THE BOLOGNA CENTER JOURNAL OF INTERNATIONAL AFFAIRS

The Bologna Center Journal of International Affairs was established by the graduate students of the SAIS Bologna Center in 1997 to provide a forum for discussion and dissemination of ideas about current issues in the field of international relations. The Journal aims to provide a formal outlet for thought-provoking academic scholarship primarily from students and faculty at the Bologna Center and other graduate institutions in the field. However, the Journal also actively welcomes submissions from established academics and notable practitioners in the field of international affairs. Through this, the Journal hopes to bridge the gap between the established community and the students acceding to this community.

The Journal is published once a year in May. In addition, we publish monthly commentaries, research papers, and essays on a wide range of topics on our website. The website can be found at http://www.jhubc.it/ bcjournal.

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Articles for submission to the Bologna Center Journal of International Affairs will be accepted on a continuous basis. Article selection for the print edition takes place in February. Articles will be judged according to academic merit and relevance to the selected theme. Article selection for the web edition continues throughout the year and considers all articles of academic merit in the field of international relations. Articles should be submitted to: Managing Editor, Bologna Center Journal of International Affairs, Via Belmeloro 11, 40126 Bologna, Italia. Submissions should include a paper copy, as well as an electronic copy on disk in Microsoft Word format. Please also include a current curriculum vitae.

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Editor's Note

Contrary to previous practice, this year's BC Journal editorial staff chose not to center the Journal on a specific theme. Instead, through going "themeless" we believed we could produce a Journal with a broad perspective not focused on one topic. In addition, we wanted to remove any limits from the research displayed in the Journal and showcase the best in scholarship at the Bologna Center and through our professional contributing writers.

We only achieved one of our two goals. I am confident that the papers we've published here represent some of the finest work at the Bologna Center this year and are a valuable contribution to current scholarship.

We did not, however, achieve a wide-ranging perspective of topic: Five of the nine papers here deal either directly with September 11 or indirectly by discussing states in or near the Middle East.

In retrospect, we should hare expected this. While much goes on in the world as it did before last September, from the view of an American university in the heart of Europe, our perspective has been irretrievably altered by events that day and the subsequent reactions by the United States and its allies. These events have brought all of our attentions into greater focus on the Middle East and South Asia.

Therefore, the fact that four of our seven student selections focus on affairs in the Middle East or neighboring states is no surprise at all. It is right that our scholarship – especially that of the graduate students who will help shape their nations' policy in years to come – should examine the Middle East, which will inevitably be a focus in world affairs for years to come.

So we will be proud if, in some small way, the Journal can contribute to a deeper understanding of the complexities of this region and the conflicts that have sadly characterized it. And we did find room for entries on other topics: Jonathan Story adds his perspective on China and the WTO, Rebecca Michael examines the future of NATO (which is of course hardly unaffected by September 11), Astrid Harnisch discusses the trend toward governance beyond the nation-state, and Josh Brann tackles the efficacy of trade policy in discouraging the deforestation of Indonesia.

Thus the Journal provides a telling look of the world we live in: A perhaps disproportionate focus on the Middle East and its neighbors while still paying close attention to other momentous trends – such as trade, the environment, and governmental integration – that increasingly shape our world.

We hope you enjoy this year's Journal.

Erik Huseby,
Editor-in-Chief

Religion and September 11

Patrick McCarthy and Aidan Lewis

Introduction

"Pakistan is one of the clearest demonstrations of the futility of defining a nation by religion."[1] Explicit in Christopher Hitchens' judgment is the view that a common religion will not prevent two countries from going to war. A more general conclusion might be that in many cases religion, far from improving the behavior of a state, worsens it. This has been implicitly acknowledged by Pope John Paul II who has repeatedly declared that war in the name of religion is always evil.

Neither Hitchens nor the Pope explains why religion can have this negative effect. We would like to attempt an answer to this "why", using September 11th as our example. Our thesis is that the West's dominance in the twin areas of technology and economics triggers an arrogance or hubris. Faced with such humiliation, other cultures react by closing themselves off and reverting to their most traditional aspects. Where religion plays an important part in the culture, it turns into fundamentalism and aggression, which are expressions of fear.

Since so much has been said and written about September 11th, we will try to maintain some distance from it by considering two other cases: one is intra-Western – Northern Ireland – while the second involves Algeria, France

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and Islam. If our analysis is correct, then we will be able to make a few tentative suggestions on how future September 11s may be avoided.

The Islamic world views the Christian bloc as arrogant. Globalization deploys Western technological and economic might. At the same time it appears to the Palestinians like a new crusade. The United States and Israel are leading the onslaught on the poor Moslem nations. Their forces are disembodied evil that take the form of not-so-intelligent bombs. Some Islamic élites have chosen to collaborate with the West. An example is the Saudi royal family for whom Osama Bin Laden reserves a special hatred. Still, although he is in Western eyes a terrorist leader and mass murderer, numerous public opinion polls – admittedly carried out hastily and using methods that cannot be checked – have "proved" that Bin Laden has many followers among Moslems and especially among young Moslems.

The West will not, of course, admit that it fights against Islam. It insists that its enemy is terrorism. But what is terrorism? It is not an abstraction: it demands a small number of people who are willing to risk their lives, a larger number to support them, bases, money, and the help of one or more sovereign states. It is a mixture of the primitive and the sophisticated. The foot soldiers of Bin Laden are prepared not only to risk their lives but to give them up in suicidal flights that come crashing into eternal happiness via the World Trade Towers.

The way to prevent the kind of culture-based wars, predicted by Samuel Huntington,[2] is to conduct a critical review of our own Western culture. Instead of the arrogance of conquest, we should satisfy that desire for knowledge and that sense of the other that have at certain periods dominated Western thought. Perhaps we can learn from history. We are taught that the West has become more tolerant as we have progressed through history. This is partly true. Yet comparing the Mediterranean of today, increasingly a hotbed of religious disputes and immigration problems, with its late medieval counterpart, we find interesting differences. Despite many examples of the discourse of religious intolerance that continued unabated through the centuries, cultural interchange and tolerance could be widespread. The most telling example on "our" side is furnished by the Norman kings of Sicily under whose rule Muslims continued to be employed in the civil service, in accounting and even in the army.[3] Similarly religions – Christianity, Judaism and Islam – should engage in a dialogue today that does not seek to convert but is also not willing to abandon its own positions for the sake of reaching agreement.[4] Only in this way can we escape the intolerance that has survived into the age of globalization, indeed that is an integral part of it.

We shall glance briefly at two examples of what not to do: the first is intra-Western – the Northern Ireland problem; the second is France, Algeria and Islam. By moving away from the World Trade Towers, we hope to throw new light on their destruction.

An Irish Jihad

During the period when the system of states in Western Europe took its modern shape – the years after the Battle of Waterloo – the Catholic Church was politically very conservative and distrusted reason and democracy. It opposed the lay Italian state that grew out of the Risorgimento. It supported the Irish state that allowed it great power and that was formed in opposition to Protestant Britain. (The Church supported the Polish state for different but similar reasons.) It opposed the French state and encouraged the faithful to support the "legitimist" right that was monarchistic and anti-Semitic. Pius IX, the pope in whom the liberal revolutionaries had placed so much hope, never recovered from being chased out of Rome by Mazzini and Garibaldi. He ended up publishing the *Syllabus of Errors*, which excoriated liberalism, rationalism, science, progress and modern civilization in general.

In all these cases the Church was a political actor participating in bargaining. Today it tends to intervene in politics more discreetly; Pope John Paul II, with his frequent jaunts around the world, his flair for using the media and his love of lost causes – of which the most recent is divorce – is an exception. Most churchmen are aware that the faithful are fewer, more reluctant to heed the Church's views and eager to expand their own freedom and their control over their lives.

In Ireland, Christianity has only recently grown milder and less dramatic. In the North, Christianity has been locked into a jihad of Catholics against Protestants. A Marxist explanation would dwell on the decline of Northern Ireland's industries – shipbuilding and linen. But the fault lines of Northern Irish society do not run along divisions between feuding social classes. Can this be a religious war like the wars of the seventeenth-century, which had as their guiding principle "cuius regio eius religio"? The explanation has a certain implausible truth because the fault lines run along religious divisions and the seventeenth-century wars are refought every year when the Protestant marches, bands and anti-Catholic slogans fill the public space of the province.

But another factor comes into play here: Rarely does a community go to so much effort to celebrate its past victories. In this case, however, those distant wars, along with more recent conflicts, such as the Battle of the Somme, constitute the identity of the community. It could be argued that this is an invented identity, used in the nineteenth-century to divide the labor force during the industrialization of Belfast. But an invented tradition can have very real consequences.

So a person in Northern Ireland defines herself in religious terms. In answer to the question of what is Northern Ireland's second-largest city a person who responds with Londonderry is labeling herself a Protestant, while the reply Derry indicates the speaker is a Catholic. There is no way, within the "normal"

contours of language, to invent a third identity or to name the city in a way acceptable to all.

Linda Colley has shown how first English and then British identities were forged against the forces of continental Europe, especially Catholic France.[5] If the main traits in British identity were linked with the Reformation and Protestantism, then Ireland, which had to struggle against Britain, discovered its identity in Catholicism.

The matter was not, of course, so simple. In the late nineteenth-century the leader of the Home Rule movement was an impoverished Anglo-Irish landlord. Charles Stuart Parnell offered – when his relationship with a married woman, Kitty O'Shea, was made public – the tantalizing dream of a country where one could be Irish without being Catholic. The hope was short-lived, as the Irish Catholics and the English Nonconformists joined forces against Parnell. Yet, however brief, this was a moment when Ireland might have become a secular country.

The moment passed and Irish Catholicism was very active in the nationalist struggle. It was a special kind of Catholicism that stressed sacrifice and austerity. In the hands of Padraig Pearse and the other leaders of the 1916 rebellion it became one of the main weapons in the struggle against Britain.

Meanwhile the Protestant community in the North, deliberately implanted by the British government in the seventeenth-century in order to divide and weaken the Irish, was carrying out its task. In the late seventeenth-century it helped William of Orange defeat the Catholic James Stuart. Inspired by Randolph Churchill's slogan "Ulster will fight, and Ulster will be right," the Protestants refused to have Home Rule thrust upon them. When the British repression of the 1916 rebellion drove the Southern Catholics into the arms of Sinn Féin, the North's separation took the form of electoral difference. Its brand of Protestantism was different from the British brand: It was more anti-Catholic. It produced a line of virulent, populist preachers who talked as much of politics as of religion and of whom the present representative is Ian Paisley.

Thus religion took on the task in Northern as well as Southern Ireland of providing an identity. This is the key difference between Northern Ireland and other places divided by ethnic or religious differences, such as Alto Adige-Sud Tirol. The Southern and the Northern Catholics found their identity in Pearse's brand of sacrifice and the Northern Protestants in a resistance to all things Irish or Catholic. The religions that shaped identity were harsh, intolerant and exclusive.

The South was, however, fortunate in that, having gained its independence, it could move forward. The key change was from De Valera to Sean Lemass and it took place in the context of the general European prosperity of the late 1950s and early 1960s. Gradually a new identity replaced the old: The

ascetic, very male Irishman rooted in his native land gave way to the more practical, wealthier person who, after Ireland's entry into the EC in 1973, looked toward Brussels. The Church's influence declined, although abortion is still illegal in the Republic. With the decreasing religious fervor came a decline in the enthusiasm for a united Ireland. The Church did not support the use of force to unite Ireland and while individual members of the IRA might be believing, practicing Catholics, the Church banned the organization. Individual priests have, however, always defied the ban and have heard Republican confessions. But both beliefs – in Mother Church and in Mother Ireland – are anti-modern.

As the old identity was replaced by an international identity, the place occupied in Irish culture by violence declined. It remained strong only in the North where there was less prosperity, where the British remained and where there were/are more Protestants. Here both sides retained violence as an important part of their identity: the Protestants as the manifestation of their feelings of isolation in a predominantly Catholic island; the Catholics as a reaction against their permanent minority status in the non-state of Northern Ireland.

Belfast thus has much to teach us about religion in politics. The arrogance of conquest had been asserted by the plantation of a community of Protestants in a Catholic land. In the subsequent context of relative economic backwardness a particularly tenacious form of religious identity came to dominate.

The key is not belief but allowing religion to become the sole or chief form of identity. Or rather allowing an aggressive, harsh brand of religion to constitute an identity. Or to need an identity very badly and to have few options beyond a stern religion. Such an identity, seen as a menace by others, seems weak from within. It is closed, uncomprehending and pre-modern. Because fear is such an important component, it can take many forms, such as aggression and pseudo-tolerance. Its need for the other is great.

The identity may be forced on one, as the Northern Irish force it on each other. It may be the absence of other religious groups that is crucial: A community of Quakers might make a considerable difference in Belfast, as the Bavarian tourists did in Sud Tirol. What is special about Northern Ireland is the strength of the two identities, their strident jealousy and the absence of other kinds of people.

The hundreds of thousands of Irish who immigrated to Britain were at first identified by their religion. Today when Glasgow Rangers take the field against Glasgow Celtic something of the old hostility reemerges. But it has been diluted by new identities, by social integration and by geographical dislocation. Both teams have their eyes turned towards the European champions league. "Beating Celtic is not enough," said a Rangers supporter delighted at the thought of playing Real Madrid and Juventus but secretly doubting the Rangers' ability to beat them.

Algeria: The Failure of Decolonization

Turning to Islam, one finds a similar, albeit somewhat different historical process of identity shaping. In Algeria Islam was traditionally weak and did not gain ground until the 1930s, when it may be seen as a forerunner of nationalism.[6] The "ulemas" movement made Islam more popular, while the trial of Sheik El Okbi, covered by a young journalist named Albert Camus, provided it with an instant hero. As nationalism grew stronger, feeding on disappointment with the Popular Front and then with the Free French, the FLN (Front de libération nationale) discarded the religious component in its culture to concentrate on left-wing politics and on the use of force. The Sétif battles of 1945 were a step in that direction and by the time the Algerian War broke out in 1954, the FLN regarded itself as a secular, revolutionary movement. Despite the use of torture by the French army in the Battle of Algiers, relations between France and its former colony were good after independence.

The failure of the post-colonial FLN to govern with equity and to transform Algeria by the correct utilization of its oil and natural gas resources, led to widespread disaffection. One form this took was Moslem Fundamentalism. This may be seen as a reaction against the failed modernity of the FLN, which is also considered part of the Western way of life. The legacy of metropolitan assumptions of cultural and economic superiority, which had so often given cause to exploitation and violence, had helped to foster a religiously dominated identity comparable in its distortions to that in Northern Ireland.

Fundamentalism is a return to tradition, whether real or largely invented. It arouses animosity in the West partly because some of its practices seem barbaric to Westerners and partly because it is antithetical to the restless drive towards modernization that finds expression in globalization. Moreover Fundamentalism is aggressive toward the West. It has a strong sense of territory and sees the Islamic world as invaded by Western oil companies.

In Algeria it has turned against the FLN government, although as yet it has not succeeded in overthrowing it. France finds itself in a difficult position that is worsened by the large Moslem communities in France itself. Fundamentalism is present in France, although far from dominant. It appears to be a reaction on the part of young Moslems against their failed attempt to enter French society, a failure for which French people and customs are partly to blame.

Conclusion

Both the case of Ireland and of Algeria involve debates about the interaction of religion, modernization and national identity. Both involve delayed and inadequate processes of decolonization and therefore deal with examples of arrogance, misjudgment and exploitation by – but not only by – the colonizing

forces. In both, opposing identities have been carefully constructed or invented, containing within them dominant religious traits and popularized by newly available modern media. These are all traits that might be useful in analyzing the "War Against Terrorism." Islam has been closely linked to nationalist movements throughout the era of Communism; it would be odd if it failed to occupy some of the space created after 1989.

Three traits of the World Trade Center towers are worth stressing. All have to do with the formation of an identity that is too narrow or too aggressive, of the type we have seen in the two examples discussed above. The first is the development of Islam into fundamentalism, a complex process involving foreigners as well as various indigenous groups. The second is the arrogance of the United States in denying rights to the prisoners of al-Qaede, in putting them into cages and in dumping them in Cuba, as if warning Castro that the United States has not forgotten him. The attack on the twin towers had left Americans feeling vulnerable, but Bush has overreacted and started to behave like a victorious (pagan) Roman emperor organizing his triumphal parade. The third trait, closely related to the second, is the West's exaggerated pride in its own technology and wealth and its economic success. This leads to a certainty that Western values are universally supreme and that other people must simply emulate them. Even if, as is likely, they are unable to equal "us", at least they should cease to be "others", obviously inferior and candidates for bombing.

Neither of these last two traits is ostensibly religious, although both seem inspired by a post-religious view of a world still sharply divided into good and evil and inhabited by a chosen people. This worldview, informed by the same types of attitudes seen in Ireland and Algeria, is capable of provoking similarly vicious reactions. Another of Pope John Paul II's great themes is that such a worldview should not be confused with genuine Christianity.[7] The day of prayer at Assisi, where representatives of all the great religions prayed together, was an example of Christian tolerance.

Assisi may be contrasted with Silvio Berlusconi's statement of the West's superiority. This was, however, "golf-club" thinking. Little else can be expected from Italy's prime minister. A worse example may be found in a recent International Herald Tribune article.[8] A guest editorialist asks the question "Why do they hate?"

The reader is supposed to know who "they" are. Presumably Westerners do not hate. After a short paragraph on such topics as America's policy in the Israel-Palestinian conflict, the entire article is devoted to explaining that young Arabs know they have missed out on modernity. Is modernity so wonderful? On another page of the Tribune an article describes how Americans, running a hospital in Afghanistan, consciously and willfully starved an Islamic militant to death. But then, he probably was not a human being. In this worldview all

non-Western people, culture and nature are reduced to mere objects. How often is the Afghan countryside described as "inhospitable, barren" and "empty"?

It can hardly be empty since we are also told it is swarming with terrorists; their leaders seem to find the country perfectly hospitable since they show no desire to leave it, and the United States, the great subject of this tale, cannot find them, much less carry them off to President Bush's pagan parade. It should be more apparent to the forces fighting their non definable battle against terrorism that using such aggressive language as the "axis of evil" will encourage a resistance that cannot be bombed into submission.

Notes

[1] Christopher Hitchens, "On the Frontier of Apocalypse," *Vanity Fair* (January 2002): p.87

[2] Samuel Huntington, "Islam-Occidente," *La Repubblica* December 27, 2001.

[3] Denis Mack Smith, *A History of Sicily: Medieval Sicily 800-1713*, (London: Chatto and Windus, 1966) p. 17.

[4] Cardinal Avery Dulles, "Christ Among the Religions," Lecture text furnished by Il Regno, January 15, 2002.

[5] Linda Colley, *Britons: Forging the Nation 1707-1837* (New Haven: Yale University Press 1992)

[6] Andre Nouschi, *La Naissance du Nationalisme Algerien* (Editions de minuit, 1962).

[7] *La Repubblica*, January 25, 2002.

[8] Marvin Ott, p. 5 and Karl Vick, p. 6. *The International Herald Tribune* January 9, 2002.

The Future of Iran's Islamic Republic

Evolution or Revolution?

Karim Sadjadpour

Iran's current regime, the Islamic Republic, is in a precarious position. The vast majority of the country's citizenry wants sweeping change-social, political, and economic-as is evidenced by reformist President Mohammed Khatami's overwhelming re-election in June of 2001, in which he received 79 percent of the vote. While the reactionary ruling powers, namely Supreme Leader Ayatollah Khamenei and the twelve-member Islamic Guardian Council, have struggled to retain the status quo and thwart democratization, in the face of modest popular support, it is becoming increasingly obvious that they are left with essentially two choices:

a) Allow for the proposed reforms of Khatami and the equally reform-minded parliament to take place, hence allowing for an evolution of the Islamic Republic into a more democratic system of government, or

b) Attempt to reverse the inertia of reform by cracking down on social and political freedoms, ignoring the public mandate for a more open society. This strategy, employed during the student riots of 1999, is dangerous for it could easily provoke more civil unrest, protest, and rioting, hence providing the impetus for a counter-revolution.

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The first option is the more probable one and is the goal of the country's reform movement. The question that then must be posed is what are the key reforms needed, and how long will the young Iranian populace be willing to wait for this long-anticipated transformation of their society?

The Roots of Discontent

Before examining Iran's contemporary situation, it is worthwhile to revisit the 1979 revolution, for it is crucial in understanding the country's current dilemma. Although commonly referred to as an Islamic Revolution, this term is somewhat of a misnomer. In fact, it was a broad-based and popular revolution consisting of many different factions, among them Marxists, Islamic Socialists, nationalist democrats, students, writers, intellectuals, the underclass, bazaar merchants, and religious clerics known as *mullahs*. While they all had different visions of what Iran should be like politically, they shared a strong dislike for the haughty authoritarianism of the Shah-whom they viewed as an American puppet[1]-and his ubiquitous secret police, SAVAK, which was infamous for its use of torture.

When the Shah fled the country in early 1979, the various factions struggled for power. In the ensuing chaos the most charismatic leader to emerge was a previously unknown septuagenarian cleric named Ayatollah Khomeini, who had been exiled by the Shah over a decade earlier. While many initially believed that Khomeini would return from exile to serve as a spiritual figurehead in the holy Shiite city of Qom, the ascetic cleric's appeal was grossly underestimated. Khomeinists - "imbued with a messianic sense of right, the glow of a leader still viewed by many Iranians as a brave hero, and more thugs per square mile than the other sides"[2] - were able to capitalize on the disunity of the other groups to take control, and once in power they immediately crushed any opposition. It is important to note that the resulting austere theocratic system was not what many or most of those who revolted against the Shah had in mind, and so the seeds of discontent and opposition towards the Islamic Republic were inherent from its inception.

The Hierarchy of Power in the Islamic Republic

Nearly 23 years after the revolution, today's Iran is somewhere between a religious dictatorship and a thriving democracy. Although on the surface Iran may appear to be democratic, with a popularly elected president and *majlis* (parliament), the failure of both the president and the parliament to carry out the will of the electorate has made it apparent that the real power lay in the hands of the unelected Supreme Leader, Ayatollah Khamenei, and the twelve unelected members of the Islamic Guardian Council.

Central to understanding Iranian politics is the concept of the *velayat- e faqih,* meaning essentially rule by the clerics. Created by Khomeini, the *velayat-e faqih* sought to ensure the Islamic nature of post-revolutionary Iran by subjecting all key matters-be they social, political, economic, etc.-to review by a *faqih,* or Supreme (Clerical) Leader[3]. Khomeini himself held this role until his death in 1989, whereupon another unelected body, The Council of Experts, selected former President Khamenei as his successor. In his role as *faqih,* Khamenei has jurisdiction over the judiciary, Islamic Guardian Council, armed forces, security forces, and the national radio and TV networks. Khamenei's word is considered sacrosanct, and barring a change in the constitution he will likely retain this position for life.

The Supreme Leader also has hegemony over Iran's next most powerful governing body, the Islamic Guardian Council, choosing six of its twelve members. The Guardian Council-whose duty is to maintain the "Islamic integrity" of the country's polity-has the constitutional power to screen electoral candidates as well as veto power over all parliamentary decisions, rendering impotent the elected representatives of the Iranian people. The Guardian Council, under the watchful eye of the Supreme Leader, has been active in closing down pro-Khatami reformist newspapers, vetoing parliamentary decisions, and rejecting reformist candidates, as well as jailing pro-democracy journalists and political dissidents.

Khatami's Role

Although many believed that after Khatami's first election in 1997 Iran would immediately transform into an open society, Khatami supporters blamed a lack of success in the early years on a largely conservative parliament. When reformists aligned with Khatami won the vast majority of seats in the 2000 *majlis* elections, public expectations grew dramatically. Apart from a few early victories, however, reformists have made little progress since.

The slow pace of reform has begun to take its toll on Khatami's popularity. Despite the President's strong mandate from the people, many Iranians have grown tired and impatient waiting for his reforms to become reality. Not a single major legislation or policy has been introduced to address the needs of youth, women, and the middle class, the three core constituencies that made Khatami's victory possible.[4] Some have begun to wonder whether he is simply a crony of the conservative establishment who was brought in to appease the masses with his eloquent but hollow calls for liberty and democracy. While much has been made of the seemingly bumpy relationship between Khatami and Khamenei, at the end of the day it must be understood that Khatami himself is a cleric; despite his affinity for democracy, he has an even stronger allegiance to the maintenance of Iran's Islamic Republic. This fact has disappointed many of his supporters. "All the university students voted for him, because they thought they would have a bright future," said one young female

student from Isfahan. "Now they think he's just a puppet moved by the other one," meaning Ayatollah Khamenei.[5]

Khatami's role in expanding the accepted political discourse should not be discounted, however. The push for political reform in Iran has taken on a snowball effect in recent years; yet prior to Khatami there was little more than a snowflake. Most importantly, Khatami has inspired, engaged, and empowered everyday Iranians with his messages of tolerance and civility, encouraging them to participate in the democratic process and play an active role in the country's future. Indeed, says Iran analyst Farideh Farhi, "It seems that for the first time in modern Iranian history a substantial part of the Iranian population is engaged in a political discussion about the rules of the games."[6] These are critical first steps. To continue on a path to a more open society, however, requires at least a few more key developments.

Needed Political Reform

Since Khatami's first election in 1997, the country has made substantial efforts to democratize, largely to no avail. Considering the current structure of the constitution, which gives almost absolute power to the Supreme Leader, many observers believe that democratic reform in Iran has reached an impasse. Therefore, in order for the Islamic Republic to become a truly egalitarian Republic, three essential conditions must eventually be met. First, power must be transferred from the hands of the Supreme Leader and the Islamic Guidance Council to the President and Parliament, the elected representatives of the people. Second, the Islamic Guardian Council's vetoing power and ability to disqualify presidential and parliamentary candidates must be curbed, and its transparency increased. Lastly and most importantly, the highly sensitive and controversial topic of the *velayat- e faqih*-rule by the clerics-must eventually be opened for debate if Iran truly wants an open society.

While the congenial Khatami dwarfs the uncharismatic Khamenei in terms of popular support, it is evident that the President has very little real power compared with the Supreme Leader. The same can be said about the *majlis* vis-à-vis the Guardian Council. If the unelected powers continue to dominate, "people will lose confidence in the system," said Khatami advisor Mohammed Abtahi, "and their participation will decrease."[7] Iranians have thus far tried their best to change their system civilly and via the democratic process, but if the Supreme Leader and the Guardian Council continue to make unilateral decisions against the will of the people, frustration among Iranian citizens is bound to culminate in greater unrest. Clearly, such instability should not be a goal of either side.

In addition to a power transfer from the Islamic Guardian Council to the *majlis*, the Council's ability to make unilateral decisions must be abolished. Currently the Council is able to reject any candidate it wants without so much

as an explanation; in a recent majlis election, 55 out of 100 candidates, mostly moderates aligned with Khatami, were dismissed without justification.[8] The Council has further antagonized Iranians by upholding laws that have no popular support. For example, believing it to be contrary to *Sharia*, Islamic Law, it overturned a bill that was nearly unanimously passed in parliament, to increase the minimum marriage age for females from nine to fifteen.

