairs Review's* first issue embodies our objective of promoting an international, interdisciplinary and intergenerational approach to the analysis of world issues. French Cabinet Minister Michel Barnier, French Banker Edouard-François de Lencquesaing, Pakistani Research Fellow Farah Arbab, students of Cornell, Sciences Po and Princeton, all with their different backgrounds, bring us their visions of international affairs.

The world, as it enters the 21<sup>st</sup> century, faces crucial challenges: The environmental crisis and its economic and political implications, the dangerous rise of religious extremism in the already-unstable Middle East, the European integration and its difficulties at the political and financial levels, the critical situation of the African continent, the rise of China and the expansion of its zones of influence, finally, Latin America, with its quiet democratic revolution and its struggle for economic and social development. *Cornell International Affairs Review* explores these themes that cover the five continents, and affect us all. We believe it is important to discuss these challenges to understand the complexity of the world, and, hopefully, to provide some solutions to make the 21<sup>st</sup> century a century of Peace.

Luis-François de Lencquesaing

## Staff

### **Executive Board**

- Gracielle R. Cabungcal, President and Founder
- Luis-F. de Lencquesaing, Executive Vice-President, Senior Editor and Founder
- Ryan S. Spagnolo, Editor-in-Chief and Founder
- Timothee Neron-Bancel, Treasurer
- Karl Chan, Co-Vice-President for Layout
- Darian Singer, Co-Vice-President for Layout, Editor
- Anetta Pietrzak, Vice-President for Public Relations
- Mitchell Alva, Vice-President for Global Networking
- Brian Druyan, Secretary

### **Finance Department**

- Dening Kong, Assistant Vice-President
- Kevin Schoonover, Financial Associate

### **Global Networking Department**

- Katherine Reidel, Global Liaison
- Benjamin Barnier, Liaison Officer to McGill University, Canada
- Romain Jouvent, Liaison Officer to Sciences Po, IEP de Paris, France
- Sohaib Perwaiz, Liaison Officer to Princeton University
- Haroon Ellahi Shaikh, Liaison Officer to Pakistan

### **Layout Department**

- Cecilia de Lencquesaing, Layout Associate

### **Literary Department**

- Katharine Engelhart, Managing Editor
- Ramya Kasturi, Managing Editor
- Chandni Navalkha, Managing Editor

### **Marketing Department**

- Sarah Eversman, Marketing Associate
- Peirce Stern, Marketing Associate



# Contents



|   |           |
|---|-----------|
| <b>Four Challenges for Europe</b>   | <b>4</b>  |
| Michel Barnier, French Minister of Agriculture  |           |
| <b>World Policy issues:</b>   | <b>7</b>  |
| <b><i>Change in Technology and its Impact on Delocalisation</i></b>                             |           |
| Edouard-François de Lencquesaing, French Banking Consultant                                     |           |
| <b>Closing the NAFTA Gap:</b>   | <b>12</b> |
| <b><i>Applying EU Integration to US Immigration</i></b>   |           |
| Emma Banks & Preeti Gill, Cornell University  |           |
| <b>Europe Can No Longer Procrastinate</b>   | <b>23</b> |
| Romain Jouvent, Sciences Po, Institut d'Etudes Politiques de Paris                              |           |
| <b>Domestic Dynamics of Political Islam</b>   | <b>27</b> |
| <b>in the Greater Middle East:</b>  |           |
| <b><i>Case studies of Jordan, Egypt, Kuwait and Turkey</i></b>                                  |           |
| Amanda Rudman, Kevin Schoonover, Arthur Neron-Bancel & Israel Barriga,<br>Cornell University    |           |
| <b>Discerning Iran:</b>   | <b>39</b> |
| <b><i>Exploring the Motives for Iranian Foreign Policy</i></b>                                  |           |
| Sohaib Perwaiz, Princeton University  |           |
| <b>China-Africa Interaction:</b>  | <b>48</b> |
| <b><i>Prospects for a Strategic Partnership</i></b>   |           |
| Farah Arbab, Research Fellow, Institute for Strategic Studies of Islamabad                      |           |
| <b>Country of Contradictions:</b>   | <b>56</b> |
| <b><i>Mexico's Transition into Modernity</i></b>  |           |
| Lauren Herget, Cornell University   |           |
| <b>A Tale of Two Countries:</b>   | <b>58</b> |
| <b><i>Lessons from the Latin Quest for<br/>the Balance of Equity, Progress, and Freedom</i></b> |           |
| Francis J. Pedraza, Cornell University  |           |



# Four Challenges for Europe

**Michel Barnier**

**French Minister of Agriculture; formerly Minister of Foreign Affairs,  
Minister of Environment, and European Commissioner**

In Washington as in Peking, in Beirut as in Bamako, the question is asked of us: what is the European Union's (EU) foreign policy? In Lisbon on October 18th, the 27 member states agreed to a first response on means and tools. With the creation of a post of High Representative for Foreign Affairs and Security Policy, Europe will be represented on the international scene by one sole and powerful spokesperson discussing, whether with Russia or with the United States (US), world challenges. Without substituting for national efforts, the High Representative will have available the totality of Europe's economic, political and military means for international affairs and will work toward the emergence of a shared diplomacy.

We must see the world as it is today: unstable, dangerous, fragile, unjust. It is in this world that Europe must defend its interests and make its voice heard.

The world itself consists more of ruptures and crisis than of continuity and serenity. Europe has not escaped this rule since its debut 50 years ago. Nevertheless, whatever the painful fits and starts of its history and of a sometimes difficult construction, for half a century Europe has maintained and promoted its most fundamental values: peace, democracy, the rule of law, a market economy. European diplomacy must dedicate itself in the years ahead to defend its values in a turbulent, multipolar world in search of guidelines and with risks as varied as they are unpredictable. With neither denial nor forgetfulness, with neither nostalgia nor taboos. And take on four challenges and refuse a funeral of the

European political project.

Climate change is the most serious, the most global of the challenges to our foreign involvement. Strong voices, like that of Al Gore's incite us. Our answer is not yet sufficient despite the fact that accelerating climate upheaval will disrupt all economies and all politics. Even the American hyperpower was destabilized by the Katrina cyclone.

While working recently on a proposal for a 'European civil protection force,' I identified 38 natural or human catastrophes of which 18 directly affected the continent and its European citizens over the last 15 years. At Tony Blair's request, the economist Stern estimated the cost of climate change at 5500 million Euros. We will count by the tens of millions the 'climate refugees' uprooted by flooding. We know that all our customs and practices, absolutely all, will be modified: production, consumption, cultivation, transportation, construction. Yes, the 'house is on fire.'

It is urgent to promote research in new sources of energy, to attach fiscal taxes to the real ecological cost of goods and services, to partner with developing countries rather than lecture them, to create a world environment organization on the model of the WHO. But above all, the effort must be global. At the upcoming conference in Bali in December, we must reach an ambitious consensus for "Kyoto II" on the means to act efficiently and jointly for our planet.

The second challenge is peace in the Middle East, starting with peace between Israelis and Palestinians. Over there, so

close and yet so far from us, all the warning signals are now red. All the ingredients for a general conflagration are present in this region where everything is fragile and where everything holds together by shock waves that we clearly feel in our own society: the hearts of our Jewish or Muslim compatriots beat to the rhythm of the distress of Israeli and Palestinian children.

In this region where each crisis is serious and deserves our special attention, there is a common thread. I am hopeful that the US will be successful in their progressive exit from Iraq. It is time to create a Palestinian state, even one with temporary frontiers. The international conference of Annapolis must allow for negotiations to begin on a final status. I also hope that when the time comes, the Europeans, united in an Extraordinary European Council, will know how to make a strong offer with full political, economic and military cooperation in order to participate in the stability of this region, and in particular, to the security of Israel and Palestine. The UNIFIL in Lebanon is proof that this is possible. In these offers, there must be a place as well for an exacting but vigilant, eyes-open dialogue with Syria and Iran.

The third challenge is one posed by the entire African continent, a continent of opportunity and risk, to Europe and to the rest of the world. In 1950, there were two Europeans for one African. According to the UN, in 2050, there could be three Africans for one European. Half of those Africans will be less than 20 years old; two thirds will live with less than one dollar a day. Each month AIDS alone kills as many men, women and children as a tsunami, and Africa is the first victim. We quickly need new and successful policies with Africa. With willing countries we need to work on a 'partnership contract' that is debated, evaluated, and renewable. This partnership must be simultaneously respectful and demanding.

Everywhere we must encourage and help the African Union and other

regional organizations to take responsibility for speaking and acting for Africans themselves. Ultimately by its size and stake, Africa requires from those who wish to help, a unification instead of a juxtaposition of cooperation policies and efforts to stabilize.

The fourth challenge in foreign policy is that of the organization and the stability of our own European continent. At the heart of Europe, in the Balkans, can be found the first test of the credibility of the Union's foreign policy. The conditional independence of Kosovo is the last knot that must be cut through in this disrupted mosaic of former Yugoslavia. Beware the Balkans. Ill winds start to blow there. This is where the European ideal and the Union, once again, must contain nationalism, while respecting nations, even the smallest. All the Balkan peoples have the right to the promise of joining the European family subject to behaving well, to desiring it and to preparing for it.

Beyond the Balkans, the question of the Union's borders is raised. Negative popular sentiment about a project without limits, and without borders was certainly one of the causes of the rejection of the European Constitution by France and the Netherlands, especially given that the 2004 EU expansion by 10 new countries from Central, Baltic and Eastern Europe had never been explained or justified. This important debate about the Union's borders concerns not just Turkey. The questions raised by the Ukraine, Byelorussia, and the Black Sea or Mediterranean countries should also be settled. Over and beyond this is the notion that partnership must be developed, so that our neighbors won't be shut-out from Europe, so that we may associate our neighbors with our policies without necessarily breaking our institutions. The project of a Mediterranean Union, proposed by the President of France, would be the beginning of a *response* to these essential questions. Likewise with yet

another of Nicolas Sarkozy's proposals: to create a group of personages representative of the full diversity of today's society who would reflect upon the final goals of the European project: why are we together and what should we be doing in the horizon of 2030?

To meet these four major challenges, and others like our alliance with the US and our capacity for dialogue –on all subjects– with Asia, Russia and Latin America, each European nation must choose whether to be in solidarity or solitary.

We keenly feel that our continent is passing from one era to another. From a closed, fenced-in and regulated world, where some remain nostalgic, to a world open to exchange and to competition. Let's look at reality squarely in the face, not to frighten ourselves, but to prepare ourselves.

For in this world voices are heard, in London, and elsewhere, proclaiming that the economy is now global and that the EU has no sense and no purpose other than as a zone of free trade, the most extensive and most open possible. Beware! These voices are loud and efficient and their impact is often great.

In the months and years to come, if those in Europe that still believe in its political project fall silent, or retreat, or choose prudence instead of commitment, then we should worry that the European political project, the dream and ambition of its six founding members, will inexorably unravel. But no responsible leader has the right to accept the burial of the "European dream."

Our communal house is fragile. The EU is threatened by populisms, by national and nationalist reflexes, by 'everyman for himself,' from the south or the east. Threatened by the cowardice of too many political figures who do not assume the European choice made by their countries and who don't explain, don't speak and don't lead anymore. By overwhelmed

institutions that no longer allow for work, all the while being more numerous. By the rest of the world that hopes for Europe, but will not wait for it.

The EU is not an option for its members. It is a vital necessity. It is the key to meeting the existing challenges, including our domestic ones. It must accept our neighbors' views, experiences and criticisms. As we hold that key, our hand must not hesitate. We must conceive the agenda for a new European project.

This new project of course will pass via a modified treaty, functional and ratified in 2008, we believe, and which retains from the Constitution all that it needs for the Union to function. It will pass also via joint work, if possible, with its 27 members; and if not, with a Eurogroup for a true economic governance. With an autonomous European budget, and with an international tax against social and ecological dumping. It will pass via politicians supporting our strategic interests whether they are industrial or agricultural, as evidenced by price flare ups and health crises. It will also pass by supporting concrete projects, giving the Union a humanist and civic dimension that is often missing, such as the energy independence proposed by José Manuel Barroso; via a more ambitious European research; a controlled policy on immigration; a joint effort on culture, demographics, civil protection, and transportation. It will pass above all, via a political Europe with the tools that it needs to build a credible foreign policy and defense.

There is not, and never will be a great power in the world that does not simultaneously possess an economy, a currency, common policies and capability in defense matters. Finally, I would like to restate my hope that in the years to come, Europe will speak more strongly and more loudly and with one voice to confront the challenges of our planet: ecology, peace, development and growth.

# World Policy Issues

*Change in Technology and its Impact on Delocalisation:  
An Illustration Based on the European Financial Industry*



**Edouard-François de Lencquesaing**

**French Banking Consultant; Special Advisor to Paris-Europlace;  
Former Executive Vice-President CCF-HSBC**

Today's and tomorrow's worlds are radically different from yesterday's. Self-evident, yet our thought processes often remain anchored in outdated mindsets. The weight of our success and experience can create "an excess in reasoning that drains our energy" (Erik Orsenna, Voyage aux Pays du Cotton). Globalization is an evolutionary stage in our societies, an evolutionary process that is ancient and at the root of our prosperity. The financial industry does not escape this process and the technological evolution is an accelerator...as was already the case in the Middle Ages with the invention of letters of credit between Flemish and Italian markets. Adam Smith identified in international specialization a source of wealth for each country involved. With two billion workers from emerging countries entering into and radically reinforcing world labor pools, and hence potential world consumption, why would our era be any different? It is clear that as in the past, but this time with a suddenness and extraordinary amplitude, the progress in technologies is changing the ensemble of value scales, distances, time and production processes. From 1930 to 1990 the cost of maritime transportation has been divided by two, air transportation by six, that of telecommunications by 80 and, lastly, the cost of IT structures has been divided by 1000 since 1960. Resources, markets, and companies are thus global..., but there remains an invariable reality: countries remain in place, they still remain platforms of wealth serving their citizens and businesses that choose their territory

and eco-system. If globalization is an evident reality, it can be an opportunity only if each of its components is taken into consideration in a real strategic perspective with neither concession nor confusion.

In this context, the nature of the chain reactions that lead to an inevitable process of delocalisation must first be well defined. Then the limits stemming from a technological complexity must be understood and lastly, the most appropriate delocalisations for our financial centers must be explored.

## **I. The finance industry concentrates around a competitive pole and a critical mass.**

Although it has taken time, today's world of finance emerges from an aristocratic ghetto tied to servicing of money to a veritable value-added industry organized around market, post-market, and credit centers, distribution circuits, and hands-on consulting for large and small clients. These financial activity centers can be now be envisioned as "bank factories" comparable in their processes to real manufacturing factories. It is because of this established industrial dimension that the question of delocalisation ("Relocalisation, or delocalisation, a term derived from the French, refers to the migration of certain jobs and production to other parts of the world, mostly developing countries." - Frans A. van der Zee), can be posited in terms of job and value creation. In macro-economic terms the financial industry in France represents between 700,000 and one million jobs if

one includes service providers to financial institutions. Within a mere ten years, replenishing a full third of these jobs will be necessary. This time frame clearly forces each institution to analyze the fundamental questions and evaluate its best alternatives. This human resource issue will need to answer to a series of complex criteria tied to the financial industry's policies, to the creation of value in a financial center, to a distribution model for services and consulting. In considering this last point, everyone will remember at the time of the internet bubble the discourse as to the "click vs. mortar" battle; the mortar being summarily dismantled (virtual banks vs. physical branch bank networks). Reality is far more complicated and the real world of contact between clients and counselors has happily a long life before it, where technology helps maintain these contacts on the essential level.

In order to illustrate this chain of reactions at the heart of the delocalisations, let's observe what has taken place in bank branches since outsourcing is not an international phenomenon to start with but a series of small, local reorganizations that factors certain tasks. For a long time, a branch was a small entity, autonomous and invested with all the necessary operational means. The world was stable. Branches had their own telephone systems and back-offices. When these functions were moved to a distance and regrouped, first by clusters, then regions, eventually nationally and internationally, a real revolution took place. For some it was an engineer's utopia, but today it is a reality that has come about in less than ten years.

A little further back, a similar phenomenon also took place in the marketing and sale of trading room services. Senior bankers were now also in charge of selling multiple financial products to domestic or foreign institutions. Technology had allowed for the creation of trading rooms as real "factories" of

dematerialization, specialized by products and bringing traders face to face with clients. These trading rooms started an upward industrial spiral answering to two major criteria: critical mass in technological know-how, and access to a deep pool of skills and proficiency.

Post-Market activities offer one last example. Approximately 30 years ago, the "bank factories" for custody services left Paris for the provinces.... at the same time these "factories" dedicated to providing custody services to their own bank's clients discovered they could develop a stand-alone business line by concentrating and providing contractual services to other domestic and foreign banks. A similar realization occurred in the payment centers, another "bank factory." Soon a new business environment took hold, that of outsourcing domestically and outsourcing across borders, delocalizing. At this point, a significant part of the delocalisation was done for IT reasons. But what is important to note is that the very nature of business had changed in becoming much more industrial. The cost analysis switched from variable to fixed; and work lines switched from that of standardized production to that of treating exceptions and dysfunctions. All of this thoroughly enriched the quality of the services yet also heightened and amplified the potential risks.

At first, these jobs were profoundly restructured and concentrated at a national level. Today's latest evolutionary wave is the result of European harmonization transforming the European "territory" into a space as efficient as countries' individual domestic areas. This is the objective of the European guideline on payments (SEPA-Single European Payment Area), the guideline on Post-Markets, as well as the European Central Bank's initiative to create a single platform for the delivery and payment of securities (Target 2 Securities) as a complement to the platform dedicated to inter-bank payments (Target 2 delivery in

November 2007). To all these initiatives one needs to add the recent bank consolidations within Europe that have profited from the conditions of European harmonization in terms of infrastructures, legal structures, regulations, and operational practices by taking the logic of critical mass from the national level to the European level. The new “factories” in the years to come will target serving the entire European clientele. Even if this is good news for the European customer (corporations, institutions, and individuals), it doesn’t come without raising questions on the conditions for implementation and what will be the status of winners and losers.



To conclude, the third strata of potential consolidation is at a global scale. Two axes justify this: on the one hand, the global nature of business lines. A global corporation’s choice of production sites is determined by the localisation of its final clients, by local prices and by its ability to centralize production factors in order to optimize the size and cost of its resources. On the other hand, for a local or regional business line, the question arises as how best to serve a local clientele from delocalized production sites in order to better leverage the best production costs in order to meet the competitive challenge of global players. Well-known examples are customer service call centers, IT centers and certain administrative centers.

Delocalisation contributes to the efficiency of production systems and to employee’s purchase power in emerging economies. It creates a virtuous economic spiral. It is clearly at work in the competitiveness of European companies. This opportunity, however, is neither without limits nor constraints. It will structure over time the terms of the competition, and in the short run it presents real strategic risks.

## II. The limits of Delocalisation

When it comes to delocalisation, financial service centers have several limitations such as the level of financial sophistication, the risks, and the competition with local resources in a host country. As we have seen, the evolution of financial “factories” has dematerialized and automated the production process leaving personnel with only value-added tasks. Workers have transitioned from simply processing instructions into transaction monitors or circuit-integration engineers, the circuits themselves becoming more and more complex. Today’s workers face increasingly sophisticated service requests demanding increasingly rapid reaction times. Beyond technology, the interactivity between different layers of specializations, and different frontlines, implies extremely interoperable organizations. It is true that in the sophisticated domain of software development, the establishment of procedures and the development of new methodologies based on computerized workflows, has allowed the uncoupling of relations that formerly required physical proximity. Nevertheless, the increase in the technological intensity of processes can become a barrier to the delocalisation of certain functions. One must note that in this area of skills, France belongs to those countries most advanced in the automation of these processes, and this explains its lesser degree of delocalisation.

Risk is also specific to the banking industry. With a strong concentration of

actors in transaction banking and in trading, understanding the dimension of systemic risk has become more clearly measured in the ratio calculations of capital and is the outcome of Basel II standards. These new ratios explicitly take into account operational risk. These risks, above and beyond the quality of the “factories” that can be built cross borders, need to take into account the security conditions of energy and telecommunication structures. Do these have strong enough back-up systems based on alternate circuits or on the capacity to mirror data through the use of fiberoptics as is the case in western countries? To that is added climatic risk in countries with extreme conditions little known in more temperate climes.

The last significant limit to delocalisation is the competition between the development of the local markets of the host countries and the pressure from external markets for the same resources. The impact is immediate on salaries even if the gap remains significant (approximately 1 to 4). But the real challenge for these countries is the penury of qualified personnel and the arbitrage between different production centers as they accompany either the local or the external development. Delocalized activities are a strong accelerator for the development that sparks this upward spiral and the establishment of a middle class that quickly expects services quasi-equivalent with those in Europe. In India, 300 million people have seen their annual revenue increase in 20 years from \$4,500 to \$23,000. In Algeria, closer to France, the banking system is undergoing profound reforms leading to payments systems being established that meet western standards and that imply the same level of back-offices and project management resources that might have been allocated to delocalized centers. In the region of Suzhou near Shanghai, the authorities are worried about the possible perennial nature of foreign companies in their “territory”

and anxious that they develop without bothering the local Chinese companies. Despite impressive efforts in education, it is evident that the pool of qualified resources will be quickly stretched. The elasticity of a new work force of 2 billion is not without limits in terms of economic and opportunity costs.

### **III. A serious challenge to meet**

The rules of the game are clear and the consequences imaginable. A strong delocalisation of trading activities to London has already been seen. An important number of French researchers, particularly in mathematical finance, have moved to the US and the UK. A strong French Diaspora exists around the world in the areas of mathematical modeling of trading instruments (derivatives) and of risk management. The Post-Market will likewise be subjected to structural change. The competition between territories is not new; it nevertheless implies that this competition must be managed in a professional and determined manner as competition between businesses demands. A territory, and specifically, a financial center, is a service platform where the competitive factors are talent, liquidity, regulation, legal structure, and market infrastructures... However market forces alone will not organize these factors into the best competitive offer. That can only be the result of a real strategic plan based on an industrial policy, regardless of the name given to this approach, just as is the case for corporate businesses.

The Paris Financial Center’s success will be conditioned by Europe’s success. Even for the international financial centers like London and New York it would be presumptuous to think that their individual success could be independent from their “territorial” base-camps. For the European centers, this implies that their force will come from a complementary network of European financial centers.

This policy can have several objectives. First, the Diaspora of French

“Quants” is not a weakness but a force in the French system. For that, their connection with their home base must be strengthened. A second objective is to put into place conditions attracting the relocation of trading or fund management activities in reaction to new market opportunities. London did this a few years ago, when it attracted hedge funds along with the derivatives market that in a very short time together drove the growth of the London financial center. This strategic and economic pull-effect is key. When one looks at studies of New York one observes that financial jobs represent 2.2% of the State’s population but 12.5% of wages, and 13.8% of tax revenues. Beyond the strategic consequences of finance on the control of decision centers in this eco-system, the leverage of financial wealth is important. In New York, one financial job justifies two non-financial jobs. One can even say that these jobs (2.2%) justify 17% of private sector jobs!