Ironically, according to the constitution, the only way to limit the Guardian Council's reach is by passing a law in parliament. When the parliament did exactly that in late 2001, the Guardian Council vetoed it, causing an outrage in the *majlis* and heightening people's frustration. In its report on Iran, the UN High Commissioner for Human Rights shared in the frustration of many Iranians, saying, "Without calling for the disbandment of the [Islamic Guardian] Council as it operates at present, the Special Representative believes it to be a major obstacle to the further development of democracy in the Islamic Republic of Iran."[9]

The Velayat-e Faqih

Although President Khatami seems to believe that the *velayat- e faqih* can be compatible with popular sovereignty, this remains unproven. Many women, for example, would refrain from wearing the obligatory *hejab* (headscarf) and *manteau* if it were not adamantly enforced by the *faqih*. Highly regarded Islamic intellectual Abdolkarim Sorush believes this sort of interference into people's personal lives is perhaps even worse than a secular dictatorship, for it is a despotism that taints the name of religion in the process.[10]

Even prominent members of the clergy have voiced their displeasure for the current system. Dissident cleric Ayatollah Montazeri, Khomeini's former heir apparent and now one of the Islamic Republic's most vocal critics, says that he and the other original framers of the 1979 Islamic Constitution never intended for the institution of *velayat- e faqih* to be given absolute powers. "The Supreme Leader can never be above the law, and he cannot interfere in all the affairs, particularly the affairs that fall outside his area of expertise, such as complex economic issues, or issues of foreign policy and international relations," he said. "The most important point to be highlighted is that Islam is for the separation of powers and does not recognize the concentration of power in the hand of a fallible human being."[11] Political criticism, especially criticism of the Supreme Leader, is not tolerated in Iran, however, even from fellow clergymen; Montazeri has been under house arrest in Qom since 1997.

Simply put, without a transfer of power from the Supreme Leader to the President or the abolishment of the *velayat- e faqih* as it exists today, the evolution of Iran into a more open society will continue to move at a slower pace than is demanded by the people. But a referendum on the *velayat- e faqih* would question the very existence of the Islamic Republic itself, and the ruling

powers are not likely to agree on this anytime soon. While the long-term stability of the *velayat-e faqih* appears at best unstable, a more feasible short-term goal of the reform movement will probably be to transfer some of the power of the Supreme Leader to the President.

Needed Economic Reform

According to President Khatami, Iran's economy these days is *mariz*, sick. The vast majority of his constituents would agree. "It is one thing to defeat opponents and an entirely different matter to govern and to manage a modern economy," says Iran analyst Mohsen Milani. "Although the fundamentalists demonstrated much talent in the former task, their record in the latter has not been impressive, to say the least."[12] The revolution and its aftermath-hostages, war, emigration of experts, population growth, economic sanctions and international isolation-have led to the creation of an economy that is in a constant state of stagflation-recession compounded with rampant inflation. As opposed to other developing nations whose per capita incomes have always been low but have steadily increased, the majority of Iranians have experienced a marked decrease in their standard of living since the 1979 revolution; average Iranians' real per capita income is about a quarter of what it was during the Shah's tenure in the 1970s.[13]

In addition, the Islamic Republic has the most daunting task of creating 600,000 to 800,000 new jobs needed annually to accommodate Iran's burgeoning young labor force.[14] To do so in an economy that consistently ranks among the last in the world in terms of foreign direct investment requires nothing short of a miracle. The Islamic Republic is beginning to understand more fully that the country's deteriorating economic conditions could lead to the demise of their regime, and in order to bring urgent life to an anemic economy, President Khatami has proposed a two-pillar solution for economic reform, focusing on privatization and foreign investment. These initiatives are of course interrelated and obviously easier said than done. The most important goal in the short term should simply be forward progress, as an overnight solution to Iran's economic woes is unrealistic.

The Role of Privatization

A galvanizing factor for many of those who revolted against the Shah's regime was the gaping socioeconomic disparity between the haves and have-nots of Iranian society. Many revolutionaries thus had socialist and communist tendencies. While the Mullahs immediately clamped down on these leftist groups after seizing power, their professed sympathy for the *mostazefin*, the downtrodden, and their dislike for American capitalism led them to create a largely state-owned economy. The mass nationalization of industries and economic entities previously belonging to the Royal family or private individuals

thus put some 60 to 80 percent of the economy under the government's control.[15]

Given that government-run industries have been corrupt and inefficient and domestic investment has been low, Khatami's hope is that privatization and development of a functioning private sector will serve as a catalyst in increasing investment, productivity, and consumer confidence. The push towards privatization actually began under former President Hashemi Rafsanjani, who took over the country shortly after the eight-year war with Iraq that ravaged Iran's economy. Few of Rafsanjani's initiatives were realized, however, due in large part to domestic squabbles over the constitutionality of transferring state-owned entities to private firms. Khatami's plan for economic recovery builds on much of what was proposed by Rafsanjani-such as the privatization of telecommunications, railways, banks, and certain sectors of the oil industry-and has met with somewhat less resistance this time given the economy's dire situation.

Privatization is a critical element of economic recovery in Iran for the simple fact that investors-be they domestic or foreign-do not trust putting their money into the hands of a government that has very little transparency, efficiency, or accountability. Privatization will certainly not lead to the immediate eradication of these problems; however, the greater degree of accountability for private firms will likely offer them incentive to adopt measures of greater efficiency and transparency that will attract much-needed investors.

Foreign Investment and Relations

Increased foreign investment is the other key facet of Iran's economic recovery plan, which is contingent upon both domestic concerns as well as Iran's foreign relations. As mentioned earlier, Iran consistently ranks among the last in the world in terms of foreign direct investment. While this can be attributed to previously discussed problems such as corruption, lack of transparency, political instability, and negative economic growth, part of the problem is the country's Constitution.

In order to avoid repeating the oil concessions that Iran offered foreign companies earlier in the twentieth century, Article 81 of the Constitution states, albeit ambiguously, that "The granting of concessions to foreign individuals and companies is prohibited."[16] While President Khatami and the majority of the *majlis* favor amending or simply ignoring this act, conservatives have fought to uphold it, vetoing a recent bill in parliament that sought to ease foreign investment restrictions. Thus, the problem of foreign direct investment in Iran is two-fold, for it needs not only to attract foreign investment but also to justify the legality of receiving it.

Iran's foreign relations have increased and improved dramatically under Khatami, especially its ties with the European Union and Iran's Arab neighbors. Now most Iranians, including many prominent politicians, believe it is high time to reconcile ties with the United States. Official U.S.-Iran relations have been virtually non-existent since the revolution, and believing that Iran continues to seek weapons of mass destruction, sponsor terrorism, and oppose peace in the Middle East, the U.S. recently renewed sanctions on Iran. Iran analyst Gary Sick offers this astute explanation for the mutual enmity between the two countries: "In a curious sense, Iran and the United States are mirror images of each other. Both countries are prone to a moralistic air of self-righteousness, especially in foreign policy matters; and both are inclined to ideological rigidity and a sense of moral superiority. Each perceives itself as the indispensable state."[17]

Ayatollah Khamenei and the Islamic Guardian Council continue to shun renewed ties with the U.S., but Iranian pragmatists and moderates realize that the country's economy cannot survive much longer in international isolation. "The Islamic revolution's most clearly articulated ideas," said Ali Shakourirad, a parliamentarian from Tehran, had to do with "opposition to America and the capture of its embassy; the war with Iraq; and the *basij* [morals police]. Which one of these has improved the people's economic situation?"[18] In addition to becoming a respectable player within the international system, for Iran the incentives to renew ties are numerous, such as freer access to international capital markets, World Bank loans, and the speedy settlement of past monetary claims. Despite President Bush's recent designation of Iran as a member of an "axis of evil", along with North Korea and Iraq, U.S.-Iran ties are of increasing importance after September 11th, especially in the rebuilding of Afghanistan, and moderates on both sides will continue to seek an end to the tired mutual antagonism that has existed for the past 23 years.

Perhaps most importantly, foreign investment is an imperative for Iran's oil sector, upon which the economy is largely dependent. After years of neglect and disinvestment, Iran's oil industry is in immediate need of large-scale investments and technological upgrades to increase efficiency and output. Although prohibited from doing business with Iran, American oil companies believe that the best export route for the Caspian Sea's rich oil reserves are through Iran and for this reason favor a U.S.-Iran rapprochement.

In their absence, an increasing number of European and Asian firms have begun investing heavily in Iran, helping the country upgrade its oil industry. Iran, in turn, has said that oil revenue for the government treasury will be fixed at $12.50 per barrel of crude oil. Any excess income will be placed into an account called the Stabilization Fund, as part of Khatami's plan to promote non-oil sectors. Iranian officials hope efforts like these can help create the much needed jobs to combat the country's severe case of brain drain; last year

alone it was estimated that 220,000 educated young Iranians left the country to make their lives elsewhere. [19]

Social Factors

The most important statistic to consider when talking about modern Iran is the country's youthful demographic makeup: 50 percent of Iranians are below 20 years of age, 70 percent are below 30. At the onset of the revolution Khomeini encouraged families to produce many offspring in order to produce a robust Islamic Society, an edict that has now come back to haunt this regime. These young people struggle to enter university and find jobs, and identify very little with the austere religious society under which they live. Many have access to satellite TV and the Internet and see how their counterparts in the rest of the world-particularly the West-are living, and have begun to demand the same freedoms and opportunities.

This was evidenced in the massive student riots that took place in the summer of 1999, in reaction to the closure of several pro-Khatami newspapers. The protests started out peacefully, but as is commonly the case, they turned rowdy when non-violent student demonstrators were attacked by the pro-Hezbollah morality police know as the *basij*. As a result, thousands more students took to the streets to protest their lack of civil liberties, which led to more violent attacks by the *basij* that left two students dead and dozens severely injured. Khatami pleaded for calm and eventually the students heeded his wishes, but the riots of 1999 sent a clear message to the Islamic Republic's ruling elite that young Iranians are fed up.

As is frequently the case, Iran's many political and economic problems have manifested themselves in social problems. Drug abuse has soared; an estimated two million Iranians are addicts while perhaps as many as three million-5 percent of the population-are regular users.[20] Prostitution, suicide, and divorce are also at unprecedented levels. These are particularly embarrassing problems for a regime which prides itself on its religious credentials and moral superiority. "I must say that if not all, at least 90 percent of young people are unhappy," said Mohsen Sadrai, a 20-year-old from Isfahan. "We have no freedom, no opportunity for work. If we had a healthy freedom, we wouldn't have to do these things."[21]

While these unfortunate trends are not irreversible, they will not be alleviated without significant political and economic progress. Jobs must be created, political and social restrictions must be eased, and Iran's youth must be inspired to believe that a hopeful future exists. Khatami seems to understand this, as do the *majlis*. But the country's conservative establishment seems to be in a constant state of denial. With widespread usage of the Internet and satellite television, however, even by continuing to restrict freedom of the press, it is no longer possible to keep Iran's young citizens in the dark.

Prospects for a Revolution

Given the widespread discontent and frustration with both Khatami's and the majlis's inability to successfully implement reform, some Iranians-particularly those in exile-are beginning to feel that the Islamic Republic is beyond repair and that the only way to reform the system is through revolution. When U.S. bombings helped rid neighboring Afghanistan of the Taliban, some of the many young Iranians who took to the streets wished aloud that the Islamic Republic would share the same fate as the Taliban: "We need the U.S. Army," said a young protestor in Isfahan. "The Afghan people are very lucky."[22]

Though popular support for changing the current regime may exist, Iranian authorities show little mercy to political dissidents, and for this reason few organized political opposition groups operate from within the country. Recently, several dozen members of the country's outlawed Nationalist Party-arguably Iran's most popular political party, whose members included respected former Prime Ministers Mossadegh and Bazargan-have been thrown into prison and allegedly tortured, despite the fact that the majority of them are elderly men ranging from age 60 to 80. Others have fared worse, such as fierce Persian Nationalist Daryoush Fourohar and his wife Parvaneh, who were stabbed to death by government thugs. Given the high level of intimidation, it can be said that there are currently no united political opposition movements within Iran that pose a serious threat to the Islamic Republic.

The Mojahedin

Outside of Iran, the most organized and militant of these opposition groups is the Iraq-based *Mojahedin-e-Khalq*, or "People's Holy Warriors," an urban guerilla group which played a central role in the 1979 revolution and mixes elements of leftist radicalism and Islamic fundamentalism. Somewhat surprisingly, considering their penchant for terrorism and support from Saddam Hussein, some members of the U.S. Congress have vowed support for them. New Jersey Democratic Senator Robert Torricelli, addressing the National Commission on Terrorism, said, "More than a hundred members of the House of Representatives, the majority of the United States Senate in previous years, have actually asked the State Department to engage in dialogue with the People's Mojahedin." According to Torricelli, it does not matter if the Mojahedin are a terrorist organization because "they have the objective of overthrowing the Iranian government."[23] The Mojahedin has virtually no popular support within Iran, however, and the fact that they fought with Iraq against their fellow Iranians in the Iran-Iraq war has earned them the nickname *"Monafeqin"*, or hypocrites. For this reason, despite uninformed support from senators like Torricelli, the menace of the Mojahedin deserves little attention when discussing potential successor regimes to the Islamic Republic.

Reza Pahlavi

Perhaps a more promising development in the past year is the growing popularity of Reza Pahlavi, the late Shah's eldest son, who currently resides in suburban Washington, D.C. Nowadays in Iran nostalgia abounds for the days before the revolution, a time in which Iran's currency, the *toman*, was seven to the dollar (it is now 800). Capitalizing on this mix of discontent and nostalgia, Pahlavi has begun regularly appearing on Iranian television stations in Los Angeles that are broadcast to millions in Iran via satellite. He has called on Iranians to practice civil disobedience, and his vision for a more democratic and liberal Iran has resonated, particularly among the disaffected youth who have no recollection of the corruption and excesses of his father's regime. One 19-year-old who heard Pahlavi talk about democracy via satellite television said he made "a lot of sense. We need a leader right now, and he's the only leader we have. People are fed up with this regime. They don't want a religious government anymore."[24]

In the wake of September 11th, Pahlavi has enjoyed newfound attention in the major US media as well, where he has denounced the Islamic Republic as "one of the world's most cynical oppressors and an enemy of democratic values" and even dismissed Khatami as an "abject failure."[25] Given that these same words were once used to describe the Shah's regime and the Shah himself, one of Reza Pahlavi's greatest challenges will be to prove to skeptical Iranians that he is his own man. While his nascent movement can currently at best be considered only a minor footnote, if there is ever a serious possibility that the Islamic Republic will fall, Reza Pahlavi's name will likely appear.

While there is not currently an Iranian opposition group or leader popular enough to seriously challenge the Islamic Republic, it hardly follows that frustration with the regime will subside anytime soon. The student riots of 1999, as well as recent post-soccer-match, anti-government protests, show that spontaneous rioting against the Islamic Republic is never too far away and has the potential to unite the diverse masses of disenfranchised Iranians in much the same way as the abrupt and unscripted revolts that did away with the Shah three decades earlier.

Conclusion

In August of 2001, while driving through impoverished southern Tehran, I passed a giant billboard with an oversized image of the country's Supreme Leader, Ayatollah Khamenei. Adjacent to Khamenei's likeness, in giant block letters written in both English and Persian, the billboard proclaimed: "The Future Belongs to the *Hizbollians*," or Party of God, as Iran's theocratic establishment sometimes refers to itself. My companion, an Iranian journalist and supporter of President Khatami's reform movement, seemed to relish the moment and flashed me a satisfied smile. "Would you ever see a billboard in the

United States or France saying "The Future belongs to Democracy?" he asked rhetorically. "Of course not-it goes without saying. If these Mullahs were confident about their future ruling this country, this billboard would not exist. They know their time is running out."

Whether the Islamic Republic evolves into more of a democracy or will crumble in revolution is anyone's guess. For the vast majority of Iranians in Iran, a people who have already suffered one disillusioning revolution and are still recovering from a brutal eight-year war with Iraq, peaceful evolution is the more favorable option. One thing that is certain, however, is that the current status quo in Iranian politics will not remain the same; the younger generation, the 70 percent of the population aged thirty and under, eager for jobs and social freedom and opportunity, cannot be held down.

Notes

[1] The fact that the Shah's power was restored after the 1953 CIA-led coup of popularly elected Prime Minister Mohammed Mossadegh—who attempted to nationalize Iran's oil industry—was always a factor in undermining the Shah's legitimacy. For info regarding the coup of Mossadegh, including the recently declassified CIA documents see: http://www.nytimes.com/library/world/mideast/041600iran-cia-index.html

[2] Afshin Molavi, *Persian Pilgrimages*. (Forthcoming, W.W. Norton, summer 2002).

[3] Geneive Abdo, "Re-Thinking the Islamic Republic: A 'Conversation' with Ayatollah Hossein Ali Montazeri." *The Middle East Journal*, Winter 2001.

[4] Mohsen Milani, "Reform and Resistance in the Islamic Republic of Iran." *Iran at the Crossroads,* 2001.

[5] Amy Waldman, "In Iran, an Angry Generation Longs for Jobs, More Freedom and Power." *The New York Times*, December 7, 2001.

[6] Farideh Farhi, "On the Reconfiguration of the Public Sphere." *Iran at the Crossroads,* 2001.

[7] Amy Waldman, "Pared-Down Election Ballot Reopens a Divide in Iran." *The New York Times*, November 29, 2001.

[8] Ibid.

[9] William A. Samii, "Iran's Guardians Council as an Obstacle to Democracy." *The Middle East Journal*, Autumn 2001.

[10] Mehrzad Boroujerdi, "The Paradoxes of Politics in Post-revolutionary Iran." *Iran at the Crossroads,* 2001.

[11] Geneive Abdo, "Re-Thinking the Islamic Republic: A 'Conversation' with Ayatollah Hossein Ali Montazeri." *The Middle East Journal*, Winter 2001.

[12] Mohsen Milani, *The Making of Iran's Islamic Revolution*. (Westview Press, 1994) p. 203

[13] Bijan Khajehpour, "Iran's Economy: Twenty Years after the Revolution." *Iran at the Crossroads,* 2001.

[14] Ibid.

[15] Ibid.

[16] Ibid.

[17] Gary Sick, "The Clouded Mirror: The United States and Iran, 1979-1999." *Iran at the Crossroads, 2001.*

[18] Amy Waldman, "Pared-Down Election Ballot Reopens a Divide in Iran." *The New York Times*, November 29, 2001.

[19] Amy Waldman, "In Iran, an Angry Generation Longs for Jobs, More Freedom and Power." *The New York Times*, December 7, 2001.

[20] Molly Moore, "Once Hidden, Drug Addiction is Changing Iran." *The Washington Post*, July 18, 2001.

[21] Amy Waldman, "In Iran, an Angry Generation Longs for Jobs, More Freedom and Power." *The New York Times*, December 7, 2001.

[22] Ibid.
[23] James Ridgeway and Camelia Fard, "'Terrorists' Share Space With Press in D.C. Building." *The Village Voice*, December 4, 2001.
[24] Amy Waldman, "In Iran, an Angry Generation Longs for Jobs, More Freedom and Power." *The New York Times*, December 7, 2001.
[25] Reza Pahlavi, "Beyond Khatami." *The Washington Post*, January 10, 2002.

Power and Preservation in the House of Saud

Gregg Johnson, Greg Lehman and Matthias Matthijs

The events of September 11th marked a turning point in the popular view of Saudi Arabia in the West. Many were shocked to learn that fifteen of the nineteen hijackers were of Saudi origin, a fact that contrasted sharply with the perception of the Saudis as the West's most loyal allies in the Middle East. A number of journalists began to question the relationship between Washington and Riyadh, and some expressed doubts over the long-term viability of King Fahd's regime.[1] Press reports depicted a corrupt ruling Saudi elite struggling to maintain power over an increasingly radicalized populace. The implication was that revolutionary social and political upheaval in Saudi Arabia could not be ruled out or might even be likely, a development that Western policymakers had previously failed to grasp.

In reality, this portrayal of Saudi Arabia ignores well-established trends in Saudi politics, and predictions of impending doom for the Saud ruling family are premature and largely unjustified. Saudi Arabia has continually faced contradictory pressures and objectives in both its domestic and foreign policies, especially in the last two decades. Historical analysis will highlight the adroit

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ability of the royal family to reconcile these conflicting forces and ensure its own political survival. Even in the aftermath of the September 11th terrorist attacks, the Saudis have managed to maintain a delicate balance between their need to preserve Western relationships and their desire to remain a leader in the Islamic world. Thus, relative continuity and deliberate change, rather than dramatic domestic turmoil or political revolution, are likely to characterize the future Saudi political environment.
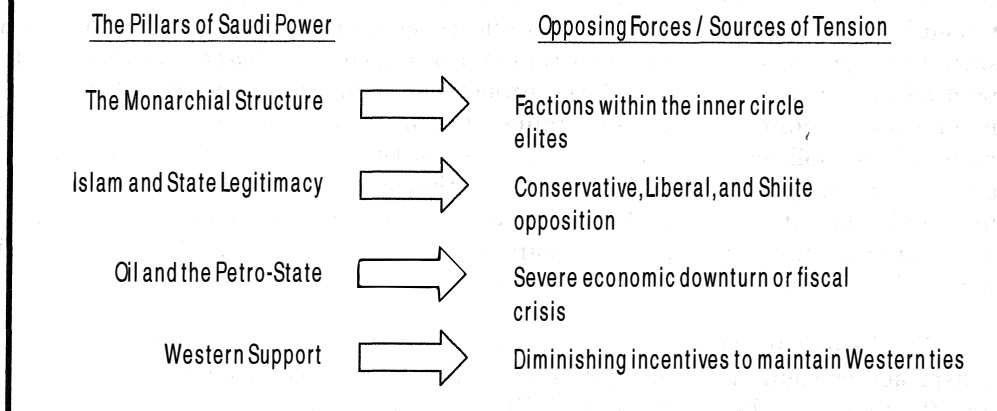
The Analytical Framework

Despite the complexity of Saudi Arabia's domestic political and socio-economic conditions, the ruling structure of the kingdom is solid and mature. The recent outpouring of news regarding Saudi affairs portrays a political landscape rife with contradiction, fraught with turmoil, and dominated by an elite perpetually embroiled in power struggles. Indeed, internal contradictions and instability have persisted for decades; and the 1990's brought some of the most tumultuous challenges to the House of Saud. However, the contradictions within the kingdom are not the result of weak governance nor are they the signs of a collapsing regime. Hardly the result of poor political strategy, these contradictory qualities are often the result of intentional measures, which have thus far proven necessary and sufficient to ensure the survival of the monarchy. In this sense, these apparent contradictions are more a product of analytical perspective rather than of weak governance.

An analytical framework to assess the sources of tension and instability within the regime must take into account the unique nature of the Saudi state, both its political structures and economic base. One must examine the foundation of material power and political legitimacy on which the House of Saud has built its kingdom. That Saudi Arabia is a rentier state, founded and maintained by the revenues of its oil production, is as important as the nature of the absolute monarchy. Moreover, the sources of Saudi power include material wealth and religious ideology, both of which employ internal and external sources of legitimacy. The analytical framework offered in this paper portrays a Saudi state that rests firmly on four pillars of support: (i) the absolute monarchial system of rule (ii) Islam, both as a source of legitimacy and influence (iii) oil, through its monetary, strategic and political value and (iv) reciprocal friendships with Western governments. Indeed, the nature of the Saudi paradox is such that each of these pillars gives rise to opposing forces, which act to erode the power of the regime. Thus, the very source of Saudi power serves as the cradle of instability and tension.

The Saudi kingdom uses a double-edged sword of appeasement and repression to assure its survival amidst countless competing claims on its legitimacy and power. Resultantly, the House of Saud has thoroughly penetrated its complex and divided society; it is a house divided, but with its power firmly

Fig. 1. The Four Pillars: Sources of Power and
Sources of Instability and Tension

The Pillars of Saudi Power   Opposing Forces / Sources of Tension

The Monarchial Structure   ⟹   Factions within the inner circle
                                  elites

Islam and State Legitimacy   ⟹   Conservative, Liberal, and Shiite
                                    opposition

Oil and the Petro-State   ⟹   Severe economic downturn or fiscal
                                 crisis

Western Support   ⟹   Diminishing incentives to maintain Western ties

entrenched. Through the royals' adroit political management, Saudi Arabia's evolution has exhibited more continuity than change.

Rulers of the Kingdon: The House of Saud

The structure of the Saudi governing apparatus offers insight into the elaborate design of the monarchy's control. While much has been written about the factions within the inner circle (the Saudayri Seven) and their competing political views, the reign of the House of Saud has exhibited remarkable stability.[2] Indeed, after the 1975 assassination of King Faysal by his own nephew, the grandson of King Ibn Saud, family politics achieved an equilibrium. The balance has served to appease factions within the ruling elite and has effectively, although in a limited fashion, represented the competing interests of the Saudi subjects. When faced with domestic unrest, the Saudi elite took concrete measures to incorporate the interests of diverse factions within their population. The political system is far from representative, but in an *ad hoc* manner it is somewhat responsive to popular demands.

Notably, it is the institutional structure of Saudi rule that provides the apparatus for absolutist rule. The King and ruling princes have full jurisdiction over Saudi Arabia's thirteen provinces through the interpretation and enforcement of *sharia*, the Islamic law. The monarchy has few institutional checks on its power. The Basic Law (Saudi Arabia's closest approximation to a constitution) simply delineates the powers of the king and incorporates the rules of succession. A Council of Ministers acts as a pseudo-legislative and executive body, its members appointed by the King, and its power only to veto royal decisions within thirty days of their announcement. The ninety-member Majlis al-Shura, the Consultative Council, simply a board of professional, religious

and academic advisors, provides the House of Saud a "finger on the pulse" of Saudi society. The Council of Ministers and the Majlis al-Shura strictly serve as instruments of the Saudi ruling class, rather than as opposing political bodies. However, members of these two bodies, though appointed and sanctioned by the King, have on occasion offered channels for dissenting voices on *status quo* policies.[3] The thirteen regional provinces are headed by royally appointed governors, of which a large proportion comprises local tribe leaders or members of prominent business families. In this way, as often is the case in oil monarchies, political offices are a currency with which to reward cooperation and to buy-off potential opposition.[4] Furthermore, the system of governance by royal appointees allows for a stable and fluid apparatus of power: when dissention arises, old appointees can be made scapegoats and deposed, and new officials can be quickly nominated.

In absolutist states, royal succession offers a ripe moment for tumult, conspiracy or coup. Yet the most recent transition of Saudi power proved to be an effective one: the result of a skillful counterbalance of political interests. Amid worsening economic conditions, King Fahd assumed the throne in 1982. Fahd would serve as king and prime minister with two chief deputies at his side: Fahd's half-brother, Prince Abdullah, as the crown prince and deputy prime minister; and a full brother, Prince Sultan (already the head of the army and air force) with the position of second deputy prime minister. Prince Sultan has always been a friendly face to the West, particularly to the United States, in his role of an interlocutor with American political military officials. The declaration of Abdullah as crown prince, despite the fact that his family faction opposed Fahd, was a calculated political move to appease familial opposition and to integrate Abdullah's reformist views into Saudi politics.[5] The 1992 Basic Law would codify Abdullah's position as heir to the throne; by 1997, in light of Fahd's serious illness, Abdullah became the *de facto* ruler of the Kingdom. During the tumult of the 1990's, with the economy in steep decline and foreign troops on Saudi soil, Prince Abdullah's pro-Arab views and reformist platform served as a source of popular legitimacy for the ruling family. Abdullah spoke out against corrupt family practices, called for greater Saudi influence in Arab affairs, and pushed for fiscal reforms, such as the 20 percent reduction of government spending on salaries and personal expenses. Fahd's ruling strategy has been to use political posts, and indeed the seat of the throne, to achieve internal checks on power and hence a balanced, entrenched system of rule.

The triumvirate of Fahd, Abdullah and Sultan is merely the tip of the iceberg of the Saudis' elaborate political system. Beneath these three are princes, officials and governors selected for their contribution to the legitimacy and stability of the royal kingdom as well as their ability to manage key royal relationships. Indeed Princes Bandar, Turki and Nayaf can be seen as an internal check on the limits of Prince Abdullah's power. They are ideologically quite distant from Abdullah's reformist views, and these inner-circle elites have a wide degree of latitude in how they choose to carry out political relations.

Perhaps, the most notable Saudi elite relationship was that between Prince Turki al Faisal and Osama bin Laden. Certainly, this relationship illustrates the risks of cronyist politics. Prince Turki al-Faisal when he was the head of Saudi intelligence was responsible for the management of the regime's relations with the now infamous terrorist and archenemy of the Saudi kingdom. After years of close ties between the Saudi princes and bin Laden, it was Turki who assumed the task of negotiating with his former protégé to cease his campaign against the Saudi kingdom.[6] What was once a cherished elite relationship is now once of the kingdom's largest liabilities.

Despite the failure of the bin Laden relationship, the intricately networked power structure of the House of Saud gives it a solid foundation with which to cope with internal oppositional forces. The family has internalized and used family factions as an arbitration mechanism, which (although not democratic) is, in a limited but sufficient capacity, representative of splits within the populace. It is an absolutist rule accented with informal trimmings of republican governance.

Islam: Rose and Thorn

Islam forms the cornerstone of Saudi society. The fact that the Saudi kingdom serves as the guardian of the two holy places, Mecca and Medina, provides legitimacy for the Saudi monarchy. Arabia is the birthplace of Islam, and to this day Mecca is considered the holiest city in the Muslim world, the place to which millions of believers set out on the Hajj (pilgrimage) every year. The Saud family uses Islam to legitimize its management of internal affairs as well as the country's global role as an Islamic leader.

Politics and religion are intended to be one and the same considering that Saudi Arabia's strict interpretation of Islam, known as *Wahhabism*, is the official state religion. The Saudi legal code and quasi-constitution, the Basic Law, is based on *sharia* (Islamic Law): the *Ulema* and a force of religious police, the *mutawaeen*, enforce the interpretation and implementation of this social and legal code. The establishment of such principals is imposed autocratically: The state-controlled education, media and law enforcement strengthen monarchial power.

The salience of religion in Saudi Arabia and the House of Saud's monopoly on its interpretation have profound consequences for the stability of Saudi politics. The inseparability of Islam from public life provides the basis for social cohesion and monarchial legitimacy as well as the foundation for political opposition. Indeed, the House of Saud's role as the guardian of the religion inherently gives rise to internal challenges against their authority to interpret Islam. Domestic political opposition takes two forms: liberal opposition against the heavy-handed manner in which the Saudi state enforces Islam; and the religious conservative opposition, which calls for stricter interpretations of

Wahhabism and generally opposes political relations with the West. A third source of potential internal instability is the Shiite religious minority, estimated at 5-10 percent of the population and located largely in the strategic oil-rich Eastern province.

Facing such a diverse social spectrum, the monarchy has to counterbalance a great variety of competing claims. The Saudi monarchy's strategy must have two objectives: to maintain the credibility of devout Islam, yet to safeguard it from irredentist fundamentalism; to constrain or obstruct minority claims, but also to avert minority uprisings. Ultimately the strategy works to prevent any devolution of the monarchy's control, which demands austere political management, repression and, when necessary, conciliatory deal making. The state-controlled media and education system affords overwhelming influence to the royals; their control of centralized economy and welfare state allows for the exchange of political favors, business contracts and social welfare benefits for political quietude.[7] From the monarchy's perspective, the calculated mix of appeasement and repression is the necessary response of autocratic governance. Despite vast political change increasing unrest in 1990s, the strategy remains effective.

The greatest threat to the House of Saud is social unrest from religious conservative or minority groups. It is far easier to manage the claims of the professional classes, due to the monarchy's centralized control of industry and their close ties to the business community. Indeed, the House of Saud has strong incentives to establish good relations with the business classes. First, the centrality of Islam in social and political life results in coherent and powerful religious groups, which can pose serious challenges to the ruling authority. Second, groups of Islamic extremists or minority populations, such as the Shiite Muslims, have only loose ties to the ruling class and little leverage. Hence, monarchial relations with these groups tend to be more arbitrary. More often than not the preferred tactic is to repress Shiite religious practices and make sporadic arrests of religious leaders. The Saudis tried to bargain with exiled Shiite leaders in 1993, offering greater civil liberties to the minority group in exchange for a halt to resistance activities, yet the Saudis never put their full force behind the agreement, and by 1996 the Shiite community considered the deal null and void.[8]

From a historical perspective, Islam has also been a key component of Saudi Arabia's international power. The promotion of Islamic values and an emphasis on the Arabian Peninsula as the birthplace of the religion have long been hallmarks of Saudi foreign policy. However, the use of religious values to legitimize political power has often been problematic. The Islamic banner has undeniably served to justify Saudi regional and international leadership, yet it has historically limited diplomatic freedom of maneuver. Emphasis on Islam has made cooperation more difficult with states that favored a pan-Arab, as opposed to a pan-Islamic, approach to international problems. Moreover, the

religious justification of Saudi power has made the regime vulnerable to rivals claiming to represent a "purer" embodiment of the Islamic faith.

Islam functioned as a polarizing element for the Saudis during the reign of Nasser in Egypt. The emergence of ethnically oriented pan-Arabism began to threaten the relative geopolitical isolation that the Saudis had previously enjoyed. Although they reached an initial accommodation with Nasser, the Saudis shared neither his radical view of pan-Arabism nor his visceral opposition to the West.[9] The Saudi kingdom, while trying to maintain a tactical position within the scope of Arab nationalist thought, favored a more moderate view that respected the sovereignty and political differences of individual Arab states. The Saudis ultimately saw Islam, not Arabism, as the unifying element of the Middle Eastern states, and this view brought them into conflict with Egypt, Iraq, Libya, and Syria. Riyadh became increasingly concerned over alleged Egyptian involvement in military coups in Iraq (1958) and Libya (1969), a fear that was realized when Egypt sent an expeditionary force to fight against the Saudi-allied monarchy in Yemen after civil war broke out in 1963.[10] At this point, Islam represented a liability for the Saudis as well as an asset.[11] While serving to improve relations with some Middle Eastern states, the Saudi emphasis on Islam tended to highlight the differences between Saudi Arabia and the Egyptian-led Arab coalition.

The 1967 Arab-Israeli War marked a turning point for both the political appeal of Islam and the Saudi role in the Middle East. The Israeli victory and occupation of Egyptian, Jordanian, and Syrian territory discredited pan-Arabic nationalism, and the ideology's main proponent, Egypt, was economically devastated by the war. Egypt quickly withdrew support from North Yemen and dropped its vocal condemnation of the Saud leadership. Over the next few years, Egypt would become dependent on financial assistance from the oil-exporting states in the Middle East. After Sadat, a devout Muslim, became president of Egypt in 1970, economic and political ties between Riyadh and Cairo improved rapidly.[12]

As the ideology-driven opposition of Egypt vanished, a window of opportunity emerged for a new regional power to fill the political vacuum. The Saudis took modest steps in this direction and began to project a more distinctively Islamic orientation in their foreign policy. King Faisal initially used subtle means to assert that Islam, not a vague notion of Arabism, should be the basis of Middle Eastern cooperation. Saudi Arabia used its newfound wealth more overtly to propagate its message aims after oil revenues exploded in the wake of the Yom Kippur War. Saudi annual foreign aid increased from $335 million in 1973 to $2.8 billion in 1976, a figure that represented 7 percent of total Saudi GNP.[13] However, nearly all of this aid (96 percent in 1976) was provided to Muslim countries in an effort to strengthen the image of Saudi Arabia as the guardian of Islamic faith.

Just as the Saudis were consolidating their political influence, Iran emerged as a challenger for the claim of Islamic leadership and demonstrated the vulnerability of the Saud regime to radical Islamic criticism. Islamic beliefs, which had previously legitimized Saudi power, suddenly represented a potential threat. The Iranian Revolution of 1979 produced a theocratic government that differed from Riyadh in both its Shi'a roots and the radical nature of its philosophy. Some Iranian leaders characterized all monarchies as "un-Islamic" and called for their immediate overthrow. This rhetoric, combined with the presence of the sizable Shi'a minority in the oil-reach Eastern provinces of Saudi Arabia, represented an element of potential domestic vulnerability. The destabilizing effects of the revolution became apparent as Sunni extremists seized the Grand Mosque of Mecca in November 1979. The inability of the Saudi government to regain control of the landmark for 10 days cast doubts on its self-proclaimed role as the guardian of the holy sites of Islam.

Saudi concerns about Iranian attempts to "export Islamic revolution" affected bilateral relations for the next decade. A diplomatic debate over the number of Iranian pilgrims allowed to make the annual Hajj to Mecca became a full-fledged confrontation as Tehran insisted that pilgrims had a religious right and obligation to engage in political demonstrations. The Saudis, who believed that such political behavior violated the spiritual significance of the Hajj, sought to confine the demonstrations to isolated areas. The confrontation reached a climax in 1987 as Saudi security forces tried to quell an unauthorized demonstration in Mecca; more than 400 pilgrims were ultimately killed, two-thirds of whom were Iranian. In response, angry crowds in Tehran attacked the Saudi embassy and detained and beat several Saudi diplomats (including one who subsequently died from his injuries). Saudi officials pointed to other events throughout the decade as evidence of Iranian attempts to infiltrate and destabilize the Saudi state.[14] In sum, these developments highlighted the dual role of Islam as both a legitimizing and destabilizing element of Saudi power.

Oil: Power and Dependence

The modern history of the Arabian Peninsula speaks to the power of petrol. Oil is the blood of the Saudi kingdom, and the domestic implications of Saudi Arabia's dependence on this single resource are far reaching. At the international level, the newfound importance of petroleum in the late 1960s and early 1970s transformed the Saudi kingdom into a major political power. Annual oil revenues rose from approximately $1 billion in 1964 to a high of $102 billion in 1981.[15] Today, Saudi Arabia accounts for approximately 12 percent of global oil production and has an estimated 25 percent of worldwide reserves. Yet dependence on oil poses distinct problems for Saudi Arabia. Oil rents have profoundly influenced the Saudi political structure, and volatile oil prices continue to result in significant economic fluctuations. On a subtler note, oil wealth has had a powerful sociological effect on an entire Saudi generation that has enjoyed the benefits of instant prosperity. As oil prices and production have

declined, the disparity between the stereotypical image of Saudi wealth and a less opulent reality continues to widen.

The Saudi kingdom is built on the wealth of oil. The political structure, as well as the very nature of political bargaining within the kingdom, depends on Saudi Arabia's precious natural resource. The state is the quintessential example of a petro-state, a state whose very existence derives from the production and sale of oil.[16] Not only does oil account for the bulk of the national economy (production amounts to 35 percent of GDP); it also has grave implications for fiscal management. On average 75 percent of annual government revenues come from oil sales; hence, the ability to pay down government deficits depends on the highly volatile price of oil.[17] That state money comes from oil sales abroad, and not from domestic taxation, severely limits interdependencies between the population and the ruling elite. This represents one of the key features of a rentier state (otherwise known as a petro-state).[18] Furthermore, the massive capital and infrastructure requirements of oil extraction have afforded the Saudi rulers complete control over the management of its domestic economy. Since the oil fields are state owned and state managed, the royals wholly negotiate all foreign contracts and sub-contracts for joint ventures. Dependency on external groups, or domestic interests, is thus easily minimized. Hundreds of thousands of foreign workers are imported from Yemen, Oman, UAE, and Muslim states in Asia, affording the royals a near-complete discretion over their workforce. Non-nationals, who have no legal rights or recourse, comprise over half of the economy's workforce.

The great prosperity that oil brought to the kingdom in the 1970s and early 1980s sparked sweeping socioeconomic changes. Oil wealth allowed for the modernization of Saudi Arabia, and although this modernization effort was largely directed by the royals' staged modernization plans (presently Saudi Arabia is in its 'seventh planned modernization phase'), a professional and business class did emerge. The construction and chemical sectors boomed alongside the oil industry, and a professional class of lawyers, engineers and technocrats grew from this base. Importantly, the centralized nature of the oil industry would not produce the same effect as industrial or technological sector driven modernization, which would further integrate the business class with the ruling class. Instead, the oil boom led to an entrenchment of elite power and the centralization of political control, rather than its democratization. Hence, the House of Saud is not nearly as dependent on a business class of merchants and professionals as it is on the existence of its oil resources.

Oil also played a critical role in Saudi Arabia's rise to prominence in the international arena. While the fall of pan-Arabism after the 1967 Arab-Israeli War led to an ideological vacuum in the Middle East, it took several years for Saudi Arabia to discover the immense political power afforded by its vast oil resources. The Saudis, far more hesitant than their Arab allies to utilize the "oil weapon," consistently advocated moderation during OPEC deliberations on oil prices. Riyadh had only reluctantly participated in a limited, ineffective oil

embargo during the 1967 war, and King Faisal stated as late as 1972 that "oil and politics [do] not mix."[19] Other Arab states continually pressed the Saudis to cut oil production as a point of leverage against the West and Israel, but Riyadh remained hesitant. The Saudis decided to make political use of their most effective economic weapon only after realizing that the U.S. would not pressure Israel to withdraw from the occupied territories. Once the embargo started, the price for a barrel of oil skyrocketed from $3.01 in September 1973 to $11.65 four months later, and the effects on the Saudi economy were equally dramatic. Saudi oil revenues jumped from $4.3 billion in 1973 to $22.6 billion in 1974 and eventually reached $36.6 billion in 1977.[20]

Although Saudi Arabia became a global power only after the 1973-74 embargo quadrupled the price of oil, continued dependence on petroleum has proven problematic. The impact of higher oil prices devastated Western economies throughout the late 1970s and early 1980s. As a result, oil consumption fell dramatically among OECD member countries from 41 million barrels per day in 1979 to less than 34 million barrels a day in 1985.[21] For Saudi Arabia, the corresponding effect was twofold – lower prices and reduced production. Petroleum prices plummeted from $40 per barrel in 1981 to under $10 by 1986.[22] Average Saudi oil production fell from 10 mbd (million barrels per day) in 1981 to only 3.5 mbd in 1985, and annual Saudi oil revenues decreased from over $100 billion to $25.9 billion during the same period.[23]

Despite plummeting oil revenues, Saudi spending habits remained virtually unchanged, and the economy nose-dived into fiscal crisis. This was mostly due to irresponsible state budgeting, which did not link the budget to the price of oil, and permitted the royals to maintain high defense spending, far-reaching social services and public subsidies, and an extravagant personal lifestyle. Expenditures on national security and strategic foreign aid (in the form of $26 billion in aid to Iraq in the 1980's and the $55 billion Gulf War bill in the early 1990's) further exacerbated demands on the dwindling state purse.[24] Economic growth came to a rapid halt and even began to backtrack. During the 1980s, GNP fell by an average of almost 2 percent a year while unchecked population growth led to annual 3.4 percent reductions in per capita income.[25] Continued economic dependence on oil also imposed political constraints. As the Saudis enjoyed a lower average production cost and larger reserves than the other major exporters, they could theoretically assume a "swing producer" role and dictate world prices. This could provide Riyadh with significant political leverage, but strategic manipulation of oil prices would also adversely affect the Saudi economy in the short-term.[26] Thus, the need to ensure domestic economic stability hampered the Saudis' ability to play a more active role on the global oil market.

The West: Savior and Sinner

The West, and the United States in particular, has played a critical role in Saudi Arabia's evolution into a political power. Western oil companies established a presence in Saudi Arabia soon after World War II and played an important role in helping the Saudis develop their vast oil fields. In the past two decades, the U.S. has supplied advanced weapons systems to Riyadh, fought a major conflict with Iraq, and stationed American troops on Saudi soil in order to buttress the security of the kingdom. However, the relationship with the West remains problematic for the Saudi regime. Saudi Arabia has depended on Western military support to ensure its security, while the West has relied on the Saudis to maintain moderate oil prices. Yet Western concepts of modernity often clash with *Wahhabism*, and the Israeli-Palestinian conflict highlights the discrepancies between Saudi Arabia as a leader in the Islamic world and as a staunch ally of the West.

From the early twentieth century until it was replaced by America, Great Britain operated in the region according to an old colonial principle of manipulating Saudi Arabia and other Middle East countries through their chiefs. Britain appointed Saudi Arabia, Iran and Iraq as the three axes of power in the Arabian Peninsula and the Gulf, and made them dependent on British economic and political support, kept them separated and weak, and prevailed on them to follow sensible internal policies to guard against upheavals.

America's relatively late arrival on the Middle East scene overlapped with the emergence of new problems. Oil and the expected growing world dependence on it meant that America was in the Middle East to stay. The House of Saud started using its oil income to pretend it was performing a leadership role, and this has kept others from assuming it. One could say that the American desire to protect the free flow of oil and the House of Saud's need to perpetuate its rule became one and the same.[27]

The American presence in Saudi Arabia in the early 1950s expanded with increased oil production, the enlargement of its Dhahran airbase and the construction of an oil pipeline to the Lebanese port of Sidon (TAPLINE, or the Trans Arabian Pipeline). This ran through Jordan, Syria and Lebanon and represented the increasing economic influence of Saudi Arabia on its neighbors.

In return for American military support that guaranteed Saudi Arabia's security and regional leadership status, the House of Saud pays America directly and indirectly. Keeping the price of oil low is essentially a direct cash payment, and conditional aid to Arab and Muslim countries to keep them from turning too anti-American is an indirect one. Washington's contradictory Middle East interests consists of guaranteeing the flow of Saudi oil while maintaining its support for Israel. To reconcile the two, the State Department has allowed

its field officers considerable freedom to criticize Israel while Washington assured Israel of its full support.

Despite the mutual benefits of this relationship, tension between Islamic responsibilities and Western ties has often plagued Saudi foreign policy. Saudi Arabia was hesitant to adopt the 1973 oil embargo for fear of damaging its ties with the West; soon after the embargo was actually implemented, Saudi Arabia favored loosening restrictions on oil production. Several years later, Israel would again serve as a flash point. The disclosure in 1978 that Egypt and Israel were conducting direct negotiations had immediate effects throughout the Middle East. Since Sadat, a devout Muslim, had come to power in Cairo, Saudi Arabia had enjoyed a much better relationship with Egypt, a prior source of many difficulties for the Saudis. Given this fact, coupled with the pro-West orientation of the Sadat, Riyadh was loath to undercut the Egyptians politically.

According to Jimmy Carter's memoirs, both King Khalid and Crown Prince Fahd assured the American president of "their unequivocal support for Sadat," but they would go no further, at least not publicly.[28] From the Islamic-Arabic perspective, Egyptian policy was a capitulation that could not be accepted. Saudi support of a separate peace agreement would have risked domestic upheaval and the scorn of neighboring Arab states. Opposition to the Egyptian initiative, if not a predictable reaction, had few costs. Once the Camp David Accords had been signed, the pressure to maintain its leading Islamic image and not to appear too "pro-Western" was irresistible; the Saudis finally agreed to participate in economic and political sanctions against Egypt.

In January 1979, Khomeini assumed power in Iran; the Mecca Mosque rebellion occurred in November, and in December the USSR invaded Afghanistan to support the puppet government of Barbak Kemal. The shock to the House of Saud was immense. Suddenly King Khalid and Crown Prince Fahd were confronted with internal and external dangers which money could not eliminate. They could not understand the inability of the United States to save the Shah in Iran, and America's lack of response to the invasion of Afghanistan further underscored the limits of American power.

In 1980 America became the world's biggest importer of Saudi oil (it was 10th in 1970). Reagan understood this simple fact. The United States depended on Saudi Arabia to provide financial backing for their executive branch "adventures" and welcomed a Saudi decision to place most of their $100-billion-plus surplus funds in U.S. banks. In return, the Americans indicated a willingness to interfere in regional and Muslim disputes beyond Saudi Arabia's reach and capability. But the short-term policies of the Fahd-Reagan alliance were spiralling out of control: There was so much Saudi money in American banks that it led to a rush to lend money to Third World countries and eventually to the global debt crisis. [29] Furthermore, Fahd refused to support the Palestinians in Lebanon, and he was no longer willing to appease his people or the rest of the Arab world with periodic anti-Western rhetoric or political positions.

The end of the Iran-Iraq War left the Middle East with a militarily strong but economically unstable Iraq and an angry, defeated Iran forced to reassess its expansionist militant Islamic policies. The House of Saud prayer, "Allah vanquish Khomeini without making Saddam victorious," had not been answered.[30] With Iran looking inwards, the emerging threat to the Gulf was Iraq and its new regional ambitions.

A few days after the Iran-Iraq war ended, Kuwait decided to increase its oil production by pumping oil from the disputed Rumailla oilfield, which is partly located in Kuwait but mostly belongs to Iraq.[31] This led to a dramatic tumble in the price of oil from $22 to $16 per barrel. Iraq, which depended on oil for 90 percent of its income and desperately needed to rebuild its country, found Kuwait violating its sovereignty and reducing its income by over $4 billion a year. This threatened the country with financial collapse and undermined Saddam Hussein's position with his people. But Kuwait did not stop there; it also demanded the immediate repayment of the $8 billion it had lent Iraq during its conflict with Iran. It was clear that Kuwait did not need the money it was realizing from increasing its oil production. A Kuwaiti denial of air rights to Iraqi civilian aircraft, its hesitation to congratulate Iraq on its 'victory,' and a Saudi refusal to lend Iraq more money, led Saddam Hussein to conclude that a conspiracy to overthrow him was in the making.

For sixteen months the Iraqi-Kuwaiti confrontation, despite its serious implications for the stability of the whole Middle East, was viewed as a minor local problem. The lack of interest from the United States and Saudi Arabia was striking, and Iraq, which saw few other options, began to threaten Kuwait openly, which in turn created an atmosphere of crisis. Numerous diplomatic efforts were made by the other Arab states, with no result; Iraq invaded Kuwait on 2 August 1990, completely altering the balance of power in the Middle East.

In response, King Fahd decided to invite American troops into his country without the accord of Crown Prince Abdallah and other important members of his family.[32] The Saudis' acceptance of foreign troops saw hundreds of thousands of them descend on the country. The Council of Ulemas had approved the measure under considerable pressure and without knowing its full extent, and King Fahd issued a large number of debt notes to Turkey, Syria, Egypt, Pakistan, Bangladesh, Britain, France, America and others to join the holy war against Saddam. But the Gulf War achieved its purpose; it protected the oil and eliminated Iraq as a regional power capable of threatening the security of the oil-producing countries. However, by destroying the strongest secular power in the region, it created an ideological vacuum that Islamic fundamentalism could fill.

A Lethal Cocktail: The 1990s Mix of Oil, Islam, and the West

In the 1990s, the Saudi "balancing game" became even more difficult to manage. First, domestic economic troubles made it difficult for the Saudis to ignore continued low oil prices. Historically, the Saudis had shared a common interest with their Western allies in maintaining moderate oil prices, but this was no longer the case.[33] Second, the rise of fundamentalist Islamic groups within Saudi Arabia and across the Middle East heightened domestic and regional pressure on the Saudi regime. In order to placate conservative opposition, Riyadh had to distance itself from the West (at least in appearance) and support repressive regimes such as the Taliban. (Saudi Arabia, the United Arab Emirates, and Pakistan were the only three states that officially recognized the Taliban.)

After the Gulf War ended, the Saudis invited the United States to maintain a military presence on its territory. American troops served a dual purpose: to deter any further aggression on the western side of the Persian Gulf and to serve as an internal stabilizing factor for the Saudi regime. Saudi Arabia has also enlisted American technical support in continuing to improve the country's armed forces -the Saudis spent nearly $300 billion over the past ten years on defense modernization. However, the American presence vividly highlighted the internal inconsistencies of Saudi policy. Increasingly vocal Islamic fundamentalist factions criticized the presence of "infidels" in the heartland of Islam.

The Saudis found themselves in a difficult economic situation as oil prices dropped throughout the 1990s. The oil price spike, which initiated the great period of Saudi wealth in 1974, had nearly completely evaporated by 2000. Riyadh continued to run a budget deficit (just as it had every year since 1983) and had accumulated over $130 billion in domestic debt by 2000. Lack of fiscal discipline and persistent balance-of-payments deficits increased pressure on the economy, and the Saudi stock market lost 30 percent of its value in 1998. By the mid 1990s, sixty-five percent of state expenditures went to paying government salaries and to paying down the debt.[34] To complicate problems further, rapid population growth of 3 percent per annum and a majority youth population (more than half of the 20 million Saudi citizens are under 20 years old) placed enormous burdens on the management of state welfare.[35] This precarious situation spurred numerous popular calls for state reform throughout the decade. Undoubtedly, the rising political protests, turmoil and terrorism of the 1990's derive some of its fervor from deteriorating national welfare. While it would be inaccurate to attribute the increasing radicalization of Islam strictly to economic factors, the growing disparity does not mitigate fundamentalist trends.

The intensification of domestic turmoil during the 1990s illustrated the manner in which the monarchy effectively managed and suppressed dissent. The confluence of pressures on the kingdom accelerated the public political debate and gave force to extremist groups. Most dramatically, social turmoil

came in the form of terrorist attacks against United States military bases, a 1995 car bomb in Riyadh and the 1996 bombing of the Al Khobar air base, which together killed 24 U.S. soldiers. The al-Saud's (House of Saud) response was swift though not necessarily just: public executions of the suspected terrorists followed the 1995 bombing; the 1996 act was blamed on Iranian complicity. The monarchy expeditious response sought above all to bring resolution to these potentially destabilizing crises; many doubt whether there was sufficient investigation into either occurrence.