A third objective is to maintain in France the significant advantage it holds in the Post-Market job sectors. Is this utopia? Insofar as the “battlefront” is structurally concerned, the possibility exists. Major constraints such as French social and tax costs, are currently being addressed by the French political authorities. However, this battle takes place on several, insidious fronts. Take for example the global convergence of law. The law regarding title to securities is certainly a sign of a system’s robustness and it determines the quality of the relations between shareholders and issuers, in particular during general assemblies, the cornerstone of western tradition. It is also an essential competitive element. The example of the debate on the rules for conflicts of law in the area of custody is symptomatic of the problems. A technical debate at the juncture of law and post-market operations has bogged down in multiple layers of profound incomprehension. The heaviness of the

underlying polemics is in reality due to the real strategic consequences that it hides. In these debates, the terms of delocalisation must also be treated responsibly without naiveté.

At this stage, without entering into details, success will depend on the extent of the “top-down” process. In London, the City did this 20 years ago at the time of their “big-bang”. So has the US, following the recent reports on Hal Scot and Bloomberg on the competitiveness of American regulations following the Sarban-Oxley law. As far as France is concerned, it must strongly mobilize itself in terms of research in the areas of finance, law, regulation and quantitative finance. It must invest in market infrastructures and supporting technologies for related skills. The challenge of delocalisation can be for the good if it allows France to move up the value chain and bring with it the totality of necessary jobs.

This challenge goes beyond simple economic patriotism but highlights the responsibility of what is termed the general interest. It requires a concerted mobilization of involved industries and public powers. The roundtable that the President of France just organized on the financial industry confirms this. The same goes for the projects that concern university autonomy necessary in order to participate in the Lisbon Agreement, a European objective to take world leadership in the knowledge industry. But if the “top-down” confirms itself, the centrifugal forces of “bottom-up” are always present to balkanize the energies. It is at exactly this level that leadership must reveal itself in the industry to sublimate categorical reflexes. The strengths of the Paris Financial Center are serious strengths. France’s challenge is to manage delocalisation and to turn finance into a motor for the creation of wealth in Europe, in Paris and for its local and international clients.



# Closing the NAFTA Gap

## Applying EU Integration to US Immigration

Emma Banks, Cornell University, Arts and Sciences, 2010

Preeti Gill, Cornell University, Industrial & Labor Relations, 2009

*The accession of Ireland, Greece, Spain and Portugal into the European Community was a significant move towards manifesting everlasting peace by means of a single market. The incorporation of these four weaker countries into the European Union (EU) marked a break from the EU's traditional purview. The paradigm shift of the EU's approach to enlargement placed Member States onto a path that would harness the full capabilities of a common market in improving civilians quality of life while simultaneously achieving individual Member States' objectives including growth, employment, and trade.*

*The regional effects of the EU's single market are drastically different from the effects of the North American Free Trade Agreement (NAFTA). A much newer trading bloc (NAFTA came into effect on January 1, 1994), it lacks the wisdom and fine tuning of the EU. The governments of the United States, Mexico, and Canada signed the treaty<sup>1</sup> while hailing how it would "fuel economic growth and dynamic trade, stimulate investment while creating productive partnerships, work for small and medium sized businesses and provide fairness and certainty. NAFTA partners promote environmental protection, and provide greater job opportunities in North America"<sup>2</sup>. Yet the effects seem to be the exact opposite. NAFTA has been called "one of the most innovative, astounding documents of the 20<sup>th</sup> century by the stoic..."<sup>3</sup>, but this so-called "innovative depth" has reduced barriers to trade and investment, without the necessary checks and balances. For Mexico, NAFTA merely expedited and formalized "the silent integration" that had been occurring since the Border Industrialization Project of 1965— without adding anything new to the table.<sup>4</sup> Unlike the EU, NAFTA is a rigid document that has not reformed itself as needed to address issues of border control, immigration policies, and uneven socioeconomic development.*

*In spite of sincere hopes for free trade and economic integration to raise living standards across the continent, the reality is that the unfettered markets have permitted NAFTA to persistently ignore the uneven economic development, and vulnerabilities each country faces. In so doing, the United States has been a quiet bystander to the inequalities proliferating from unchecked free trade. Both countries have been left vulnerable to NAFTA backlash.*

*Mexico's vulnerability stems from unsound economic development policies and overall slow growth. These factors have increased the US' vulnerability, to migration. Fed up with uneven development, lack of job opportunities, poor working conditions, and low wages, many Mexicans are taking matters into their own hands and crossing the border, often illegally. Militaristic efforts to "defend" the border have done nothing but increase political tensions and migrant death tolls. NAFTA does not address the immigration problem and its root cause of unequal development.*

*This paper begins with the European Union's initial experience with enlargements and the experimentation process it underwent to reduce economic and social disparities between regions to further facilitate their single market objectives. After considering how the EU's cohesion policy strengthened its own single market while simultaneously curbing migration, we present the NAFTA scenario, specifically against the backdrop of Mexico and the United States, in order to highlight the impotent mechanisms the United States relies upon to quiet the waves of economic migrants.*

### The European Experience with Single Markets and Solidarity

The Schuman Declaration of 1950 proclaimed integration would not occur overnight with the stroke of a broad brush; rather, it would occur by means of an incremental process, each step leaving behind a concrete achievement for posterity.<sup>5</sup> This concept has been realized in exact form as the European Community swelled into today's colossal trading bloc

with shared values and goals. The cautious and inclusive approach of the Community's evolution over the past 50 years has striven for deep-seated solidarity that is embodied in the successive mounting ambitions of each treaty. The amorphous single market has coalesced under nine treaties- notably The Treaty of Paris, The Single European Act, The Treaty of Maastricht, The Treaty of Amsterdam, and The Reform Treaty.<sup>6</sup> The aim of integration had once revolved around

diminishing channels for the nationalistic rifts that sparked and resulted from World War I and II. As peace became ensured, pushes for deeper integration arose and the original justification for the formation of the EU slowly became anachronistic. It was gradually supplanted by the need for *cohesion*.<sup>7</sup>

The preamble to the Treaty of Rome calls on Member States to minimize regional disparities, but provided toothless mechanisms. The European Social Fund (ESF) and the European Investment Bank (EIB) were incapable of facilitating cohesion. Beginning in 1975, The European Regional Development Fund (ERDF) began to assist poorer pockets in each Member State to redress the Treaty of Rome's shortcomings. This structural fund helped impoverished areas suffering from various afflictions, such as a decline in local industry or falling commodity prices in an agricultural zone. The downside of the ERDF was that major net contributors were also the major net recipients.

The expanding wealth gap which arose from market liberalization became most apparent in the 1980s. The regional imbalances were made starker still with the accession of the Mediterranean countries. Ireland had been on board since 1971, but Greece joined in 1981, and Spain along with Portugal joined in 1986. All are south of what economists have dubbed the "north/south divide" in term of economic disparity.<sup>8</sup> Although these enlargements were enacted to further postwar goals and strengthen trade, they held the potential to destabilize the delicate single market. Each inductee was balancing on toothpicks domestically and lacked democratic histories. Greece had just been destabilized by a military coup, Spain and Portugal had just ended dictatorial rule, and Ireland was still afflicted by sporadic violence. They all shared the unfavourable characteristics of low human capital levels, poor physical infrastructure, and low research and

development as a percentage of domestic product industry. The health of the single market would be harmed on an economic and political level if Member States failed to bridge the north/south divide.

Jacques Delors, the visionary whose name is associated with monumental steps towards European integration<sup>9</sup>, was a key figure in shaping the cohesion policy in the EU. He imparted a new dynamism into the integration debates when he warned the European Parliament that enlargement negotiations "revealed a tension in Europe which is, let's face it, a tension between north and south. It stems not only from a lack of understanding, [but] from a clash of culture, which seems to promote certain countries to turn their backs on the solidarity pact that should be one of the cornerstones of the Community, solidarity being conceived as an expression of the common wealth, contributing to the vigour of the European entity."<sup>10</sup> Delors vocalized how disparities limit competitiveness and prevent worthy contributions towards sustainable economic growth for the EU entity. He explained how striving for a "solidarity principle" need not involve a redistribution of resources but rather, a convergence of incomes, employment rates and competitiveness.<sup>11</sup> Closing the north/south divide by removing structural weaknesses would strengthen the internal market by creating new markets and consumers.

The Padoa-Schioppa Report provided a compelling case for reforming the cohesion policy.<sup>12</sup> Its principal conclusions bolstered Delors' arguments concerning the threats that disparities presented to the single market and money integration<sup>13</sup> The report also evinced the political consequences inherent in weak integration. Thus, the Padoa-Schioppa Report was also used by the European Council and the European Parliament to combat the freehand of neo-liberal market principles advocated by Thatcherist

economics.

A radical revision of the cohesion policy emerged from the bitter debates at the 1988 European Council Summit in Brussels. The European Council adopted new policies, known as the Delors I package, to tackle the integration challenges. These policies created a change in the single market concept, a change that Article 23 of the Single European Act (SEA) reflects. The new title, "Economic and Social Cohesion," forges an indelible link between internal development, EC policy and economic growth. However, this new direction for the EU also negated the primary attraction of its access to the single market: the relative lack of costs.<sup>14 15</sup>

The reforms of 1988 transformed the structural funds into effective instruments of development that would aid underdeveloped areas throughout the EU towards sincere convergence. The main three structural funds are the Guidance Section of Common Agricultural Policy's European Agricultural Guidance and Guarantee Fund (EAGGF), the European Social Fund (ESF), and the European Regional Development Fund (ERDF)- the ERDF being the largest. These funds had budgets doubled in real terms to a total of 60 billion euros by 1993.<sup>16</sup> The Delors I package resulted in a transition from short term, project related aid to continual program assistance with decentralized management.<sup>17</sup> It introduced new principles, such as the non-substitutability of structural funds in place of state funded public expenditures. This ensures that Member States remain obligated to engage in state-directed public activity alongside of cohesion needs.<sup>18</sup> In order to tap into the structural funds, Member States must prepare a clear, concise plan delineating need and the subsequent management actions that will be taken to manage the funds. The final plan is called the Single Programming document; it is the outcome of a negotiation process that tailors Member

States' management of the funds in line with EU goals by outlining actions, objectives, targets, financial resources, monitoring, evaluation and control systems.<sup>19</sup> A critical change that the Delors I package instituted was strengthening the existing principles of structural funds. This reform fortified the funds' ability to work in tandem with one another to achieve five objectives.

Objective 1 regions are areas that had lagging development and a per capita GDP of less than 75% of the EU average. Objective 1 provisions were for basic infrastructure and to encourage investment in basic business economic activity. This objective comprised 80% of overall Community assistance and accounted for 20% of the Community's population. Objective 2 regions received assistance to promote economic conversion and modernization of declining industrial regions. Objective 3 regions were designed to combat unemployment through policies and systems of education, training and employment. All Member States received Objective 3 assistance except for the Objective 1 regions because measures for training and employment were already included in the catching-up programs. Objective 4 regions were targeted at helping younger people in declining industrial sectors integrate into the workforce. Objective 5 regions adjusted and modernized agricultural processes.<sup>20</sup>

The synergy of market access, democracy and comprehensive development plans resulted in substantial gains for higher growth, job creation, and competitiveness. The structural funds strove to help countries help themselves. Economic growth due to concentrated benefits, coupled with declining prosperity elsewhere, was considered a failure from the standpoint of cohesion success.<sup>21</sup> The structural funds were designed to dilute territorial imbalances and as such, structural effects were assessed in areas beyond economic growth such literacy and

quality of life.

The Aggregate and Regional Impact Study conducted by the EU in 1996 reveals the importance of developing a competitive base and a productive base.<sup>22</sup> The findings present internal market studies that analyse trade and factors flows resulting from an Objective 1 dimension. Its quantitative analyses reveal both the triumphs and missteps of the Delors I package- and the positive effects outweigh the negative. The studies reveal a diversification in employment and investment, increases in trade and, more significantly, intra-industry trade. Intra-industry trade growth draws attention to the scale effects resulting from structural policy, which remain hidden when looking at direct growth measurements. The spread in technology transfer escaped GDP measurements. The studies reveal increases in foreign direct investment which translate into technology transfer and "know how" for lagging regions. Attracting FDI was important for cohesion policy esteem because it signifies dissipating infrastructural deficiencies and weak labour, since business normally does not invest in areas of great need.<sup>23</sup> Large scale FDI increases are signals of developments in human and physical capital. Another obvious benefit from FDI is that it provides a natural means of economic development from employment opportunities, taxes and a circulation of wealth. Tellingly, the main conclusions drawn from the regression analyses of the internal market studies reflect a strong correlation between growth and human capital development. The data shows that increases in convergences due to structural development are generally brought out by positive changes in human capital.<sup>24</sup>

One notable trajectory was Ireland, which serves as a pivot point to observe the difference in a well-structured cohesion policy's ability to spur key developmental changes for integration. After joining the EC in 1972 and receiving its first dose of

structural funds in 1983, the progress of Ireland has been astonishing. The structural funds provided for the unemployed youth and transportation infrastructure. Between 1986 and 1989, Ireland received 287 million Irish pounds specifically for road investment, since the spurt in vehicle numbers was congesting the commute.<sup>25</sup> By 1985, training agencies processed 44,651 trainees in contrast to 13,832 in 1976. Direct job creation schemes rose from 3,100 in 1976 to 28,400 in 1986.<sup>26</sup> The potential and opportunity abounding in Irish firms was recognized by multinational corporations, who flocked to Ireland and transformed the traditional labour intensive industry to one of high tech, capital-intensive industries.<sup>27</sup> The individualized programs of the structural funds made their mark; Ireland's EC Evaluation ascertains how "Irish agencies could not have benefited [as] much from the fund unless its priorities were congruent with the labour market situation in Ireland."<sup>28</sup> However, *real* growth for Ireland did not take off until the 1990s, when it experienced growth rates parallel to the Asian Tigers.<sup>29</sup> From 1994 to 2003, the Celtic Tiger Era, Ireland's per capita income was 3,200 euros ahead of the United Kingdom.<sup>30</sup>



The evidence is unambiguous that a combination of the free market principles from a single market combined with managed development aid has raised the living standards and economic competitiveness of the European Union.<sup>31</sup> The sustainability and stability of the

countries above is represented by the success of the Economic and Monetary Union. Money integration puts countries with differing growth rates under the same currency. A pervasive fear for the EU since the 1980s had been the destabilizing effect that harmonizing budgetary policies would wreak on the EU's foundation. A single currency put a halt to individual countries' ability to devalue their currency. From an integrationist perspective, the benefit of a single currency is that weaker countries must expand beyond competing on cheap labour or goods. The danger is that poorer countries are no longer able to cushion destabilization through exchange rate flexibility.<sup>32</sup> Therefore, in order to participate, a country must exhibit a low inflation rate, sound public finances, stable currency and low long-term interest rates. Portugal, Spain and Greece met these requirements by 2002 while Ireland had already met them by the early 1990s.<sup>33</sup>

A pervasive fear for the more prosperous nations was the possible exodus of underemployed people seeking better lives. This fear was heightened by the signing of the Schengen *aquis* in 1985. Though still in its incubating phases, the Schengen area would ultimately drop EU internal border controls and allow free movement of persons.<sup>34</sup> The cohesion policy exemplifies how regional integration attenuates socioeconomic disparities that necessitate migration. The internal migrating trends in the EU show a net increase in inter-country migration from 1985 to 1992 but a net *decrease* from 1993 to 1997.<sup>35</sup> The total EU15 citizenry living in their country of birth stabilized by 2000.<sup>36</sup> Spain, Portugal, and Ireland are no longer emigrant countries, but fall under the category of host countries; magnets for foreign and internal immigrants due to economic and domestic pull factors.<sup>37</sup>

Despite these accounts of miraculous improvement and integration for the EU15, it cannot be assumed that

the structural funds alone uncovered blossoming economies and domestic stability. Greece only raised its per capita income by 2.4% and remained at 64.3 % of the EU per capita average.<sup>38</sup> To this day, it remains at the bottom of the rung. Time has shown that the reality of convergence can only be attained by a combination of factors. Sound macroeconomic policy, market liberalization, foreign direct investment, a favorable external environment, public willingness, low levels of corruption and a strong rule of law are necessary components to release the full potency of cohesion.<sup>39</sup> Structural funds are often thought of as the base point for sturdy and sustainable growth; an integral piece of the virtuous economic circles liberal markets can bestow.

The influence of globalisation on regional development and transformation has been accompanied by continuing integration policies. The beauty of the European Union is that it is based on living documents that promptly respond to changes in demographics, markets, public opinion, and high profile events. Though the purpose remains constant, the face of the structural funds has changed dramatically. Large strides have been made in the reduction of physical infrastructure disparities; thus the future of the funds is being shaped by the Innovative Actions Programme, an experimental initiative that aims to find new, [novel and] profitable venues of development in the relatively untouched areas of innovation, research and technology.<sup>40</sup> This program will be based on 15 years of EU experience and strive to develop areas that are risky and require testing before official implementation.<sup>41</sup>

The OECD's position that "Catch-up is not... a spontaneous process, but depends very much on the degree of development of market mechanisms and the quality of social and economic infrastructures" aptly applies to the underlying logic behind the long-term processes of the cohesion

policy.<sup>42</sup> In the case of the EU's enlargement process, single markets have been the bones, while development aid has been the nourishment. The largest trading bloc worldwide has benefited most from human capital and infrastructure development—two programs out of the smorgasbord of projects ranging from tourism to research and development to food product marketing to equality in labour markets. Razing socioeconomic disparities abated the pull factors for economic migration. As evidenced, the effects of managed capitalism go beyond the conventional notions of equitable wealth distribution. Liberalized markets cannot provide blanket public goods because it's not profitable for individual investors. From the development angle, the cloned solutions that the "Washington Consensus" prescribes cannot provide individualized attention that a struggling economy needs. To Jacques Delors, the medium for cohesion was synchronized development aid, sustainable self-help, not simply throwing money at the problem.<sup>43</sup> The European Union allocated a total of 195 billion euros for the Structural Funds from 2000 to 2006, which accounted for roughly one third of the Community budget in 1999 prices and is 0.4 % of the EU GDP.<sup>44</sup> Humanizing rabid market growth is clearly attainable. Why then does NAFTA show such a drastically different results?

### **"NAFTA was Mexico's first bloodless revolution"**

America sold the idea of a single market to the public, saying that it would be the fulcrum for economic and wage convergence, a shining star for the world to emulate as living standards across the continent would rise due to increased growth. NAFTA's true ambition could never have been a single market – the written agreement does not even make mention of Mexico as a consumer market.<sup>45</sup> Rather, the agreement was designed to support a crude form of free trade so that investment

could expand with minimal constraints, with Mexico being an appendage for corporate needs. NAFTA's misaligned priorities flung an ill-equipped Mexico into an arena of unrestrained market liberalization, unarmed with the resources necessary to compete against global multinationals. The dexterity of change from the "bloodless revolution" that NAFTA spurred, has hurt the embryonic stages of Mexican democracy by concentrating economic wealth in the hands of a few and disenfranchising the "have-nots." The ramifications of marrying democratic voice to economic prosperity further masks the harsh suffering of affected Mexicans.<sup>46</sup> Moreover, by choosing to ignore the deep rifts between Mexico and the United States, NAFTA architects have created a situation in which many Mexican citizens have no better options. Only leaving their homeland portends a better future.

The trade agreement dropped agricultural barriers to increase the free flow of farm goods. What was detrimental was how the U.S continued to over-subsidize crops and protect its domestic agriculture, while the Mexican government withdrew historic protections such as tariffs and subsidies to be in step with neoliberal standards. These agrarian reforms rendered Mexico's traditional farming methods useless against American mass production techniques.<sup>47</sup> Mexico's already fragile market riskily opened itself, while the already over-protected American market remained closed, leaving Mexico at an even greater disadvantage.

The border industrialization region is fair evidence of NAFTA's failed promises. The peppering of *maquiladoras* are a cursed blessing, where desperately needed work is adjoined with harmful living conditions. "The lack of health and safety standards, pollution in surrounding areas, low wages, and tedious work are parts of the destitute whole that is life working in the *maquiladoras*. Only poverty stricken human

beings accept these inhumane conditions and only because they have no power to better their lot.”<sup>48</sup> In these *maquiladora* border regions NAFTA requirements prevent Mexico from taxing anything except for value-added taxes, yet tax revenue is essential to fuel a development agenda. Residents are powerless against the multinationals and their desperation for work unwillingly renders them more subservient.



Deregulation can be highly beneficial as it trims the fat from bureaucratically burdened markets. However, when it goes past a certain threshold, deregulation becomes nothing more than a cost shifting measure.<sup>49</sup> For instance, allowing industries to deposit toxic waste with minimal costs subsequently causes a rise in costs for the city. Indirect results are further costs to health and quality of life. Transnational companies do not pay taxes, so who will cover these mounting public costs? The Mexican workers living hand to mouth simply cannot.

NAFTA has failed to curb illegal immigration because negotiations were not crafted to promote a rise in living standards, health care, environmental cleanup, and worker rights in Mexico. It has not had a neutral impact, but has destroyed sectors of the economy and undermined public welfare policies.

Thus, the synergized forces of an abrupt introduction to the neoliberal economic model, the Peso Crises of 1994, and trade liberalization have pushed

migratory flows to new levels. Desperate Mexicans are lured to the border area and are willing to risk their lives to cross into America. There were 2.5 million illegal Mexican immigrants in 1995; 8 million have crossed the border since then.<sup>50</sup> The greater visibility of illegal immigrants combined with capital flight from America to the Mexican border region has created a compelling scapegoat for Americans to press for aggressive border protection as opposed to dealing with the crux of NAFTA's. The price of inaction is flagrant human rights abuses as hostility on both sides of the border spirals upward.

### **US Immigration History and Current Debates**

As a result of this influx of Mexican immigrants, America has taken a step to a more liberal immigration policy. The INA amendment to immigration policy in 1965 was the first step in a bias-free, fair immigration policy, something the US had lacked for years. A more liberal immigration system based on admitting people with needed skills, reuniting families, and sheltering refugees replaced the old country preference system. With these more liberal immigration policies, it was not long before illegal immigration increased. With the implementation of these new policies combined with low standards of living and increasingly open borders due to trade, it is hardly surprising that many Mexicans began to flood the border.<sup>51</sup>

The US government is understandably unhappy with this flood of people. But the solution to this problem is not to militarize the border; you cannot stop a tidal wave with a net. The solution is to use NAFTA to provide more economic opportunity for all Mexicans (not just those already on top). A NAFTA development agenda will calm the ocean to a gentle ebb and flow. If trade policies, such as the US over subsidizing agriculture and the existence of tax-free zones, are reformed,

trade could benefit all NAFTA countries by providing more high-end consumers, more economic diversity, and more skilled labour.

George Bush has merely flip-flopped around the issues of border control. Caught in the middle between democratic pressure and very conservative republicans, it seems the President is unable to take a true stand on immigration reform.