However, in response to the calls for reform from liberal and conservative protestors, the al-Saud offered a more calculated and judicious response. The 1990 business petition and 1992 "memorandum of advice" from religious scholars pleaded for reforms on justice, education, social rights and the political consultative process. Both constituencies, while coming from completely opposite sides of the political spectrum, were calling for changes in what they saw as an increasingly corrupt and unresponsive economic and political system. The al-Saud reaction was characteristically conciliatory and repressive: they created the *majlis al-shura,* the consultative council, called for by both the business and religious opposition; King Faud acted harshly against the more iridescent dissenters, ousting seven of the seventeen members of the Supreme Ulema Council in October 1992.[36]

While the creation of the *majlis al-shura* can be seen as a cosmetic reform — a political token of appeasement rather than a step towards democratization of governance — the council provides an avenue for the monarchy to understand and consult its opposition. The composition of the body includes members of professional and technical classes as well as member of the religious and academic communities; in 1997, its membership was enlarged to ninety councilmen. The incorporation of dissent into the institutional structures illustrates how the monarchy responded to its opposition without devolving its centralized decision making authority.

The balancing game on the international scene appeared no easier. The Saudis clearly needed to cut production and nudge oil prices higher, but this would run contrary to the interests of their Western allies. While coordinated production cuts in early 1998 were ineffective, further action a year later did succeed in pushing the price of oil up to $16 per barrel. Washington, presiding over an unprecedented economic expansion, was initially accommodating. The response turned less favorable in 2000 as continued high oil prices contributed to a rapidly weakening American economy, and U.S. officials began to press the Saudis for production increases.

Under the Microscope: Sptember 11th

The September 11th terrorist attacks on New York City and Washington brought all of the Saudi contradictions, both domestic and international, into

focus. From a Western perspective, "Saudi Arabia, the dependable Middle East ally" suddenly became "Saudi Arabia, the source of global terrorism." Despite criticism from the Western public (and undoubted private pressure from Western governments), Saudi Arabia skillfully navigated the path between "bad ally" and "Western sympathizer." In deference to U.S. wishes, Riyadh severed diplomatic relations with the Taliban government of Afghanistan on September 25th. However, the Saudis, while allowing the U.S. to use a command-and-control facility at Prince Sultan Air Base to coordinate the air campaign, refused to allow U.S. planes to launch combat missions against Afghanistan from Saudi soil.

In the months following the attacks, the Saudis' willingness to appease American interests has gradually dissolved. The increasing attention from Western media and politicians has put the kingdom in an awkward position of having to defend its policies to the West and protect its prestige at home. The spotlight has been an acute threat to the credibility of the Saudi regime in both the international and domestic arenas. Criticisms from United States senators and journalists alike targeted the Saudi princes with rigor and virulence, accusing the regime of supporting, training and financing the Taliban and bin Laden himself.[37] As the regime fell under increasing scrutiny, the princes became more pronounced and vocal in their retorts. Prince Abdullah personally responded to the Western press, claiming that the West was attacking Islam; concurrently, the state-owned Saudi papers proclaimed the Saudi people as the unsuspecting victims of American vexations.[38]

Caught under an international spotlight and subject to persistent criticism, the regime will do all it can to shun attention. Accustomed to ruling with unchallenged authority in complete secrecy, Saudi princes will likely take measures to insulate themselves from Western reach. As Saudi domestic dissent has increased over the past decade, the princes have been shifting their focus to domestic, rather than international concerns. Loosening ties to the West will be necessary if this is to alleviate domestic unrest. Whether or not the Saudis will seek to diminish their most prosperous foreign relationship remains to be seen. However, it is certain that the House of Saud will seek to steer its own course in domestic and international politics.

Policy Implications

The Saudi regime has vast experience in managing conflicting pressures and trends in order to maintain its grip on domestic power and play a prominent international role. We expect that the al-Saud family, through adroit manipulation of various forces, will remain the bedrock of political power in Saudi Arabia for the near future. If this is true, then what are the implications for Western policymakers?

First, the West must encourage the Saudis to implement political reform. As one observer has written, America "is simultaneously the agent of political order and social revolution" in the Middle East.[39] The United States, along with its Western allies, should focus on convincing Riyadh to enact reform in order to relieve long-term domestic pressure on the state. However, the specific mechanisms of reform should be distinctly suited to Saudi culture and political style. The creation of the Majlis al-Shura in the 1990s arguably represents one such example, although this did more to bolster the management efficiency of the monarchy than it did to democratize politics. Yet, the creation of this council opens avenues for democratic-like reform. The Saudi royals may not believe in democratic principles, but they are acutely concerned with the interests of their subjects.

Second, the fundamental economic problems that Saudi Arabia faces will never be entirely resolved through increased oil revenues. The Saudis have realized that dramatic price increases today, while improving the short-term economic situation, will ultimately lead to lower global demand tomorrow. With 75 percent of government revenue still tied to the price of oil and little willingness to depend on foreign borrowing, the Saudi government continues to plunge itself into a crisis of liquidity. Whether the Saudis can pull themselves of this fiscal crisis is yet to be seen. Although Prince Abdullah is willing to impose fiscal tightening and has made motions towards raising revenue through industry privatization, the two decades of extravagance and mismanagement have erected formidable obstacles. The chief problems that the Saudis face today, and likely for the near to mid-term, are increasing levels of unemployment and an insufficient education system for the millions of Saudi youth. That the Saudi's import over half of the workforce from neighboring countries does not improve the situation for their own subjects. Although the current five-year modernization phase seeks to address the problems of education and unemployment, much like the management of Saudi fiscal problems, state remedies are perhaps too little, too late.

Third, our argument suggests that reform in Saudi Arabia can only be a top-down process, not a revolution from the bottom up. Whether Western governments (or Western publics) like it or not, there is not "another horse to bet on" in Saudi Arabia. Despite its supposed unpopularity, the ruling elite in Saudi Arabia has repeatedly exhibited a deft touch in implementing reform to relieve domestic political pressure. Cursory examination of the domestic political situation raises the question: what if all the alternatives would be worse, not better, than the al-Saud family. Yet, the very question of alternatives can only be asked in vain. Any opposition to the Saudi regime must first undo the elaborate network of royal and business elite that has solidified over the past two decades. There are some ten thousand Saudi princes, and thousands more of business elites with valuable relations to royals. Speculation on the future of the Saudi kingdom often leads to analogies with the situation in Iran prior to the 1979 revolution. At a superficial level, many similarities are visible: the

lack of political accountability, a population dominated by disenfranchised youth, economic strife, and a hyper-salience of questions regarding the politicization of Islam.

However, there was only one Shah in Iran. There are tens of thousands of "shahs" in the Arabian kingdom. Of particular concern to Western governments is the Saudi education system, which — despite leaving one-fifth of its population illiterate — is seen by the West as a cradle for extremism. Education reform is a chief part of the agenda in the seventh five-year modernization scheme, and whether or not plans materialize, the Saudis have earmarked millions of dollars for the development and reform of schools. The educational system is a key mechanism for appeasing the *ulema* and the religious conservatives within Saudi Arabia, and the royals may face opposition if they try to usurp the power of this group. If the royals indeed want to promote reform they can take a similar approach as they did to create the Majlis al-Shura, when they made progress in a liberal direction while concurrently appeasing religious conservative interests.

Finally, the United States and Europe must reinvigorate efforts to resolve the Israeli-Palestinian conflict. Israel represents the single most complex embodiment of the conflicting pressures associated with Islam and the West. It is the central issue that continually puts regimes friendly to the West, such as Saudi Arabia, in a position of having to choose between loyalty to the Western allies and appeasement of domestic and regional anti-Israeli sentiment.[40] Resolution of the Israeli-Palestinian conflict may not immediately resolve this dilemma, but it certainly won't exacerbate it.

Yet this burden should not fall on Washington alone – the Saudis and their moderate allies in the Middle East must assume greater responsibility for convincing the Palestinians to accept a negotiated settlement. The House of Saud has few incentives to take an adversarial public stance against fellow Arabs. But as a historical financial supporter of Palestinian liberation organizations (including Hamas), the Saudis wield the capacity to influence the Palestinian situation from a distance. The Saudis' peace proposal submission, calling for a return of the Israeli occupied territories, was a bold and unprecedented move. Likely this was an action taken on behalf of regional stability as well as a means for improving relations with the United States. Now their leverage over the Palestinians must be incorporated into the peace process. Their ties to and support for Hamas can be used in the same carrot and stick manner that the Saudis use to maintain stability in their own kingdom. However, a more active Saudi role in Israeli-Palestinian relations would entail political risks that the kingdom may not want to assume. Saudi internal politics, as well as concerns over domestic, regional and Western relations will determine precisely how the kingdom will act.

Conclusion

The majority of political theory stresses the instrumental role of ruling elites in fomenting revolution. In *The Republic,* Plato saw this as a fundamental tenet of political change: "Is it not a simple fact that any form of government revolution always starts from the outbreak of internal dissension in the ruling class? The constitution cannot be upset so long as that class is of one mind, however small it may be." Skillful management of fractures in their source of power has allowed the Saudis to maintain their rule.

If the greatest curiosity of Western analysts is whether or not the Saudi regime can survive the turmoil of recent years, history provides a definitive answer. Of course, historical precedent does not guarantee future trends, and the possibility for abrupt change can never be discounted. Predictions about the future of the regime are certain to neglect some unforeseen or unknown factor; however what we do know about Saudi power offers insight into how change could come about. The sources of the kingdom's power – the intricate structure of the ruling monarchy, the wealth from oil, the influence and legitimacy earned as the guardian of Islam, and the reciprocal friendship with the West – have been remarkably preserved, although all face challenges.

The greatest threat to the royals' power is the legitimacy they stand to lose if they lose control over one of these sources of power. Already, the regime has taken bold steps in the international arena, signaling that the royals may re-evaluate other aspects of their foreign policy. Perhaps the fiscal crisis will intensify if oil sales do not yield strong profits through the near-term, putting pressure on the princes to curtain domestic spending and deepening the economic plight of the kingdom. If Iran's political maneuvering can successfully steal the reins of Islam away from the Saudis, the regime may not be able to credibly maintain its status as the guardian of the religion. One can envision numerous scenarios in which Saudi power can gradually erode. At the same time, it appears that the tangible sources of the royals' power are sufficiently protected in the short to medium-term. It is the long-term legitimacy of the Saudi regime that is less certain.

Notes

[1] For examples in the mainstream press, see Seymour M. Hersh, "The King's Ransom," *The New Yorker,* October 22, 2001, pp. 35-39; and Thomas Omestad, "The Kingdom and the Power," *U.S. News & World Report,* November 5, 2001, pp. 34-36.

[2] The Saudayri Seven, known by their mother's family name, are the full brothers of King Faud; Crown Prince Abdullah is outside the seven, the son of Ibn Saud's marriage into the Shammar tribal confederation.

[3] Gwenn Okruhlik, "Rentier Wealth, Unruly Law, and the Rise of Opposition: The Political Economy of Oil States," *Comparative Politics,* April 1999, pp. 298-299; and Michael Herb, *All in the Family: Absolutism, Rrevolution, and Democracy in the Middle Eastern Monarchies* (Albany: State University of New York Press, 2000), pp. 44-45 and 170-172.

[4] Anderson, Seibert and Wagner, *Politics and Change in the Middle East: Sources of Conflict and Opposition* (New Jersey: Prentice Hall, Inc.) p. 243.

[5]   Herb, p. 105.
[6]   Jane Meyer, "The House of bin Laden: A family's, and a nation's, divided loyalties," *The New Yorker,* November 12, 2001, pp. 56-61.
[7]   Gwenn Okruhlik, p. 301.
[8]   Ibid; and The Economist Intelligence Unit, *2001 Country Profile on Saudi Arabia* (London: EIU Country Reports, 2001).
[9]   This tactical accommodation was largely based on the two countries' common rivalry with Jordan and Iraq.
[10] The Egyptian troop presence, which initially numbered only 8,000, eventually swelled to over 70,000 in 1966. In 1963, Egyptian aircraft also dropped bombs on Saudi border villages in an apparent effort to intimate the Saudis and cut off their support for the royalist faction in Yemen. For further details, see the U.S. Library of Congress Country Study on Saudi Arabia.
[11] Elsewhere in the Middle East, Saudi relations were largely influenced by how individual states responded to pan-Arabism and newly emergent Communist influence. Despite concerns about "real" intentions in Tehran, Saudi Arabia remained on good terms with Iran; both conservative regimes were interested in maintaining the status quo.
[12] Sadat undertook a number of initiatives, including the expulsion of all Soviet advisers from Egypt, halting all assistance to revolutionary groups operating on the Arabian Peninsula, and improving relations with Syria, to facilitate the improvement in relations with Saudi Arabia.
[13] Ragaei El Mallakh, *Saudi Arabia: Rush to Development* (Baltimore: The Johns Hopkins University Press, 1982) p. 371.
[14] In December 1981, police in Bahrain arrested an illegal clandestine group with ties to Tehran that had a large amount of arms allegedly supplied by Iran. Numerous car bombings, airplane hijackings, and assassinations occurred between 1982 and 1985, and riots broke out among minority Shi'a populations in the Eastern Province of Saudi Arabia and in other Gulf states.
[15] M.E.Yapp, *The Near East Since the First World War* (London: Longman, 1996) p. 356.
[16] Michael Herb, p. 11 and pp. 30-31.
[17] Figures on oil production and revenues come from the Economist Intelligence Unit, *2001 Country Profile on Saudi Arabia* (London: EIU Country Reports, 2001).
[18] Kiren Aziz Chaudry, "The Price of Wealth: Business and State in Labor Remittance and Oil Economies," *International Organization*, 43:1, Winter 1989.
[19] Robert D. Hormats, "The Politics and Limitations of Economic Leverage," in Judith Kipper and Harold H. Saunders, eds., *The Middle East in Global Perspective* (Boulder, CO: Westview Press, 1992) p. 235. Hormats provides a thorough explanation of how the Saudis used the oil weapon in the 1970s as well as their hesitancy to do so out of concern for their relationship with the United States.
[20] Ali D. Johany, Michel Berne and J. Wilson Mixon Jr, *The Saudi Arabian Economy* (Baltimore: The Johns Hopkins University Press, 1986) p. 52.
[21] Hormats, p. 235.
[22] F. Gregory Gause III, "Saudi Arabia Over a Barrel," *Foreign Affairs*, May/June 2000, pp. 82-83.
[23] Ibid., p. 87.
[24] Ibid., p. 82.
[25] M.E.Yapp, *The Near East Since the First World War* (London: Longman, 1996) p. 490.
[26] If the Saudis cut production to increase prices, they risked losing share to non-compliant partners. Alternatively, if they increased production to regain market share, the result was lower oil revenues. The resulting strategy was to maintain consistent production levels and forgo the price leader role.
[27] Saïd K. Aburish, *The Rise, Corruption and Coming Fall of the House of Saud*, (New York: St. Martin's, 1994) p. 150
[28] Ibid., p. 167
[29] According to Anthony Sampson
[30] Aburish, p. 171
[31] This was in violation of OPEC agreements
[32] Crown Prince Abdallah wanted to hear more about the disposition of Iraqi troops, the intended use of the American troops after they arrived and the conditions under which they would leave the country. Cheney's answer to the points raised by Prince Abdallah was vague. Instead of answering them directly, he is reported to have addressed himself to Fahd and told him that there was a strong possibility that the Iraqi invasion of Kuwait was part of an Iraqi-Yemeni-PLO

plot to destabilize the Arabian Peninsula and divide it among themselves. He added that, at the moment, there was nothing to stop the Iraqi army from marching on Riyadh.

[33] Unlike many other oil producers, Saudi Arabia has huge untapped oil reserves. (Some estimates predict that Saudi reserves could supply oil for at least another century.) This has led officials in Riyadh to recognize the importance of moderate prices. Sharp increases, such as those experienced in the 1970s, would lead the West to reduce consumption and intensify the search for alternative energy sources, neither of which would be in the Saudis' best interests.

[34] Robert E. Looney, "Internal and External Constraints on Saudi Growth: The Role of Defense Expenditures and Remittances," in J.W. Wright, Jr., ed., *The Political Economy of the Middle East: The Impact of Competing Trade Agendas* (London: Routledge, 1999) and Gregory Gause, p. 82-83.

[35] Per capita income and demographic figures are from the *2001 EIU Country Profile on Saudi Arabia.*

[36] Ibid., p.305-310.

[37] Some of the most prominent leaders of these verbal attacks included U.S. Senator John McCain, and journalists from *The New Yorker* and *The New York Times.* By the end of October 2001, the *New York Times* columnist Thomas Friedman had published three articles in ten days carrying serious rebukes against the Saudi kingdom.

[38] Naim, Mouna, "Les Dirigeants Saoudiens s'Irritent des Critiques de la Presse Americaine," *Le Monde* 11 January, 2002.

[39] Fouad Ajami, "The Arab Inheritance," *Foreign Affairs*, September/October 1997, p. 146.

[40] The fact that Riyadh has long considered a comprehensive settlement of the Palestinian question a key objective for Saudi foreign policy only attests to this fact.

From Boom, Through Decline, To Failure

A Post-September 11th Examination of the Middle Eastern Rentier State

Kevin Thurston

Introduction

In the months following September 11, 2001, world attention has shifted to the Middle East, prompting an extensive re-examination of the region's political and economic condition. An optimist would shy from the results. The picture that emerges portrays the Middle East as a breeding ground for political instability, economic stagnation and religious fanaticism.

This essay argues that widespread economic dependence on rent from oil in Middle Eastern countries is at the core of this instability. In addition, this over-reliance on foreign petroleum earnings poses a danger not only to the Middle East, but also to the West – and particularly to the United States – if large-scale domestic reforms are not carried out soon. These assertions are most valid for Saudi Arabia and Iran, where oil constitutes 75 percent and 50 percent, respectively, of government revenue, and most definitively for Iraq, where the exact figures are not known, but are likely comparably high.[1] Those that own and control petroleum resources have not only been able to deter-

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mine state economic policy, but such control has also granted them extensive political power.

But conditions appear to be changing. Global economic fluctuation, the development of alternative energy sources by Western nations, and declining oil exports all serve to undermine the command-style economy that is prevalent throughout the region. Hence, the Middle Eastern "rentier states" - so-called because they draw most of their profit from external oil-generated rent, as compared to taxation on domestic production - risk not only economic decay if they do not reform, but also popular revolts that may undermine the authority of the national elites and may ultimately result in chaos and state failure. This essay examines the birth, rise and decline of the Middle Eastern rentier states over the past thirty years, and concludes with a discussion about their potential future. It begins with a theoretical framework of rentierism in the Middle East.

The Theory of the Rentier State

The theory of rent dates to the classical economists Adam Smith and David Ricardo, who in the late 18th and early 19th centuries described rent as a distinct source of income. According to Smith, "Rent enters into the composition of the prices of commodities in a different way than wages and profit. High and low wages are the causes of high or low price; high or low rent is the effect of it."[2] Ricardo observed that rent was a reward for, and not profit from, ownership of natural resources. In making this distinction, Ricardo said, "The laws which regulate the progress of rent are widely different from those which regulate the progress of profits, and seldom [do they] operate in the same direction." Simply defined, rent is "income derived from the gift of nature."[3] That it is a "gift" - something bestowed and not earned - is what gives rent its singular identity.[4]

Such effortlessly accrued income has garnered the "rentier"[5] criticism from both liberals and historical structuralists.[6] Liberals maintain that a rentier is counterproductive and not guided by the "invisible hand," as evidenced by the fact that his self-motivated pursuits benefit only him and not society as a whole. Historical structuralists argue that the rentier uses his resource as an exploitive tool to extract unfair amounts of income from those who are less privileged. Economists of both schools of thought would no doubt accept that rentiers benefit from the produce without contributing any effort to obtaining it. Further, they would likely agree that, as Beblawi summarizes, a "distinguishing feature of the rentier ... resides in the lack of ... a productive outlook in his behavior," and that such behavior constitutes "a serious blow to the ethics of work."[7] Beblawi expands upon these points by describing what he calls the "rentier mentality."

> The basic assumption about the rentier mentality and that which distinguishes it from conventional economic behaviour is that it embodies a break in the work-reward causation. Reward - income or wealth - is not related to work and risk bearing, rather to chance or situation. For the rentier, reward becomes a windfall gain, an *isolated* fact, situational or accidental as against the conventional outlook where reward is integrated in a *process* as the end result of a long, systematic and organized production circuit. The contradiction between production and rentier ethics is, thus, glaring.[8]

The absence of productivity on the behalf of the rentier is crystallized in the second important underlying concept of rentier state theory: rent seeking. Each rentier economy has its rent seekers, or citizens who demand transfers of rent wealth from the state. Instead of producing and earning, people within the rentier state perform the parasitic function of living off of direct payments from the government. In other words, all of society survives "on the dole." Clearly, such a condition deviates significantly from an "optimal" configuration of an economy.

It should be noted that rent seeking exists to various degrees within all economies. This does not imply, however, that all economies qualify as rentier systems. Just as there are no real examples of "pure capitalism" or "pure communism," likewise, a pure rentier economy does not exist. Buchanan eliminates ambiguity by defining a rentier state as "one where rent situations predominate." Other political economists add that a dependence upon external rent is the key element in a rentier state. [9]

Two political ramifications of this circumstance are worth mentioning. One is that since revenues from foreign sources provide the state with the bulk of its income, the government has no need to tax its population. Citizens are therefore "far less demanding in terms of political participation"[10] because of their lack of fiscal association with the state. Indeed, political economists often sum up rentier state theory in the adage "no representation without taxation."[11]

Secondly, since the economic fortunes of a rentier state do not rest on domestic production but rather on the international market, the governing body of such a system neglects to develop a strong domestic productive sector. As a result, society is almost entirely dependent on the government for employment and welfare. Thus, the state is essentially a political and economic ruling class, dispensing wealth (rent) to the people for the dual purpose of providing benefits and buying off dissidents.[12] This creates a tense situation. Citizens in a rentier state are constantly jockeying for the favor of the hand that feeds them.

The Emergence of the Rentier State in the Middle East

Dependence on external rent, which precludes taxation and debilitates domestic production, provides the clearest explanation for the incapability of

rentier states to democratize.[13] In a word, a society in which rent and rent-seeking are extremely pervasive can quickly become "de-politicized."[14] Middle Eastern oil-exporting countries offer vivid illustrations of this phenomenon. Indeed, as Beblawi has described, they are examples *par excellence* of rentier states."

In 1973, the convergence of the deeply rooted authoritarian political culture of many Middle Eastern political regimes, oil, and an international political crisis sparked the emergence of a throng of rentier states. In October of that year, the Organization of Petroleum Exporting Countries (OPEC), prompted by Saudi Arabia, established an oil embargo on the United States and the Netherlands in reaction to Western support of Israel during the Yom Kippur War.[15] The measure quadrupled the price of oil on the world market, causing global panic.

With few energy alternatives available in the world, consuming countries had little choice but to accept the increase in the price of petroleum. The situation invited exploitation on behalf of the "price hawks" of OPEC, led by Iran, where the shah played auctioneer by selling his country's oil to the highest bidder.[16] Fortunately for oil importers, the Iranian monarch's measures did not last long. [17] Following a round of negotiations, OPEC hawks and Saudi Arabia-led doves settled at US$11.65 per barrel.[18] OPEC's profit margins skyrocketed. Considering that the cost of producing one barrel of oil was approximately one U.S. dollar, OPEC countries were making $10.65 per barrel in rent. The enormous inflow of money to OPEC resulted in the acquisition of unprecedented reserves, or what came to be known as "petrodollars."

"Petrodollarization" catalyzed the rise of many Middle Eastern oil-exporting states in the world economy. Countries such as Saudi Arabia, Iran, Kuwait, United Arab Emirates and Oman that heretofore may have been considered "small" now had great impact on the price of the highly demanded commodity. However, the ascensions of these states to "big" country status were not free of negative consequences. Though newly rich, they were forced to confront a range of problematic issues that resulted from their reactive policy in 1973.

As discussed in the preceding section, rentier states are characterized by their dependence on external rent. Such was the case with OPEC countries after the implementation of the embargo. In Saudi Arabia, for example, oil production increased to 80-90 percent of GDP and more than 90 percent of export earnings.[19] Similar figures were recorded in other parts of the region. In Kuwait, oil revenue peaked at 94.3 percent of GDP; in Oman it hovered around 90 percent of GDP.[20]

The economic rent generated by the immense gap between the cost of oil production and the high price of oil on international markets poured in directly to the government in these countries. As a result, petroleum-rich Middle Eastern regimes prospered greatly and gained command over their economies. This

did not bode well for citizens of rentier states in terms of democratic development. In Saudi Arabia only a small fraction of the population - around 3-4 percent of the labor force - was directly engaged in the production and distribution of oil wealth following the embargo.[21] The remainder of the population sought "secondary benefits of petroleum earnings, earnings that [were] redistributed domestically either by spin-off demands of the petroleum sectors or by government allocation."[22] Indeed, as a result of the oil boom, entire economies were "arranged as a hierarchy of layers of rentiers, with the state or government at the top of the pyramid acting as the ultimate support of all other rentiers in the economy."[23]

Virtually no Middle Eastern state in the 1970's, not even on the periphery of the oil economy, was removed from the spoils.[24] As Beblawi summarizes, after 1973, "the entire Arab area - oil rich as well as oil poor - ...gained location rent."[25] For countries lacking in oil resources such as Jordan, Yemen, Egypt and Syria, "the regional economy made itself felt through worker's remittances from oil-exporting countries, petrodollar aid and in some cases modest oil production." [26] With few exceptions, life, in terms of pure wealth, had never been so good for a region that until this period could have very well been described as an economic backwater.

Political and Economic Development within Middle East Rentier States

That oil brought tremendous prosperity to the Middle Eastern economy in the 1970's is unquestionable. It also emboldened elites by "supplying them with new and sophisticated means of coercion and control, thus rendering them (in many cases) more autonomous from their societies."[27] This was only a short-term condition, however. In the long run, external rent would reveal its true nature-that of a "double-edged sword."[28] As we will see, the oil-generated largesse of these regimes would, in time, ultimately prove to be the Achilles heel that made Middle Eastern elites vulnerable to political challenge.