In 2000, Vicente Fox proposed a second phase of NAFTA that would involve open immigration borders along with the trade borders. This “second phase of NAFTA” was a bold new plan. Recognizing the differences in living and wage standards between the US and Mexico, Fox proposed to close the gap, to make NAFTA more “fair.” Fox encouraged workers migrating to the US and argued that migrant labourers were good for both countries.<sup>52</sup> Fox’s plan is a proposal to help close the development gap between Mexico and the US by creating a common labour market, a step towards a single-market system. With his proposal, Mexicans could have competitive advantages for their wages, helping to close the difference, and removing the problems of illegal immigration. Vicente Fox used the example of EU integration as a model for NAFTA’s second phase. Fox compared the wage differences between Mexico and the US to those in the EU: “Twenty-five years ago, Spain, Greece and Portugal had the same differences in income with Germany, Italy or England, and today that has been erased.” Fox spoke that the key was to stem illegal immigration would be “agreements on sectors” which would increase labour efficiency. This might help close development gap, but this EU-style leniency is not on-par with US policy.

Fox’s proposal was debated in Congress, but soon forgotten in the wake of 9/11. The intense fear of terrorism that followed 9/11 led to an immigration policy focused on security. Fear replaced reality as the need for comprehensive immigration

reform was forgotten in the movement to secure the borders. In 2003, Bush began forming a proposal to overhaul immigration to include a guest worker program.<sup>53</sup> Domestic problems were again abandoned as the fear of foreign terrorism rose at the beginning of the Iraq war.

Pro-immigration argues that the US has a responsibility to help developing nations. As the US continues to emerge as the superpower in the global economy, it must use some of its wealth to help other nations prosper.<sup>54</sup> In doing so, it will increase prosperity with its trading partners, and therefore increase trade. However, until it does so, it is unfair of the US to deport illegal immigrants who simply want to live a better life. Especially in the post-NAFTA world, the US must recognize its interdependence with Mexico. By deporting and abusing all illegal immigrants, diplomatic ties with Mexico are weakening. No country likes to see its citizens mistreated abroad, so for NAFTA to be a healthy relationship, the US must find a better solution to illegal immigration than the costly and disruptive method of deportation.

The views of anti-immigration activists must also be taken into account as the US decides what to do about illegal immigration. Anti-immigration has flooded the US after 9/11 with increased fear over border control and the infiltration of terrorists.<sup>55</sup> Policy makers need to recognize the need to document and background check immigrants more thoroughly to avoid criminals and terrorists entering the country, as a way to reassure Americans that their concerns over national security are heard.

The Secure Fence Act passed in 2006 will add 700 miles of fence to the border.<sup>56</sup> It will not stop illegal immigration. A fence is not a long term or effective solution. As long as Mexicans are willing to risk the danger of crossing the border to find what they believe to be a better life, illegal immigration will continue. The issues lie in

why these immigrants are choosing to leave in the first place. The US can fence itself in as much as it wants. It can attempt to isolate itself from the world. This attempt, in a world of increasing international cultural, economic, and political interdependence through globalization, is useless. If the US wants to stop illegal immigration, it must engage with the issues of development. Partial integration has caused an increased political and economic divide. Greater, more equitable integration is needed. The floodgates have been opened and now the wave must be controlled. No wall or fence can keep the problems of unequal development out, not matter how high or long it is.

### **Piecing the Lessons Together...**

FRONTEX and the European Commission are like the glue among Member States in coordinating border security operations at the external borders. The combination of an independent body and a supranational organization not only promotes uniformity in managing borders, but it continually assesses progress and effectiveness. By providing detailed analyses and reports on the progress on its latest policies and projects at Summit conventions and Interministerial Conferences, the European Union is able to keep a running tab on the usefulness of its funding. This method is only one of the many ways that the EU monitors the success of its border control and the cost effectiveness of implemented measures.<sup>57</sup>

The US has done little to empirically evaluate the effectiveness of the border's militarization. The Government Accountability Office (GAO) noted how the INS & Justice Department did not have plans to measure the effectiveness of its border control system in curbing the flow of immigrants.<sup>58</sup> Not formally assessing the effectiveness of border controls tacitly acknowledges the current policies' weakness without outright criticism.

The results thus far have been a spike in professional smuggling, corruption, deaths, ruining of American property, and creating an environment of fear in American towns. By projecting the appearance of a more secure border, the US is merely reinventing the image, which is a perverse way of fooling the citizenry to garner votes.<sup>59</sup>

The purpose of this paper is not to place the EU on a pedestal; a social market system is not something to be cloned. It has a set of institutions whose foundation took root hundreds of years ago, thus policies for a society must be specific to that society. This paper hopes to convey *alternative ways to combat illegal immigration*.

The EU has a system of addressing immigration with ample empirical evidence to support their methods of simultaneous migration reduction supplemented by increased economic prosperity. Not only did the EU create markets for the poorer countries, it created quality jobs from capital and technological investment. The Economic and Social Research Institute in Dublin evaluated the EU's programs and came to the conclusion that the combination of three factors led to the "Celtic Tiger": Gradual accumulation of human capital, fiscal control and the maintenance of wage competitiveness, and a sharp increase in EU structural funds.

The EU model shows how converging disparities only benefit all those in a single market.<sup>60</sup> Plenty of Americans are hurting alongside. 60 % of Americans live on \$14 per hour.<sup>61</sup> By competing on a price model, a natural downward harmonization ensues. The more immigrants from Mexico enter illegally, the more wages are depressed. Where is our basic humanity in reducing social exclusion and poverty, here and across the border? Is the real aim to end immigration? Or it is to perpetuate unfair advantages for multinationals?

The pro-immigration stance fails to properly address these growing concerns, labeling them unsubstantiated.

Pro-immigration groups such as the National Council of La Raza and the AFL-CIO – who recently changed from an anti-immigrant stance- support a new vision of immigration policy that aims to strengthen the economy by remaining “consistent with global realities, fostering economic growth, attracting needed worker to America, and protecting the rights of workers and families.”<sup>62</sup> However noble, this stance fails to address the root problem and simply plays the politically discordant note that immigrants are good for the American economy. The pro-immigration stance needs to have clear say in its mission; does pro-immigration mean pro-cheap labour or does it mean creating a humane, just and safe society? Only then will the cacophony of messages finally resonate with a greater population.<sup>63</sup>

In context of America’s quandary with illegal immigration, the EU’s internal and external policies for migration are points for comparison. Structural funds are an example of how minimal assistance can deter illegal immigration. The hegemony of the United States exerts pressure on the other two economically smaller countries, thus, bargaining tends to converge toward the minimum common denominator of corporate interests. The US should draw from Europe’s hits and misses to develop a comprehensive migration policy of an American hue. NAFTA has not even begun to flesh out compensatory mechanisms for weaker regions. Reversing the trends of NAFTA should be a top priority.

By basing reforms on wildly successful EU projects, like investments in human capital, America can boost economic

efficiency, and decrease immigration. Europe serves as an important reminder that the solution to immigration is neither easy, nor are there speedy solutions.

The US has long portrayed itself as the shining city on the hill. The ideal country, where everyone wants to be, but only the worthy can enter. The reality is that many migrants do not want to come to the US, let alone permanently reside here. The 1.3 million farmers who left their lands to take jobs as underpaid fruit pickers did do because they had no other viable choice. The regional labour and technology divide has multiplied under NAFTA, increasing the difficulties for non-privileged Mexicans, such as small-scale farmers, to earn a proper living in their homeland. The pull factor of US economic and social opportunity combine with the push factor of poverty drives economic migration, not the love of American values or culture.

The EU took 50 years to firmly link social justice with economic efficiency, to develop programs that foster democracy, equality and solidarity. It has also spawned from catastrophism; two world wars and the Holocaust. NAFTA has only been formally in operation for 15 years. Change should not come from a jolt; we can learn from example. By amending NAFTA, we can shape it to attack the root cause of immigration—a lack of opportunity. By making NAFTA a living document, we can ensure it responds to the barrages of one sided globalization and the voice of the American people.

When the US decides to take responsibility as the super power of the American region, the whole continent can feel secure, fence or no fence.

## Endnotes

- 1 "It's Official- NAFTA is a Treaty" <http://www.jbs.org/node/4059>
- 2 John Audley *NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere*, Carnegie Endowment Report (November 2003)
- 3 Brown, Sherrad "Myths of Free Trade: Why the American Policy Has Failed" (New Press, New York, 2004) p 141
- 4 Cowie, Jefferson, *Capital Moves: RCA's 70-Year Quest for Cheap Labor* (Ithaca, Cornell University Press, 1999)
- 5 Schuman Declaration <[http://www.library.pitt.edu/subject\\_guides/westeuropean/wwwes/teu.mspr-fr-sd.html](http://www.library.pitt.edu/subject_guides/westeuropean/wwwes/teu.mspr-fr-sd.html)>
- 6 Council of the European Union, Office of the President, "Presidency Conclusions of the Brussels European Council (21/22 June 2007),"
- 7 Dinan, Desmond. "Cohesion Policy" *Encyclopedia of the EU* ed. Desmond Dinan 1 vol. Boulder: Lynne Rienner Publisher, 2000 pg 437-441
- 8 Ozenen , Cem Galip. "The Effects of Structural Fund on Ireland's Development and Lessons for Turkey" General Directorate of Economic Sectors and Coordination Department of Infrastructure Services. State Planning Organization. May 2006.
- 9 Bachtler J.F. & Turok, Ivan "The Coherence of EU Regional Policy: Contrasting Perspective on the Structural Funds" vol 17, 2002, Routledge)
- 10,12 Verdun, A. "The Role of the Delors Committee in the Creation of EMU: An Epistemic Community?" Working Paper RSC No . European University Institute. November 1998 98/44 [http://cadmus.iue.it/dspace/bitstream/1814/1596/1/98\\_44t.htm](http://cadmus.iue.it/dspace/bitstream/1814/1596/1/98_44t.htm) .>
- 11 Padoa-Schioppa, pg 3-6, 10 Brennan, Peter " Negotiating the Delors 1 Package- Making a Success of the Single Act"
- 13,14Dinan, Desmond. "Cohesion Policy" *Encyclopedia of the EU* ed. Desmond Dinan 1 vol. Boulder: Lynne Rienner Publisher, 2000
- 15,16 Matthews , Alan *Managing the EU structural funds* (Cork : Cork University Press, 1994
- 17 Edited by Amparo Almarcha Barbado *Spain and EC membership evaluated* (London : Pinter Publishers ; New York : St. Martin's Press, 1993)
- 18,21 "Subseries VI - Aggregate and Regional Impact : The Cases of Greece, Portugal, Spain and Ireland" The Single Market Review Series by the Economic & Social Research Institute June 1996 [http://ec.europa.eu/internal\\_market/studies/stud16.htm](http://ec.europa.eu/internal_market/studies/stud16.htm)
- 19 Ozenen , Cem Galip. "The Effects of Structural Fund on Ireland's Development and Lessons for Turkey" *General Directorate of Economic Sectors and Coordination Department of Infrastructure Services*. State Planning Organization. May 2006. Dinan, Desmond. "Structural Funds" *Encyclopedia of the EU* ed. Desmond Dinan 1 vol. Boulder: Lynne Rienner Publisher, 2000 pg 437-441
- 20 Edited by Amparo Almarcha Barbado *Spain and EC membership evaluated* (London : Pinter Publishers ; New York : St. Martin's Press, 1993
- 22 European Commission "Third Report on Economic and Social Cohesion"
- 23 Dominguez, Roberto "NAFTA: Will it Ever have an EU profile? *Jean Monnet/Robert Schuman Paper Series* Vol. 7 No. 3 April 2007
- 24 Edited by Amparo Almarcha Barbado Spain and EC membership evaluated (London : Pinter Publishers ; New York : St. Martin's Press, 1993)
- 25 Honohan , Patrick *European community lending and the structural funds* (Dublin : Economic and Social Research Institute, 1992) Pg 140
- 26 Honohan , Patrick *European community lending and the structural funds* (Dublin : Economic and Social Research Institute, 1992) Pg 239
- 27 By John Kelly and Mary Everett "Financial Liberalisation and Economic Growth in Ireland"
- 28 " Economic Sectors and Coordination Department of Infrastructure Services". *State Planning Organization*. May 2006.
- 29 By John Kelly and Mary Everett "Financial Liberalisation and Economic Growth in Ireland"
- 30 Dominguez, Roberto "Nafta: Will it Ever have an EU profile? *Jean Monnet/Robert Schuman Paper Series* Vol. 7 No. 3 April 2007
- 31 Dinan, Desmond. "Cohesion Policy" *Encyclopedia of the EU* ed. Desmond Dinan 1 vol. Boulder: Lynne Rienner Publisher, 2000 EC
- 32 European Commission "Third Report on Economic and Social Cohesion"
- 33 "The Schengen acquis and its integration in the Union" Free Movement of Persons, Asylum, and Immigration. *Activities of the European Union: Summaries of Legislation* .June 13, 2005 < <http://europa.eu/scadplus/leg/en/vb/l33020.htm>>
- 34,35 Bagavos, Christian "Quantitative aspects of migration trends in Europe,with an emphasis on the EU-15" *Department of Social Policy and Social Anthropology* .Panteion University .February 2004 <[http://www.oif.ac.at/sdf/sdfpuzzle02-04Bagavos\\_final.pdf](http://www.oif.ac.at/sdf/sdfpuzzle02-04Bagavos_final.pdf) >.
- 36,37 Kelleher John, Batterbury, and Sarah, Stern, Elliot. "The Thematic Evaluation of the partnership Principle : Final Synthesis Report , February 1999" *Evaluation Development and Review Unit* <[http://ec.europa.eu/regional\\_policy/themes/finper/impact\\_national\\_en.pdf](http://ec.europa.eu/regional_policy/themes/finper/impact_national_en.pdf)>
- 38 Dinan, Desmond. "Cohesion Policy" *Encyclopedia of the EU* ed. Desmond Dinan 1 vol. Boulder: Lynne Rienner Publisher, 2000 pg 50
- 39 Shaw, D. and Sykes, O. 'Delivering the European Spatial Development Perspective' *Policy Evaluation Analysis and Research Laboratory*. Liverpool. 2001 <http://www.liv.ac.uk/ewc/cohesion.html>
- 40 "The Innovation Actions Programme of the Structural Funds" July 12, 2007
- 41 B6n6dicte Larre and Raymond Torres "Is convergence a spontaneous process? The experience of Spain, Portugal and Greece" *OECD Economic Studies No. 16*, Spring 1991
- 42 Dinan, Desmond. "Cohesion Policy" *Encyclopedia of the EU* ed. Desmond Dinan 1 vol. Boulder: Lynne Rienner Publisher, 2000 pg 48
- 43 "General Provision on the structural Funds" *Activities of the European Union: Summaries of Legislation* January 1, 2007
- 44 Pastor Robert " Beyond Free Trade in North America: Narrowing the Development Gap" *Towards a North American Community: Lessons from the Old World for the New* . ( Washington DC: Institute for International Economics, 2001)
- 45 Brown, Sherrad "Myths of Free Trade: Why the American Policy Has Failed" (New Press, New York, 2004) p 141
- 46 See "The Fall of the Peso and the Mexican "Miracle" [http://multinationalmonitor.org/hyper/issues/1995/04/mm0495\\_06.html](http://multinationalmonitor.org/hyper/issues/1995/04/mm0495_06.html)
- 47 John Audley *NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere*, Carnegie Endowment Report (November 2003)
- 48 Dan La Botz, "Maquiladoras and Worker Rights" ch 7 in *Mask of Democracy* pg 168
- 49 Noam Chomsky, Free Market Fantasies: Capitalism in the Real World Podcast
- 50 Roger Bybee and Carolyn Winter " Immigration Flood Unleashed by NAFTA's Disastrous Impact on Mexican Economy" *CommonDreams.org* April 25, 2005 < <http://www.commondreams.org/views06/0425-30.htm> >
- 51 García, María Cristina. *Seeking Refuge*. Berkeley: University of California Press, 2006.
- 52 Fox, Vicente. Interviewed by David Taylor. The House. CBC. Transcribed by Embassy Magazine.5 Apr. 2006. 22 July 2007
- 53 The New York Times, Times Topics "Immigration and Refugees." 28 Jun. 2007. 22 Jul 2007
- 54,55 Barry, Tom. "Whose Side Are You On?"
- 56 Schulte, Elizabeth. "Anti-immigrant racism turned respectable." *Socialist Worker Online* 29 Sept. 2006. 15 Jun. 2007
- 57 Speaker Mike Wilson, Border Links, 4/18/2007
- 58 August 2001 assessment on the INS Southwest Border Strategy.
- 59 Andreas, Peter *Border Games: policing the U.S.- Mexico Divide* (Ithaca, Cornell University Press, 2001) 104
- 60 Paster, Robert " Beyond Free Trade in North America : Narrowing the Free Trade Gap" *Towards a North American Community: Lessons from the Old Work for the New* ( Washington D.C: Institute of International Economics, 2001
- 61 Ehrenreich, Barbara "Nickel and Dimed: On (Not) Getting By in America" ( Henry Holt and Company, May 2001)
- 62 Barry, Tom "Politics of Class and Corporations" [http://americas.irc-online.org/am/224\\_August\\_9,2005](http://americas.irc-online.org/am/224_August_9,2005)
- 63 IRC " Towards a Comprehensive Immigration Policy" <http://americas.irc-online.org/am/3161> March 20, 2006

# Europe Can No Longer Procrastinate



**Romain Jouvent**

Sciences Po, Institut d'Études Politiques de Paris, 2010

Fifteen years ago, the collapse of the bipolar world overwhelmed the installed world order. The USA became the only superpower standing and leading the world organization. They have now to deal with emerging countries such as China and India. On this chessboard, where is Europe?

The European project has had many successes since its birth in 1957 but has been deeply called into question by the rejection of the European Constitution by the French and the Dutch in 2005. That year Europe was unable to fix the future budget of the EU. Visibly, the developing process of the European project is often slowed down. The key question becomes what direction should Europe take to give itself a role in the world order of tomorrow. Many decisions have been delayed too long with Europe balking too often. The EU can no longer procrastinate. It must first identify the current issues in the organization of the European Union and then improve its efficiency and its quality.

In 1957, the purposes of peace and economic prosperity on the European Continent were fixed by the Rome Treaty. Today, these goals have been reached. However it is also clear today that these goals are not sufficient anymore and that they have to be redefined. There are obvious troubles in the European Union functioning, and moreover in the European project itself. First of all, the European bureaucracy is invasive and the European Commission is considered as a technocracy. This distances European citizens from European feelings.

The current functioning lacks democratic legitimacy and is in fact opposed to the proper definition of a democratic political power despite the European Parliament's certain role since its birth in 1979 and the Unique Act of 1985. The executive organ, the Commission, is not elected at all and the role of the Parliament is minimal. Moreover the national governments often present the European Union as a scapegoat, as if it was responsible for all the local problems. The European directive forbidding the traditional way some French cheeses are produced is a famous case in point. Indeed, the lack of transparency in the decision-making and financing process often creates euro-skepticism based on real feelings but fake ideas. People only see the EU as an invasive technocracy, which costs a lot and puts into question national traditions. Support for the European project has diminished. The now-fulfilled purposes of peace and economic prosperity have to evolve in order to bring back citizen support for EU reforms. The Executive branch also needs more transparency and democratic legitimacy. Actually, even if economic growth stays as a purpose, the challenges have changed. Europeans are today afraid of globalization, takeovers and relocations of their national firms, the loss of their national or local identity, international organized crime or the threat to their social protection model. And the problem is that they often do not believe Europe is facing these challenges. The European Commission and its management often intervene too much on a local scale.

At the same time it does not manage to show efficiency in the fights with global problems, for instance Europol with crime. The Europeans fear being governed locally by the Commission, an institution they don't control at all. For instance, almost 75% percent of the laws voted at the French Parliament are only transcriptions of European directives established by experts and technocrats alone. The lack of democracy in the European functioning is consequently a determinant element that Europe has to deal with in the future. Europe has now to return to the idea its philosophers invented of representative democracy with representatives elected to establish the law governing countries. The current generation is now asking for a real political Union addressing all these new challenges. Europe must answer this. In addition, Europeans perception of the EU differs from the rest of the world's perception. For instance, Americans often conceive Europe as an all in one civilization sharing the same values and ways of life, a unified power. In contrast, Europeans more than ever think of themselves as members of their nations. It seems like the world was waiting for or already imagining a European political integration, a unified economic and diplomatic power far ahead of the European citizens themselves.

The difficulties of consolidating Europe also come from a lack of means that the Union gives itself. This issue is particularly evident in the financing process of Europe. The difficulties the European Council had in 2005 to fix the future budget of the Union are an example. It is important to notice that the members' contribution to the Union's budget represents only 1/40th of their national GDP. Nevertheless, Europeans maintain the idea that the European Union is expensive. European citizens should be taught this rate of contribution in order to better realize that the EU participation is incredibly low and should surely be increased. The Union

shows on one hand a lack of democracy that creates a gap between the Executive organ and the European citizens; and on the other hand, a Union often accused of being too expensive for too little efficiency because of a lack of transparency in the financing functions. The EU does not live itself as a unified economic power. Europe does not have to become ultra-protectionist but the EU must answer the American and Chinese policies. For instance, European economic protection decreased since 1992 with the customs dues diminishing from 14% in 1992 to 1,5% in 2006. Moreover exports are punished by the euro/dollar exchange rate. Once again, Europe has to conceive of itself as all in one, and not only as an accumulation of nations. Its future power depends on it if Europe wants to compete with the powers of today and tomorrow, the US and China who already practice aggressive exchange policies.



The same problems exist in the EU's foreign policy. For a long time, the EU has not spoken with a unified voice in the international scene. The debate on the Iraq war is emblematic. Europe was divided into pro-war (UK, Italy, Spain) and anti-war (France and Germany). This year further conflict erupted between French President Sarkozy, British Prime Minister Blair and Polish Prime Minister Kaczynski around the idea of naming the EU High Representative for the Common Foreign and Security Policy, EU Minister of Foreign Affairs. Europe is still far away from a unified

European foreign policy, despite it being the only prospect for Europeans to have the right to sit at international tables and carry weight in the future. It is clear that each old European nation taken alone carries less and less weight in the world order. France and Germany's incapacity to bend US politics on Iraq highlight why EU nations will have to integrate and accept necessary compromises in order to influence a world order incorporating emerging superpowers whose incredible economic growth will surely become political power. The lack of democracy plays a role here. The debate on the Iraq war is again a case in point. European populationseventhosewhosegovernments supported the war demonstrated against the war. A real European democratic space where all would be debated and decided by representatives prior to being presented to the world by a Foreign Minister would be the unified voice of Europe. To adopt a common line is a necessary investment to build a real European diplomacy.

These issues call for more democracy, transparency and the integration of economic and diplomatic forces. Knowing this, what concrete ways can Europe take to reform? Two conceptions have always been debated since the Union's birth: the 'intergovernmental model' known as the "Europe of States" that Charles de Gaulle defended, in which Europe is firstly a free-trade zone and where the national governments keep their power; and the 'federalist model' where the national interests hide behind the European interest and where Europe and its citizens are considered as global. The EU has actually always navigated between these two conceptions. On the one hand, all the national divergences in foreign policy, between national fiscal systems, or in the financing process since the British discount of 1984 remain in the intergovernmental model. On the other hand, European citizenship and the free movement of people and capital are clearly

federalist ideas. Europe has procrastinated too long and has now to choose a clear political line.

Two current interesting conceptions are found in the books of Jean-Pierre Chevènement's *Mr. Monnet's Fault*<sup>1</sup> and Guy Verhofstadt's *The United States of Europe*<sup>2</sup>. Chevènement's conception remains that of a "Europe of States". However his theory doesn't only include the idea of national powers holding up against the community and the common interest. He actually explains all the virtues that he sees in the concept of a nation: the only space where democracy and its republican form can exist, where civil links and solidarity can be built. The nation taken as a mediator with the universal, where debate is possible and can become generalized after having been discussed at a national scale. He criticizes the Post-nationalist theory, and considers Jean Monnet guilty because he inspired the European construction with thoughts that preceded this theory. A theory in which the concept of the nation is enshrined, and where there is a fusion of the national sovereignties in a common one that creates instantly a common space for debate and democracy. Chevènement says this is an illusion and that, in fact, this theoretical model has actually led to the rise of regionalisms and micronationalisms and could lead to the constitution of tyrannical empires. Chevènement therefore advocates in favor of a "Europe of nations" with national debates and a strong France-Germany duo leading the European project; but also in favor of a minor treaty that facilitates the institutional processes and a sort of European protectionism developing communal exchanges with a European economic government protecting exchanges and industry as a unified power.

In contrast, Guy Verhofstadt develops a clearly Federalist theory in the way he explains why he wants European countries to integrate more and more to create a real political union and then play a

consequent role on the international scene. He shows how European citizens want a political union for Europe. Particularly when he analyzes the Eurobarometer probe of 2005, in which  $\frac{3}{4}$  of the citizens questioned agreed with the idea of a common Defense policy,  $\frac{2}{3}$  with a common Foreign policy,  $\frac{1}{2}$  with the idea that Europe will play a role in their everyday life and in which a majority has the same fears of relocations and organized crime. Moreover, he makes a parallel with the way the constitution of the United States was established. American federalists were opposed to anti-federalists. Both groups were fighting to convince people of the good of a Federal State for one, of a Confederation for the other. Two elements were decisive in the adoption of the Federal Constitution. Firstly because the Federalists made the Americans understand to a majority that the War of independence could not have been won without the alliance of the thirteen colonies. Secondly, because the institutional process which allowed that the Constitution could be ratified by a majority of nine out of thirteen colonies voting was totally decisive. These two events are definitely reminiscent of the current situation in Europe: the need to ally to battle globalization and be heard on the international scene; the need of ratifications by qualified majorities for institutional evolutions in the EU. Verhofstadt concludes that the Federalist solution is the only way to deal with the economic growth of emerging countries that will become political powers, to deal with the challenge

of the globalization and the challenge of Europe's ageing populations. According to him, to integrate Europe's national and social protection systems would be the only solution to regain competitiveness without any social or fiscal dumping. Finally there is a more and more recurrent option: the idea of two blocs developing in Europe. A big community of shared values as democracy and human rights, a big Europe maybe larger than the normal borders of Europe (including a Mediterranean Union) and above all an economic union, would see at its heart a political core with countries who want to integrate a political and federalist Europe.

The President of the European Commission José Manuel Barroso recently declared "before we decide how to spend money in the EU, we need to decide on the results we want. To decide on what the EU should achieve for its citizens". Whatever the way chosen may be, it is clear that Europe is definitely facing a time of decisive choices that will make the Union either restart or sink into its failures. The challenges of globalization, security, energy, and ageing populations are huge and Europe must simultaneously keep its tradition of solidarity and cooperation. The Union now has to adopt strategic and not just ideological views to influence the world order of tomorrow. For that, a political integration, with more democratic institutions and more transparency in the decision processes, seems essential to enshrine a common European belief.

## Endnotes

- 1 Jean-Pierre Chevènement, *La Faute de M. Monnet*, Fayard, 2006
- 2 Guy Verhofstadt, *Les Etats-Unis d'Europe*, Ed. Luc Pire, 2006

# Domestic Dynamics of Political Islam in the Greater Middle East

## Case Studies of Jordan, Egypt, Kuwait and Turkey



■ ■ ■ ■ Amanda Rudman, Cornell University, Arts and Sciences, 2009

■ ■ Kevin Schoonover, Cornell University, Arts and Sciences, 2010

■ Arthur Neron-Bancel, Cornell University, Agriculture, 2009

■ Israel Barriga, Cornell University, Arts and Sciences, 2009

*These four nations showcase the state of Islamism as a political force in the Middle East. Because of differing political circumstances in each state, the impact and viability of following Muslim law varies. In order to best explain why this is so, we will explore the political background of each nation, as well as discuss the current political climates of the countries in question. Finally, we will postulate as to what type of impact the ascension of an Islamic government will have on relations with the Western world, whether it be European nations, as is the case with Turkey, or the United States, as with Kuwait, Jordan and Egypt. The implications of this possibility are enormous; therefore, we feel that the importance of understanding the region cannot be overstated.*

### Jordan

Throughout the Arab World, Islamist parties are gaining support and winning elections. Jordan is no exception to this trend. Activity amongst Islamist supporters has peaked in the past few years in concert with Islamist political gains across the region. Support for Islamist political parties is based in discontent with current government and levels of democratization in Jordan.

### Political Background

Jordan is a constitutional monarchy and its current constitution was first ratified in 1951. During King Hussein's reign, from 1953 until his death in 1999, he often restricted civil liberties to stabilize his rule against challengers. The government instituted an agenda of political liberalization in the early 1990s culminating in the legalization of political parties in 1992. Despite these positive efforts, King Abdullah II dissolved Parliament in 2001 to prevent challenges to his rule. Parliamentary and municipal elections were last held in 2003 and the current Prime Minister was appointed in 2005. Though the current cabinet has set ambitious goals of reforms, they have not been very successful and opposition is constantly growing.<sup>1</sup>

### Current Politics

The Islamic Action Front (IAF), the main opposition to the King's government in Jordan, is the political arm of the Islamist Muslim Brotherhood. The IAF has a crucial, yet dual role in Jordanian politics. It has encouraged political liberalization, democratization, and anticorruption policies. But it has also inspired Jordan's elite to fear a loss of control, and therefore to reverse democratic reforms. Additionally, any outcome requires the assistance of the United States (US). It is essential that Jordan reconciles the popular support for the IAF, the fears of the elite, and the need for democratization so that it can become a stable, sustainable country which allows the freedom of its people.

Though somewhat reserved for the past few years, after Hamas' January 2006 electoral victory and the successes of the Muslim Brotherhood in Egypt, the IAF has become exceptionally active in Jordanian politics. It has focused on themes of anticorruption and good-government (like Hamas) and social-welfare networks (like the Muslim Brotherhood). Most importantly, the IAF is calling for democracy, deliberately echoing President Bush and Secretary Rice.<sup>2</sup>

Even without this new push, the IAF is still the largest political force in Jordan. Jordan currently has about thirty political parties; however these parties do not play a large role in parliament. Out of 110 members in the lower house, only 25 represent a political party. In early 2007 17 of these 25 members were representatives of the IAF, meaning they were the largest elected group in Jordanian politics.<sup>3</sup>

This intense popular support is very troubling to King Abdullah II. These fears could negatively affect Jordan's relationship with the US. Indeed, for the US to make the political system work, it must be more open.<sup>4</sup> The Jordanian government opposes this political liberalization, as it believes the IAF and Islamists would take over.

In April 2007, Abdullah II encouraged the passage of a law that is supposed to "modernize Jordan's political system"<sup>5</sup> by creating large national political parties. But the law has very strict requirements for each group that wishes to be an official party.<sup>6</sup> Though the stated goal of large national parties will certainly be reached, the unstated goals of destroying the power of the IAF and enforcing the standing of the elite will also be realized.

Both the IAF and the King are doing as much as possible to protect themselves from each other. The IAF has attempted to dilute the power of Abdullah II by campaigning on anti-corruption. At the same time, Abdullah II has attempted to reduce the power of the IAF by creating new reforms which weaken the influence of political parties. Neither of these programs will lead to a sustainable, democratic society. The popular support and power of the IAF must be reconciled with the power of the elite within a democratic framework. Only when both sides have compromised in a power-sharing arrangement can the stability of the government be ensured. Neither the government, nor the opposition, has shown that they have all of the answers and are ready to lead a free society.

With parliamentary elections approaching this fall, there has been a scramble of last minute political activity. The IAF boycotted the municipal elections this past summer and when this article went to press had still not decided whether or not they would participate in the parliamentary elections.<sup>7</sup> If the IAF does not participate in the upcoming elections, supporters of the monarchy will retain control of the government. This consolidation of power will strongly influence the government's next steps towards reform.

### **Implications for Western Relations**

Though reforms by the elite are claimed as responses to the United States advocating democratization, the party platform of the IAF has been based on the same call. Because the IAF is acting according to the interests and advocacy of the United States, Abdullah II cannot hope to improve U.S.-Jordanian relations through his reforms. At the same time, the IAF will not be able to gain control of government with the support of the United States until it proves it is truly separate from its hard-line, terrorist neighbors. Both sides must attempt true democratic reform to avoid upsetting relations with the United States and to ensure a freer society for their own people.

### **Turkey**

Rarely has an empire been as durable as that of the Ottomans. Established in 1299, the Ottoman Empire's influence spanned more than seven centuries; at the pinnacle of its power, it controlled territory in three continents and served as the only balance to Western European power in the Muslim world. However, by the turn of the 20<sup>th</sup> century it had been greatly diminished; after its defeat at the hands of the Entente powers during the First World War, the Empire collapsed, eventually being replaced by the Republic of Turkey. Established by the government of Mustafa Kemal Atatürk

in October of 1923, the new Turkish nation put an overwhelming emphasis on the merits of secular democracy. The leaders of the new republic were wary of a possible return to Turkey's Islamic roots, and therefore tried to reform practices, which they felt undermined the secular nature of their country. The most notable attempts included trying to get women to forsake traditional Muslim garb in favor of European garments, giving full rights and equality under the law to women, making secular education compulsory, and abolishing all religious courts<sup>8</sup>. It is clear that Atatürk's vision of a modern Turkey was predicated upon Western ideals.

### **Political Background**

However, in the eight decades since Atatürk established the Republic, the religious influence he worked so diligently to suppress has experienced a resurgence as a viable school of political thought. Thanks in large part to the multi-party system, the Democratic Party replaced the People's Party (now the Republican People's Party) by appealing to many of the fundamentalist Muslims who had never embraced the liberal ideas espoused by Atatürk. The Democrats allowed certain religious practices to resume in public life, such as the broadcasting of the Koran over the state radio.

Yet the reign of the Democratic Party was short-lived, and the events that surrounded its downfall are indicative of what has happened every time a Turkish government begins to stray too far from its secular roots. In 1960, the Turkish military intervened, claiming that the Democratic Party was betraying the secularism. This interference was repeated most notably in 1971, 1980 and 1997. Yet Muslim political activity was far from quelled; in a country that is 99.8 percent Muslim, this should not come as a surprise. The Party for National Order was established in 1970 as the main political avenue for Islamists; it has

undergone numerous changes in name, but its core ideology has remained intact. Under the guise of the National Salvation Party (NSP), the group was able to gain forty-eight seats in Turkey's parliament, making it the third-largest political party in the government. However, the NSP continued to lose influence, eventually succumbing to the Prosperity Party in 1980. In 1995, the Prosperity Party won 30.4 percent of the Turkish vote and established a cabinet headed by nineteen Prosperity members and eighteen True Path Party members, a right-of-center Islamist group.<sup>9</sup>

### **Current Politics**

While the True Path and Prosperity parties are no longer as powerful as they once were (True Path received only 9.55% of the vote in 2002, Turkey's last election), they have been replaced by the Justice and Development Party (AKP), which has been enormously successful. In 2001, the AKP leader Recep Tayyip Erdoğan, was elected to the post of Prime Minister, resulting mostly from the AKP's ability to end the inflation which plagued the nation in the early years of the decade. Known as a moderate Islamist party, the AKP embodies many of the values held by Muslims throughout the nation and serves as the most viable alternative to the otherwise secular governing parties.

So how much influence does religion have in the Turkish state? It is clear that Islamism has long been a force in a traditionally secular state, but that religious parties have been held in check by various institutions, such as the military and the courts. Yet it is apparent that the nation is now at a crossroad. In the midst of presidential elections that occurred earlier this year, the same forces that have always preserved the secular roots of the nation engaged in a struggle against the largely Islamist government. The parliament put forth both Erdoğan and Foreign Minister Abdullah Gul as their choices for the position of President, but the elections

designed to confirm them were repeatedly blocked. In Turkey's parliamentary system the people are not allowed to directly elect a candidate, which has left opponents of an Islamist government with few options for blocking their appointment. The secularists had, however, proven to be quite successful thus far: Gül's nomination was met with one of the largest protests in Turkey, in which over a million Turks took to the streets of Istanbul and Ankara in order to voice their opposition to the perceived undermining of Atatürk's principles. Similarly, the Turkish constitutional court attempted to stop the election of Gül on May 1, citing concerns over his Islamist policies as their primary rationale.<sup>10</sup> The Turkish military issued a stern warning that it would not allow the government to stray from its secular roots, saying, "It should not be forgotten that the Turkish armed forces is one of the sides in this debate and the absolute defender of secularism...When necessary, they will display its stance and attitudes very clearly."<sup>11</sup>

But on August 28, the Turkish political sphere was rocked when Gül was confirmed as the 11<sup>th</sup> President of the Republic of Turkey. The importance of the appointment of a traditional Islamist cannot be overstated; never since the Ottomans have the lines between the secular government and religious establishment been so blurred. However, Gül was quick to assuage the fears of opponents who feel his election signals the downfall of the secular state, saying in his inaugural address, "Secularism - one of the main principles of our republic - is a precondition for social peace as much as it is a liberating model for different lifestyles."<sup>12</sup> Furthermore, he is expected to support his claim by leaving the AKP and focusing on Turkey's membership in the European Union (EU). In all, it is hard to view Gül as the mortal threat to Atatürk's secular legacy that his opponents make him out to be.

## Implications for Western Relations

What does all of this mean? It is easy enough to look at the events that have unfolded in Turkey over the years solely in the context of their impact on a democratic nation, in which case there is nothing particularly notable about the situation. Parties and people evolve, and branches of government are often in conflict. However, when you attempt to interpret how this history will impact the future of the state, you realize that Turkey is not merely undergoing a political evolution; in fact, we are witnessing a monumental clash between politics and religion. Turkey has long been recognized as the link between East and West. The nation sits on a fault line between civilizations, and the decision to elect a prominent Islamist to the post of President signals that the significance of the historical presence of religion will not soon be forgotten.

The desire to associate with European culture caused Turkey to seek admission into the EU; however, the fact that the population is overwhelmingly Muslim has been a source of consternation for many in Europe who worry that inundating the EU with 70 million Muslims would cause it to lose its institutional and cultural identity.<sup>13</sup> While it is essential to note that there still remain significant political barriers to the accession of Turkey into the EU (such as issues in Cyprus and a refusal to admit crimes against Armenians), the biggest issue remains apprehension over whether Muslim Turks and Christian Europeans can overcome the lack of a common identity. The Islamist ideology of Turkey's current government has caused anxiety amongst those who feel that the AKP has undermined the secular nature of the democracy. What makes the situation even more ironic is that a military coup on the side of the secularists would seem to belie political instability, which is even more of a concern than the ideological differences. Regardless, it would seem as though Turkey's confirmation as an

EU member is not imminent.

Islamism has always been a force in Turkish politics. With an almost entirely Muslim population, this is not very surprising. So what does this mean for Turkey's future, particularly as it relates to relations with the West? Some, such as President George Bush and former Prime Minister Tony Blair, feel that even an Islamist Turkey will provide hope for democracy in the Middle East, demonstrating that seemingly incompatible ideologies can, in fact, be reconciled.<sup>14</sup> Others feel as though Turkey is isolating itself both from Europe, because it is too Asian, and from Asia, because it is too European. The reality may be closer to the center: while Turkey has long held European ideals, its culture is still fundamentally Middle Eastern. The nation will never adopt the completely secular policies of most European nations, but neither is it in any danger of becoming an Islamist theocracy in the mold of Iran or Saudi Arabia. Whether Turks can ultimately unite their desire to emphasize Muslim values with their aspiration to take advantage of the economic and political advantages associated with EU membership is a question that will not be

definitively answered for some time, but it seems as though the prospects of such an occurrence are growing dimmer as the secular and religious institutions grow farther apart.

### **Egypt** **Current Politics**

Over the past six years, within the framework of the U.S.-led 'war on terror', leaders such as Egypt's Mubarak and Algeria's Bouteflika have been able to exploit the threat of terrorism to justify the brazen reinforcement of the authoritarian nature of their regimes. In these countries, it is becoming increasingly obvious that the sudden rise in popularity of Islamic movements can be partially explained as a reaction to the continued despotism of governmental elites. Desperate for change, an overwhelming number of citizens are turning to the Islamic groups that sometimes represent, if not the most appealing, at least the most proactive and promising alternative to oppression.

In recent years, both the dismantling of terrorist networks and the promotion of democracy throughout the Middle East and North Africa have established themselves



as central pillars of post-9/11 American foreign policy. In the eyes of a staunchly neoconservative Bush administration devoted to its epic Wilsonian battle to bring freedom and democracy to the Muslim world, political developments taking place in Egypt cannot help but be of central importance. Home to the Arab world's largest population and widely recognized as a traditional hub of Arab culture and politics, Egypt has also spent the last quarter-century under the oppressive control of an autocratic regime and has become a fluid exporter of dangerous radicals and extremists, such as Al Qaeda senior member Ayman al-Zawahiri.

Since 2001, Mubarak's regime has become a key ally for the United States in its efforts to quell nascent terrorist networks in the Arab world. Secretary of State Condoleezza Rice recently observed that the United States benefited from a "strategic partnership" with Egypt that constituted a "cornerstone of U.S. policy in the Middle East."<sup>15</sup> At a time when the United States is having difficulty maintaining, let alone establishing, alliances with Arab countries, it can hardly afford to jeopardize those alliances that it does have. Thus, even though such a move might go against popular demand in Egypt, the United States needs to support the Egyptian regime simply because turning against Mubarak and his National Democratic Party could potentially threaten the political stability of the nation. It is important to note that, since 1979 shortly after the Camp David Accords, "Egypt [has been] the second largest recipient of U.S. foreign aid... [receiving] about US\$1.3 billion in military aid and about US\$800 million in economic assistance"<sup>16</sup> annually. This financial support should theoretically give the United States substantial leverage over Mubarak and help to pressure him into adopting effective democratic reforms. And yet the United States has taken relatively little advantage of its position of power. In recent years,

the Bush administration has shown no signs of trying to reprimand Mubarak for his oppressive methods by reducing the amount of foreign aid they provide Egypt annually. This lack of reaction to Mubarak's authoritarianism can be interpreted as a reflection of how vulnerable the United States has become in regards to regional politics. But it can also further be seen as a testimony of "the tacit support the American government provides Egypt's growing dictatorship. 'American policy has decided stability is more important than democracy,' said George Ishaq, a leader of the opposition Kifaya movement"<sup>17</sup>.

### **Contemporary Egypt**

Within the context of the American anti-terrorism campaign, Mubarak's administration, emboldened by its American backing, has been able to continue to ignore human and civil rights by supposedly acting for the sake of peace and security.<sup>18</sup> In a 2007 report entitled "Systematic abuses in the name of security," Amnesty International notes that "torture and other ill-treatment, arbitrary arrests and detention, and grossly unfair trials before emergency and military courts have all been key features of Egypt's 40-year state of emergency and counter-terrorism campaign."<sup>19</sup>

A couple of recent examples reflect the deceptive and autocratic methods of Mubarak. In regards to the presidential elections, which were "marred by voter irregularities and intimidation,"<sup>20</sup> he took the necessary steps to ensure that his opponents would not stand a chance. Furthermore, many supporters of the opposition were rapidly disqualified from the electoral process. And finally, the government arrested Mubarak's popular opponent, Ayman Nour, the founder of the independent and secular al-Ghad party, only several months before the elections.<sup>21-</sup>  
<sup>22</sup> Ayman Nour's example provides an idea of how dangerous it can be for an individual to present himself as an independent liberal

candidate in Egypt, and especially to appear as an appealing and promising alternative to the repressive Mubarak.

### Rise of the Muslim Brotherhood

In protest to the rising levels of authoritarianism in Egypt, a growing number of Egyptians are turning to Islamist parties, among which the most popular has proven to be the Muslim Brotherhood. In 2005 Parliamentary elections, to the great surprise of many, the Egyptian branch of the Muslim Brotherhood won roughly 20% of the Parliament seats. According to Edam Gad, "the crises plaguing the secular opposition are also the result of a longstanding government strategy of pre-empting the emergence of secular alternatives to the NDP".<sup>23</sup> In any case, it appears that the Muslim Brotherhood is proving itself as an efficient political organization.

Mubarak's has acquired such a firm control over Egyptian politics that he no longer needs to worry about being reelected. Government officials have no reason to satisfy the needs of the Egyptian people. The absence of governmental intervention to solve issues of unemployment and poor living conditions in many parts of Egypt, combined with rampant abuses of power, has created tremendous dissatisfaction within the Egyptian population. As a result, many Egyptians are increasingly eager for any political change that might lead to improved living conditions.

The Muslim Brotherhood, on the contrary, in its struggle to accumulate support within Egyptian society, has been making itself directly available to constituents in the neighborhoods they represent. However, plagued by a long tradition of extremism and violence, it is still looked upon by many with high doses of skepticism and suspicion.

Historically, the organization seems to have struggled with the diverging pull of two contradictory forces. On the one

hand, the Brotherhood has benefited from the leadership of supreme guides such as the movements founder, Hassan al-Banna. Unlike the Brotherhood's radical elements, men like Hassan al-Banna were predominantly devoted to moderation and openness, and the movement has, at times, stressed the importance of pacifism and dialogue. Yet the Brotherhood can also be held responsible for the assassination of a Prime Minister, of President Sadat, and for countless other acts of terrorism. It has also provided a platform for prominent radicals such as Sayyid Qutb, author of the militant and revolutionary "Milestones" and mentor to modern-day extremists such as Al-Qaeda's Ayman al-Zawahiri.<sup>24</sup>

In recent years, since officially renouncing violence in the 1970's, the Egyptian branch of the Muslim Brotherhood has made considerable efforts to present itself as an organized and trustworthy political force. In an article for the *New York Times Magazine* entitled "Islamic Democrats?," a member of the Brotherhood's parliamentary bloc expressed this concern: "We would like to change the idea people have of us in the West, because when people hear the name Muslim Brotherhood, they think terrorism. We want to establish the perception of an Islamic group concerned about human rights."<sup>25</sup>

Nevertheless, many people remain skeptic about the Muslim Brotherhood today. Some critics have a hard time trusting the Brotherhood, afraid that behind its peaceful and moderate rhetoric, the organization might retain the same radical designs of a state based on the precepts of Islam.

In the end, despite all the doubts and skepticism that surround the Muslim Brotherhood, the facts remain the same: support for the Islamist political movement is rising. It is interesting to note the extent to which the circumstances that are fueling the Brotherhood's popularity today are similar to those that first vitalized the movement

in the 1930's. Having lost all faith in the current political regime, Egyptians view the Muslim Brotherhood as the most potent vehicle for political change and they turn to it as their only chance to see the end of Mubarak's 'police state.'