In the first decade after the embargo, rulers of rentier states, for the most part, enjoyed tremendous wealth and unchallenged political authority in what amounted to "petrolic despotism." [29] As Gause describes, leaders sustained themselves by dispensing benefits to appease different groups within the citizenry. Merchants and tribal leaders, who in the past held political roles, were bought off for a share of the state's new-found wealth. Intellectuals were absorbed into responsible and high-paying government positions, which mitigated their desires for formal participatory institutions. The rest of the population, having experienced the relative penury of the pre-oil boom period, happily received welfare payments and jobs from the government, and credited their improved conditions to the ruling classes. The few ideologues that called for radical or reformist changes were easily marginalized.[30]

The effects of the stabilizing measures implemented by elites, however, give an impression that "is more a snapshot of the first effects of the rentier state syndrome than a model of the dynamics over time of rentier state development."[31] In truth, a combination of internal and external circumstances eventually would serve to undermine the authority of the ruling class within rentier states. Domestically, the ballooning state apparatus began to cause social discontent. With oil revenues multiplying throughout the 1970's and early 1980's, the role of the state as the supplier of jobs and benefits likewise grew. Additionally, taxation in Middle Eastern rentier states became unnecessary, since, as Gause points out, in some cases, "as much as 100 percent of government revenue [came] from petroleum royalties and similar non-tax sources." This greatly undermined popular political representation and economic self-sufficiency, which ultimately led to a call for more representative and responsible government.[32]

As a tide of popular dissatisfaction slowly rose within the Middle Eastern rentier states, global economic trends began to impact these societies as well. When the price of oil soared to its apex in the aftermath of the 1979 Iranian Revolution, many Western nations began looking to non-OPEC oil sources. Subsequently, Alaskan, Mexican and North Sea oil companies increased their market share, and new petroleum reserves were discovered in Egypt, Brazil, India and Malaysia. By 1983, "a combination of an increased non-OPEC share of the oil market and the expansion of alternative sources of energy, such as nuclear power, induced a glut in the market" that had diminished OPEC's supply of world oil consumption by 18 percent from four years prior. [33]

The economic downturn afflicting the Arab region exacerbated domestic political tensions. As jobs and benefits began to disappear, citizens of rentier states stepped up pressure on their governments. Ironically, rentier state educational systems, funded by oil money, had by the 1980's produced educated populations that were politically informed and aware of the importance of creating national solidarity. Rulers now confronted people with the "intellectual resources and proclivity to phrase their political demands"[34] in ways that gave their call for reform greater legitimacy. One particularly effective method used by people under rentier regimes to express their desire for greater influence in the political decision-making process was the dissemination of petitions. Petitions against regimes gained popularity in the Middle East throughout the late 1980's, and were especially common in Saudi Arabia, Bahrain, Kuwait and Qatar.[35]

The reduction in demand plagued not only the rentier states, but also the peripheral states. Jordan serves as an excellent example. From 1973 and 1983, Jordan's GDP increased six-fold.[36] However, in the mid-1980's it started to face "mounting balance-of-payments problems as its current account balance, which had been relatively stable through much of the 1970's, increasingly dipped into the red."[37] By 1987, the deficit had grown to US$880 million, more than 25

percent of GDP. Unemployment rose sharply, and rioting protestors took to the streets of Jordan's towns and cities.[38]

Internal pressures to modernize from within rentier states escalated throughout the latter part of the 1980s and early 1990s. The year 1989 brought the collapse of rentierism in Jordan after the International Monetary Fund supplied loans to rescue the country's economy. In return for IMF support, the government promised to undertake a number of measures designed to promote economic stabilization. This did not come without a price for' the Jordanian elite. Shortly after the crown prince admitted that "Jordan could not sustain the painful medicine of economic stabilization without political liberalization," the government grudgingly held parliamentary elections for the first time in fifteen years.[39]

Rentier states suffered another bruising setback as a result of the 1990-91 Gulf War.[40] With Iraqi and Kuwaiti oil removed from the global market during that conflict, crisis returned to the Arab economy. The price of oil once more increased, causing consuming countries to again search for alternative energy sources. When OPEC finally returned to full output, the stability of rentier states was only partially restored. Although oil prices declined, antipathy among citizens toward their governments became even more acute because of the latest cycle of economic upheaval. This was particularly pronounced in Iraq, where economic sanctions imposed by the United Nations after the Gulf War decimated that country's oil wealth.[41]

By the mid-1990s, Middle Eastern rentier states were clearly in danger of failing. "The End of History" - Francis Fukuyama's renowned thesis that the triumph of liberalism in both political and economic terms brought about by the end of the Cold War meant that society's destiny had been fulfilled - implied that rentier states were relics, and that they had outlived their natural existence.[42] People throughout these economies were spurred on by the new world order. In the new liberal international climate, Middle Eastern elites were being forced to learn "the new language of politics," one that spoke of "participation, cultural authenticity, freedom, and even democracy."[43] As one might imagine, this was, and remains, a difficult language for many rentier state regimes to master.

The Future of the Middle Eastern Rentier State

Considering the level of economic vulnerability in the Middle East, one is easily drawn to discussion on the fate of the troubled region. Luciani argues that rentier states are a "passing phenomenon" since oil, their main source of income, will not last forever. He predicts that based on the amount of oil remaining in the region, the rentier states can survive for another four or five decades.[44]

This, however, optimistically assumes that rentier states invest present surpluses wisely. An analysis with greater emphasis on political factors yields different predictions. As discussed above, massive oil wealth gave rulers the resources to reduce demands for political participation in the early years of the oil boom. However, the process of state growth fueled by petrodollars eventually led to mass movements of popular dissent throughout the Middle East. Educational expansion, financed by elites, ironically helped pave the way for demands for political participation from many levels of society. A more enlightened citizenry within rentier states compounded pressure on governments to reform, thereby calling into question the notion that oil wealth allows elites to "depoliticize" their subjects.[45]

The continued fall in demand for OPEC oil also has hastened the decline of rentierism. In 1973, OPEC produced 31 million barrels of petroleum per day, and exported 29.5 million barrels of that amount. In 2001, the oil cartel produced 30.4 million barrels a day and exported 24.4 million. Meanwhile, non-OPEC production rose from 26.2 million barrels per day in 1973 to 45.4 million in 2001. Today OPEC's market share is too low for it to monopolize the price of oil, and future estimates point to even greater shrinkage.[46] This trend has had a particularly negative effect on semi-rentier states.[47] As the case of Jordan suggests, the forces of political modernization are much more difficult to suppress once oil wealth (read 'location rent') evaporates. With each new recession, rentier states are therefore forced to consider pursuing "a process of diversification of their domestic economic base and gradually turn into production states."[48] This prospect has led one expert to conclude that "economic crisis in the Arab world could pave the way for the restructuring of state-society relations on a more democratic and participatory basis."[49]

Lending even greater support to the argument that the collapse of Middle Eastern rentier states is imminent are the repercussions of the terrorist attacks on New York and Washington, D.C. on September 11, 2001. Although oil prices initially peaked as global markets reacted in alarm to the events, they slid below OPEC's target range of $22-$28 per barrel[50] within a few weeks of the catastrophe. Many analysts linked the falling price of oil to a non-traditional U.S. military response that was not predicted to be petroleum-intensive.[51] Others blamed the recessionary trends in the largest oil consuming economies, mainly the US and Western Europe, for the decrease in demand for OPEC's oil.

As oil prices dropped to their lowest level since 1991,[52] U.S. President George W. Bush and other leaders of the Group of Seven industrialized nations increased pressure on oil producers not to cut output in light of the tender world economy. Fearing prices would continue to plummet, the oil cartel took its chances by announcing that it would slash production by 1.5 million barrels a day as of January 1, 2002.[53] Consuming nations did not meet the decision with approval. Bush's subsequent declaration on January 28 that Iraq

and Iran were members of an "axis of evil" may in part have been motivated by his disgust for their economic practices.[54]

Current economic conditions are just as, or perhaps even more, damaging to the Middle Eastern rentier states than earlier episodes of regional economic turmoil discussed in this essay. That said, it would be naive to believe that the Arab oil regimes are prepared to give up their mode of economic operation or relax their political grip over their societies. As executive director of the International Energy Agency, Robert Priddle, said, "When you have a set of ... countries, for whom oil is an absolutely overwhelming source of revenue, I don't think they are going to give up their present mode of operation very easily."[55] Add the thread of authoritarianism that runs throughout much of Middle Eastern politics, and Priddle is certainly strong in his assertion. Clearly, fundamental changes will not occur without the proper mixture of foreign and domestic dynamics. Traditional political volatility in the Middle East, however, leads to the expectation that the forces necessary to upend rentier states will eventually converge.

Conclusion

As we have seen in the above analysis, there is a pressing need for reform in the Middle Eastern states that are dependent on external rent from oil. Peaceful change, though, is far from assured. Ruling elites in the Middle East will continue to try to employ various methods of repression, bribes, and even weapons of mass destruction, as is the case in Iraq, to keep the system that preserves their authority from fragmenting.

In spite of this, the simple fact is that "a viable civil society and a participatory political system [will be essential to] ensure sustained development and political stability"[56] in the region. Rentier states, as has been discussed, do not provide for such things. Moreover, anarchy, to which rentier states are prone without reform, is certainly not a viable wave of the future.

Similar to the Soviet Union toward the end of its existence, the rentier states of the Middle East are rotting from within. And, like the USSR in the late 1980s, they are primed for failure.[57] One hopes that when the end comes the rentier systems will quickly and quietly fade into history. However, in a place as violent and unstable as the Middle East, the likely outcome will be something far less palatable.

Notes

[1] The "complete absence of meaningful data makes it impossible" to ascertain exactly what the Iraqi government's reliance on oil revenue is. See the 2002 economic forecast for Iraq from *The Economist Intelligence Unit,* available online at: http://www.economist.com/countries/Iraq/profile.cfm?folder=Profile-Forecast

[2] Adam Smith, *The Wealth of Nations,* (New York: Penguin Books, 1974), p. 249.

[3] David Ricardo, *The Principles of Political Economy and Taxation* (London: J.M. Dent and Sons, Ltd., 1960), p. 270.

[4] The classical economist Malthus, in his seminal work entitled *An Inquiry into the Nature and Progress of Rent,* further described the singularity of rent. He said that it is the "mere result of that augmentation of price which a seller obtains in consequence of a peculiar privilege." See Ricardo, p. 273.

[5] Formally defined as "a person who lives on income from property or investments." See *The American Heritage Dictionary of the English Language* (4th Edition, 2000), available online at: http://www.bartleby.com/61/41/R0154150.html

[6] "Classical economists...and later Marx have few kind words to say about rent and rentiers." See Hazem Beblawi, "The Rentier State in the Arab World," in Giacomo Luciani, Ed., *The Arab State* (London: Routledge, 1990) p. 86.

[7] Ibid., p. 98.

[8] Ibid., p. 88.

[9] Ibid. Luciani says a state "whose revenue derives predominantly (more than 40 percent) from...foreign sources" is dependent on external rent and thus is a rentier state. See Luciani, "Allocation vs. Production States: A Theoretical Framework" in *The Arab State* (London: Routledge, 1990), p. 72.

[10] Beblawi, p. 89.

[11] Michael Herb, *All in the Family: Absolutism, Revolution and Democracy in the Middle Eastern Monarchies* (Albany: State University of New York Press, 1999), p. 256.

[12] Luciani calls this reallocation of rent the "essence of [state] power." Luciani, lecture at the Johns Hopkins University Bologna Center, March 7, 2002.

[13] Herb, p. 257.

[14] Gregory F. Gause, "Oil Monarchies: Domestic and Security Challenges in the Arab Gulf," (New York: Council on Foreign Relations Press, 1994), Chapter 4.

[15] Alan Richards and Keith Waterbury, *A Political Economy of the Middle East* (Boulder, Colorado: Westview Press, 1990), p. 58.

[16] Ibid.

[17] There is no such thing as "positive sum" in rentier economics. Malthus said that rent is "advantageous only to the landlords, and proportionally injurious to the consumers." See Ricardo, p. 273. Hence, when OPEC raises the price of oil, as it did with the effort of the shah in 1973, OPEC countries benefit while consuming countries suffer.

[18] Richards, p. 58.

[19] Brynen, p. 71.

[20] Luciani, p. 73.

[21] Ibid.

[22] Luciani, p. 73.

[23] Beblawi, p. 89.

[24] Israel, unique among the Middle Eastern states, was an exception in this case.

[25] Beblawi, p. 96.

[26] Brynen terms these countries "semi-rentier" states. See Brynen, p. 72. Luciani calls them "induced" or "second level" rentier states. See Luciani, lecture at Bologna Center.

[27] Manochehr Dorraj, "State, Petroleum, and Democratization in the Middle East and North Africa," in Manochehr Dorraj, Ed., *The Changing Political Economy of the Third World* (London: Lynne Rienner Publishers, Inc., 1995), p. 140.

[28] Ibid., p. 126.

[29] The one notable exception is the shah of Iran. In 1979, he was ousted from power, to an extent because of his misunderstanding of his country's economic condition. With oil wealth came promises from the shah to his people that he would build his country into "the fifth greatest military power in the world" and that Iran was on the verge of becoming a "Great Civilization."

The 1975-77 contraction in world demand for Iranian oil shattered these expectations, and disillusioned Iranians reacted ultimately by overthrowing their leader Iran also had taxation, which made it unique among rentier states. See Mehrzad Boroujerdi, *Iranian Intellectuals and the West* (Syracuse, New York: Syracuse University Press, 1996), pp. 29-31, and p. 27.

[30] Gause, Chapter 4.

[31] Ibid.

[32] Ibid. As Gause notes, this was hardly unpredictable since "it is natural that citizens would want some control over an institution that so powerfully affects their lives for good and for ill, if only to reduce the chances of some drastic and unexpected change in its policies."

[33] Dorraj, p. 128.

[34] Gause, Chapter 4.

[35] Ibid.

[36] Brynen, p. 79.

[37] Ibid, p. 85.

[38] Ibid, p. 90.

[39] Ibid, p. 91.

[40] The 1980-1988 Gulf War between Iran and Iraq also negatively impacted the regional oil economy, though that protracted conflict did not have as great an impact on international oil markets as did the 1990-1991 Gulf War.

[41] These sanctions, which continue to this day, are aimed at an obvious target, says Bruce Riedel, who as of November 2000 was special assistant to the president and senior director of Near East and South Asian Affairs at the National Security Council. "In this part of the world [the Middle East], sanctions means going after oil," since oil is the essence of economies in the region, Riedel said. Political tension is also exacerbated in Iran as a result of similar US unilateral sanctions. See "Running on Empty? Prospects for Future World Oil Supplies," *Baker Institute Study*, James A. Baker III Institute for Public Policy of Rice University, November 2000. Available online at: http://www.bakerinstitute.org

[42] Francis Fukuyama, *The End of History and the Last Man* (New York: The Free Press, 1992).

[43] Dorraj, p. 139.

[44] Ibid. In 1990, Luciani said rentier states possibly have "another five or six decades of good life." A great irony concerning potential rentier state longevity is the US' historical role of sustaining them. Middle East expert Nikki Keddie notes, "It is widely believed, based on performance, that the United States is only interested in shoring up rich oil states like Saudi Arabia and Kuwait, not in bettering the living standards of the majority of Middle Easterners who are poor." Of course, American past behavior may be subject to change in the post-September 11th world. See Keddie, "The End of the Cold War and the Middle East," ed. Michael Hogan, *The End of the Cold War: Its Meanings and Implications* (Cambridge: Cambridge University Press, 1992), p. 154.

[45] Ibid.

[46] M.A. Adelman, letter to the editor of *The Economist,* January 12-18, 2002.

[47] Brynen, p. 97.

[48] Luciani, p. 83. Atif Kubursi adds that the diversification of the productive base of rentier economies is "vital" since "high productivity and rewarding production are economic imperatives for any advancing society." See Atif Kubursi, *Oil, Industrialization and Development in the Arab Gulf States* (London: Croom Helm, 1984), p. 136.

[49] Brynen, p. 97. Gause bolsters this conclusion, saying that current economic trends within rentier states "...are necessitating a revision of the "rentier bargain" these states made with their citizens in the 1970's." The "rentier bargain" is another way of phrasing the disbursement of wealth (rent) by elites to appease the citizenry within rentier states, which allowed the politically dominant class to maintain their authority and thereby stunt democratization. See Gause, "Political Opposition in the Gulf Monarchies," available online at: http://bcweb.jhubc.it/facultydocs/classes/eDocs/gluciani/AS.09/Political_Opposition_Gause.doc

[50] Heather Stewart, "OPEC Retreats From Production Cuts," *The Guardian,* September 27, 2001. Available online at: http://www.guardian.co.uk/recession/story/0,7369,558849,00.html

[51] Lynne Kiesling, "Oil Markets and the 21st Century War: Why Are Oil Prices Staying So Low?" Reason Public Policy Institute, September 26, 2001. Available online at: http://www.rppi.org/opeds/092601.html Also, a dramatic fall in aviation fuel consumption in the wake of September 11th affected oil prices. See "The Challenge Ahead for OPEC in 2002," *World Markets Re-*

search Center. Available online at: http://www.worldmarketsanalysis.com/InFocus2002/articles/middleeast_OPEC.html

[52] Kiesling, p. 2.

[53] "OPEC," Energy Information Administration. Available online at: http://www.eia.doe.gov/emeu/cabs/opec.html [January 8, 2002].

[54] Bush carved out his livelihood as a self-made oilman in Texas. Combined with his distaste for elitism, it makes sense that this entrepreneur would resent the oil tyrants of the Middle East. See George Lardner and Lois Romano, "Bush Name Helps Fuel Oil Dealings," *Washington Post*, July 30, 1999, and Hanna Rosin, "Bush's Resentment of 'Elites' Informs Bid," *Washington Post,* July 23, 2000.

[55] Interview with Robert Priddle. *BusinessWeek Online,* October 30, 2001. Available online at: http://www.businessweek.com/bwdaily/dnflash/oct2001/nf20011030_2363.htm

[56] Dorraj, p. 132.

[57] Luciani tells us that when a rentier state "is widely believed to fail... political opposition develop[s]." At present, state failure in the Middle East is a very real possibility; thus, political pressure weighs heavily on rentier state elites. See Luciani, pp. 75-77.

China:
On the Way to Global Status

Jonathan Story

In his speech to the National People's Congress on March 5, 2002, Zhu Rongji, stated that the country was "facing new difficulties and severe challenges." In a two-hour speech about the last four years, he ran through a long list of problems faced by China, from corruption, to unemployment and "deep-seated" difficulties in the economy. He also repeated what he had often said before, that WTO membership would pose a severe challenge to many of China's less competitive industries. This has proved to be one of the Premier's prime achievements; one that creates a good deal of anxiety in China and around the world. In China, pessimists fear that agriculture and industry will suffer from the competition, creating serious social strains. Around the world, pessimists anticipate that China will undermine the WTO, side with India to form a phalanx of developing country complainants, and fail to implement its obligations.

My interpretation begs to differ: China's entry to the WTO this year helps underpin its reputation as a reliable partner, and embarks China on a process of regime change. The CCP will face the introduction of norms, rules and standards dominant in the West. Let's look at a few reasons for why China's request to join the world trade club took so long, the caravan of forces that unblocked the talks in 1997-98, China's new trade regime, and some reasons for China becoming a pillar of international society.

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Lengthy Negotiations

Negotiations over China's accession opened in 1986, and dragged on interminably. As Premier Zhu Rongji quipped, "My hairs have turned gray waiting for the outcome." Why did they last such a long time? Many factors contributed, such as the mechanics of the negotiation process, the expansion of membership, an ever more ambitious global trade agenda, and the demands for far greater policy transparency placed on candidates. There were also the special complexities of China's claims on Hong Kong and Taiwan. When China submitted its application to the GATT, the UK and China agreed to include Hong Kong. The UK, on China's accord, announced that Hong Kong was a separate customs territory under the GATT, a status short of statehood. Taiwan requested a similar status, in order to avoid tensions with the mainland. Meanwhile, China participated in the Uruguay Round as an observer, in other words as an informal participant. With such favourable political winds blowing, China's own economic reforms opened a vista on the country's eventual reunification. If all Chinese territories were to apply similar rules, powerful forces would be set in motion promoting the convergence on shared norms of market democracy.

The dream of convergence came unstuck over politics. The events of June 4 at Tiananmen put paid to any hopes, however exaggerated, of early accession. The GATT talks were broken off. Beijing tried to shore up its relations with the Bush administration by co-operating in the Gulf war, but this China-US rapprochement was greatly complicated by Taiwan's bid for accession to the GATT in 1990. The fear in Beijing was that the Western powers, including Japan, might be tempted to bring Taiwan into the WTO, and keep China out. Then came the flood of new candidates following the collapse of the Soviet empire. The list of those who joined reads like the Pied Piper's lost children: Bulgaria, Ecuador, Estonia, Kyrgyzstan, Latvia, Mongolia, Panama, Romania, and Oman. Thirty-three others applied, which can be listed in three categories: the politically important states of China, Taiwan, Russia and Saudi Arabia; the many transition countries from the old Soviet empire; and the rest, including Algeria. China was not alone in being invited to dust its feet on the club's threshold, while the members go about their business inside the walls.

In fact, the Chinese leadership was not ready to risk accession. Non-action was Li Peng's preference during his long premiership from 1987 to 1998. Often identified as a leader of the heavy industry brigade, he was in no hurry to negotiate. A committee had been set up in 1986 to co-ordinate positions among the varied ministries and agencies affected by the prospect of having to comply with international trade norms.[1] It was never able to overcome opposition. All the major ministries and agencies owned their own corporations, made up the rules of the game as they went along, and acted as their own referee. They were experts at endless procrastination, eager to postpone decisions, and innovative at placing exorbitant demands. Their overlapping responsibilities for tariffs,

quotas, production or issues of market access brought them into competition with one another, while many of the major industrial and sectoral ministries saw little opportunity and much danger in signing international trade agreements. In the trade arena, over 40 ministries, commissions, and agencies shared responsibility for state enterprises (SoEs), industrial policy and safety regulations. Local government officials included one-time reformers, entrepreneurial officials, or ideological opponents, who wished to protect local industries, particularly in the huge, older SoEs of NE China.

There was little consensus over China's status. Initially, China's negotiators wanted to retain the country status as a developing country. That would have ensured continued industry protection. China abandoned the industry protection argument because the position became untenable, but not because China required shorter transition periods to win friends.[2] Rather, it became untenable when Chinese negotiators discovered that the high nominal tariff rates inherited from the command economy were not being enforced. They were informed of the gap between nominal and actual tariff rates on New Zealand's mutton by New Zealand's negotiators. The mutton was entering the China market at zero rate. In other words, in a rapidly marketizing country such as China, high formal barriers to market entry create incentives for entrepreneurs to get around them.

So much for the market aspect of transition. Its political meaning for China proved more important. "Transition" referred to a new category of states, defined in the jargon of the international institutions as "transition economies," i.e. transiting from the planned to the market economy, from dictatorship to democracy. The word's political career originated in Europe, so suitably enough it was the European Commission, which slipped the "t" word into its March 1995 position on EU policy towards China.[3] In the case of China, its value lay in its malleability: everyone could read into "transition" whatever they wanted. The concept infiltrated the mid-1990s debate in the US on whether to "contain" or to "engage" China, and then coloured Chinese mainland and Taiwan political language.

The transition formula is so popular because it postpones classifying China as either a mature "socialist market economy" or a "consolidated market democracy." It enables the United States to do business with China now, and leave democracy to evolve in China sometime later; the French and Germans may compete on Chinese markets, in return for China taking steps towards regime transformation; Premier Zhu Rongji could tell a U.S. audience to "not be too impatient" regarding human rights in China, because peoples with different levels of income have different needs, and therefore different conceptions of what constitutes human rights.[4] In the longer term, he was saying, we'll all converge on greater wealth and political norms. In short, Chinese leaders hint, elliptically, that the price of joining the world trade club is for China to democratize eventually and, of course, to do so China-style. The "t" word allows

all participants in the process of China's irreversible inclusion in the global system to use the future as a place to locate present disagreements.

WTO accession was also delayed by the rise in economic nationalism, which emerged for numerous reasons in the early 1990s. The fear was that China's corporate minnows would be devoured by the giant corporations of Japan, the US and the EU. In general, economic nationalists believe that China must encourage domestic investment and indigenous economic development because the goal of most foreign investors is to profit from, not strengthen, China's developing economy. Economic liberals, on the other hand, believe that foreign investment may be the best and quickest way to develop the Chinese economy and strengthen the country as a whole. Proponents of this view are also found at all levels of society. Up to 1997, the party-state leaned in favor of consensus between the two strands of economic policy thinking. The 15th Party Congress declared certain strategic sectors off-limits to foreign investors. Most importantly, the government began to encourage mergers and acquisitions among SoEs in all industries to improve economies of scale, as well as to create competition in industries, such as telecoms, which were virtual monopolies. The series of domestic and international factors that came together in the years 1996-98 made this status quo unsustainable.

China-U.S. Diplomacy and the WTO

A caravan of forces converged on Chinese party-state politics. Foremost among these was the agenda of "Greater China." Taiwan was and is the sole exception to the general rule of the world's chanceries' infatuation with the "t" word, as far as China is concerned. Taiwan yearns for certainty, not fudge. So it turns the argument to its own purposes, suggesting that re-unification has to wait until mainland China becomes a democracy and as prosperous as Taiwan. This is fine with the communist party-state because it postpones democratization on the mainland to an indefinite point in the future. It is the interim period that produces cross-Strait tensions: Taiwan seeks to end its *de facto* status as an appendage of the mainland with regard to international organizations. In 1993, the Taipei government opened a campaign to upgrade the island's profile as an international player. There were two main reasons for this shift:[5]

Taiwan found itself a hostage to U.S.-China trade battles. The United States refused China developing-country status because of its high level of manufacturing exports. Much of this flowed from Taiwanese investments on the mainland — by the turn of the century, numbering 43,000 projects, worth about $44 billion dollars. Because direct business contact with the mainland was unlawful, these exports derived in large part from assembly operations mounted via Hong Kong by Taiwanese businesses. Matters were made worse by reports that Taiwan businesses on the mainland were engaged in intellectual property theft.

The June 1989 tragedy on Tiananmen Square strengthened the Taiwan democracy movement and reinforced the idea that reunification with the mainland was out of the question, including within the ruling Kuomintang. This inflamed opinion with the mainland party-state, which broke off relations with Taiwan in June 1995, and then conducted military exercises, and missile firing tests off the Taiwan coast at the time of the general elections there in March 1996. Mainland threats prompted the United States to deploy two aircraft carriers to the Taiwan Straits.

Both the United States and mainland China drew back from the precipice of confrontation, and by October 1997, the conditions were ripe enough for Clinton to set the tone.[6] Emphasising the benefits for the United States of working closely with China in confronting the many challenges facing the countries of the Asia-Pacific, the President insisted that China was being drawn into "the institutions and arrangements that are setting the ground rules for the 21st century - the security partnerships, the open trade arrangements, the arms control regime, the multinational coalitions against terrorism, crime and drugs, the commitments to preserve the environment and to uphold human rights." "This, he said, is our best hope, to secure our own interests and values and to advance China's in the historic transformation that began 25 years ago, when China reopened to the world." A pragmatic policy of engagement, he concluded, "of expanding our areas of co-operation with China while confronting our differences openly and respectfully"... is much better than a policy of confrontation, predicated on the belief that China's institutions will not evolve. Seeking to confront and contain China before it becomes too strong is "unworkable, counterproductive, and potentially dangerous."