### **Constitutional Changes**

Most recently, in early 2007, despite widespread protests and boycotts, Mubarak's administration forced constitutional changes through both the parliament and a public referendum that will serve to further centralize the distribution of powers. With amendments to the constitution, Mubarak has finally found a way to legitimize his undemocratic and authoritative activities. "Amnesty International called the changes 'the greatest erosion of human rights in 26 years.'<sup>26</sup> Among other things, Mubarak has exploited the threat of terrorism to finally institutionalize some of the state-of-emergency laws on which he has relied since his rise to power in 1981.<sup>27</sup> Other amendments have established changes that will considerably hinder the



democratic process, especially for Islamic groups. One such amendment prohibits all official political parties from being based on religion. These changes reflect the fact that, since the success of the Muslim Brotherhood in the 2005 parliamentary elections, Mubarak has had to adapt to the new threat posed by Islamic political groups and especially the Muslim Brotherhood.

The political situation in Egypt reflects how a trend of growing authoritarianism among some North African states since 2001 has affected the domestic politics of these nations. Rather than be construed as proof of a deep conviction in the advantages of Islamic government, the widespread support that the Egyptian population is showing for the Muslim Brotherhood should be seen as an effort to promote change and to reject Mubarak's corrupt administration. Thus, for a country supposedly dedicated to stalling Islamist political groups and fostering democracy in countries across the Middle East and North Africa, the persistent support of the US for president Hosni Mubarak seems simply counterproductive. Instead of increasing the appeal of Islamist groups such as Muslim Brotherhood by propping up an overtly despotic and repressive regime, maybe the U.S should revise its policies and try to create a free and open political arena in Egypt. This move could restore faith in Western, and especially American, governmental institutions, and it would certainly help moderate secular movements to realize their true potential.

### **Kuwait Political Background**

In the wake of the failed nationalism of the Nasser era and of the Islamic revolution in Iran in 1979, governments across the Middle East are being constantly pressured to find a system that is deemed acceptable to devout Muslims. An Islamization of government is one path to reform suggested by rising political parties.

In the West, this is viewed as something completely counter to democracy; thus, any such action would further alienate the countries of the Middle East from the West. In countries where there are considerable gains from maintaining stable relations with the West, such as Saudi Arabia and Kuwait, an alienation of their top trading partners would be something to avoid. The disastrous conditions in Iraq that came about through sanctions imposed by the United Nations and the United States after the Persian Gulf War made clear that even the most oil rich nations can not prosper without some outlet to the West. However, an overly successful relationship with the West can lead to a lack of legitimacy for the government in the eyes of other Muslim states and religious Muslim citizens. For the Kuwaiti government, therefore, a middle ground must be found in order to maintain economic and political stability.

Western influence and interest in Kuwait predates Kuwait's independence. In 1913 the British and the Ottomans convened to discuss the status of Kuwait's autonomy. Both sides agreed that Kuwait would remain as part of the Ottoman Empire. Following the First World War, Kuwait became a British protectorate. It was granted independence in 1961. As time went on, the US became Kuwait's primary relation in the West. The relationship between the two countries grew closer as the US protected Kuwaiti ships from Iran in a maritime protection program in 1987. After the invasion of Kuwait by Iraq, these relations grew even closer as the United States spearheaded UN Security Council demands that Iraq withdraw from Kuwait or be removed through force. After the US victory over Iraq in 1991, Kuwait renounced aspects of its boycott of Israel. Today, the United States has over 100 military contracts with Kuwait totaling over 8 billion dollars and the US remains Kuwait's biggest supplier of commercial goods and services.

## Current Politics

The political system in Kuwait is a constitutional monarchy. The parliament has very little power over the monarch. Opposition to the crown is not tolerated, and there are many instances of newspapers being closed down and free speech rallies being dispersed. The resentment that forms because of this type of action is a handy tool for Islamist opponents to the regime. Thus, Islamic fundamentalism in Kuwaiti politics has found a comfortable home alongside outspoken, non-Islamist critics of the Kuwaiti regime. This alliance became so much of a threat to the crown that the Kuwaiti parliament has been shut down several times since the appearance of the Islamists in the late 1970's.

So what exactly are the specific aims of these Islamist politicians? They are proponents of a return to the Shariah, or law by Islamic decree. This in part comes from a notion that Islamic law is far more moral than any secular law.<sup>28</sup> Also, nostalgia for the system which characterized the powerful Islamic empires of ancient times also plays a role in the advocacy for Islamization of government.

One of the most important forces in the push for Islamic reform is the Kuwait Islamic Constitutional Movement or ICM. The ICM differs from many other Islamist movements because of its goal of Islamization through constitutional reform. While extreme Islamist movements tend to favor an overthrow of the government, the ICM looks to further its goals through legal government reform. This key difference makes the ICM a viable option for people who favor an Islamic version of government and law but do not adopt the use of violence.<sup>29</sup>

The ICM is the legal wing of Kuwait's Muslim Brotherhood. The Muslim Brotherhood in Kuwait was formally linked to its parent organization in Egypt until 1991. Its main functions are in the areas of charity and social functions. However,

it did make occasional forays into politics; the most notable during the suspension of parliament in 1976. When parliament was reinstated in 1981, the Muslim Brotherhood won a few seats. The biggest political breakthrough for the organization came in 1990 when Saddam Hussein invaded Kuwait; this led to the creation of the ICM.<sup>30</sup> The younger members of the Muslim Brotherhood stayed in Kuwait and formed a resistance movement. It was these resistance fighters who later created the ICM, these same men also broke ties with the Muslim Brotherhood outside of Kuwait claiming that not enough support was given to help liberate Kuwait.

Although no one Islamic movement has been powerful enough to win a majority in parliament, Islamic movements and the ICM in particular were instrumental in forming a reformist majority that was elected in the 2006 parliamentary elections. When the Amir died and a power struggle broke out between the Royal Family in 2006, the ICM used the confusion created to reach out to populist and leftist movements to form a reformist coalition.<sup>31</sup>

### **Implications for Western Relations**

Many political leaders simply use Islamist rhetoric to win office. Much of this rhetoric feeds off of a latent resentment towards the US due to its support of Israel and its war in Afghanistan. Some political candidates use images of "collateral damage" in Afghanistan as campaign propaganda.<sup>32</sup> Once elected, these politicians tend not to implement Islamist policies. Instead, they pursue goals that draw them closer to the West and to the US in particular. A concrete example of this game is the 2003 invasion of Iraq.

There is no question that the biggest threat to Kuwaiti security over the years has been Saddam Hussein's Iraq. Thus, it would serve the secular political interests of Kuwait to enter into an alliance with the United States against Iraq. Kuwait had been a

major player in the Iraq containment efforts of the 1990's and prior to the invasion.<sup>33</sup> Yet, Kuwait's opportunity to be free of the threat of Saddam Hussein came at a time when anti-American sentiments were high. Therefore, an alliance with the United States would have been politically unsustainable. How, then, did the government of Kuwait act in its interest while retaining its legitimacy? The solution to this dilemma was to do both. The government publicly opposed the US led invasion of Iraq. At the same time, it made available 60% of its territory to the Coalition in order to station soldiers and equipment in preparation for the invasion.<sup>34</sup>

Without the specter of Saddam Hussein, the Kuwaiti regime thought that its sovereignty would be secure. But it now has to face the rising Iran. The crown has a new fear, a repeat of the 1979 Islamic Revolution in Iran. As is the case in Iraq, Kuwait is alarmed at Iran's pull over the Shia Muslim population. Although Kuwait is a primarily Sunni country, there is concern that a sizeable portion of the population (over 25%) could become controlled by Iran.<sup>35</sup> The government of Kuwait is at an extremely perilous junction. The crown has done just enough to retain a sliver of legitimacy among the people. In addition, continued influence from Iran might serve to radicalize the Shia portion of the population, and radical Sunni groups such as al-Qaeda may also gain ground. What would ultimately follow is a destabilization of the entire political and governmental process. Such a rapid dissolution of an already weak authority would be nothing short of disastrous.

### **Conclusion**

In each country, political Islamism has evolved as an alternative to the current governments. Islamist political parties advocate governmental reform and an increase in civil liberties which are attractive promises in light of the hardships present

in each country. In Turkey, economic troubles have led to an upswing in popular support for the Islamist AKP Party. In Egypt and Kuwait, Islamist groups have gained support as a response to the government's abuse of power, while in Jordan Islamist groups have gained power because of political liberalization, though they still act as an opposition party. In each case, Islamist parties have gained power because the people want a true change in their governments.

It remains to be seen what kind of impact this change will have on the relations between Turkey, Egypt, Kuwait and Jordan and the West. While the US and its European allies stress the benefits of democratic freedoms, it is certain that the rise of Islamist governments throughout the Middle East would be a less than welcome occurrence. In Egypt, the renewed prominence of the Muslim Brotherhood has caused consternation among Western nations that view the group as a terrorist organization, and has led to speculation that their election could

result in sanctions such as those put into place against Palestine upon the election of Hamas; in Kuwait, the specter of losing a key ally in the event of a loss of monarchical power has the US similarly concerned. Yet the shift in power is not always seen as detrimental. In Turkey, for instance, the election of Abdullah Gül signals a renewed vigor in the fight for admittance in the European Union, while in Jordan the message of democratic reform put forth by the leading Islamist groups is met with applause by Western nations. It seems that when the desire for governance by an Islamist party is coupled with the promise to maintain practices seen as beneficial by the West, no problem is likely to arise; but if the party in question seems capable of disrupting the status quo, opposition on the part of the international community will be fierce. Whether these scenarios will play out as anticipated remains to be seen, but it is undeniable that in the face of an unstable international arena, the citizens of the Middle East are once again turning to their faith for guidance.

## Endnotes

- 1 US Department of State, 2007.
- 2 Spindle, 2006.
- 3 Economist Intelligence Unit, 2007.
- 4 Devi, 2006.
- 5 Economist Intelligence Unit, 2007.
- 6 *Ibid.*
- 7 Economist.com, 2007.
- 8 Wasey, 2007.
- 9 Landau, 1997.
- 10 Tavernise and Bowley, 2007.
- 11 Torchia, 2007.
- 12 Smith, 2007.
- 13 Evans-Pritchard, 2004.
- 14 Wasey, 2007.
- 15 Stephens, 2006.
- 16 Lee, 2006.
- 17 Youmans, 2007.
- 18 Lee, 2006.
- 19 Amnesty International, 2007.
- 20 Lee, 2006.
- 21 Morrow, 2006.
- 22 Muravchick, 2006.
- 23 Morrow, 2006.
- 24 *Ibid.*
- 25 *Ibid.*
- 26 Youmans, 2007.
- 27 Amnesty International, 2007.
- 28 Tetreault, 2001.
- 29 Brown, 2007.
- 30 *Ibid.*
- 31 *Ibid.*
- 32 Tetreault, 2001.
- 33 Katzman, 2005.
- 34 *Ibid.*
- 35 Tetreault, 2001.

## Works Cited

- Brown, Nathan. "Pushing Toward Party Politics? Kuwait's Islamic Constitutional Movement." Carnegie Endowment for International Peace 79(2007): 3-20.
- Devi, Sharmila. "Jordan Turns Its Sights on Muslim Brotherhood Domestic Unrest." Financial Times 23 June 2006: 9. Academic Search Premier. 07 June 2007.
- Evans-Pritchard, Ambrose. "Turkey's Muslim millions threaten EU values, says commissioner." The Telegraph, 08 Sep 2005. 14 June 2007
- Gershoni, I. & Jankowski, J. P. Redefining the Egyptian Nation 1930-1945. Cambridge University Press, 2002: Cambridge, UK.
- "Jordan Politics: Parties Over." The Economist Intelligence Unit. 27 Apr. 2007. The Economist. 07 June 2007
- Katzman, Kenneth. United States. CRS. CRS Report to Congress. Washington D.C.: GPO, 2005.
- Landau, Jacob M. "Turkey Between Secularism and Islamism." Jerusalem Center for Public Affairs. Vol. 352. 16 Feb 1997.
- Lee, Eric. "Confronting Cairo: Changing an Illusory Democracy." Harvard International Review. Cambridge: Summer 2006. Vol. 28, Iss. 2; pg. 42, 4 pgs
- Morrow, Adam. "Egypt: Islamists filled void left by squashed secular opposition." Global Information Network. New York: Feb 22, 2006. pg. 1
- Muravchik, Joshua. "The Trials of Ayman Nour." Wall Street Journal. (Eastern edition). New York, N.Y.: May 8, 2006. pg. A.18
- Smith, Helen. "Gul sworn in as Turkey's president." The Guardian, 29 Aug 2007. 19 Sept 2007
- Spindle, Bill. "Politics & Economics: Hamas's Strength Tests Jordan's Leadership." The Wall Street Journal 19 Apr. 2006, Eastern ed., sec. A: 6. Academic Search Premier. 07 June 2007.
- Tavernise, Sabrina, and Bowley, Graham. "Turkish Court Blocks Islamist Candidate." The New York Times, 01 May 2007. 13 June 2007.
- Tetreault, Mary Ann. "Stories of Democracy: Politics and Society in contemporary Kuwait." International Journal of Middle Eastern Studies 33(2001): 661-663.
- Torchia, Christopher. "Turkish Election a Struggle Over Identity." Washington Post, 30 April 2007, A10. 14 June 2007.
- Traub, James. "Islamic Democrats?" New York Times Magazine. New York: Apr 29, 2007. p.44
- "Unbrotherly in Jordan." Economist.com / Global Agenda 7 Aug. 2007. ABI/INFORM Global. Academic Search Premier. 07 Sep. 2007:7
- Wasey, Adnaan. "Turkey's Presidential Election Revives Battle Between Religion and State." NewsHour Extra, 9 May 2007. 13 June 2007
- Youmans, Will. "Many oppose changes to Egypt's constitution." The Arab American News. Dearborn, Mich.: Mar 31-Apr 6, 2007. Vol. 23, Iss. 1103; pg. 16, 1 pgs

# Discerning Iran

## *Exploring the Motives for Iranian Foreign Policy*



Sohaib Perwaiz, Princeton University, 2010

### **Introduction: Exploring the Motives of Iranian Foreign Policy**

In recent years, the turbulent nature of politics in the Middle East has captured the attention of nations worldwide. Iran, in particular, has garnered more than just alarmed glances due to its aggressive foreign policy against the US, as evident in its defiant nuclear energy program and its active assertion of influence in Iraq and elsewhere in the Middle East. To many analysts the reason for Iran's revisionist agenda is a shifting balance of power in the Middle East. Soon enough, however, Iran may find itself diplomatically overextended, facing hostilities with a superpower on its own.

One may wonder why Iranian political leaders would risk such high stakes with an obstinate position against a superpower. This could be answered if one looked beyond the realist perspective that oversimplifies a complex nation's problems into the overused balance of power equation. This paper hopes to provide another, lesser mentioned perspective on the motives behind Iranian foreign policy and looks to internal political dynamics, rather than elusive security dilemmas, for answers. By bypassing the security dilemma perspective of Iranian policies that has become so popular nowadays, we shall see that Liberal IR theory, with its emphasis on domestic interest groups, is the best analytical tool to understand Iran. Once we see the Iranian state as a representative of its political elite, and then understand the troubles and motives of that elite, Iranian

foreign policy begins to make a lot more sense. Through this perspective, we see that the Iran's aggressive foreign policies are motivated by a troubled regime facing internal challenges to its legitimacy; this regime is using a bold posture against the US, to manipulate Iranian nationalism, promote uncertainty, and in the process legitimize its monopoly on power.

This paper rests on the assumption that Iranian foreign policy is indeed aggressive towards the US and its allies. Even a cursory glance of any newspaper would confirm this. Rather than dwelling on the foreign policy itself, I hope to establish the motives for that foreign policy. The arguments here will be presented in four parts. First I will construct the Liberal theory context in the Iranian scenario. Next, I will present the domestic position of the Iranian regime and its diminishing legitimacy. The third part will deal with explaining why an anti-US position is a plausible strategy for the clerical regime in Iran. Finally, I will attempt to present the above arguments in the perspective of an actually facet of Iranian foreign policy, its controversial nuclear energy program.

### **Iranian Politics 101: A Liberal Theory Lens**

Liberal IR Theory rests on the assumption that a state isn't an autonomous actor but a representative institution for "fundamental actors" or interest groups within it, who draw support from a political selectorate, a network of broader political coalitions, within the societal framework,

and are constrained to act within differential societal influence. This model fits the Iranian political system well because the Iranian state is dominated by a particular group of “fundamental actors”, the elite clergy, who have institutionalized their dominant position within the state.<sup>1</sup>

Iran has two levels of government. There is a democratic government and president which works under the constitutional purview of a supervisory religious leader with the title “the just jurist” or *faqih* (a clerical figure who rules for life) and a Council of Guardians (also mostly comprised of clerical elite), a body of twelve chosen directly or indirectly by the *faqih* to act as religious monitors of legislature and executive policy. These clerics are the final authority in Iranian politics and can veto legislature, judicial decisions, and policy set by any other departments of government.<sup>2</sup> As Liberal Theory would assume, the *faqih* and his Council of Guardians act based on self-interest and self-preservation, and are constrained by domestic political realities, such as falling support for their monopoly on power. Moreover, since these clerical elites have institutionalized their hegemony through the Islamic Republic’s constitution, the Iranian state has become a representative of their interests. We will soon see that Iran’s aggressive foreign policy is a strategy used by the Iranian regime through the state. In better understanding this strategy, we must now look to the Iranian regime’s position on its home front.

### **Losing Battles on the Home Front: A Loss of Legitimacy for the Iranian Regime**

Iran, like most modern nations, faces a plethora of national crises. What makes these crises relevant to our discussion is that they are eroding the Iranian regime’s legitimacy. Two issues are of particular concern here: the dwindling support from the regime’s traditional selectorate and

failure of the reform movement, both of which are resulting in frustration against the regime and the consequent abatement of their legitimacy.

From the revolution that established the Islamic Republic to contemporary times, the clerical regime has generally drawn support from two societal components: the Iranian merchants and the unofficial networks of clergymen. Since these were the most powerful components of Iranian society for most of the Islamic Republic’s history, the political alliance worked. Unfortunately for the clerical regime however, the socio-economic climate is beginning to change in Iran. Support from the clergy is beginning to dwindle because of the exclusive monopoly of some clergymen in power, and the resulting exclusion of others. The twelve positions in The Council of Guardians, for example, have rotated between a handful of clerics for more than twenty years. The clergymen on the outside are feeling resentful and are more openly voicing their disapproval for the regime.<sup>3</sup>

The other political pillar for the clerical regime has been the Iranian merchant class. Once again, the merchants were a powerful ally in the earlier years of the Islamic republic because they accounted for some of the most influential and wealthy components of society. Things now are changing. The influence of the merchant class is being displaced by a growing educated working class, which is much more vocal of its political and economic grievances, and is less easily pacified due to its much larger numbers. This new Iranian bourgeoisie is demanding a greater role in government and enhanced civil liberties.<sup>4</sup> Moreover, the working class is growing frustrated at the painfully slow rate of economic development. Economic growth in Iran, even with the influx of oil revenue, is well below expectations. GDP growth rate averaged at 2.5% from 1998 to 2001 compared to the government goal of

6%. Inflation is exceptionally high and ran at an average 15.55% from 1997 to 2001. Unemployment is currently at 16.1% and, due to increasing number of educated entrants into the labor market, is expected to hit 25% by end of decade. Demands for change in the economic and political situation of this large working class resulted in a momentous reform movement, which even in its failure, would provide a decisive blow to the already diminishing legitimacy of the clerical regime.

In understanding the failed reformist movement in Iran, we look to the efforts of ex-Iranian President Mohammad Khatami, who reigned from 1997 to 2005. His landslide victory in the 1997 presidential election is often credited to his sweeping reforms agenda. With his promises to promote civil liberties and “democratize the theocracy”, he won mass appeal with Iranian youth, while his liberal socio-economic agenda secured the support of the powerful middle class. Once in power, his government proposed several laws to secure civil liberties, place checks on the *faqih* and his Council of Guardian, make the budget-making process more transparent, and wrest important government departments (such as the Foreign Office) away from the clerics. Not surprising, the Council of Guardians vetoed almost all the reformist legislation and most of Khatami’s prerogatives failed.<sup>5</sup> As he left office in 2005, he took with him reformists’ hopes of changing the system from within.

As a result of Khatami’s failure, now reformist propaganda seems to be against the regime as a whole, and nothing symbolized this better than the boycott of the subsequent presidential elections. Whereas there was a 70% turnout in the 1997 elections that brought Khatami to office (80% of the turnout was in Khatami’s favor), the 2005 presidential elections had a turnout of 30-50% (the lower-limit being counted by boycotters, and the upper-limit by the government), out of which



the regime loyalist candidate, Mahmoud Ahmedinejad, won a 60% victory. This means that the electoral support of the regime-backing executive may be as low as 20%. Nonetheless, many dissenters note that it doesn’t matter whether the president and parliament are reformists or hardliners. The shadow clerical elite on top remain the same. Ladan Boroumand notes in her analysis of the Iranian elections, “In terms of who actually holds power, the elections mean nothing: the de jure winners were already the de facto rulers anyways.”<sup>6</sup> The failure of the reform movement, the resulting frustration with regime displayed in the apathy towards the most and perhaps only democratic component of the Iranian political system spells out the declining legitimacy that the regime faces at home.

Returning to our Liberal Theory model, we see how the primary interest group in Iranian politics, the clergy in government, have struggled to maintain their hold on power, primarily by fighting off reformist moves to cordon their influence and changing the social status quo which keeps them securely above the rest in Iranian society. Also, we see how the electorate, comprised of merchants and clergymen, that once provided the political support for the regime is now dwindling. When it comes to responding to these challenges, these fundamental actors are limited by socio-political constraints. There is only so far they can go before the Iranian populace becomes frustrated enough to replace them. This is where we use Liberal

theory's predictive capabilities. Motivated by self-preservation but limited by societal influence, the fundamental actors of the state are bound seek strategies which can be used to sustain their political hegemony. Here we stumble upon the motives of these actors in playing their high-stakes adventures in foreign policy.

### **The Regime's Strategy**

So what the Iranian government can do to solve its crisis? As it turns out, the regime has few options. Dealing with opposing clergymen would initiate a major reshuffling in the upper echelons, and start debates about religious legitimacy that could displace many regime leaders. Pacifying the working class would involve political changes and liberties that would challenge the very identity of Islamic republic as seen by its current leaders. Indeed the threat of these changes is what led the regime to muzzle Khatami's reform movement in the first place. In fact, all internal solutions would require by default, a complete overhaul of the Iranian political system, an overhaul which well-entrenched conservative leaders are not too comfortable with. As Ali Rezai points out in his analysis of the Iranian reform movement:

Those entrenched in power appreciate the depth of public sentiment favoring change, but rather than consulting widely to find a way out of the state of day-to-day uncertainty, they try to erase the structural problems altogether, creating instead immediate "problems" they can solve with their familiar techniques.<sup>7</sup>

Indeed, rather than dealing with these structural problems, which they cannot deal with from within the current system, they seek out problems that they *can* deal with. As it turns out, the regime's strategy in dealing with its lack of legitimacy involves an astute manipulation of nationalism

and uncertainty, political forces that are well-ingrained in Iranian society. Let us now explore these Iranian perceptions and attitudes towards the U.S, and more importantly how they can be used to the regime's advantage.