The permissive conditions for a shift to "engagement" may be grouped in terms of significant changes in regime personnel; in Greater China affairs; in China's geopolitical neighbourhood; in the China policies of the major trading powers; and a very altered outlook for the Asia-Pacific economy:

· Paramount leader Deng Xiaoping died in February 1997, at the age of 92, followed by the smoothest handover of power in modern Chinese history. In September, the 15th Party Congress confirmed the party-state's commitment to market reform. In March 1998, Premier Li Peng, who had openly opposed WTO accession talks, was replaced by Zhu Rongji, the former mayor of Shanghai. Zhu Rongji considered globalization to be unstoppable, and that China had either to join or get left behind. The new premier accelerated the pace of reforms, notably with regard to the administration — he cut central government personnel by 50 percent in a few months — housing and education, banks, subsidies, and state enterprises. This was all in line with China's commitment to WTO principles.

· On June 30, 1997, Hong Kong reverted to Chinese sovereignty, providing a window on the South China Seas, a major port, a monetary authority with $60 billion in reserves, a highly educated population, and a sophisticated governance structure. Hong Kong was already a participant in the WTO, operating as a free port with very high standards of administration, a predictable legal system, guaranteed property rights and a civil society enjoying free flow of information and per capita incomes 30 times that of the mainland. Over two-thirds of mainland exports to Hong-Kong represented outward processing arrangements often run by Taiwanese businesses, and going to U.S. markets, where Hong-Kong enjoyed large trade surpluses. In February 1998, the United States concluded a trade accord with the WTO on Taiwan's eventual entry. Greater China's unity seemed tantalizingly close, but also still distant as a prospect.

· Taiwan's concerns at being left adrift in the wake of mainland-U.S. relations prompted a speeding up of bilateral negotiations with the United States to pave the way for WTO entry. After 17 rounds, the talks were concluded in February 1998. In June, President Clinton visited the mainland for a ten-day presidential trip. There, he delighted the leadership with his Three No's statement: No to Taiwanese independence; No to "One China, One Taiwan"; No to Taiwanese entry to international organizations where statehood is required for membership. Taiwan eyes were not asmile. US "engagement" with China is clearly conducted on the assumption that the Greater China of the mainland, Taiwan, Hong Kong, plus overseas Chinese in the Asia Pacific is already a virtual reality. (With Macao back under Chinese sovereignty in 1999, Greater China disposes of four seats in the WTO.)

· The geo-strategic environment of China took a sudden turn for the worse during the course of 1998. In May, the Indian and Pakistani governments exploded their nuclear devices, and in August, North Korea launched its ballistic missile, the Taepo Dong-1 and 2 over Japan. This dealt a devastating blow to arms control policies, prompted the United States to bring forward preparations on missile defence, and accentuated the attraction of the Clinton administration to China as an indispensable partner for the United States as manager-in-chief of Asia-Pacific affairs.

· In September 1997, when Japan's Prime Minister Hashimoto visited China, the two sides reached the China-Japan bilateral accord in the WTO negotiations on market access for goods. The EU Commission outlined its strategy to engage with China in order to accelerate China's "transition to an open society based on the rule of law and the respect for human rights." [7] The one exception among the rich trading powers was the United States, with whom no progress was recorded on China's

WTO bid between Jiang Zemin's October 1997 visit to Washington D.C., and Clinton's visit to China in June 1998. Nonetheless, the climate of U.S.-Chinese relations was favourable. All rich countries were now embarked on a China-engagement policy.

The Asian financial crash began in June 1997 in Thailand, spread to Taiwan, Korea, and Indonesia, and then around the world and back. China experienced a slowdown in growth, a fall-off in domestic investment, and a decline in exports. *This clearly indicated that the world market was China's main motor for growth, and that the heart of that motor was ticking in the US and the EU.* In January 1998, at the height of the 1997-98 Asian-Pacific financial crash, President Clinton proposed a "new round of global trade negotiations." The EU and Japan chimed in, as did thirteen medium sized countries with a similar proposal in a joint statement signed that year in Hong Kong.

Both the EU Commission and the Clinton administration took the lead in the 1990s on the liberalization of telecommunications and financial services. Both were keen to involve the Asian states. The major breakthroughs occurred during the course of 1997: Sixty-nine countries signed an agreement guaranteeing market access to international telecommunications suppliers on a non-discriminatory basis. In March, forty countries signed an Information Technology Agreement. Both agreements covered 90 percent of global trade. Then in December - at the height of the Asian financial crash - seventy countries agreed to liberalize their financial services. The hardware and the software for the world's communications and payments infrastructure were being laid hand-in-hand.

For China, the slow-down in domestic demand had to be compensated by attracting investors, and by maximizing external sources of revenue. This meant grasping the opportunity provided by the grand scale adjustment in the world's industrial structure, China's WTO negotiator, Long Yongtu, argued to the party cadres. [8] China had to deepen its already close relationships with the world's multinational corporations. There was no evading the difficulties, he argued, arising from the fact that the inherited state structure was incompatible with WTO membership: "A very major problem...is that every department is not only itself the appointed referee, but also a player in the game, and also [has] the same people who make up the rules of the game."[9]

With Zhu Rongji's appointment as Premier in March 1998, economic liberals won a major battle, as the new government proceeded to accentuate the drive to attract foreign direct investment to China, and to involve China more deeply in global networks.[10] For Zhu Rongji, this meant that there had to be evidence of market-liberalization in China for U.S. observers. Hence, the Premier's two-dimensional strategy: WTO-consistent reforms of the party-state had to be accompanied by a package of concessions by China that Clinton

could accept to shore up support for the deal in the United States. That package had to be implementable in China if it was to be credible in the U.S. Proponents and opponents of China in the WTO on both sides of the Pacific reached out in mutual support. This feature of China's WTO entry saga is extremely significant: interdependence makes domestic structures, policies and performance the substance of international diplomacy. In fact, it breaches the principle of non-interference in the domestic affairs of other states.

The negotiations

The history of the negotiations from 1998 to 2001 may be sketched briefly. The Chinese leadership's renewed bid to join the WTO through bilateral negotiations with the United States started well enough in 1998 with a routine exchange of letters, nearly died over a serious negotiation breakdown in April 1999, then resumed in late summer to yield the U.S.-China accession agreement in November, only to be upstaged in December when a "Red-Green" lobby of advanced industrial country unionists, environmentalists and anti-globalizers brought the WTO meeting at Seattle to a standstill. In the United States, the accession agreement went before Congress in 2000. Then, just before the House vote in May 2000 on the extension of permanent trade status to China, the EU foreign ministers backed the Commission's proposed package for China's entry talks. As the EU Trade Commissioner Pascal Lamy said: "The US got 80 percent of what we wanted. Now the US will get, on top of what they got, what we get." Trade relations between China and Japan deteriorated as Japan slammed on tariffs on stone leek, mushroom and rush imports from China, and China retaliated with 100 percent tariffs on a clutch of Japanese manufactures. But the tail-ends of business to bring China into the WTO were quickly wrapped up following the terror attacks of September 11 on the Twin Towers and the Pentagon, when China offered to co-operate with the US on the war on terrorism. China was duly ushered in as a member at the Qatar meeting of the WTO in November 2001.

China's New Trade Regime

With the major trading powers in agreement, the content of China's future trade regime was clearly discernible:

·   Services: Most of the negotiations with China and its trade partners were about opening China's service sector, ranging from telecommunications, to banking to insurance to the movie industry where U.S. firms dominated internationally. Services were still under extensive state control. A constant theme in negotiations turned around the continued effectiveness of investment barriers to foreign business, despite the fact that China had signed the Uruguay Round provisions. Barriers were geographic in scope or, as often as not, limitations on foreign ownership.

Foreign banks could conduct business in the local currency, and geographic restrictions were reduced. In investment banking, foreign firms were able to hold up to 49percent in brokerage firms after three years following China's accession to the WTO. By contrast, foreign insurance companies were to be allowed 50 percent participation in joint ventures dealing with life insurance and 51 percent in non-life business. In telecommunications, because China was party to the Information Technology Agreement, all tariffs on computers, telecommunications equipment, and other high tech products would be eliminated. Ownership was the most contentious issue: eventually, foreign companies were granted a maximum 49 percent stake in joint ventures, rising to 50 percent within two years of China's entry. In the area of distribution, the government retains the right to restrict business, though full trading rights were to be granted within three years. In short, China's non-traded services sector is opening to foreign competition - how far remains to be seen.

· Intellectual Property Rights (IPR): China is one of the world's prime sinners with regard to IPR. Hardly after plants making counterfeit products are shut down by the authorities, the same owners open for business somewhere else. In the broader scope of things, China is an avid consumer of western technologies. When the United States revived economic sanctions on hi-tech exports to China after the Tiananmen incidents, the government looked to alternative suppliers. European and Japanese suppliers jumped into the market. Another running saga was the production of counterfeit compact discs: eventually, China and the United States reached an accord in June 1996 to close up to 30 factories in southern China, 12 of which were underground. The Chinese government, aware that foreign investors need some assurance about their property rights, has regularly sought to improve procedures - difficult to accomplish when many counterfeiter operations were under command of the army. Given the difficulties, China faces a 2005 deadline for compliance: All WTO commitments have to be met from the date of entry.

· Environment: China has opposed efforts to introduce environmental and workplace standards that could drive up local costs. Nonetheless, government attitudes have evolved from outright opposition, to a more selective cooperation. The reason is simple. China's environmental problems are growing: For instance, urban pollution is estimated to be killing 180,000 people per annum; 10 percent of the land area of southern China suffers from acid rain; and the water level under Beijing has fallen to untenable levels, due to heavy exploitation for urban, industrial and farm usage.[11] Efforts have been made to tighten up controls on air pollution, water purification and acid rain, and the government has kept an eye on foreign investments that aim to shift high-polluting industries from rich countries to China. Overall, as Li Peng, the former

Prime Minister noted, "China has not only to provide people with riches and material products, but also gradually to improve the quality of life and environment as an important part of the quality of life."

Competition Policy: An effective competition policy can only operate in a market economy, where respect for property rights is assured through the law. China is not yet a market economy, and property rights are not assured. Consequently, throughout the negotiations, China's trade partners have been far from convinced that the central government will be able to live up to its commitments. The U.S. administration went out of its way to sell China's entry to the WTO on the grounds that, once in, China would be under surveillance of other members, as well as of the WTO itself. A new Commerce Department under-secretary post has been created to monitor China's trade commitments, along with a joint Congress-Executive human rights commission to monitor China's human rights record. Furthermore, the Chinese negotiators gave in to American demands for import surge protection for 12 years as well as for the implementation of an anti-dumping regime to last 15 years. The EU negotiated similar terms – hardly a ringing statement of confidence about China's future as a major world economy. As all signatories realized, enforcement depends on the center's ability to get provincial and city governments to tow the WTO line. This is far from assured.

Worker and human rights: Clinton adopted "engagement" as the best way to counter the arguments of China, Singapore and Malaysia in the early 1990s that Asian particularities prescribed a special reading of human rights. As mentioned, the Chinese government's approach is to state that the people's most basic human rights are to food, shelter and clothing, and that only after levels of education and prosperity have been spread widely should citizens' rights be extended to electoral participation. In fact, China found extensive support for its views in the UN Human Rights Commission from Russia, Japan, Australia, Canada, Switzerland and the EU states, as well as from others in Africa and Asia. At the root of the party-state's hostility to Western human rights activism lies the defense of its monopoly powers over the representation of workers and peasants. Clinton by contrast reached an agreement with the U.S. apparel industry - including such household names as Nike, Reebok, Phillips, or van Heusen – to reduce the operations of sweatshops in China: the agreement included a ban on employing teenagers under 15; prohibition of forced labor; a maximum 60-hour week; a ban on assault and harassment, and - anathema to the party-state - the rights of workers to join free-trade unions.

Protection: tariffs are to fall to 10.5 percent by 2005, from 17 percent in 1997. For China, the most sensitive area is agriculture. China is committed to reduce tariffs, eliminate quotas and reduce subsidies. "Prior-

ity areas," such as wine and cheese, would be subject to negotiation and hence differing rates as well as potentially longer periods of protected adjustment. This marks a major reversal in previous policy, predicated on the principle of food security, understood as self-sufficiency. In automobiles, quotas are to be eliminated, and tariffs reduced from 80-100 percent to 25 percent by 2005. Tariffs on auto parts are to fall to 10 percent. In textiles, China stands to gain as the world's largest garment and textile fiber producer and exporter. The textile industry represents 15 percent of industrial output, employs 10 percent of the workforce and accounts for just under one third of total exports. Under the world's existing textile regime, China is limited to a 17 percent share of the world market for garments. Despite pledges to bring the whole sector under WTO rules by 2005, the United States is to keep its safeguards in place against rapid surges in exports from China until 2008, while the EU policy regarding China textile imports is one of reciprocity. Overall, *China's new trade regime by 2010 will be more open than it has ever been.*

Whether China meets these commitments within the transition periods is a general concern for China's trade partners. A pessimistic view holds that China joins a WTO that is not working well, and its presence will not help to make things any better. The main benefit for China is the breathing space negotiated in its WTO bilaterals to adapt its economy before the transition periods for the various sectors expire and Chinese firms face the full fury of competition in an open economy. But these transition periods average about five years. Before long, resistance by powerfully entrenched interests to international competition can be expected, prompting a slowdown in the pace of party-state reforms. So which is China to be: a China with a gripe, and protectionist chip on its shoulder? Or a cheerful China, open to world markets?

China as a wrecker

Accession to the WTO means that China has to establish a reliable dispute-settlement mechanism, which implies greater uniformity of standards and transparency in the political process whereby laws are made, implemented and appealed. Traditionally, China is a "rule-by-law" state, contrasted to "rule-of-law" civil societies that require an independent judiciary to challenge decisions of the state and local governments. Hence the Chinese custom of *guanxi*, whereby family and other trusted relationships are valued far more than written contracts. In political terms, this is expressed in tightly-knit policy communities, which helps to fragment the Chinese economy along functional or geographic lines, making the China-wide conduct of business more difficult and complex. All too often the center has to concede to provincial lobbies, as the last generation of regional reformers become entrenched in office, and impose their decisions on companies that operate within their jurisdictions. In other words, China's traditional top-down "rule-by-law" generates ineffective central gov-

ernment: provincial power is essentially arbitrary and opaque; contracts are only loosely enforceable.

Much of the WTO reform program depends on whether Beijing succeeds in centralizing new powers, which would enable it to outflank the resistance of local interests. Those new powers would have to include taxation, finance, law and law enforcement as well as traditional areas such as defense and money. Meanwhile, problems in implementing commitments, it is feared, will undermine China's credibility internationally. This is what many WTO members expect to happen, as judged by their refusal to drop safeguards such as anti-dumping measures against a country that many still quietly judge to be run as a non-market economy. Domestic protectionism in China is thus likely to justify continued protectionism among the rich countries, providing Chinese diplomacy with an incentive to take the lead as advocate of developing countries. Far from being a champion of open markets, China in such conditions undermines competition, sometimes in co-operation with India, the other very large and population-rich member of the WTO. China, with India, tilts the balance heavily in favor of poorer countries, as each state has one vote.

China, the pessimists say, will turn out to be a wrecker, casting its vote with protectionist forces, and weakening international cooperation, in which it has little experience. Already open to charges that it is undemocratic, China's accession does the organization no favours. Its officials are unelected, like the WTO's, and China defends sovereignty as a principle of its diplomacy. If China fails to implement its commitments, the WTO can give a green light to injured parties to impose trade restrictions. To avoid this, China will use its freedom to settle disputes outside the WTO, through bilateral negotiations or in the context of regional fora. This only reinforces the trend to exclusive deals between the big trading powers, thereby undermining the WTO's effectiveness. In short, China's entry makes it more likely that the organization will be impaled by its dilemma: if its decisions bite, then the organization risks being accused of exceeding its legitimate mandate; if it does too little, it risks losing credibility in the eyes of governments and businesses dependent on global markets.

A Cheerful China

The opposite view holds that China has everything to gain by playing in the court of the great trading powers as a constructive partner. Little is to be won by becoming another Japan when circumstances over fifty years after the end of the world war are so different. Japan's business system built in the 1950s and geared to "export out, protect in" has little to make it attractive as a model for China in the 21st century. Greater China ambitions are best fulfilled for China within the WTO, as illustrated by China's entry ahead of Taiwan in 2001, on the conditions originally agreed upon and according to Clinton's "Three No's" policy. Entry of mainland China alongside Taiwan leaves open the prospect of evolution in China's "sort-of communist" polity, to paraphrase Ronald

Reagan, and also buys time during which *santong* (the three direct links of trade, post and travel) and *siliu* (the four exchanges—academic, cultural, economic and athletic) are encouraged. These two are the first steps, according to Beijing, to implement the formula of "One Country, Two Systems."

China is fast becoming a trade power in its own right. Comparing the trade regime of 2010 with that of 1978 is like comparing night and day. In 1978, China was an impoverished country, cut off from the rest of the world. By 2010, it will have long since joined the leading group of world trade powers. China ranks fifth in the world economic hierarchy after the EU, the United States, Japan, and Canada at the turn of the millennium. By 2010, mainland China in all likelihood will have nudged Canada into fourth place, and be racing to overtake Japan in third. A ranking capturing the commerce of the mainland, Taiwan, and Hong Kong - and including only the latter's exports of local output, not through-trade from China or elsewhere - places Greater China fourth in the world hierarchy already. China ranks third as recipient of inward investment, after the United States and the United Kingdom. Such a China is clearly going to demand a major say in the setting of world trade rules - indeed, China's prime foreign policy objective is prestige, and recognition of its weight in world affairs by the powers that be. As long as that is forthcoming, China will do everything to shore up its credibility as a reliable trade partner. In brief, China will turn out to be a team player, a pillar of international society.

In 2001, China's *annus mirabilis*, China went a long way to fulfil its ambitions: It acceded to the WTO; Beijing was chosen to host the 2008 Olympic Games; the APEC summit was held in Shanghai; and the national football team competed in the World Cup for the first time. China's regime, for long a political pariah, has become *salonfähig* - socially presentable in high international society. A practical benefit is that China will now be formulating the laws governing international trade together with the leading powers, rather than having the rules written for it from the outside. China wants special relations with the powers that be, and the ability to assert equality of rights in the international arena.

China has little interest in invoking the hackneyed argument of the world's legion of *bien-pensants* from the 1960s who suggested with their habitual enthusiasm that countries of unequal development should be treated unequally. What they meant of course is that developing countries should be given special privileges. The reverse happened for the many states not enjoying special relationships with the world's trading giants. Losing the battle over its definition as a developing country is therefore a blessing in disguise: China's negotiators will not be in a begging posture when the world's textile regime comes under WTO rules by 2005. On the contrary, China's membership in the WTO will help train the spotlight on rich countries' protectionist policies, as an alternative to Western focus on China's shortcomings in human rights. In effect, it delivers developing countries the moral high ground on a plate: global trade will boom

or shrink for many years, depending on whether or not the rich countries comply with their commitments in the WTO. That, rather than developing countries' import substitution policies of yesteryear, is the main threat to shared global prosperity in the post-cold war world.

The conclusion is simple: the rich Western powers that still set the tone on global trade policy have a choice between mounting barriers against China, as the anti-globalization forces in their societies want, or welcoming it into the WTO as a pillar of the global system, and agreeing on a gradualist policy of transition to a fully fledged market-democracy. The transformation of China's business system is the key to its insertion, satisfactory or otherwise, into world trade. Ineluctably, China is embarked on a regime change toward constitutional governance.

Notes

[1] Yong Wang, "China's Domestic WTO Debate," The China Business Review, Vol.27. No.1. January-February, 2000. pp. 54-62.

[2] Long Yongtu, "On the Question of Our Joining the World Trade Organisation," China and the WTO, Part I. The Chinese Economy, January-February 2000. Vol.33. No.1. p.49

[3] The European Commision. "A long Term Policy for China Europe Relations." 1995. A summary can be found on the Internet at http://www.ecd.org.cn/new/n3/03.htm

[4] CNN, "President Clinton and Chinese Premier Zhu Rongji Hold Press Conference,"April 8, 1999. Transcipt, 99040809V54.

[5] See Nancy Bernkopf Tucker, "The Taiwan Factor in the Vote on the PNTR for China and its WTO Accession," NBR. Vol.11, No.2, July 2000. pp.5-18.

[6] Remarks by the President in address on China and the National Interest," Voice of America," Washington D.C. October 24, 1997. The White House. Office of the Press Secretary.

[7] Europa. The European Commission. "The EU and China: Building a Comprehensive Partnership with China". Brussels. 25.03.1998.,COM(1998)181 Final. On the Internet at http://europa.eu.int/comm/external_relations/china/com_98/com98_0.htm

[8] Long Yongtu, "On the Question of Economic Globalization" The Chinese Economy vol 33, n 1 January-February, pp. 53-76.

[9] Long Yongtu. "On the Question of Our Joining the World Trade Organization." The Chinese Economy, vol 33 n 1, January-February 2000, p.28.

[10] See my case, written with Robert Crawford, entitled, "Y2K: The Bug That Failed to Bite," INSEAD, 2000. China co-operated with Global 2000, to prepare against an expected crash in the world communications infrastructure. *The organizers were given extra-ordinary access to information about Chinese utilities, and the state of the banking system—all of this being graded relatively by China's neighbours on Global 2000's website.*

[11] The World Bank, China 2020: "China's Environment in the New Century," Washington D.C.1997. pp.2-3.

Trade Policy in Indonesia
Implications for Deforestation

Joshua Brann

Introduction

The issues of world trade and environment have been discussed and debated for generations, but the interplay of these fields has begun to receive more intense scrutiny over the past decade with the increase in international trade liberalization. Following the Uruguay round of the GATT/WTO trade negotiations, barriers to trade were greatly reduced in many sectors, including the forest products sector. The prospect of freer and more widespread international trade led some observers to try to understand the direct linkages and conflicts between international trade and environmental issues. In its October 2001 report on the state of the world's forests, the United Nation's Food and Agriculture Organization describes the status of the trade-environment nexus: "Issues concerning trade and the environment continue to be important and to receive widespread attention. Concerns about environmental issues are now being taken more seriously than previously...Views continue to differ on how far trade and environmental issues could, or should, be mutually supportive; how their linkages could be encouraged; and whether trade or environmental bodies should predominate in situations where conflicts arise."[1] As increasing attention is paid to the issues of trade and environment, it is becoming more

apparent that the interactions between the two are complex and varied, and in most cases, not easily explained or understood.

Nowhere is the complexity of these issues more apparent than Indonesia. The country is biologically, culturally, and geographically diverse and unique, and controls a wealth of natural resources, particularly oil, gas, and timber. Indonesia faces many challenges however; political turmoil in recent years has left the government weak, corrupt and disorganized. The lack of effective government regulation has translated into unchecked exploitation and destruction of Indonesia's natural resources, particularly in the forest products sector. In the wake of the Asian financial crisis of 1997-98, Indonesia has struggled to regain its formidable economic growth of the early 1990s. In the coming years, as the government works toward financial stability, the contribution of Indonesia's forest resources to its expanding exports will be critical to the re-establishment of a healthy economic framework. In the period from 1989 to 1999 Indonesian trade grew 2.5 percent faster than real GDP, and trade in goods as a percentage of GDP was 81 percent in 1999.[2] These figures reflect the importance of trade to Indonesia's economy, with forest products contributing heavily. Indeed, before the economic crisis, forest-based exports brought over $9 billion per year to Indonesia's economy, having increased from $200 million in the early 1980s.[3]

The need to understand the relationship between trade and environmental resources becomes even more urgent when one considers the rate and extent of forest resource depletion in Indonesia. The World Bank estimates that harvestable forests on Indonesia's two largest land masses, Sumatra and Kalimantan, will be completely gone by 2015.[4] The current rate of deforestation in Indonesia could be as great as 2.4 million hectares per year,[5] though the prevalence of illegal logging makes accurate estimates difficult. With as little as 53 million hectares of original forest cover remaining in the entire country (out of an estimated 144 million hectares in 1966),[6] it is clear that Indonesia's current resource use patterns cannot be sustained for long. These statistics hold dire implications for Indonesia's economic development, and beyond that immediate concern lies the fact that Indonesia is considered a "mega-diversity" country, with over 10 percent of the world's biological diversity. Containing this biodiversity is 10 percent of the world's remaining tropical rainforest, which helps soak up the fossil fuel emissions that many hold responsible for the specter of global climate change.[7] In addition to the people of Indonesia, the global community has a strong interest in the maintenance of Indonesia's forest resources, and governments or societies often act to support this interest.

Given that such a large percentage of Indonesia's economic output comes from its wealth of natural resources, the question of how current and future trade patterns affect these resources is crucial. The topics addressed in this paper have far reaching implications for the long-term sustainability and de-

velopment of Indonesia's economy. The effect of international trade policies on deforestation in Indonesia must be considered, but the primary issue explored in the following pages is to what extent and in what way Indonesia's own trade policies have affected economic activity that contributes to the depletion or maintenance of its forest resources. Before the 1997-98 financial crisis, Indonesia's forest products sector made up 10 percent of the country's GDP,[8] indicating that the future relationship between economic and environmental policies will be critical to Indonesia's return to sustained long-term economic development.

Trade Patterns in Indonesia's Forest Products Sector

An important factor to keep in mind when examining trade in the Asian market during the 1990s, is the effect of the 1997-98 financial crisis, which had a dynamic impact on all sectors of economic activity. The effects of this crisis distort trade data when one looks for patterns or evidence of other trade-policy related factors. For example, between 1997 and 1999 Indonesian production of roundwood, sawn timber and plywood[9] all dropped between 26 to 35 percent.[10] The net production decrease in these products was due to a combination of factors, but as the decrease can be seen across a range of product sectors, the broad impact of the financial crisis that struck the country and the region is unmistakable. It is likely that trade-specific factors played a role in dampening or amplifying certain economic effects during the financial crisis, but extrapolating these effects is beyond the scope of this paper.

The timber trade is extremely important to Indonesia's economy. As previously mentioned, it is estimated that forest products were recently responsible for up to 10 percent of Indonesia's GDP,[11] although that figure is not necessarily representative of the degree of importance of the country's trade in forest products, as the contribution of forest products to the economy extends beyond trade in those products. The growth in the importance of forest products in Indonesia's economy can be attributed to its aggressive export restriction policies (export quotas, tariffs, and bans) designed to promote Indonesian sources of processed timber. However, although Indonesia was responsible for as much as 70 percent of the world plywood market in the mid-1980s,[12] and for as much as 41 percent as recently as 1997,[13] the revenue from plywood exports has been declining since 1993 (See Figure 1). This figure dropped from $3.6 billion in 1996 to $2.0 billion in 2000, and the volume of plywood exports has simultaneously dropped by 22.5 percent.[14] Other forest product sectors, however, have remained constant or expanded during this period (See Table 1), except for some immediate declines following the financial crisis. The decline seen in plywood exports can partially be attributed to the relaxing of export tariffs on roundwood in 1998, as discussed below. In 2000, plywood, sawnwood, and paper and paper products accounted for 7.4 percent of Indonesia's export value, and nearly 10 percent of non-oil and gas exports.[15] Keeping in mind that

many additional forest products are exported, the importance of Indonesia's forests to its economy is evident.