Many sociologists would agree that one of the most prominent aspects of the Iranian identity is the intense sense of nationalism embedded in it.<sup>8</sup> What historians may add is that modern Western powers, especially the U.S have repeatedly insulted that nationalism. When the US backed away from recognizing Iran's role in the region after the Iranian government's assistance in the U.S invasion of Afghanistan and later refused to involve Iran in a discussion on post-Saddam Iraq, the message that the US was bent on excluding Iran from interests in its own backyard stuck with Iranian people. As Clifford Kupchan notes:

Any visitor to Tehran cannot help but notice the intense craving for international respect on the part of the Iranian elite. Across the political spectrum, Iran's policymakers want the United States to acknowledge that Iran is a regional great power in the Middle East. Iran's leaders believe that the great powers deny Tehran its rightful role in the region and the world.<sup>9</sup>

Therefore, when the clerical regime stands up to the US in foreign policy issues, may it be in mocking Israel, supporting insurgents in Iraq, or pursuing a nuclear energy program, the regime puts itself at the helm of one thing that all Iranians, from reformists to minorities stand behind, and that is nationalism.

As long as the regime can align itself with the powerful forces of Iranian nationalism, the Iranian people are less inclined to move against it. A potent example of how the government has been using nationalism for its own ends is by blaming most of its ethnic tensions on foreigners. Abbas Samii tells us in his article on ethnic tensions in Iran, "The

central government typically reacts to ethnic unrest with a combination of repression and scapegoating.”<sup>10</sup> He goes on to describe how two men involved in an anti-government bombing were forced to confess links with American and British security forces, even though they had committed the crimes under the flag of an ethnic rebel group. <sup>11</sup>By linking local troubles to foreigners, the regime is trying to appeal to the broader nationalism of all Iranians (including minorities) who would more easily accept government brutality if it is to fight off foreign foes.

The second social undercurrent that the Iranian regime has to its advantage is uncertainty. By using the already established image of an aggressive superpower bent on demeaning Iran, and then inflating that image, the regime propagates uncertainty, and then uses it as an excuse to stay in power. To understand this feeling of uncertainty amongst Iranians, we look to the Iranian narrative of recent history. The fact that the CIA engineered a coup to replace the democratic secular government of Mohammad Mossadeq with the oppressive Pahlavi dynasty to ensure Iranian oil supplies in 1953 is still painful memory for many Iranians. Also, President Ahmedinejad’s generation hasn’t forgotten Saddam Hussein’s brutal US-backed invasion and the lethal chemical weapons he used on the Iranian people. So when George Bush labeled Iran as part of “the axis of evil” after 9/11, and proceeded to invade both of Iran’s neighbors, the Iranians’ suspicions about the superpower only deepened. Fereydoun Hoveyda has labeled this sense of insecurity amongst Iranians as a “siege mentality.”<sup>12</sup> Indeed Iranians have a socio-historical inclination for feeling on the defensive; this is an inclination the regime can readily exploit.

When the Mahmoud Ahmedinejad tells his people that the Americans are perpetually scheming against Iran, the warning does not fall on deaf ears. Therefore,

it is no surprise that protesters who oppose Ahmedinejad and the regime always find themselves in a minority relative to those who feel they need the regime to defend them against what Khomeini called the “Great Satan.” Farideh Farhi aptly describes the situation:

The particular experience of Iran with revolution, war, sanctions, and estrangement from international community created a shared sense of embattlement in a hostile environment, allowing the post-revolutionary state-builders to portray themselves as the “true” guardians of Iranian security and shut off debate on foreign policy and security issues and then use national security to foil aspirations for political change. In this process, the hands of the hardliners were strengthened by essentially punishment-oriented nature of external pressures, allowing them to identify proponents of reform as weak on security.<sup>13</sup>

Indeed, with every hardline policy approach the US diagnoses for Iran, the Iranian regime becomes more aggressive towards the US. Using its position as a defender of the Iranian people against what is seen as their natural enemy, the Iranian regime fills in the legitimacy void created by its other failures at home.

Having explored the issues of legitimacy faced by the Iranian regime, and the sociological and cultural tools it is using for its political survival, let us now look to a current example of the Iranian foreign policy, and see the Iranian regime’s strategy at its best.

### **Case Study of Iranian Foreign Policy The Nuclear Energy Program in Perspective**

In his article “Dealing with a Nuclear Iran,” Kori Schake raises some interesting questions about Iran’s nuclear energy program. He notes,

The Iranians have the indigenous technical ability, and possibly nuclear material, to build nuclear weapons right now. They can do it if they want to, and we [the US] know so little about their program they could likely achieve it without detection. The question is why they're so intent on detection.<sup>14</sup>

In answering this question, we look to the arguments already made in this paper. The Iranian regime is inflating the nuclear energy issue by bringing it to international attention and then being defiant about American demands, because they realize the more aggressive the US government becomes, the more the Iranian people will rally behind the regime, and validate its right to government despite falling legitimacy on other fronts in the domestic political scene.

Returning to the regime's strategy of using sociological forces, we see how the nuclear threat can raise both nationalism and the specter of uncertainty. In a speech to students in the Iranian city of Shiraz, Ahmedinejad declared, "The Iranian people will stand firm on the nuclear issue to



acquire all their rights, will continue solidly to reach the summits of perfection and will raise their fists to insist on their rights!"<sup>15</sup> By tying Iran's nuclear energy project to its inevitable growth as a regional power, the regime has tactfully connected the nuclear program to the Iranian people's profound sense of nationalism. Because the program is the regime's pet project, it has cemented its own position as the leader of the nationalistic movement.

But more than inciting nationalism, the propagation of the nuclear energy issue is also a strategic distraction from the other things chipping away at the Iranian regime's authority. In his article on the Iranian reform movement, Muhammad Sahimi notes that,

He [Ahmedinejad] has used the U.S – created nuclear crisis not only for inciting Iranian nationalism, but also for distracting people's attention from Iran's vast economic, social, and political problems, as well as attempting to suppress Iran's democratic movement... By creating an unnecessary crisis over Iran's nuclear program, the [American] Administration has played right into the hands of Iran's hardliners.<sup>16</sup>

Where the Iranian regime couldn't claim to be democratic or progressive, it can now claim to be nationalistic simply because of its defiant policy on its nuclear energy program. The defiance has triggered an even more aggressive stance from the US, which predictably has fed into the uncertainty factor in Iranian society.

When the American government denounces the Iranian regime for its nuclear energy program, it heightens an already deeply embedded mistrust for American policy. Since the regime boldly stands up to the Americans, they gain support from their threatened people. The regime is automatically elevated from the position of detested oppressor to patriotic savior. "The conservatives need an external enemy to preserve their power", says Mohammad Reza

Khatami, a leading reformist and younger brother of the former president. <sup>17</sup>As long as the regime can guarantee (or at least pretend to do so) Iranians protection from foreign aggressors, their legitimacy will be tied to the feeling they are needed and will trump subversive democratic movements such as those of Mr. Khatami. Seeing all they have to again from their aggressive foreign policy agenda, with regards to the nuclear program or anything else, the risks involved in pursuing such a strategy seem to be worth it.

### **Other Perspectives**

Let us now turn our attention to the popular realist perspective on Iranian foreign policy. Realism rests on the assumption that states are autonomous unitary entities that act to maximize security and power. In terms of Iran, the realist assumption is that Iran is challenging the global hegemon (the US) because it is a rising power faced with a security dilemma. Indeed, after years of political and economic turmoil, Iran has become relatively stable in the last few years, at least relative to the Islamic Republic's past performance. Moreover, it has increased ties with Eastern powers such as China, India, and Russia and in turn has acquired international recognition. Its oil (now crossing \$70 a barrel) has supplemented its influence and growth as well. Despite its growth however, the Iranian state faces a security dilemma because it has got several hostile neighbors, namely American soldiers on both eastern and western borders (Iraq and Afghanistan) and Sunni Arab states which are opposed to a strong Persian-Shiite state dominating the Middle East. Because of the conflicting nature of Iran's growth and its security dilemma (one is propelling it forwards while the other is holding it back), realists would assume Iran is bound to challenge the current International system and attempt to remove the security threats by challenging the US and threatening

its regional allies. Though this reasoning reaches the right conclusion, the method of deduction is slightly flawed.<sup>18</sup>

The first flaw in the realist argument is of the security dilemma. If anything, Iran's security dilemma has thinned over past few years. It strengthened its alliances with Arab partners such as Syria, Lebanese Hezbollah, and the Palestinians, through aid and defense agreements. It has also won massive "street appeal" in its Arab neighbors (despite being a Shiite minority in the Muslim world) because of its Islamist propaganda, forcing Arab governments to take a more conciliatory approach. Moreover, the American soldiers on Iranian borders have helped Iran get rid of three potential hostile fronts: the Taliban in Afghanistan, the Baathists in Iraq, and the Americans themselves because of their diminished military capacity.

As for Iran's aspirations to become a regional power, it can do so much more easily by cooperating with the US than by antagonizing it. The US and its European allies have already offered Iran many economic and political incentives for giving up (or at least opening up) its nuclear energy program. These incentives involve a greater role in Iraq, lifting of economic sanctions, and developmental aid. As Kori Schake points out, "If maximizing its presumed security objectives were the Iranian government's plan, taunting the US, Israel, and Europe with an overt nuclear program would seem to put at risk at least some of the gains Iran is already achieving at very little cost."<sup>19</sup> Indeed, if maximizing growth and influence was the objective the Iranian state would be behaving much more cautiously; and here lies the core drawback of realist assumptions. The "Iranian State" isn't acting to maximize its power interests, because there is no such autonomous entity. The Iranian state is merely a representative institution of its ruling clerical elite who are pursuing their high stakes adventures for gain at home and the strengthening of their domestic legitimacy.

## **Drawing Conclusions: What We Know and What We Can Predict**

To conclude, let's review the claims made in this paper. We started our discussion on the assumption that Iranian foreign policy has been aggressive towards the US, and then set out to explore motives for such a policy. This paper worked within the Liberal Theory context, because it takes into account the political hegemony of the clerical interest group within Iran, and can thus be used to understand Iranian foreign policy through the perspective of that interest group's motives. Moreover, we saw that the Iranian clerical regime is losing legitimacy within the domestic context because of a diminished selectorate and public frustration. This lack of legitimacy has provoked the regime to manipulate

nationalistic sentiment and propagate uncertainty to create a demand for its services as a government, and in the process fill the legitimacy void. Such a strategy has, because of Iranian sociological reasons, involved an active foreign policy opposed to the US. The most important lesson to be drawn here is that in analyzing Iran, we must take into account the Iranian regime's priorities. This will most likely be the decisive factor in Iranian foreign policy in the near future. As long as an aggressive foreign policy against the US, or any other "Western" nation for that matter, provides legitimacy to the Iranian government at home, it will continue to pursue it. In fact foreign policy, for lack of legitimacy at home, will continue to be the *raison d'être* of the Iranian regime.

## Endnotes

- 1 Moravcsik, Andrew "Taking Preferences Seriously: A Liberal Theory of International Politics" International Organization, 51.4 (1997). 513-23.
- 2 Abrahamian, Ervand. "Iran." Joseph, William A., Mark Kesselman, Joel Krieger, eds. Introduction to Comparative Politics. (New York: Houghton Mifflin, 2007)
- 3 Taheri, Ali. "Getting Serious About Iran: For Regime Change." Commentary. (2006) EBSCOHOST. Princeton U Library: Princeton, Apr 20, 2007.
- 4 Sherman, Steve. "IRAN" New Internationalist. (2004). EBSCOHOST. Princeton U Library: Princeton, Apr 20, 2007.
- 5 Rezai, Ali. "Last Efforts of Iran's Reformists" Middle East Report. (2003) EBSCOHOST. Princeton U Library: Princeton, Apr 21, 2007.
- 6 Boroumand, Ladan. "Iran's Peculiar Election: The Role of Ideology" Journal of Democracy, 16.4 (2005)
- 7 Rezai, Ali. "Last Efforts of Iran's Reformists" Middle East Report. (2003) 45 EBSCOHOST. Princeton U Library: Princeton, Apr 21, 2007.
- 8 Farhi, Farideh. "Crafting a National Identity amidst Contentious Politics in Contemporary Iran" Iranian Studies, 38.1 (2005) EBSCOHOST Princeton U Library: Princeton, Apr 21, 2007.
- 9 Kupchan, Clifford. "Iranian Beliefs and Realities." The National Interest. (2005) 108 EBSCOHOST Princeton U Library: Princeton, Apr 21, 2007.
- 10 Samii, Abbas William. "Ethnic tensions could crack Iran's firm resolve against the world." The Christian Science Monitor, 98.128. (2006) EBSCOHOST Princeton U Library: Princeton, Apr 21, 2007.
- 11 Ibid.
- 12 Hoveyda, Fereydoun. "Iran and America." American Foreign Policy Interests. (2006) 16 EBSCOHOST Princeton U Library: Princeton, Apr 21, 2007.
- 13 Farhi, Farideh. "Crafting a National Identity amidst Contentious Politics in Contemporary Iran" Iranian Studies, 38.1 (2005) 19 EBSCOHOST Princeton U Library: Princeton, Apr 21, 2007.
- 14 Schake, Kori. "Dealing With A Nuclear Iran" Policy Review. (2007) 3 EBSCOHOST Princeton U Library: Princeton, Apr 30, 2007.
- 15 Ahmehinejad, Mahmoud. Shiraz, April 16, 2007
- 16 Sahimi, Muhammad. "Leave Us Alone, Iranian Reformers Say" Progressive. (2006) 21 EBSCOHOST Princeton U Library: Princeton, Apr 21, 2007.
- 17 Quoted in: *ibid*.
- 18 For a discussion of the Realist Perspective see: "All at Sea over Iran" The Economist (2007)
- 19 Schake, Kori. "Dealing With A Nuclear Iran" Policy Review. (2007) 6 EBSCOHOST Princeton U Library: Princeton, Apr 30, 2007.

## Works Cited

- Abrahamian, Ervand. "Iran" Joseph, William A., Mark Kesselman, Joel Krieger, eds Introduction to Comparative Politics. New York: Houghton Mifflin, 2007
- Ahmehinejad, Mahmoud. Shiraz, April 16, 2007.
- "All at Sea over Iran" The Economist (2007) EBSCOHOST Princeton U Library: Princeton, Apr 21, 2007.
- Boroumand, Ladan. "Iran's Peculiar Election: The Role of Ideology" Journal of Democracy, 16.4 (2005)
- Ehsani, Kaveh. "High Stakes for Iran" Middle East Report (2003) EBSCOHOST. Princeton U Library: Princeton, Apr 20, 2007.
- Farhi, Farideh. "Crafting a National Identity amidst Contentious Politics in Contemporary Iran" Iranian Studies, 38.1 (2005) EBSCOHOST Princeton U Library: Princeton, Apr 21, 2007.
- Halliday, Fred. "Iran and the Middle East: Foreign Policy and Domestic Change" Middle East Report (2001) EBSCOHOST Princeton U Library: Princeton, Apr 21, 2007.
- Hoveyda, Fereydoun. "Iran and America." American Foreign Policy Interests. (2006) EBSCOHOST Princeton U Library: Princeton, Apr 21, 2007.
- Kupchan, Clifford. "Iranian Beliefs and Realities." The National Interest. (2005) 108 EBSCOHOST Princeton U Library: Princeton, Apr 21, 2007.
- Moravcsik, Andrew "Taking Preferences Seriously: A Liberal Theory of International Politics" International Organization, 51.4 (1997). 513-23.
- Pilger, John. "IRAN" New Statesman (2006) EBSCOHOST. Princeton U Library: Princeton, Apr 20, 2007.
- Rezai, Ali. "Last Efforts of Iran's Reformists" Middle East Report. (2003) EBSCOHOST. Princeton U Library: Princeton, Apr 21, 2007.
- Sahimi, Muhammad. "Leave Us Alone, Iranian Reformers Say" Progressive. (2006) 21 EBSCOHOST Princeton U Library: Princeton, Apr 21, 2007.
- Samii, Abbas William. "Ethnic tensions could crack Iran's firm resolve against the world." The Christian Science Monitor, 98.128. (2006) EBSCOHOST Princeton U Library: Princeton, Apr 21, 2007.
- Schake, Kori. "Dealing With A Nuclear Iran" Policy Review. (2007) 3 EBSCOHOST Princeton U Library: Princeton, Apr 30, 2007.
- Sherman, Steve. "IRAN" New Internationalist. (2004). EBSCOHOST. Princeton U Library: Princeton, Apr 20, 2007.
- Taheri, Ali. "Getting Serious About Iran: For Regime Change." Commentary. (2006) EBSCOHOST. Princeton U Library: Princeton, Apr 20, 2007.
- Vakil, Sanam. "Iran: Balancing East against West" The Washington Quarterly. (2006) JSTOR. Princeton U Library: Princeton, Apr 20, 2007.



# China-Africa Interaction

## *Prospects for a Strategic Partnership*

Farah Arbab, Research Fellow,  
Institute for Strategic Studies of Islamabad

China's emergence as a key player in Africa, the impact of its presence and its challenges to traditional Western pre-eminence in African economies are among the hallmarks of the changing economic scenario in the twenty-first century. Beijing's present-day engagement in Africa is not new: it has its roots in policies pursued since the mid-1950s as well as in earlier historical precedents. Historically, China's role in Africa has hinged on providing diplomatic and moral support to liberation struggles in that continent. It has also provided African countries with great assistance since their independence, with a view to helping in the development of their national economies and the social progress there.

Beijing's relations with Africa during the Cold War were geopolitically motivated and were based on opposing the superpowers and Western dominance. However, in the 1990s, this approach towards Africa changed and the new driving force was economic interests. The interaction between the two sides increased over the years, with Beijing's economic interests being the prime mover. The shift was further enhanced with the rise of African global energy markets. Energy reserves have expanded the horizons of its relations with China, as Beijing initiated energy co-operation and agreements with African countries. On the diplomatic front, Beijing has maintained close political relations with African countries through frequent exchanges of high-level visits. At international forums, both China and the African countries have co-operated and supported each other on the issue of human

rights and other important issues. Another component of Beijing's interests in Africa is that China has recognized the significance of the 53 votes that the African Union (AU) maintains in the General Assembly, which holds the key to preserving the "One-China Policy" with regard to the question of Taiwan's independence.

This paper is an attempt to present an overview of Sino-African relations from a historical perspective and will discuss the key areas of co-operation between China and Africa and how the developments in these areas provide the context in which China is developing its relations. The accompanying dynamics of Chinese re-engagement with Africa can be analyzed in three dimensions: the economic perspective; the diplomatic rationale defining the relations; and a broader set of concerns, linked to China's interests in the region. Finally, the paper will examine the opportunities and challenges facing the prospects of co-operation between China and Africa.

### **An Historical Account of Links between China and Africa**

The history of interaction between China and Africa dates back to ancient times. The early 1400s saw the first Chinese visits to Africa, when the Ming Emperors dispatched ships to the continent's eastern coast. In the eighteenth and nineteenth centuries, both Africa and China underwent periods of brutal subjugation at the hands of Western colonial powers. These colonial experiences helped develop a mistrust amongst both Chinese and Africans towards the intentions of Westerners, which

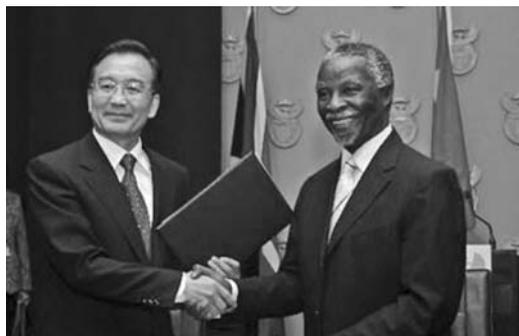
lasts to this day. In the seventh century AD, there were direct contacts at sea between China and Africa. In the fifteenth century, the famous Chinese navigator, Admiral Zheng, in command of a fleet, spent quite some time sailing along the east coast of Africa during three of his seven voyages, stopping at Mogadishu, Mozambique, and Zanzibar.<sup>1</sup> This period is usually regarded as the high point in Sino-African exchange. In this era, not only were there mutual visits but also trade of goods as well as scientific and technological exchanges. All these have not only promoted the social and economic development of the two sides, but also contributed enormously to the world's civilization and progress.

Modern African-Chinese relations date back to 1956, when Beijing first established diplomatic relations with Egypt. Since then, it has established diplomatic relations with 46 out of the 53 countries in Africa. China undertook major infrastructure projects as part of the Cold-War competition for influence in the post-colonial developing world. It offered material and moral support to the African national liberation movements and their struggle against imperialism and racism in the 1950s and 1960s.<sup>3</sup> Africa, during the Cold War, was seen primarily by Chinese leaders as terrain for ideological competition with the Soviet Union and the US, as well as the remaining European influences.

At the end of 1963, during his famous tour of ten African countries, Premier Zhou Enlai put forward "China's five guiding principles" in its relations with African countries, laying a solid foundation for Sino-African friendly co-operation. China maintained close political relations with African countries through frequent exchanges of high-level visits. All Chinese leaders, including Mao Zedong, Zhou Enlai, Deng Xiaoping, Jiang Zemin, Hu Jintao, and Prime Minister Wen Jiabao have attached great importance to strengthening solidarity with African countries. Mao

Zedong met with the visiting African state leaders many times. Former State President, Jiang Zemin, visited Africa four times. President Hu Jintao visited Africa twice, while he was vice president.<sup>4</sup>

China and African countries have co-operated and supported each other in international affairs. In 1971, the People's Republic of China was restored to its lawful seat in the UN with the support of African countries: among the 76 votes in its favour, 26 were from African countries, accounting for more than one-third. With their support, China has defeated eleven consecutive anti-China motions tabled by Western countries in UN Human Rights sessions and prevented 14 proposals raised by the General Committee before the annual UN General Assembly for Taiwan to "rejoin or participate in the UN" from getting on the formal agenda since 1990. They have also helped China to frustrate attempts by Taiwanese authorities to access international organizations that only sovereign states are entitled to join.<sup>5</sup>



Over the past 50 years, despite the turbulent international environment and the tremendous changes in their respective countries, China and African countries have consistently deepened their friendship and co-operation. China's renewed interest in Africa was concurrent with a lessening of Western engagement with the continent. While many in the West now consider China a threat, Africans see China mostly as an opportunity. Beijing's only political

condition for establishing ties is the “One China” principle—recognizing Taiwan’s as an integral part of China. China has successfully wooed away Chad, Liberia, and Senegal from Taiwan since 2003. In an effort to retain allegiance, Taiwan is pumping extra funds into the five African states (Burkina Faso, Malawi, Sao Tome, Principe, and Swaziland) that continue to recognize it.<sup>6</sup>

## **China and Africa in the Post-Cold War Era**

China’s growing presence is the most important development in Africa since the end of the Cold War. The new China–Africa strategy features co-operation in the political, economic, cultural, and security fields, as well as in international affairs.