Indonesia exports a range of forest productsto a variety of nations around the world. While the United States, Japan, Singapore, and the European Union are the primary importers of Indonesian products (See Figure 2), trade in forest products with other Asian countries has been growing, in large part due to China's increasing demand for goods. Indonesia has increased trade with other Association of South East Asian Nations (ASEAN) countries in recent years, and this expansion is expected to continue in 2002 and beyond with the implementation of the ASEAN Free Trade Agreement (AFTA). According to the World Bank, in 1999 inter-ASEAN trade accounted for 22.2 percent of all ASEAN exports, up from 19.8 percent in 1990, although this was lower than the peak of 25.4 percent reached in 1995 and 1996;[16] this percentage should continue to rise. Japan is by far Indonesia's single most important trading partner, accounting for 23.2 percent of exports in 2000, the highest percentage for any of the countries with which Indonesia shares a market. The United States follows Japan as the second most important trade partner, absorbing 13.6 percent of· Indonesian exports; Singapore is third with 10.6 percent.[17] Japan, the US, and Singapore therefore account for over 47 percent of Indonesian exports, and while this represents a range of goods, not only forest products, the power of these markets must be considered in relation to the effect of trade policy on Indonesia's forests.

Indonesia has extensive and diverse forest resources, and consequently exports a multitude of forest products, both timber and non-timber. Timber products are harvested primarily by commercial entities, while indigenous and local actors tend to play a more significant role in non-timber forest product harvesting, though possibly still not a dominant one. According to the Indonesian Ministry of Forestry, Indonesia's exported wood products include the following: roundwood, sawn timber, plywood, blockboard, wood working, furniture, chipwood, pulp, paper, particle board, wood flooring and chopsticks. Of non-timber exports, rattan and charcoal are the most important (See Table 2), but others include gum resin, turpentine, cassiavera, sago and silk.[18]

Though general reference is often made to the "forest products sector," it is useful to keep in mind the breakdown of products in this sector, particularly when examining products in trade from tropical forests, where many non-timber products are harvested in addition to wood-based products. To truly understand the effect of trade on Indonesia's forests it is also helpful to look at how the trade of each product relates to maintenance of forest resources. Non-timber forest products can often be harvested without diminishing the resource base, but for the harvesting of timber-based products to be sustainable, it must be done at a rate that is not greater than the natural replacement rate of the resource, or there must be efforts made toward reforestation to make-up for the replacement rate deficit.

Theoretical Framework for Analysis

According to the Heckscher-Ohlin (H-O) model of international trade, one would expect Indonesia to be a major exporter of forest products. The H-O model indicates that countries will trade heavily in sectors in which they have large factor endowments, which can be specified in Indonesia's case as natural resources and labor. The forest products industry requires access to large quantities of timber, and the harvesting and processing of timber in Indonesia is a labor-intensive process; to be productive and profitable the industry makes use of the large pool of relatively cheap labor. The mobility of the labor force is important when considering policies related the trade in forest products. The sector does not require skilled labor, and therefore labor can generally be considered mobile, although in Indonesia's case this mobility can be negatively impacted by the unavailability of other sources of employment. The forest products industry also requires a large investment in capital, although once the base of capital is established the annual requirement for new capital is relatively low. Capital in the forest products sector (wood processing plants and heavy machinery for harvesting) is not easily mobile, and this has implications for sector "momentum" when policies designed to influence the sector are evaluated. Indonesia is rich in both forest resources and cheap labor, the two most important factors for forest products, and as the country has been commercially harvesting and processing timber since at least the 1960s, it has developed a large capital endowment.

When looking at the data for trade in forest products in Indonesia, we see that forest products indeed account for a significant proportion of Indonesia's exports, as previously mentioned. However, only in certain product sectors does Indonesia have a large enough share of the global market to influence prices; when considering these keystone sectors Indonesia should be considered a "large" country. One example of this is the wood-based panels market, in which exports from Indonesia make up a large percentage of world trade. As pointed out earlier, Indonesian plywood was recently responsible for as much as 41 percent of the global plywood trade,[19] although this percentage has declined in recent years.

The effect of Indonesia's export restriction policies will be considered in the subsequent discussion, and these should be given a theoretical grounding as well. According to Appleyard and Field, the imposition of an export tax leads to a decrease in the domestic price of the taxed good, as producers shift production from the international to the domestic market to avoid the export penalty. The domestic price falls until it equals the international price less the amount of the tax (see Figure 3). As the domestic price falls, producers are willing to supply a smaller quantity, and these factors combine to result in a reduction of producer surplus. An increase in consumer surplus, as consumers benefit from the lower domestic price, helps offset the loss in producer surplus. The government gains revenue from the tax, but the revenue may not

be as much as predicted since exports decline, and despite these gains there remains a deadweight efficiency loss in the system. The loss of efficiency combined with the loss in producer surplus outweighs the gains of the government and consumers, and results in an overall negative effect on the economy. These effects can be tempered or augmented by varying degrees of elasticity in domestic and international supply and demand for the good on which the export tax is placed.[20] In the case of export restrictions on the forestry sector in Indonesia, these effects are naturally not so clear, and are complicated by the presence of externalities. However, the general conclusion is the same – export restrictions result in system efficiency losses, and long-term negative effects on the economy are seen.

Reviewing Indonesia's Forest Product Trade Policy History

When considering issues of trade and environment it is important to distinguish between effects of trade on the environment and effects of environmental factors on trade. For example, an import tariff on teak may be intended to protect domestic teak harvesters. However, this measure may increase pressure on domestic sources, leading to greater depletion of domestic teak. Conversely, as can be seen in Indonesia, the reduction in availability of large trees required for plywood processing has contributed to a reduction in plywood exports and an increase in pulp and paper exports. According to *The Economist*, because of the increasing scarcity of large diameter logs, companies have turned their attention to the pulp and paper sector, which increased from a production capacity of 1.1 million tons in 1991 to 4.9 million tons in 2000.[21] These two perspectives should be kept in mind throughout the subsequent discussion.

The issue of illegal logging is especially problematic when attempting to quantify patterns of trade and resource use. First and foremost, the unregulated nature of illegal logging makes it difficult to accurately understand the market forces operating in the Indonesian timber sector. Illegal logging occurs for many social and economic reasons, but the rapid expansion of Indonesia's wood processing industry in the 1980s and 1990s was one of the primary factors driving the increase in illegal logging in the late 1990s. The International Crisis Group (ICG) identifies one study showing that domestic demand for timber in Indonesia is nearly four times greater than the possible legal timber supply, [22] and the World Bank has said that in 1998 illegal log and pulpwood production was estimated at nearly three times the official harvest.[23] Monitoring the use of Indonesian timber is further complicated by the fact that much of the wood harvested is smuggled into Malaysia for export from that country, either by ship or across the two countries' mutual border on the island of Borneo.

The discussion now turns to the empirical evidence demonstrating the effect (or lack thereof) of forest-product related trade policies. There are a vari-

ety of trade restrictions that can be implemented by policy makers attempting to influence trade patterns. These include export and import tariffs, bans, and quotas; however, the intention of this research is to examine the environmental and economic effects of export restrictions. Export restrictions have become a common method of influencing trade patterns, as pointed out by the FAO: "While trade liberalization is progressing at the global level, some countries are making increasing use of export restrictions such as bans, levies and quotas as a policy tool to address national environmental or market problems. Bans or very high export taxes are in place in countries as diverse as Canada, Ghana, Indonesia, Mongolia, the Philippines, the Sudan and the United States."[24]

Indonesia's export policies have gone through three major stages. Throughout the 1980s and early 1990s Indonesia placed bans or prohibitive tariffs on the export of roundwood, with the intention of expanding the wood processing sector and increasing the share of Indonesian processed wood products on the global market, specifically plywood. In the late 1990s, following the Asian financial crisis, in an attempt to liberalize its trade and to win IMF financial support, Indonesia rapidly and dramatically dropped its export tariffs on roundwood. This measure, however, was not supported by appropriate domestic government regulation and enforcement, and was therefore partially responsible for an increase in the rate of deforestation in Indonesia to a level even greater than those seen through the 1980s and early 1990s. In recent years international organizations, civil society actors and governments have become alarmed at the rapid loss of Indonesia's forest resources, and the Indonesian government has begun to heed this concern. In late 2001 the Indonesian Ministry of Forestry, in conjunction with the Ministry of Industry and Trade, implemented an export ban on logs from the country's forests, similar to the original export ban from the 1980s, but with different intentions.

The first major shift in domestic trade policy came in 1978 when Indonesia doubled its ad valorem tax on exported logs from 10 to 20 percent, and exempted most plywood and sawnwood. Then, beginning in 1980, export controls on logs were progressively tightened, resulting in an outright ban in 1985.[25] The ban was subsequently replaced in 1992 by a prohibitive export tariff.[26] The original intent of this ban was to keep roundwood from directly leaving the country, so that Indonesia's domestic processing industry would not have to compete with foreign processors for access to Indonesia's timber supply, as often happens in a country's forest products sector. Indonesia's intention was realized: wood and lumber exports dropped, and processed wood exports increased (see Figure 4), with the volume of plywood exports surpassing the volume of wood and lumber exports in 1985.[27] The common use of such policies is described by the FAO:

> Restrictions on log exports have traditionally been associated with promotion of the domestic processing industry in timber producing countries, mainly for export rather than domestic demand. Other aims range from attempts to increase the financial return to the country, efforts to ensure adequate wood

supuplies for the domestic wood-working and other wood-based industries (especially in competition with overseas log buyers), through to attempts to protects forests from overuse.[28]

The wood processing industry in Indonesia benefited greatly from this policy, and processing capacity and export value increased rapidly through the 1980s and 1990s. In 1976 there were two plywood processing plants in Indonesia; by 1986 the number was up to 100 with another 25 planned for development. Indonesia established itself as a major player in the international plywood market, and plywood exports by volume grew rapidly into the mid 1990s (see Figure 5). Plywood exports also grew in value from $163 million in 1980 to $880 million in 1985,[29] and jumped to more than $4.25 billion in 1993.[30]

However, despite the infiltration of Indonesian processors into the global market throughout this period, there were a number of negative economic consequences. As described by Barbier: "The export tax structure created effective rates of protection of 222 percent for plywood manufacture, and the drop in export revenue to the government from diverting log exports was not compensated by any gain in value-added in sawmilling, resulting in a loss of US$15 per m³ at world prices."[31] The preferential status of the wood-processing sector allowed the industry to expand continuously without high regard to efficiency in processing capacity, and this had economic repercussions as well. According to Barbier, "[It has been] estimated that over 1979-82, due to the inefficient processing operations resulting from this policy, over US$545 million in potential rents was lost to the Indonesian economy."[32] These economic consequences are important, and demonstrate the potential difficulty in attempting to use trade measures to coerce forest product markets into expansion or contraction.

Indonesia's historical emphasis on exporting processed wood over raw timber also had environmental implications, though it is doubtful that much regard was paid to this aspect during the implementation of these policies. The development and expansion of Indonesia's timber processing industry intensified pressure on Indonesia's forest resources, and aggravated the already significant rate of deforestation. According to the World Bank, Indonesia's average rate of deforestation from 1985 to 1997 was over 1.6 million hectares per year.[33] With respect to the relationship between the export restrictions and deforestation, another source adds, "Although the switch to value-added processing of timber initially slowed down the rate of timber extraction, the inefficiencies and rapidly expanding capacity of domestic processing may actually increase the rate of deforestation over the medium and long term."[34] The environmental consequences of the inefficiency of the Indonesian processing sector is another angle to be considered, and the level of inefficiency in Indonesian plywood mills can be extrapolated to determine that for every cubic meter of plywood processed in Indonesia, 15 percent more trees are used compared to plywood produced in neighboring countries.[35] While deforestation would not have stopped with the absence of a large timber processing sector, the ultimate

effect of Indonesia's initial export restrictions was an increased burden on do-mestic forests, and a resulting long-term increase in deforested area.

In 1998, at the behest of the IMF, Indonesia dropped its log export tax from 200 percent to 10 percent in an effort to reform the economy in exchange for an IMF support package, which was needed as a result of the Asian finan-cial crisis. This policy has had unfortunate economic and environmental con-sequences. According to a local news source, the decision has led to a massive outflow of logs from the country, as the easing of log export restrictions prompted many logging companies to sell their logs overseas to obtain hard currency instead of selling to local wood businesses.[36] The Chairman of the Association of Indonesian Wood Panel Exporters said that the large amount of logs being exported had hurt local wood-related firms as they were not able to obtain sufficient supplies of timber, their prime raw material. He added that unless log exports were stopped, many wood-related businesses, which contribute a large amount of federal revenue, would be forced to shut down.[37] Indonesian plywood exports did in fact drop to 4,611,878 cubic meters in the 1999/2000 statistical year, down from 10,270,230 cubic meters in 1996/1997.[38] The In-donesian Forestry Society chairman remarked that the lucrative log export business had raised Indonesia's logging volume to 60 million cubic meters in 2000,[39] compared to an average of slightly over 26 million cubic meters be-tween 1991 and 1997. The increased outflow of timber from the country is certainly affecting the rate of deforestation, but this effect is far beyond what can be officially calculated due to the impact of illegal logging. As export re-strictions on legal roundwood are eased and export volumes increase, it is easier for illegal loggers to export their timber without detection.

The third and most recent series of actions in forest export trade policy has occurred within the past year. Following the environmental and economic complications created by the sharp reduction in export tariffs in 1998, the Ministry of Forestry proposed a log export ban in the Fall of 2000 in an effort to support the domestic processing industry and slow deforestation. This ban was enacted on October 8, 2001 for a trial period of six months.[40] The exact effect this ban will have on the rate of deforestation and on trade patterns will not be known until statistics are available for the period covering the ban, but given historical patterns, conjectures can be made. Presumably the domestic processing industry will benefit from an increase in the availability of timber for processing, but unless steps are taken to control illegal logging and the current over-capacity of the domestic processing industry is reduced, the rate of deforestation will not be greatly affected.

In sum, Indonesia's export policies in the early 1980s created intense pressure on domestic forest resources. These policies, when combined with weak governance and corruption, led to an unsustainable level of deforestation into the 1990s. The situation was exacerbated by the IMF led policy shift in the late 1990s when export tariffs were sharply reduced, and, again combined with

poor governance and corruption, this policy greatly increased the already high rate of deforestation. While multiple factors influence the legal and illegal extraction of forest resources in Indonesia, the government's export policies have had a profound impact on the rate of deforestation. As discussed below, efforts to slow the destruction of Indonesia's once expansive tropical forests should not look to trade measures as a lone remedy, but because of the clear link between trade policy and the rate of deforestation, it should be noted that trade measures can play a role in a multi-faceted response to Indonesia's deforestation problem.

Considering the Effectiveness and Appropriateness of Trade Measures in Addressing Market and Environmental Problems

The roller coaster ride of export policy on roundwood in Indonesia begs the following questions: How effective are export barriers in influencing market or environmental factors? Are such measures appropriate? In the case of Indonesia it would seem that initial policy measures did accomplish what they set out to do – expand the wood processing industry. This, however, resulted in market distortions that allowed for processing inefficiency and led the industry to expand beyond what could be sustainably supported by (legally) available resources. Now the industry is facing a painful restructuring. The IMF supported reduction in export tariffs also accomplished its goals of expanding and liberalizing trade in the forest product sector, but in this case there were unforeseen costs to the environment. As previously mentioned, the effects of the recent export ban on roundwood will not be known for some time.

It is generally accepted that trade barriers are "second-best" solutions to addressing market or environmental problems, the first-best option being a non-trade related measure. As explained by Pearson,

> There is general agreement that the first-best method for dealing with a domestic distortion is with a domestic rather than trade measure. The implication is that if an externality arises in, say, log harvesting, the market distortion is better approached through a production restriction on logging than an export restriction. The straightforward reason is that an export tax creates a by-product distortion... The by-product distortion involves an additional cost, not present with a simple output restriction. In some instances, however, the first-best policy measure may be unavailable or not feasible. This raises the question of whether a trade measure is a suitable second-best policy.[41]

As we have seen, often a trade measure can be an effective way of addressing a problem in the short-term, but over the long-term serious secondary distortions may arise, and the effect of these distortions must be taken into account when considering the aim behind implementing a trade measure. It is also possible to make effective use of a trade measure if all potential externalities are accommodated and it is found that the trade measure can still accomplish its goal.

In a recent study by the International Food Policy Research Institute, San, Lofgren and Robinson used computable general equilibrium models to explore the impact of devaluation of the Indonesian exchange rate resulting from the Asian financial crisis on the Indonesian forestry sector, particularly in Sumatra. They found that following devaluation, deforestation is likely to increase as Indonesian forest products, both at the finished and intermediate stages of processing, become more competitive on the international market. The researchers went on to analyze a potential policy response of imposing an export tax of 5-20 percent on processed wood to discourage further deforestation. The proposed export tax would place downward pressure on the export of processed wood products (as previously discussed in the theoretical framework), thereby reducing pressure on forests. San, Lofgren and Robinson note that (at the time the research was published) Indonesia already had high export taxes on logs and sawn timber designed to support the export of plywood.[42]

In measuring the effect of a proposed 5 percent export tax on processed wood, San, Lofgren and Robinson found that "the increase in the export tax discourages the production of raw timber and processed wood," and "government revenue increased by as much as 12 percent, depending on the size of the devaluation." The effect on the value of aggregate exports was a decline of 1 percent at most. They concluded that, in light of the fact that devaluation places pressure on forests, a proposed 5-20 percent export tax on processed wood products "effectively offsets the increased demand for raw timber and processed wood generated by the devaluation."[43] The results from this study suggest that it is possible to use trade measures to address environmental concerns without creating overly burdensome market distortions, but all potential externalities must be considered before the appropriateness of such measures can be determined.

Though the previous example indicates that the use of trade measures to address environmental issues can in theory be effective, often these policies do not achieve their aims. Numerous observers have indicated that, if possible, environmental problems, such as deforestation and illegal logging, should be addressed by domestic measures that have a more direct relationship to the problem. The FAO cites the example of Ghana in the early 1990s:

> The Ministry of Forestry took several steps to curtail the illegal traffic of wood; initially it imposed export taxes, and then an export ban... Unfortunately, these measures had little impact. In 1994 the Ministry renewed its efforts to combat illegal acts through several regulatory means... These measures proved ineffective as well. At that point, the government took the critical step of making a genuine effort to involve other members of the private sector and civil society... As a result, illegal logging was substantially reduced, with the reduction in log supplies bringing about a fourfold increase in the value of marketed timber between 1994 and 1995 and, hence, an increase in government revenue.[44]

In this case, trade measures were not an effective solution, and not until efforts to address underlying factors were made did the problem begin to subside.

In particular, when considering the effectiveness of export restrictions, Barbier concludes that when combined with the problems of domestic market and policy failures, the goals of such restrictions are achieved with high economic and environmental costs[45]. The underlying causes of conflicts between trade and environment must be considered when attempting to resolve such conflicts. As Pearson points out, "There are few inherent conflicts between liberal trade and environmental protection. Many of the apparent conflicts arise... because countries have failed to take appropriate domestic environmental protection measures, in which case trade can be the agent but not the root cause of environmental degradation... Environmentally motivated trade restrictions will not solve these conflicts."[46]

The use of domestically initiated trade measures to address environmental issues has been shown to be a "second best" solution, but what about the use of international or externally initiated trade measures? Do countries have a right to place restrictions on other countries (often developing countries) in an attempt to force them to follow certain practices or enact domestic regulation? John Jackson asks,

> If an importing nation can prohibit goods from a poor third world country in which the production occurs in a manner that is moderately dangerous to humans, could a nation prohibit the importation of goods produced in an environment that differs in many social or cultural attributes from its own society? Why should one country be able to use its trade laws to depart from the general liberal trade rules of the GATT system to enforce its own view of how plant or animal life in the oceans beyond its jurisdictional limits of the territorial sea are treated, or how tropical hardwoods are harvested?.[47]

The Netherlands has been active with trade measures designed to allow only the import of tropical timber that can be shown to be sustainably harvested, and the Dutch have encouraged others to follow suit. Though these efforts are well intentioned and potentially beneficial, Robert Repetto points out that by placing barriers on natural resource products, developed nations may indirectly force developing ones to intensify their use of natural resources to maintain export value: "By impeding exports of labor-intensive products, especially when developing countries are under pressure from high debt-servicing requirements, these trade barriers virtually force developing countries to raise exports of natural resource-based commodities."[48] Ed Barbier outlines a host of reasons why bans on tropical timber are ineffective, including the fact that they can be interpreted as being discriminatory, they can prove to be arbitrary and unworkable, they may not actually achieve a reduction in deforestation, and they may have little impact on economic incentives at the lowest level of harvesting and production.[49] For example, in Indonesia the expansion of palm oil plantations and forest fires contribute more to the overall rate of deforestation than does timber harvesting.[50] A 1998 FAO report on trade restrictions and their impact on global trade in forest products succinctly states: "...better solutions to the deforestation and degradation problems can be found outside the area of trade than inside it."[51]

In Indonesia's case, the causes and conditions of deforestation are so varied and complex that the imposition of import bans by members of the international community would likely fail to achieve their intended purpose for many of the reasons mentioned above. That is not to say however that the international community should not take an active role in helping Indonesia address its forest management problems. The international community has a large incentive to do so, given the amount of biodiversity harbored in Indonesia's forests. As previously pointed out, though it makes up only 1.3 percent of the world's land area, Indonesia is home to more than 10 percent of the world's species, and this natural endowment should be considered in economic as well as intrinsic terms. Biodiversity resources have proven to hold economic value in both the pharmaceutical and tourism sectors, and the international community could help Indonesia take advantage of its biodiversity resources in these fields. If a country wishes to reduce its demand for timber that may be unsustainably harvested, it should consider supporting certification and labeling standards, such as the Forest Stewardship Council. Consumer education is also an area in which there is always room for improvement, though education takes time, whereas trade restrictions have been attractive because they can be implemented relatively quickly. There are many roles to be played and many beneficial actions to take if foreign governments have a desire to address the problem of deforestation; trade restrictions are certainly not the whole solution, and only with certain circumstances and safeguards should they be considered a partial solution.

Conclusion

Looking at the effects of Indonesian domestic trade restrictions since 1980, we can see that Indonesia's export tariffs and bans on roundwood have been one of the primary factors influencing the rate and composition of resource use by the forest products sector. Considering the importance of the forestry sector to Indonesia's economy, it is imperative that a firm awareness of how export policies influence the forestry sector be established. Many aspects of the forestry sector are affected by the imposition of export restrictions, both economic and environmental, and we have seen negative long-term economic and environmental effects of Indonesia's policies undertaken in the late 1970s, and continuing through to today. The wood processing industry has reached a capacity well beyond what can be sustainably supplied, and international organizations are recommending a contraction of the industry; this will lead to economic hardship for Indonesians who are making a living in this sector. The drive to expand the domestic wood-processing sector resulted in a rapid and unsustainable rate of forest use, leading to an overall shrinkage in Indonesia's forested area. Illegal logging has spiraled out of control, and illegal sources now help fill the domestic demand in the wood-processing sector, which cannot be met by currently available legal timber resources. When examining these issues it becomes apparent that without a strong governance infrastructure,

and without government willingness to control illegal logging, the ability of trade measures to affect forest management is much compromised.

Though Indonesia's timber export policies have often achieved their short-term goals, the long-term negative implications for the economy and the environment resulting from market distortions will far outweigh any short-term progress. This observation leads to the general conclusion that export restrictions are not an efficient means of controlling market forces or affecting environmental problems, and should only be considered as policy tools to achieve these goals if all externalities and conflicting market forces are carefully analyzed before implementation. As many sources have pointed out, the same may be said for the effectiveness of externally mandated trade restrictions in addressing environmental problems. Trade restrictions are "second best" remedies, and although in some instances they may be the only feasible option, potential outcomes should be scrutinized to ensure that a trade restriction measure, whether domestic or external, does not result in an effect opposite of that intended. While trade measures may not be the single answer, it is crucial that the international community become more aware of and involved in the issue of tropical deforestation, particularly in Indonesia, which stands to lose some of the richest, most diverse ecosystems on the planet.

Appendix

Table 1: Log, Sawntimber and Plywood Production, Last Ten Years (cu. m.)

Year	Log	Sawntimber	Plywood
1991/1992	23,892,000	3,006,046	9,123,500
1992/1993	28,267,000	3,534,356	9,874,000
1993/1994	26,848,011	2,244,000	9,924,000
1994/1995	24,027,277	1,729,839	8,066,400
1995/1996	24,850,061	2,014,193	9,122,401
1996/1997	26,069,282	3,565,475	10,270,230
1997/1998	29,520,322	2,613,452	6,709,836
1998/1999	19,026,944	2,707,221	7,154,729
1999/2000	20,619,942	2,060,163	4,611,878
2000*	13,798,240	3,020,864	3,711,097

Source: Ministry of Forestry, online. *Note: Data for 2000 has not been completely reported.

Table 2: Non-Wood Forest Product Exports, Last Five Years (Tons)

| Year	Rattan	Charcoal	Cassiavera	Agathis Resin	Dipterocarp Resin	Teng. Nut	Glutta	Others
1996/1997	71,804	131,350	4,432	1,600	18,609	984	2,142	7,344
1997/1998	102,577	103,612	20,202	-	-	213	2,785	19,681
1998/1999	81,670	36,142	-	-	3,972	-	-	538,106
1999/2000	6,686	8,158	-	-	2,521	-	-	-
2000*	780	32,599	-	-	1,325	-	10	-

Source: Ministry of Forestry, online. *Note: Data for 2000 has not been completely reported.
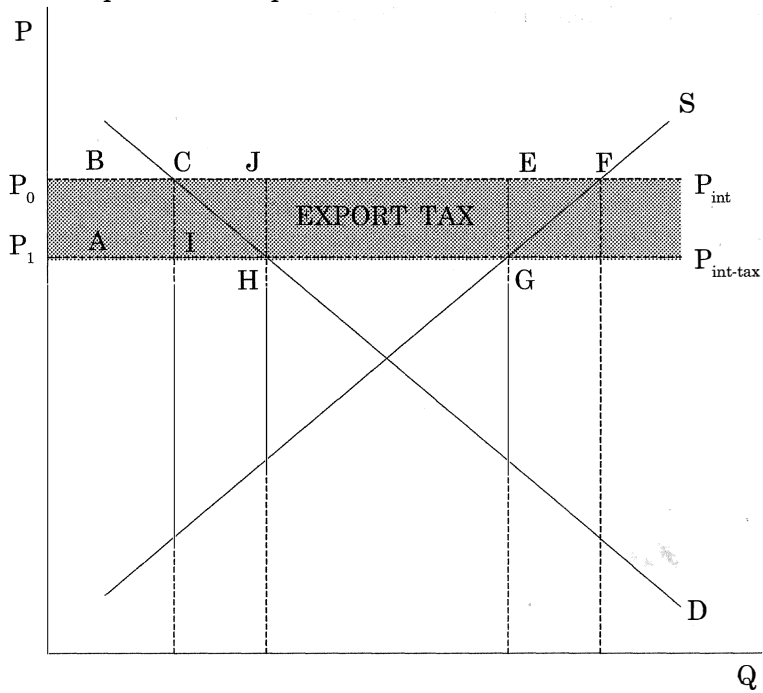
Figure 1: Plywood Export Revenue 1980-2000.