### *Trade Relations*

China and Africa have concluded various trade agreements in the past. The first initiative was taken in the framework of 1955 Bandung conference. This agreement was merely political, but while establishing diplomatic ties with African countries, economic and cultural agreements were also signed by both parties. In 2000, the first large-scale conference on Sino-African trade was held in Beijing. According to China, the purpose of the Sino-African forum was “the construction of an international political and economic order”, to explore new avenues for Sino-African co-operation. Over 40 African states with 80 foreign ministers and ministers in charge of international economic co-operation were present.<sup>7</sup> In addition, 17 international and regional organizations, NGOs, and entrepreneurs were also in attendance to discuss South-South co-operation, the North-South dialogue, debt relief, and Chinese economic co-operation with African states.

Trade between China and Africa has quadrupled since 2000, when it totalled around US \$10 billion. Just five years later, it had increased to US\$28 billion. China is now Africa’s third largest commercial partner after the US and France, and the second

largest exporter to Africa after France.<sup>8</sup> Remarkably, Britain, as a former colonial power, has been left behind by China.

China’s economic relationship with Africa is based on the drive for resources, new exports markets, and new investment opportunities for Chinese companies. Exports from Africa to China are primarily commodities and oil, while African imports from China consist of manufactured goods, such as industrial products, electrical equipment and machinery, textiles, and household utensils. In recent years, Chinese firms have redoubled their efforts to penetrate the African market. Direct Chinese investment in Africa has reached \$11.25 billion. Over 800 companies are currently operating in Africa, engaged in trade, manufacturing, natural gas exploration, transportation, agriculture, and agricultural processing.<sup>9</sup> Chinese companies have created employment opportunities in African countries, increasing their tax revenues, introducing practical technologies to these countries, and enhancing the competence of local workers and thus improving their productivity.

While Africa exports natural resources to China, many manufactured goods are being imported from China. China has been able to find a ready market for its cheap low-quality consumer products and it is trying aggressively to take control of it. The number of Chinese traders has increased since 1960s when they settled in Africa on a large scale. In 1949, there were about 27,000 Chinese in Africa; this number had grown to 130,000 by 1999. Most of the traders have settled in Mauritius, Madagascar, and South Africa.<sup>10</sup> These traders import Chinese goods that are attractively priced for the African market, where purchasing power is limited. African businessmen too increase their profit margins in the process, by cutting out intermediaries. This is the case in almost all African countries, with the African market being flooded with cheap Chinese products.

China is focusing its exports on countries with large populations, such as South Africa, Nigeria, Egypt, Morocco, and Algeria. These five countries, with their relatively higher purchasing power by African standards, together account for 58 per cent of African imports from China.<sup>11</sup>

International observers fear that the Chinese way of doing business—paying bribes and attaching no conditions—undermines local efforts to increase transparency and good governance. And the IMF and the World Bank are unable to then put as much pressure on countries because they are supported by China. Finally, Chinese companies are bringing their labor to work in Africa. In areas where unemployment is already high, the effects of migrant Chinese labor will be felt over time. For example, in Angola some domestic suppliers and retailers have had to close down, as resentment against the growing Chinese influence is also being felt.<sup>12</sup>

### **Chinese Arms in Africa**

Arms always have been among the Chinese commodities exported to Africa. During the struggle for the independence, and during the Cold War, China exported arms to fight Western imperialism. An ideology for a new world order lay at the root of these exchanges. And China is still exporting arms to certain countries, although the reason behind these exports has become less idealistic. Selling arms to some African leaders improves bilateral relationships and can enhance Chinese access to oil and natural resources. The involvement of China in African politics become clear when one looks at the military exchanges between China and African states. Over the years, China's defence ministers have paid numerous visits to their African colleagues and vice versa. According to the congressional research service, China's arm sales to Africa between 1996 and 2003 made up 10 per cent of all arms sales to Africa.<sup>13</sup>

China made weapons and ammunitions are plentiful in Africa and China does not usually impose political, human rights, or humanitarian conditions on arm sales, though it has refused to supply UN-sanctioned states such as Ivory Coast. Countries like Sudan and Zimbabwe are reportedly major recipients of Chinese weapons. China does not demonstrate much concern for human rights, which they consider to be a Western concept.

China has supplied the Khartoum government with arms since at least 1985, with transfers between 1985 and 1989 totalling \$50 million.<sup>14</sup> China became Sudan's principal arms supplier around 1994 and remains so to this day. During the Ethiopian–Eritrean war in 1998, it delivered arms to both sides for a total of more than US \$1 billion. China sold the Sudanese government weapons and helicopters that were used in Darfur to terrorize the local people. In 2000, Zimbabwe delivered 8 tons of Zimbabwean ivory to China in exchange for a shipment of small arms. In 2004, China sold to the Zimbabwean army 12 fighters jets and 100 trucks in a deal worth more than US \$200 million: all this to a country subject to arms embargo by the US and the EU.<sup>15</sup>

### **China's Quest for Energy Reserves in Africa**

The need to find resources is now the driving component in Chinese foreign policy. In 2003, it surpassed Japan as the world's second-largest oil consumer, after the US. Oil and high commodity prices are the key drivers of China's renewed activity. Between 2000 and 2005, China was responsible for about one-quarter of the growth in world oil demand (though it still accounted for less than eight per cent of global consumption). And Chinese demand is forecast to more than double by 2025 to 14.2 million barrels a day from the current 7 million a day, according to the US government's Energy Information

Administration.<sup>16</sup> The growing demand is due not only to an expanding economy but also to a generally wealthier society, with its increased demand for consumer goods. This growing need for energy drives China to look for energy markets in its new role as a major oil importer.



Africa possesses around 8 per cent of the world's oil reserves and 11 per cent of world oil production. It is estimated that production in Africa is rising 6 per cent annually. By 2007, it will reach 7 million barrels a day and, by 2010, this figure is estimated to become 8 million.<sup>17</sup> New deep-water oil discoveries have been made in the Gulf of Guinea—more specifically, in Nigeria, Angola and Equatorial Guinea. China's demand for energy to feed its booming economy has led it to seek oil supplies from African countries including Sudan, Chad, Nigeria, Angola, Algeria, Gabon, Equatorial Guinea, and the Republic of Congo. In 2005, Chinese companies invested a total of \$175 million in African countries, primarily on oil exploration projects and infrastructure. China already has a significant presence in many African countries, notably Sudan.<sup>18</sup>

The pace of China's engagement in Africa quickened after 2003 for two reasons. First, President Hu Jintao focused on the urgent need for energy diversification in Beijing; second, an attempt in 2005 by China state-controlled energy firm, China National

Offshore Oil Corporations (CNOOC), to gain control of the American firm UNCOCL when a \$18.5 billion bid collapsed under pressure from the US Congress.<sup>20</sup> Such failures have persuaded Beijing to take risks in unstable countries it might not otherwise deal with, partly to avoid direct competition with the major multinationals. The episode taught Beijing that it would have to be aggressive in competing for natural resources. In many ways, US protectionism was a wake-up call and motivator for more frenetic activity by Chinese companies. Beijing is outbidding Western contractors on infrastructure projects, while providing soft loans and using political means to increase its competitive advantage in acquiring natural resource assets in Africa.

China is discovering harsh crash accounts in competing with Western oil companies in Africa. Competition for resources is driving up "signature bonus payment", in which companies pay upfront for access to fields. This makes firms more dependent on oil prices staying higher for longer and on squeezing returns.<sup>22</sup> China's role in Africa in many respects is not dissimilar to the policies of other states in the continent, primarily focused on extraction and diversification of energy and mineral supplies for strategic purposes. In March 2007, Commerce Minister Bo Xilai defended Beijing's record by noting that China's share of Africa's total oil exports in 2006 stood at only 8.7 per cent, compared with 36 per cent for Europe and 33 per cent for the US.<sup>23</sup>

Chinese official policy is explicitly non-prescriptive. It stresses the importance of political stability and internally-driven development and promotes a sovereignty-based order. Beijing's non-interventionist approach separates business from politics. However, the terms and practices for China as a donor remain opaque, with indications that strings are indeed attached between aid and business arrangements. The Chinese offer package deals that

include infrastructure development or long-term, low-interest loans that Western and Japanese investors, who regard Africa as a risky emerging market, do not offer. The Chinese believe that the conflicts and instability that began in the 1990s are drawing to a close and Africa is ripe for economic takeoff. China's search for natural resources is also part of Beijing's strategy of increasing its diplomatic and economic profile as it asserts itself as an emerging superpower.

### **China-Africa Co-operation: Opportunities and Challenges**

Since the end of the Cold War, Sino-African co-operation has witnessed new and positive changes. In the new era, the common interests between the two sides are increasing and the potential for co-operation is expanding. This recent strengthening of China-Africa relations is not accidental phenomenon: it reflects the reality that Africa needs China, while China needs Africa even more.

If China is to play an increasingly important role in the international arena, it will need to expand co-operation with African countries, in order to engage more actively and constructively in world affairs. First, in order to implement the New Partnership for Africa's Development (NEPAD), Africa urgently needs international support and assistance. On the question of assistance despite their generous rhetoric, the developed countries have seldom provided their promised assistance, except with harsh political conditions attached, causing great disappointment in the African states. Africa has high expectations from China: they look forward to China's support on questions like prevention of AIDS, promoting access to developed markets for African products, and the WTO talks. Mutual support between China and Africa helps to enhance their respective international standing and play a greater role in the process of world multipolarity.<sup>24</sup>

As far as comprehensive national power and the strategic importance of Africa are concerned, the continent is home to some of the weakest developing countries. But Africa as a whole plays a unique role for China in international affairs. With 53 members, Africa takes up one-quarter of the UN General Assembly seats. In today's fast changing world, where unipolarity competes with multipolarity, China needs the support of the vast majority of developing countries, including African countries.

Africa is an important partner for China's bid to explore new markets and resources. To address the challenges of economic globalization and strive for sustained development, the Chinese government has encouraged Chinese enterprise to adopt a strategy of "going global", by investing abroad and exploring overseas markets. Economic and trade ties between China and Africa have been good in the past decades, but the scale is not large. China's machinery, electronic products, textile, and other lighter industrial products are cheap but good, and competitive in international markets.<sup>25</sup>

There is a huge potential for growth of trade between China and Africa. More importantly, in the long run, China is attaching more and more importance to diversification of import of oil and other strategic resources so as to ensure its national economic security and sustained development. Africa is richly endowed with oil resources with proven reserves of over 80 billion barrels.<sup>26</sup> As the Western oil companies are rushing to those African states where oil has just been discovered to compete for oil exploration and markets, China should set up a platform for mutually-beneficial co-operation with African countries on an equal footing in areas of resource exploration.

African states are very impressed by the success of China in the reform and opening up of its economy. They are also

interested in the Chinese experience in exploring modes of development. The technological know-how and managerial expertise of Chinese enterprises could be useful reference for Africa. There is, therefore, great potential for co-operation between China and Africa in this area.

Co-operation in the field of peace and security has also been strengthened. China has dispatched a total of more than 3000 persons to participate in 12 UN peacekeeping operations, with 838 of them joining 8 UN peacekeeping missions in 2004 alone.<sup>28</sup>

Since the 1990s, Africa had engaged with countries worldwide, as a result of economic globalization and multiparty democracy. Politically, Africa is divided and Westernized, and economically, most African states have been marginalized. Their international standing and influence have been weakened. Under these circumstances, Africa has become increasingly dependent on the West. However, in Africa's dealing and relations with China, some leaders of the new generation in Africa pursue a policy of pragmatism. On some political questions, however like human rights, they are sympathetic, and on the Taiwan question, however, they cannot resist the temptation of money offered by forces working for Taiwanese independence, going back on the principle of "One China".<sup>29</sup> Some of them expect great benefits by asking for assistance beyond China's means and linking economic requests to political trust. Moreover, African states also compete with China on attracting foreign investment. Although there are wide-ranging common interests between the two sides from the political and economic perspectives, the conflict of interest between China and Africa should not be easily forgotten.

To better seize opportunities and mitigate challenges in handling China's policy towards Africa, new thinking and measures have to be explored in light of the spirit of keeping pace with the times

and being innovative and creative. With changes in the international situation and in accordance with the expectations of the international community and the requirements of China's modernization drive, major-power diplomacy has to be balanced with policy towards developing countries, including those in Africa. More attention should be paid to research on US infiltration into the political, economic, and military fields in Africa as well as other diplomatic efforts of major powers.<sup>30</sup> However, changes taking place within Africa require that China's policy should be more focused, making the majority of developing countries, including the African states, reliable allies of China. Possible co-operation between China and other major powers in Africa should also be looked into so that Africa becomes another stage for major-power co-operation; positive interaction between major powers in Africa does not necessarily mean the weakening of China's unity and solidarity with most African states.

## Conclusion

A new type of strategic partnership between China and Africa not only serves the interests of the two sides, it also helps to promote South-South co-operation and the common prosperity of developing countries. Relations between Africa and China have increased over the years and have come to be dominated by China's economic interests. With an annual growth rate of 8-9 per cent, the Chinese economy expanded enormously, and accessing natural resources became a priority. China had to broaden its horizons. Africa, with all its seemingly unlimited natural resources, was an ideal partner. In addition, the African continent as a whole was a potential market for China's low-value manufactured commodities.

China's renewed interest in Africa was concurrent with a lessening of Western engagement with the continent. While many in the West now consider China as

a threat, Africans see China mostly as an opportunity. China's engagement in Africa is long term and policymakers will need to plan and manage responses to it. If the West wants to have increased leverage in Africa, the business investment will have to be much more visible and aggressive across the

continent. China is a rising strategic power and among many others, will continue to be an important actor on the continent. The challenge is to find openings to engage China to contribute to Africa's development and prosperity.

## Works Cited

1. Bruce Drummond Larkin, *China and Africa: The Foreign Policy of the People's Republic of China* (University of California Press, 1971), pp. 35-38.
2. Alex Vines, "China in Africa: A Mixed Blessing?" *Current History*, May 2007, pp. 213-214.
3. Joshua Eisenman and Kurlantzick, Joshua, "China's Africa Strategy", *Current History*, May 2006, pp. 219.
4. D. J. Muekaila, "Africa and China's Strategic Partnership", *African Security Studies*, 13 (1), 2004, pp. 5-12.
5. "Partners in Development", *Beijing Review*, vol. 49, no. 44, 2 November 2006, pp.14-15.
6. Ibid.
7. "Deepening Economic Relations", *Beijing Review*, vol.49, no. 44, 2 November 2006, pp. 20-23.
8. B. Smith "Western Concern at China's Growing Involvement in Africa", *Asian Tribune*, 10 April 2006, [www.asiantribune.com/show\\_article.php?id=3102](http://www.asiantribune.com/show_article.php?id=3102)
9. Judith Vande Looy, "Africa and China: A Strategic Partnership?" *Strategic Analysis*, vol.30, no.3, Jul-Sep 2006.
10. N. M. Emara, "Afro-Chinese Relations in the New Millennium" <http://www.sis.gov.eg/En/Publicityaions349/350/352/363/374.htm>
11. "China's Interest and Activity in Africa's Construction and Infrastructure Sectors", Centre for Chinese Studies, Stellenbosch University, <http://www.dfid.gov.uk/pubs/files/chinese-investment-africa-full.pdf>
12. C. Aden "China in Africa", *Survival*, 47(3) 2005, pp.147-64.
13. John Hill, "China's Ambiguity in Sudan", *Jane's Intelligence Review*, vol. 18, no. 06, June 2006.
14. Alex Vines, "China in Africa: A Mixed Blessing?" *Current History*, May 2007, pp. 216
15. Ibid
16. Shalendra D. Shrama, "Asia's Challenged Giants", *Current History*, April 2006, pp.170-173.
17. Ibid.
18. "China's Scramble for Africa", *The Economist*, 3 Oct-Nov 2006, pp.14-18.
19. Ibid.
20. Ibid.
21. "China, India boost African Status", *African Business*, Feb 2006, Research Library, pp.30.
22. Ibid.
23. "China Resource and Energy Policy", available at [www.vub.ac.be/biccs/documents/Report\\_2007\\_China\\_and\\_Africa\\_with\\_country\\_fact\\_files.pdf](http://www.vub.ac.be/biccs/documents/Report_2007_China_and_Africa_with_country_fact_files.pdf)
24. Tian Peilang, "China and Africa in the New Period", *Foreign Affairs Journal*, The Chinese People Institute of Foreign Affairs, no.70, December 2003.
25. Ibid.
26. Xing Susu, "Sino-African Cooperation in the 21st Century: A New Type of Strategic Partnership", *Foreign Affairs Journal*, The Chinese People Institute of Foreign Affairs, no. 80, June 2006, pp. 51-53.
27. Ibid.
28. John Hill, *Jane's Intelligence Review*.
29. Xu Weizhong, "Beijing Summit Promotes Sino-African Relations," *Contemporary International Relations*, vol.17, no.1, Jan/Feb 2007.
30. Ibid.



# Country of Contradictions

## *Mexico's Transition to Modernity*

Lauren Herget, Cornell University, Arts and Sciences, 2010

A country's transition from Cold War-era third-world dependence into competitive, global autonomy is often a difficult and complicated process. Like many other developing nations today, Mexico is meeting its fair share of stumbling blocks on its way to democracy. Mexico's fissured and conflicted present is thanks to a checkered past, rife with one-party politics and ethically dubious environmental policies. Although inching towards free-market capitalist democracy, Mexico still faces many struggles. But hope still remains for Mexico on the whole: Mexico's recently elected president, Felipe Calderon, is leading reform in both the political and environmental sectors, giving the region new hope for a stronger, more dynamic and more unified Mexico.

Since Spain took Mexico as its colony in the 16<sup>th</sup> century, a continual, internal tug-of-war between cosmopolitan modernity and rustic indigenosity has occurred. Even after the Spanish liberation in 1810, Mexico fell into a long history of guerilla presidents and revolutionary idealists, further exacerbating the split between the two populations.<sup>1</sup>

In the 1910s, Mexico regained political stability when the Socialist Institutional Revolutionary Party (PRI) rose to power. But the PRI ruled over Mexico as the sole regime for over 70 years. This tradition of one-party politics was broken in 2000, when Vicente Fox was elected President, heralding what some believed to be "the largest internal transformation since the Revolution."<sup>2</sup> This election exemplified the dramatic political climate shift

towards democracy and free elections. Fox attempted to modernize Mexico by putting a stronger emphasis on free enterprise and private sector investments. While he set forth respectable aspirations for his country, Fox did not fully achieve his goals.

In the latest election, in 2006, the right-wing Calderon, won over his opponent, Obrador, by a slim margin. This election result was hotly debated and contentious, as Obrador refused to concede his position. In the end, however, he relented, stating that Mexico's unity is more important than any election result. Calderon's is the second freely elected president in Mexican history since the 1920s.

Calderon's objectives to modernize Mexico are similar to Fox's. He wishes to upgrade rudimentary infrastructure, improve the tax system, and encourage private investment in energy. He also wishes to create credible jobs and decrease poverty. But these objectives are hard to attain.

In addition, Calderon ambitiously vows to root out notorious drug cartels, in an attempt to lower violent crime rampant in major cities. He admits, however, that this will take longer than his tenure.

More so than improving any economic ends, however, Calderon hopes for Mexican unity, as age-old contentions between indigenous and cosmopolitan Mexicans still exist. Violent gangs, often connected to drug cartels, are waging war on city streets, which is causing social instability and additional disunity.

Yet national and social politics are not Mexico's only current problem:

environmental concerns also plague Mexico. Smog is one of its largest problems, especially in big cities. It is speculated that Mexico's low age expectancy (72 for men; 76 for women) is partially due to these smog emissions.

Another notorious environmental trouble is Mexico's water supply. Parasites live in the water, causing what is known as "Montezuma's Revenge"—a sort of dysentery.<sup>4</sup> In addition to parasitic contamination, ground water is polluted, due to said smog emissions and sloppy environmental restrictions.

This has taken a toll on Mexico's ecosystem, especially where monarch butterfly migration patterns and illegal logging are concerned. The Michoacan Reforestation Fund is attempting to reforest patches of ecosystem that have been decimated for wood energy. This deforestation has interrupted the monarch butterfly's natural migration pattern, causing mass death and perhaps irreversible damage to Mexico's allover ecosystem.<sup>5</sup> This Fund has met with some success—although not nearly enough, since its cause is relatively under-publicized and severely under-funded.

To combat these disparate yet important environmental issues, Mexico has created a body spanning fourteen government secretariats, called the Secretaria del Medio Ambiente y Recursos Naturales—SEMARNAT. Its first summit met in 1999, where it outlined its aims "to create a State environmental protection policy reversing the tendencies of ecological deterioration and establishing the basis for

sustainable development in the country."<sup>6</sup> It aims to improve upon air, water and land conservation—and may prove to be one of Mexico's greatest assets in environmental sustainability. This secretariat enjoyed increased interest with the election of Vincente Fox in 2000, but soon after slowed and did not revive until Calderon's election in 2006. A major struggle for this secretariat is disorganization at the state and municipal level, combined with resource shortage and general public apathy. For this organization to succeed, it must synthesize intergovernmental and economic resources to create a tangible effect.

Mexico's struggles are not unlike many other Central American nations in the region. For example, Mexico's nearest neighbors, Guatemala and Belize, have similar environmental concerns, internal conflict, and economic issues. Just as Mexico's problems are important to recognize now, it is likewise pertinent to realize the plight of other struggling countries in the region.

Time will tell regarding Calderon's policies. His intent to unify the country seems to be a step in a positive direction. His stress on unity could renew interest in local jobs—and could cause conflicts among tribes and city dwellers to simmer down. In addition, global interest in environmental health may help publicize SEMARNAT's aims—and thereby curry public and private economic interest. In the meantime, however, Mexico remains on the up, especially with respect to cultural contributions in film and music. But it will take time and effort to reform its shaky politics, economy and environment.

## Endnotes

- 1 "CIA World Factbook: Mexico." 4 June 2007. <<https://www.cia.gov/library/publications/the-world-factbook/geos/mx.html>>
- 2 Purnell, Jennie. "People, Religion, and Nation in Mexico From Independence Through the Revolution." *Latin American Research Review* 41.1 (2006): 222-267.
- 3 "Mexico's Drinking Water." 29 March 2001. 10 June 2007. <<http://www.bbc.co.uk/dna/h2g2/A520868>>
- 4 Roberts, Carmen. "Mexico logging threat to butterflies." 6 March 2006. 8 June 2007. <<http://news.bbc.co.uk/2/hi/science/nature/4779092.stm>>
- 5 "Green Plans: Mexico." 8 June 2007. <<http://greenplans.rrri.org/inaction/mexico.html>>



# A Tale of Two Countries

## *Lessons from the Latin Quest for the Balance of Equity, Progress, and Freedom*

Francis J. Pedraza, Cornell University, Arts and Sciences, 2011

Poverty effaces dreams. Oppression defeats hope. These conditions ruin the human spirit, which no one should tolerate. Liberals and conservatives agree on this. Consensus does exist to increase the standard of living, afford greater opportunities, and extend more freedom. The cause of progress is the cause of mankind. All of us have a stake in it.

Debate, however, will forever wage on the question of “how?” Following this supreme interjection, all consensus dissolves. A question of policy, of direction: how does society get to a better place? Where does the path lie to happiness, freedom, and the common good?

Every person, every country, has to grapple with these questions individually. Opinion and ideology aside, however, common sense dictates that everyone consider the past. It contains a record of trial and error, experiments conducted and results observed, decisions and consequences – ample statistics and information from which to base our conclusions. History must be our guide.

After living and traveling in Chile for three months earlier this year, I frame these questions in the context of Latin America. To best effect the general welfare, what roles should public institutions perform? To what degree should government extend economic freedom? What policy achieves the most equitable use of natural resources? In sum, which arrangement of government and society achieves optimum results?

For me, the search for answers is crucial and urgent. I am inspired by what I experienced in Chile, and I have

endeavored to explore for solutions. I have studied Venezuela in contrast to Chile, two countries in some ways similar, but whose paths diverged in the last fifty years to produce very different results.

In 1917 foreign oil companies came to Venezuela to start drilling in the shallow waters of Lake Maracaibo.<sup>1</sup> By 1928 Venezuela had emerged as the world’s top oil exporter, and this touched off a wider economic boom.<sup>2</sup> Visionaries saw an opportunity to turn a profit outside the oil sector by laying the foundations of a modern economy. Standard Oil heir Nelson Rockefeller, for example, founded the International Basic Economy Corporation (IBEC) to channel venture capital into Venezuelan fishing, agriculture, and supermarkets.<sup>3</sup> Local businessmen were invited to become shareholders to “teach them how to turn a profit,” while promoting the idea of “doing well by doing good.”<sup>4</sup> The government sensibly spent its revenues on infrastructure, and welcomed foreign investment. An agricultural society urbanized quickly. Europeans were encouraged to settle, and immigrants as well as native entrepreneurs started new businesses according to their predilections and capacity: grocers, cab drivers, restaurants, retailers, mechanics, and manufacturers. Over several decades, many earned large fortunes in consumer goods, retailing, building materials, construction, and media. In Keynesian fashion, spending on public works provided a legion of private contractors and industrial suppliers with prosperous demand.

And yet, in 1936, a dire warning was published on the front page of a Caracas

newspaper by the intellectual Arturo Uslar Pietri. He coined a phrase that became legendary: “sembrar el petróleo,” literally “plant the oil.” With this phrase, he made a case for sustainable growth outside the oil sector.

“The wealth of the soil among us not only does not increase, but tends to disappear... Paying the entire budget solely from mining royalties will make Venezuela lazy and unproductive, an immense parasite of oil, swimming in abundance both transitory and corrupting, pitching forth towards an imminent and inevitable catastrophe.”<sup>5</sup>

In 1945, the Venezuelan government raised the oil tax to 50% of profits. A coup in 1948 installed a profligate dictator, but by 1958 democracy was restored with the inauguration of the first modern Venezuelan President, Rómulo Betancourt. While scrupulously paying down inherited debts, his administration conceived of, and soon succeeded in creating, the OPEC oil cartel with four other exporting countries. With a higher oil tax and the birth of OPEC, Venezuela by 1960 had laid the groundwork for a tremendous future surge in government oil revenues.<sup>6</sup> In 1973 as a result of the Arab oil embargo, the price of oil quadrupled in less than a year, eventually moving from under \$4 a barrel to a peak of \$38 by 1981.<sup>7</sup> State coffers saw a flood of wealth beyond the dreams of avarice. Revenues seemed inexhaustible. The 1973 inaugural address of President Carlos Andrés Pérez famously called for “administering abundance by the standard of scarcity.”<sup>8</sup> Government revenues had tripled. Spending surged on public works, housing, health, education, and every imaginable project. At the outset, a “lockbox” was created with the prudent intention of saving half of current oil royalties for future investments. It’s almost impossible to imagine, but these massive savings were tapped out within a few years, as the government borrowed

heavily to finance nationalization of both the oil and steel industries. These were enormous acquisitions, even at below market rates. Fearlessly, the government banked on the future, and borrowed billions of dollars. The size of bureaucracies expanded, as the state crossed the Rubicon and became not only a buyer from the private sector, but an enormous producer in its own right. It is hard to overstate how prosperous and hopeful this period was. A *Time* magazine article from March 1975 opens with a glowing description of “its Caribbean beaches, its expanses of jungle, its kinetic, polyglot capital” and concludes that “Venezuela is fast becoming one of the most formidable nations in the Western Hemisphere.”<sup>9</sup>



Seven years later, Uslar Pietri’s prophesied “imminent and inevitable catastrophe” finally occurred, as in 1982 the price of oil began a long slide back down to \$12 a barrel.<sup>10</sup> Devaluation ensued and its dollar-denominated debt became toxic. Financially wrecked, the private sector looked towards the government. Corruption became an issue, because the public finally felt the absence of misappropriated funds. Trying to service foreign debt and meet popular expectations enlarged by the boom years seemed impossible. Twenty five years after his first five-year presidency, Carlos Andrés Pérez was elected again in 1989, this time boldly calling for a great turnaround -

"el Gran Viraje"- to radically reform economic policy on free market lines.<sup>11</sup> But abrupt increases in subsidized bus fares triggered riots and massive violence, leading to a crisis of legitimacy. Dissatisfaction with the two principal parties, exacerbated by ten years of a worsening economy and corruption scandal after scandal, led Hugo Chavez to foment rebellion and attempt a coup in 1992. He was jailed and released just two years later. Pandering to people's frustration, and promising sweeping reforms, Chavez won his first Presidential election of 1998.<sup>12</sup>

Moving quickly, Hugo Chavez rewrote the constitution and consolidated his power. Now in his third term, his party controls 100% of the seats in the Venezuelan National Assembly.<sup>13</sup> Opposition parties have withdrawn all their candidates in protest over alleged vote fraud. (The government is alleged by the opposition to control Smartmatic, the vendor of electronic voting machines used for the past two presidential elections). Mr. Chavez today effectively wields the entirety of political power in Venezuela. His explicit goal is to achieve "Socialism of the 21<sup>st</sup> Century." His administration has abrogated contracts with foreign oil companies, re-nationalized electric utilities and phone companies, confiscated large farms, declared "war" on the food industry, instituted price controls, raised subsidies, severely regulated businesses, increased taxes and tariffs, and ended the era of open investment.<sup>14</sup> Taking the hint, entrepreneurs, investors, and business owners took their losses and fled. Of 11,198 private companies existing in 1999, only 6,623 remained by 2003. The once vibrant Venezuelan private sector is a shadow of its former self.

Yet those Chavez came to save, the poor, have suffered the worst. Inflation is the highest in Latin America today, near 20%.<sup>15</sup> The average Venezuelan family must spend 46% of its budget on food and beverages, a higher proportion than before Chavez

came to power.<sup>16</sup> In 1998 the price of oil was \$11 a barrel, and today it has reached over \$90. Chavez failed to translate this into wealth for his people. Yet, Venezuela still has *not* recovered the ground lost since the 70s: real per capita income in 1978 was *double* that of 2005, and 2005 purchasing power parity GDP remained at the 1998 level.<sup>17</sup> Uslar Pietri had urged six decades before Chavez: "Plant the oil!" before easy wealth could ensnare the country, make it dependent, and ruin it. Other oil-dependent countries seem to exhibit similar symptoms: politics focused entirely on divvying up vast state owned resources, and governments which pocket, squander, or waste billions of dollars, often on vain delusions of grandeur.



Whereas Venezuela's case since 1973 shows the tragic consequences of the wrong answers, one doesn't have to look far in South America to find a country that found enduring and sustainable solutions, starting by coincidence in the same historic year.

The use that Chileans make of their natural resources makes a fantastic model for the world. Apart from tourism and copper, Chile's industries would not seem obvious. It has no oil. The key agricultural exports aren't even native species. Yet Chile is one of the world's great exporting economies. How? Part of the explanation lies with institutions like Fundación Chile, which played a brilliant role in propelling

Chile's 'smart growth,' acting in a manner strikingly similar to Rockefeller's IBEC, as a public-spirited venture capitalist. A non-profit, *private* company created in 1976 by the Chilean Government and the United States' ITT Corporation, Fundación has excelled in creating new technology driven industries suited to local conditions.<sup>18</sup> Its first success came early on, in 1980, when the foundation's research indicated that conditions along Chile's 4000 mile coastline could give it competitive advantages in the commercial salmon farming industry. BusinessWeek reports that "By 1982, Fundación Chile had its first salmon farm up and running. Seven years later it sold it to a Japanese company for \$22 million."<sup>19</sup> Today, Chilean salmon account for 35% of the world supply, employ 45,000, and sell \$1.4 billion. One glowing success after another, Fundación moved on to create a \$2 billion berry industry using advanced biotechnology, provide farmers with technical assistance that caused the widespread cultivation of asparagus, start a successful meat packaging industry, and plant pine forests that turn profits. An institution like Fundación evidently serves an incredible role. As a non-profit, yet private company, created in partnership with the government, its projects guide the economy towards sustainable growth, while generating billions, increasing employment, conserving the environment, promoting foreign investment, and harmonizing both private and public sectors for the benefit of all.

An institution like Fundación is a surprise, because it included a role for government in its cooperative, largely private initiative to pioneer an economy. Agencies like CORFO (economic development) work entirely on helping the private sector, aiming at increasing competitiveness and efficiency in management, specialization and meeting standards in global markets, harmonizing links between large companies and smaller

suppliers, funding organizations similar to Fundación Chile, developing financial intermediaries providing microcredit, and facilitating foreign and national investments among other things.<sup>20</sup> Another government initiative, called CONICYT, funds research institutions which beneficiaries in the private sector co-finance. These government institutions oriented to the private sector have been tremendously successful in Chile.<sup>21</sup>

But by far the biggest contributor to the Chilean economy has been private enterprise, enabled by economic freedom. The Heritage Foundation/Wall Street Journal Index of Economic Freedom ranks Chile the 11<sup>th</sup> most free country in the world, on a list that includes tiny Hong Kong, Singapore, and New Zealand above it.<sup>22</sup> In contrast to Venezuela, where the capital intensive oil industry only employs 0.4 percent of the labor force, in Chile capital and labor are more proportional: the largest and most labor intensive industries are manufacturing and trade.

All this prosperity and opportunity has come only as a result of the last twenty five years of governmental policy and economic freedom. Chile's recent history provides a fascinating counterpoint to Venezuela's. Following a long and stable democratic tradition, in 1971 an avowed communist became President with a mere 36% plurality.<sup>23</sup> Salvador Allende used the power of the state to nationalize industries without compensation, to impose price controls, to regulate companies, to expropriate land, and to print and freely distribute money, engendering 500% inflation. The resulting economic and political crisis set the stage for a military coup in 1973. The authoritarian General Augusto Pinochet directed the wholesale reformation of the government. Though it was indeed a dark time for political freedom, he reversed Allende's policies, restored the economy, and extended maximum economic freedom. With the advice of American-

trained Chilean economists, Pinochet's administration crafted a new constitution, and wrote new laws.<sup>24</sup> His cabinet minister, José Piñera, crafted a pension system that is today regarded as a model around the world.<sup>25</sup> Eventually, Pinochet ceded a transition back to democracy, and Patricio Aylwin was inaugurated as a democratically elected president in 1990, calling for "growth with equity."<sup>26</sup> Since then, the country has held numerous elections, and the new left of center governing coalition, today led by President Michele Bachelet, has remained committed to free market principles. The economy remains open to foreign trade and investment, and the state deliberately fosters venture capital and new business formation. In the words of Chilean Senator Alejandro Foxley, the Chilean government has been characterized by "a commitment to a permanent budget surplus, and to retiring government debt as an insurance against future financial shocks."<sup>27</sup>

Chile and Venezuela represent diametric positions in the range of world governments. Chile has believed that engaging its people in trade with the world develops the poor, and advances society. Venezuela has rejected economic freedom as a solution, and opted instead for dependence on natural resources and government hand-outs. Clearly, the story shows a divide in their policies. So I return to the original question: how do economic freedom, public policy, and institutions correlate with improving the standard of living, prosperity, and progress for all?

The results can be shown by a direct statistical comparison.

Poverty declined in Chile, from 40% in 1990 to 20% in 2000. In the same period, debt as a percent of GDP dropped from 43% to 13%. Inflation sharply decreased from almost 25% in 1990 to 2.3% near 2000.<sup>28</sup> Economic growth averaged 6.1%, the highest and most consistent in Latin America. Income rose an average of 51%, though among the poorest the increase

is greater.<sup>29</sup> And falling from an average of 15% in the 80s, unemployment reached 7.4% in 1998.<sup>30</sup>

In Venezuela, President Chavez has enjoyed significantly more oil revenues than the previous three administrations combined.<sup>31</sup> It is shocking then, that official statistics report no change in extreme or total poverty and many studies claim that total poverty has actually increased by ten percent.<sup>32</sup>

In health, the Food and Agriculture Organization of the United Nations (FAO) reports malnourishment in 17% of the Venezuelan population, even though nearly thirty years ago, between 1979 and 1981, only 4% lacked sufficient nutrition. Yet even that statistic disguises the reality in rural areas, such as the states of Amazonas and Apure, where over 2/3 of children are malnourished. Some of Chile's cities are far more remote, such as Puerto Williams and Punta Arenas near Antarctica, yet Chile consistently meets World Food Summit benchmarks and has reduced malnutrition from 8% in 1990 to less than 4% in 2007. This alone should elucidate the human suffering behind misgovernment.<sup>33</sup>

An overview of global reports and studies demonstrates a multilateral agreement on their performance. The World Bank's *Doing Business* report ranks Venezuela 164<sup>th</sup> in its analysis of business climates in 175 nations, whereas Chile leads Latin America in 28<sup>th</sup> place. The World Economic Forum's 2007 *Global Competitiveness* report rates Chile the 27<sup>th</sup> most competitive economy of 125 measured, whereas Venezuela languishes in 88<sup>th</sup> place. Even less forgiving, the World Competitiveness Center's 2007 competitiveness 'scoreboard' places Venezuela in dead last, 55<sup>th</sup> of 55 nations studied. Concurring with these studies, the Fraser Institute evaluates Chile as the 20<sup>th</sup> and Venezuela the 126<sup>th</sup> of 130 nations in its 2006 study of the *Economic Freedom of the World*. The countries stand on opposite ends of the spectrum.

Corruption indicates the health of society. Finding widespread corruption in businesses, government, and the courts is a sign of a broken social and political system. Transparency International's 2006 publication of the global *Corruption Perceptions Index* regards Chile on par with the United States in 20<sup>th</sup> place, but at 138, Venezuela enters Haiti's company. When the statistics speak so loudly, covering your ears simply does not work. Corruption to that degree paralyzes society, and those *always* damaged the most by this injustice are the poor.

Chile participated in 8 regional and global educational testing programs from 1995 through 2006; Venezuela only participated once, just prior to Chavez first inauguration, and has not participated since then.<sup>34</sup>

Homicides in Venezuela tripled in 7 years of Chavez to 13 per 100,000, whereas a recent survey measured homicides in Santiago Chile at 1.4 per 100,000. UNESCO in as 2004 study qualified Venezuela as the most violent country in Latin America.<sup>35</sup>

What do these statistics mean? How should this history be interpreted? Where is the moral of the story?

To me, the essential lesson is not the repudiation of a particular ideology. Leaders come from both the Right and the Left, from both government and the private sector. In Venezuela, Nelson Rockefeller's visionary IBEC reached out to the poor

to show them how to better themselves by participating in the market. President BetancourtaffirmedVenezuela'ssovereignty and national interests by increasing the government's share of revenues and by founding OPEC, but he encouraged a private sector which thrived under his policies. The prophetic warning of Arturo Uslar Pietri was nonconformist. He simply feared that dependence on a single natural resource administered by a single organization was an inadequate foundation and a recipe for disaster. And in Chile, I admire visionaries like Jose Piñera and organizations like Fundación Chile. But I also admire, and very much respect, the leadership of many legislators and Presidents of the Chilean Left, in departing from orthodox socialist attitudes toward the free market and the private sector. Instead, they have sought to partner with the private sector to alleviate suffering, raise the standard of living, and bring prosperity and opportunity. Common sense and honesty triumphed.

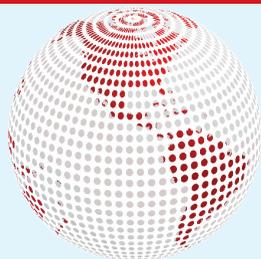
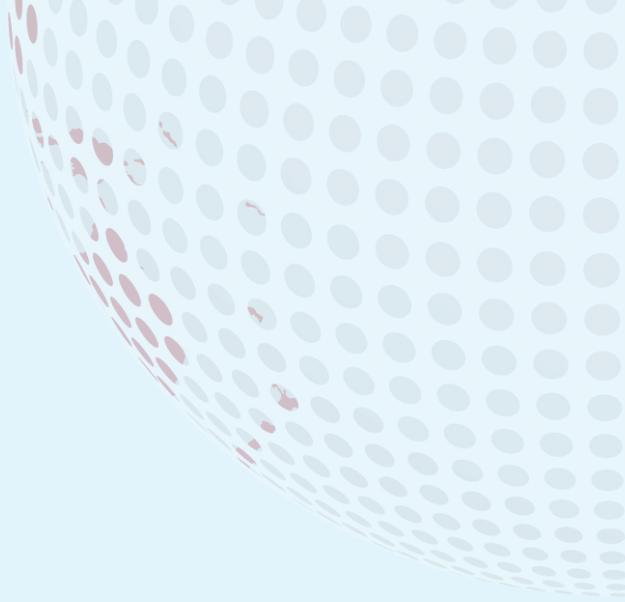
Given fair government, sound policies, and a vision: the poorest man on earth can become the richest; the least, the greatest; the most destitute, the most filled with joy. Such is the power of liberty enthroned in laws, and justice upheld. For the nations of the world, this should be the goal. The potential of the majority of their people lies dormant, until leaders embrace the self-evident truth confirmed by history: *Liberty is the cause of Progress.*

## Endnotes

- 1 (Library of Congress, Federal Research Division 1998)
- 2 (Encyclopaedia Britannica Online 2007)
- 3, 4 The Rockefeller Archive Center, <http://archive.rockefeller.edu/collections/rockorgs/narorgs.php>
- 5 (Pietri 1936)
- 6 (Library of Congress, Federal Research Division 1998)
- 7 (Energy Information Administration 2007)
- 8 (Fundación Empresas Polar 2007)
- 9 (Time Magazine 1975 )
- 10 (Energy Information Administration 2007)
- 11 (Fundación Empresas Polar 2007) <http://www.fpolar.org.ve/Encarte/fasciculo25/fasc2508.html>
- 12 (Bureau of Western Hemisphere Affairs 2007)
- 13, 15 (Encyclopaedia Britannica Online 2007)
- 14, 16 (Orozco 2007) (CNN 2007)
- 17 (Súmate 2006) Cites Daniel Ortega of Instituto de Estudios Superiores de Administración (IESA), Caracas
- 18 Fundación Chile, <http://www.fundacionchile.cl/>
- 19 (Business Week 2005)
- 20 <http://www.corfo.cl/index.asp?seccion=1&id=2565>
- 21 [http://www.conicyt.cl/index.php?option=com\\_content&task=view&id=346&Itemid=115](http://www.conicyt.cl/index.php?option=com_content&task=view&id=346&Itemid=115)
- 22 (Heritage Foundation/Wall Street Journal 2007)
- 23, 25 (Encyclopaedia Britannica Online 2007)
- 24, 26 (Piñera 2004)
- 25, 27-30 (Foxley 2004)
- 26, 31 (MIDEPLAN 2001) (Pizzolitto 2005)
- 31 (Ministerio de Finanzas de Venezuela 2006)
- 32 (Súmate 2006) Study cites Universidad de Andres Bello, and others.
- 33 (Food and Agriculture Organization of the United Nations (FAO) 2006) Figures from 1999 and 2006 'Food Insecurity' reports
- 34 (Súmate 2006) Cited by Sumate, "2006 Cantidad sin Calidad." Programa de Promoción de la Reforma Educativa en América Latina y el Caribe"
- 35 (Súmate 2006) Cited by Sumate. Source: "Cuerpo de Investigaciones Científicas, Penales y Criminalísticas (CICPC)"

## Works Cited

- Bureau of Western Hemisphere Affairs. *Background Note: Venezuela*. Washington, DC: United States Department of State, 2007.
- Business Week. "Chile: An Innovative Incubator ." *Business Week*, October 3, 2005.
- CNN. "Chavez Takes Control of Oil Giants." *CNN*, May 1, 2007.
- Encyclopaedia Britannica Online. *Encyclopaedia Britannica*, 2007.
- Energy Information Administration. *Crude Oil Price Summary*. Washington: United States Energy Information Administration, 2007.
- Food and Agriculture Organization of the United Nations (FAO). *The State of Food Insecurity in the World*. Rome: The United Nations, 2006.
- Foxley, Alejandro. *Successes and Failures in Poverty Eradication: Chile*. Washington, DC: The World Bank, 2004.
- Fundación Empresas Polar. *La Gran Venezuela*. Caracas: Fundación Empresas Polar, 2007.
- Heritage Foundation/Wall Street Journal. *2007 Index of Economic Freedom*. Washington, DC: The Heritage Foundation, 2007.
- Library of Congress, Federal Research Division. *A Country Study: Venezuela (Call number F2308 .W4 1993)*. Washington, DC: Library of Congress, 1998.
- MIDEPLAN. *La Encuesta de Caracterización Socioeconómica (CASEN)*. Santiago: Ministerio de Planificación y Cooperación, 2001.
- Ministerio de Finanzas de Venezuela. Caracas: Ministerio de Finanzas de Venezuela, 2006.
- Morandé, Felipe G. *A Decade of Inflation Targeting in Chile: Developments, Lessons, and Challenges*. Santiago: Banco Central de Chile, 2002.
- Orozco, José. "Chavez, Private Sector Face Off Over Food Shortages in Venezuela ." *World Politics Review*, March 7, 2007.
- Ortega, Daniel. Caracas: Instituto de Estudios Superiores de Administración (IESA).
- Pietri, Arturo Uslar. "Sembrar el Petróleo." July 14, 1936.
- Piñera, José. "Retiring in Chile." *The New York Times*, December 1, 2004.
- Pizzolitto, Georgina. *Chile*. Washington, DC: The World Bank, 2005.
- Súmate. *Venezuela en Cifras Oficiales*. Caracas: Súmate, 2006.
- The Fraser Institute. *Economic Freedom of the World*. Vancouver, B.C.: The Fraser Institute, 2006.
- The World Bank. *Chile, Poverty and Income Distribution in a High Growth Economy (Report# 22037)*. Washington, DC: The World Bank, 2001.
- The World Bank. *Doing Business 2007*. Washington, DC: World Bank/International Finance Corporation, 2007.
- The World Bank. *Informality: Exit and Exclusion*. Washington, DC: The World Bank, 2007.
- Time Magazine. "Nationalizing Oil, Building Steel!" *Time Magazine*, March 24, 1975 :2
- Transparency International. *Transparency International Annual Report 2006*. Berlin: Transparency International, 2006.



<http://www.rso.cornell.edu/ciar>