Source: UN, 1991; UN, 1996; UN, 2001; EIU, online.

Figure 2:Value of Exports
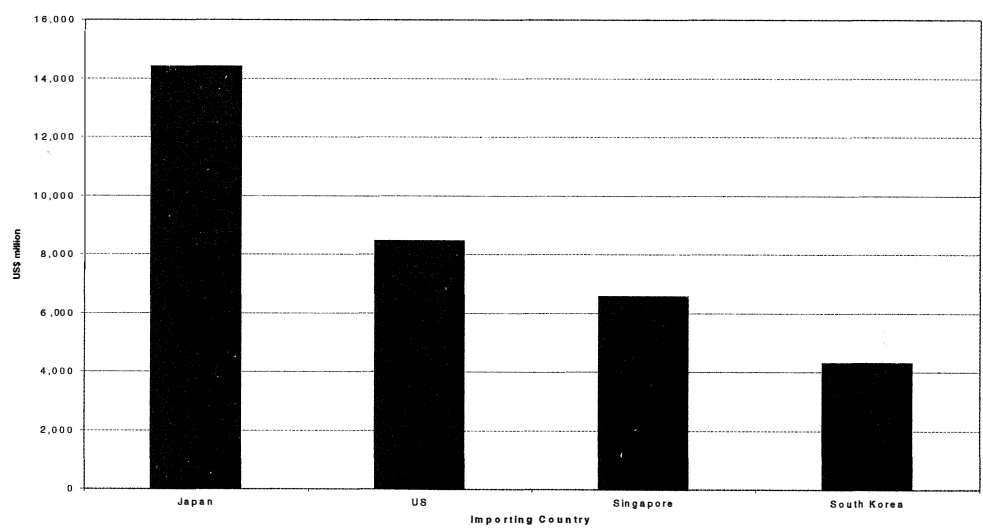
Source: EIU, online.

Figure 3: The Impact of an Export Tax

The imposition of an export tax reduces the price received for each unit of export by the amount of the tax. This causes the domestic price to fall from P_0 to P_1 as domestic producers expand sales in the home market to avoid paying the export duty. The fall in the domestic price leads to a loss in producer surplus equal to area ABFG, an increase in consumer surplus of ABCH, an increase in government revenue of HJEG, and deadweight losses to the country of CJH and GEF. (Source: Appleyard and Field, 2001)

Figure 4: Wood and Plywood Exports 1980-1990.
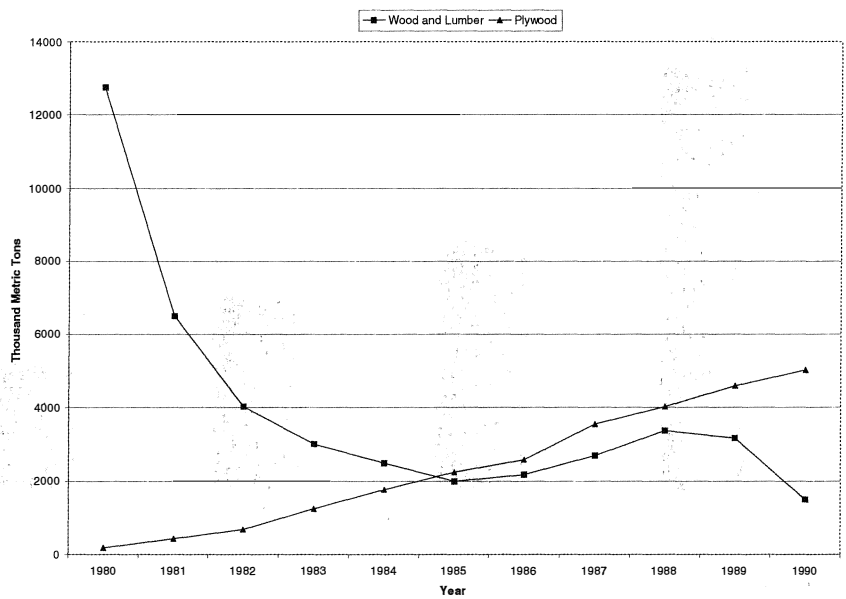
Source: UN, 1990; UN, 1995.

Figure 5: Plywood Exports by Volume, 1980-2000
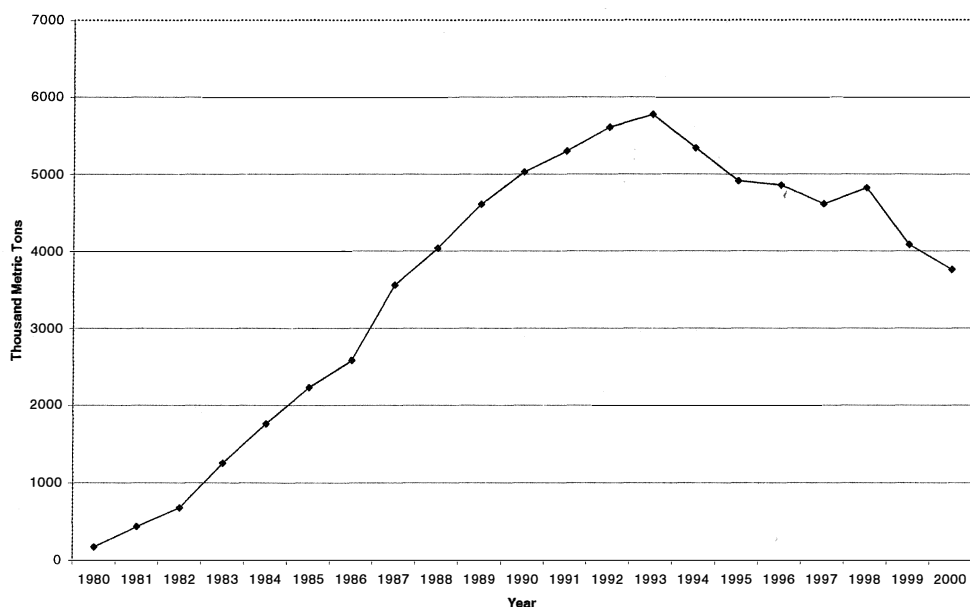
Source: UN, 1990; UN, 1995; UN, 2000.

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The Dynamics of Change

NATO Adaptation and the Future of Transatlantic Security Cooperation

Rebecca Michael

   Because the North Atlantic Treaty commits its original members to a partnership of unspecified duration, and because NATO has no supranational character (meaning all decisions taken within the NATO framework must be implemented on the basis of unanimity, and can not be imposed on unwilling member states), the alliance has found itself, throughout its history, subject to a series of different tensions implicating both its solidarity and its utility as a defense organization. These tensions include domestic defense commitments of individual NATO member countries, burden-sharing debates within the alliance, political, strategic, and military debates between alliance members, relative merits of defense and deterrence, and differing assessments of external security threats. Faced with such strains, the alliance has had to reconfigure itself in order to continue to fulfill its three most important functions: maintaining the confidence of all member nations, providing for their security, and preserving alliance cohesion. A look into the process by which the alliance has successfully overcome the diffusion of internal interests in the early nineties after the collapse of the Soviet Union will aid in developing an understanding of its capacity to adapt today. In this paper, I will argue that the process of change that NATO underwent in the nineteen nineties laid the groundwork for the erosion of the political basis of the alliance in the present day. Although the

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alliance continues to exist today, and although it has recently undertaken strong military action, I argue that it is a partnership in crisis, one that no longer has recourse to its historic methods of adaptation. Today's NATO is less an independent variable setting the security agenda, and more a reactive force that must acknowledge and respond to changes occurring around it. As its internal political consensus has begun to fragment, the organization has placed increasing importance on its military aspect; while this development has held the alliance together, it will not provide a long-term solution because political consensus is a necessary precursor to cooperation in security affairs.

Introduction

In many ways the problems and challenges currently facing the North Atlantic Treaty Organization are not new. Throughout its history, NATO has had to react to the complexity of a transforming international environment. NATO's political and military cohesion have, since the alliance's inception in 1949, been based not on avoiding, but rather on regulating, internal tensions. Using strategy as an organizing tool, the alliance has attempted to create a coherent military policy capable of satisfying the divergent political interests of its member countries. NATO has always faced two central challenges: Maintaining its political cohesiveness as an alliance, and remaining militarily capable of contributing to the security needs of its members.

While it is an indisputable fact that the alliance has managed thus far to regulate its internal struggles without sacrificing its military significance, a variety of considerations indicate the importance of reevaluating the organization's capacity to adapt. The changing notion of security, both for individual nation states and for the NATO alliance as an autonomous actor, punctuated by the events of September 11th, shifts in the political landscape of Western Europe, and discussions about possible deviation from the status quo in NATO military organization and strategy, all highlight the importance of reevaluating NATO's adaptive capacity.

Today's NATO faces the erosion of both its political underpinnings and its military cohesiveness. Historically the alliance has found itself faced with no dearth of burden sharing debates and squabbles between various member nations, but neither the political consensus on which it has operated, nor the military balance among the allies, have ever been as seriously threatened as they are today. The significance of the weakened consensus on which NATO currently rests manifests itself in the nature of the adaptations that the organization has been trying to make since the London summit in 1991. The Berlin Communiqué of 1996 is particularly revealing for its primarily non-military objectives. Two out of three objectives set in Berlin focus on political rather then military issues, namely to "preserve the transatlantic link," and to promote the "European Security and Defense Identity within the alliance."[1] This

reveals the extent to which political insecurity has eclipsed the need to focus on military efficacy within the alliance.

The attempt to develop militarily solvent policies on the foundation of political discord only highlights the glaring gap separating the Americans from their European allies; the contemporary alliance has become so unbalanced that it faces the risk of not being able to fight together in the future. The politico-military leadership during the Cold War that has allowed the US to shape the international order through NATO is arguably winding down. As European support for NATO as a vehicle for coordinated responses to regional security crises declines, and as politicians on both sides of the Atlantic realize that a transatlantic partnership can not be based only on a widespread diffusion of US values, respect for the "NATO tradition" remains the strongest force holding the alliance together. But this legacy alone will not provide a strong enough foundation for the formulation of new policy. Instead, policy outcomes will likely become susceptible to considerations that have always been tangential to the formulation of policy; estimates of cost, transatlantic trade relations, and European integration will play a larger role in the formulation of NATO policy than NATO itself, undermining the status of the alliance as an independent variable with autonomous causal impacts on the provision of security.

Another force that cuts against America's continued success in NATO is the invariably more cohesive and autonomous stand that Europeans are taking on their own security. Although the reality of European dependence on American military technology shows no sign of changing in either the near or distant future, the fact of diverging political wills threatens to undermine the alliance. Granted, the alliance has always had disagreements on issues of reciprocal control and administration. What separates today's challenges from those of the past, however, is the fact that national interests on both sides of the Atlantic are diverging. The progress made by the European allies on a uniquely European security policy has not been hindered by the technological dependence on the United States. What has been happening instead is the steady widening of the rift between the political and the military aspects of NATO. The Europeans appear to no longer regard NATO as an arena for multilateral security cooperation, but rather as a political arena. This attitude, coupled with the United States' refusal to become mired in ideological debates with the Europeans, undermines the viability of NATO's transatlantic military and political structure. The organization has lost its ability to determine and fulfill the security needs of its members because neither European nor American security is conceptualized in terms of NATO's military capabilities.

The unraveling of NATO's political underpinnings clearly manifests itself in the wake of the September 11th attacks on America. As Americans planned their military response campaign in Afghanistan, NATO was relegated to the sidelines to openly fret over ways to maintain its public support, an alliance without a mandate. Instead of contributing to war planning efforts, NATO oc-

cupied itself with the task of introspection, entertaining questions of the genre: "If one could replay the US response to September 11th, what kind of NATO with what capabilities would we ideally wish to have?"[2] At this critical juncture, the US made no attempt to involve either NATO or the European allies in its planned reprisal; NATO had absolutely no leverage in setting the agenda of the US response; its only recourse was to question its own validity.

Why, we may ask, did the US shift its military policy 180 degrees away from reliance on NATO, especially after a successful military campaign in Kosovo little more than two years ago? While it is possible to point to the 1999 military success in Kosovo and claim that NATO's military capabilities couldn't have been in better shape, two factors, one military, one political, make it impossible to view this military "success" as indicative of the alliance's future direction. On the military side, American defense spending after September 11th has increased dramatically, accelerating changes in American forces, and minimizing US interest in humanitarian and crisis management missions. These developments have heightened the capabilities gap separating the US and Europe, thereby undermining NATO's cohesion. In order to understand NATO's political woes, one need only to examine the political fallout that plagued each of NATO's member nations in the wake of Kosovo. An alliance cannot stay together based on transitory military victory, if that victory means different things to different members.

While the technological solution that NATO provided to the Kosovo crisis was useful, it belied a weakening of the idea of a transatlantic security partnership. This truth is playing out on the world stage right now as Europeans demonstrate their increasingly divergent views, compared with America's, of what kind of force is needed to tackle threats to international security, and even what those threats are.

The Increasing Elusiveness of Security as a Collective Good

NATO is no longer poised to determine the nature of international security. During the period immediately following the second world war up through the collapse of the Soviet Union, the US, using NATO as a vehicle, succeeded in defining for itself and for its allies the nature of the security they needed. Today, however, the nature of the good has evolved to a point where it can no longer be defined by NATO. During the Cold War the US cultivated the notion of international security through its perception of a single colossal struggle between the East and the West. Security resembled a public good that was at once non-excludable (no member could be excluded from partaking it) and non-rival (there was an indefinite amount available and consumption by one country did not diminish its availability to other countries). This is not the case, however, for post Cold War period. Post Cold War security does not obey the wishes of either the US or NATO in that its production is necessarily more rival, scarce, and finite than in the past. It is more rival as the threats that

nations face are no longer homogenous, more scarce in that differing levels of threat legitimize different levels of military spending in various countries, and more finite in that armed forces and nuclear deterrence are increasingly less fungible. This situation, where allies share security and yet are forced at the same time to compete for it amongst themselves, creates the incentive for each ally to stress the importance of accounting for its own security over that of contributing to the increasingly elusive "collective good."

While it is true that "NATO alone, among European institutions, can make available the forces and the command structure needed for any significant military operation," and also that "unless the United States takes part, such an operation will lack both the military resources and the political backing necessary to launch it,"[3] the alliance faces an important challenge: it must define its military role in the context of its political purpose. While all the NATO members might agree on the need for military intervention in a peace enforcement situation, they are likely to have differing assessments of the desired political outcome and of the nature of the threat to security. This will lead them to contradictory estimates of the costs, both political and economic, that they are willing to incur in endorsing any given response to the situation. This lack of political agreement threatens to undermine the alliance's ability to react quickly and strongly to worldwide security threats. Insecure about its political foundation and cohesiveness, the new NATO risks paralysis and illegitimacy when it does succeed in acting.

NATO's ineffectiveness following the terrorist attacks on September 11th illustrates this political paralysis. The alliance was unable to muster more than a superficially symbolic response summed up by NATO Secretary General George Robertson's hollow claim that the alliance "should pursue a policy of 'zero tolerance on terrorism,' [and should] focus on protection, both for its armed forces and civilian populations, so that terrorists would not dream of carrying out the kind of attacks seen on 11 September."[4] Continuing in this highly symbolic vein, NATO went so far as to set an historical precedent by invoking for the first time in the alliance history its Article Five mutual defense clause, only to be entirely ignored by Washington as US policy makers unapologetically beefed up efforts to seek military help for the war on terrorism on a strictly bilateral basis. Highlighting NATO's impotence in light of the changed nature of international security, Secretary of Defense Rumsfeld made no pretense of acknowledging NATO efforts to demonstrate the alliance's enduring relevance. Instead, he argued that "the position of the United States from the outset has been and remains that the mission will determine the coalition; that the coalition must not determine the mission,"[5] leaving no question about NATO's impotence.

Consultation and cooperation in the security realm cannot create consensus among nations, but instead must presuppose a high degree of concord. An alliance based on division is not strong enough to create anything but timid policy. And if it does succeed in creating more forceful policy, it will necessarily

be at the expense of the legitimacy of the alliance. "Devastated by military conflict in the 20th Century, Europe prefers to spend its money on social welfare at home and aid to poor countries abroad. The European Union provides 56 percent of the world's aid and 36 percent of the budget of the United Nations."[6] These policy priorities stand in stark contrast to America's in light of the US War on Terrorism. The increasingly dramatic contrast between European and US security goals can lead to only two results: Either NATO will continue to create strong policy based on weak consensus, inevitably leading to increased alienation among NATO members, or the alliance will witness a complete erosion of its legitimate basis for intervention.

September 11th provided NATO with an opportunity to exhibit to the world the extent of its internal erosion. Grandiose proclamations that "The NATO alliance is the 'sole institutional link between the US and Europe...it commits the US to European stability and prosperity...[and therefore] the allies should be careful to preserve NATO's cohesion and its military punch,"[7] appeared little more than empty rhetoric. The alliance remained unable to agree on an approach to operations, unable to forge agreements on doctrine and military practices with the political input of member nations' capitals, unable to come to even a rudimentary agreement on the relative importance of strategic and tactical targets, and unable to agree even on the role of stability operations and crisis management. Common alliance doctrine has remained as elusive as the grandiose political rhetoric surrounding it.

Military Concerns Eclipse Political Cooperation: Implications for NATO

There is No Political Consensus

Outside of the NATO framework, the allies on both sides of the Atlantic have begun pursuing increasingly divergent policies on issues ranging from trade to security. Not only do their policies diverge, but they are often in fact at odds with each other. The transatlantic tensions created by conflicting political and military policies, and competing goals and future visions have repercussions for NATO's evolution.

At the low end of the disputes separating the European from the American NATO allies have been trade frictions. Washington, which had accused Iran of sponsoring terrorism, passed the US Iran-Libya Sanctions Act that imposes fines on companies that invest more than 20 million dollars in Iran, or 40 million in Libya. European Union countries, oppose this view, and interpret US efforts as meddling and illegal. US threats to enforce the Sanctions act, at the time when France passed a two billion-dollar business deal with Iran, elicited protests not only from the French business leaders, but also from the entire EU. Sir Leon Brittan, trade chief of the French oil company Total, insisted that

French businesses have the right to decide freely on their investments, and that US efforts to the contrary are "counter-productive in political terms since they create tension between Europe and the United States, which makes it more difficult to work together."[8] German Foreign Minister Klaus Kinkel also took issue with US "imperatives" to fight terrorism. Despite US discontent, Germany continues to buy large amounts of oil from Libya. Germany, along with other EU countries, worked together to develop a policy of "critical dialogue with Iran," one which they are prepared to enforce, via retaliatory measures, over US opposition.

Iran is not the only area where transatlantic tensions have flourished throughout the nineties. The Helms-Burton Act, passed by the US Congress in 1996 in order to "discourage companies from doing business with Cuba by banning their executives, agents, and families from visiting the US,"[9] was another bone of contention around which transatlantic animosity solidified. EU countries, both unilaterally and on behalf of the Union as an autonomous actor, have displayed a growing willingness to assert themselves, even when doing so entails posing a threat to their relations with the US. While Britain and Germany threatened retaliatory visa restrictions on US businessmen, and Spain and Italy officially "protested" the Helms-Burton Act, the EU went as far as to "table a formal complaint with the World Trade Organization against the Helms-Burton law on Cuba and similar US legislation designed to curb international business dealings with Iran and Libya."[10]

Transatlantic "disagreements," while they start at the level of trade disputes, by no means end there. The increasing willingness (and some might even say eagerness) of the European allies to speak up for and defend their own desires, spills over from the economic to the political and security domains. In France, President Jacques Chirac took it upon himself to "speak out critically on subjects ranging from the Senate's rejection of a comprehensive nuclear test ban treaty, to the failure of global trade talks in Seattle, to plans for a new European armed force early in the new century, which in his view will by no means be an American century."[11] In Great Britain, a country known to covet its "special relationship" with the US, the government in 1999 successfully defended plans to form a 60,000 man European Union Rapid Reaction Force despite Tory claims that is would be a threat to NATO and to relations with the US. British rationale behind supporting the RRF was that it would be "providing a greater capability for Europe and, in particular, allowing the EU to become engaged in operations where NATO itself is not involved."[12]

Europeans solidified the currents of political discontent among NATO members with the 1999 Helsinki Decision. This decision, which formally approved the creation of a 60,000 man rapid reaction force designed to act independently of NATO and which "appointed Javier Solana (formerly NATO secretary general) to head the long-moribund WEU, in addition to his new EU position as the impressively named "High Representative for a Common Foreign

and Security Policy,"[13] exemplifies a waning tolerance in Europe for American leadership in political and security affairs. In an era where political agreement across the Atlantic is hard to come by, Europeans are increasingly committed to enhancing politico-military structures that are independent of NATO and of US leadership and influence.

At this point it seems necessary to address the view that European intentions cannot be fatal to NATO's continuation because they encompass little more than intentions. It has been endlessly pointed out that "as with many EU decisions, and especially those surrounding the European Security and Defense Identity, considerable confusion exists as to the exact implications of the Helsinki decision."[14] It is possible to take this argument even farther, noting that the EU has not yet demonstrated that it has the institutional means to impose a common position or to back up its diplomacy with military force. Despite the fact that since Maastricht, the Europeans have "taken a number of steps to fulfill their mandate. They have moved WEU headquarters to an impressive new site in Brussels; set up a Defense Planning Cell of more than forty officers; developed a catalogue of military units answerable to the WEU; set up a satellite interpretation center in Torrejon, Spain; arranged for the regular meeting of armed forces chiefs of staff and other military officers; developed a political-military decision making process; initiated a comprehensive military exercise policy; set up its own Institute for Security Studies in Paris; and established a situation center, "[15] the Europeans have done little of military substance, leaving the US to be, more than ever, diplomatic and military leader in the West.

The problem with this view, however, is that it fails, in determining NATO's future, to account for the alliance's evolving capacity to change. European *results* matter much less than European *ambitions* in undermining the political cohesion, trust, and solidarity of the alliance. While it is true that lack of money and clear goals have slowed European efforts to integrate defense forces, it is also true that defense ministers are putting increasing pressures on their countries to follow up their words with action. At present, 100,000 troops, 400 aircraft, and 100 ships have been pledged by member states to the European Rapid Reaction Force. But progress still remains to be seen on precision guided missiles, anti-air defense, and forces' protection, according to Klaus Buhler, a member of the German Budestag and president of the Western European Union assembly, soon to become the European Security and Defense Assembly.[16]

In order not to estrange the allies, NATO, as an institution, must react to European aspirations. The process of accounting for these aspirations inhibits what has historically been the US capacity to set the political tone of the alliance's evolution. This reality has forced the US to face the alternative of either creating alliance policy that differs significantly from US policy,[17] thereby sacrificing US autonomy completely in NATO, or trying to reassert its autonomy via the most obvious way available to it; its undeniable military superiority. While

the US never considered the first as a viable choice, it did succeed in substituting its military preeminence for NATO's weakening political consensus, using the second option to hold the alliance together through the Kosovo War. But this option cannot work indefinitely. The ever-growing military gap separating the United States from the European NATO members, while only a strain throughout the Kosovo campaign, has become critical in the current US-dominated war on terrorism,[18] threatening to make a mockery out of the alliance's first-ever vote to invoke a collective defense action after the September 11th attacks.

From Fear to Power: US Substitutes Might for Political Cohesion?

The Helsinki Summit's declaration that "the objective is for the union to have the autonomous capacity to take decisions and, where NATO as a whole is not engaged, to launch and then to conduct European Union-led military operations in response to international crises,"[19] inspired uneasiness in the US. While the US understood from the start that talk is cheap, and that significant obstacles, both political and military, still plague European efforts, nevertheless Americans feared that its leadership role in NATO would be undermined by the development of a more robust European military arrangement. The desire of the Europeans to assume more responsibility for military decisions, combined with a diminishing tolerance in Europe for an American-dominated alliance, gave the US sufficient cause for concern. Small steps taken in Europe, like the British government's decision to spend 100 million dollars to upgrade its seven Airborne Warning and Control System aircraft, did little to alleviate growing concerns in Washington.

Recognizing the divergence of interests between the transatlantic allies, yet still intent on maintaining its primacy on the continent, America has tried to play both ends against the middle, and to have it all. Unwilling to sacrifice its own domestic defense initiatives on the altar of European discontent, the US has attempted to pursue its own security interests independently of NATO while at the same time cultivating European military dependence. This effort has not led to the desired result, namely, NATO's continued viability. The Bush administration, in its talks on building a nuclear missile defense systems against intercontinental rockets launched by "rogue" states like North Korea, Iran, or Iraq, the infamous "axis of evil," has failed to account for vast allied opposition to the idea. Despite the Bush administrations hopes, the North Atlantic Council does not portray the possibility of missile attack as a common threat faced by allies.[20] While Secretary of State Powell said that he had hoped to persuade skeptical allies to be more supportive of NMD, President Chirac voiced concern, stating that the French consider that "these systems are just going to spur swordmakers to intensify their efforts...China, which was already working harder than we realized on both nuclear weapons and delivery vehicles for them, would of course be encouraged to intensify those efforts...India would be encouraged to do the same thing...and it would also increase tensions within NATO."[21]

Other European nations expressed concern about the "unevenness of sharing if the United States is under a weapon shield and Europe is not," and expressed reserve about "a program that could end up damaging [their] security if it offers indirect encouragement to an arms race."[22] German Foreign Minister Joschka Fischer summed up the fears of the European Union states when he declared that "the deployment of an American missile defense system for domestic use could lead to the creation of a double standard for security within NATO, in which one member of the bloc would be better protected than the others." Also, the British Foreign Secretary Robin Cook, usually supportive of American initiatives, expressed misgivings about "a gradual estrangement of the US from Europe."[23] Even in the face of such staunch opposition from its European allies, however, the US has refused to compromise. Instead, the Bush administration has remain stalwart in its commitment to develop and deploy a national missile defense to fulfill a promise made during the election campaign, and has taken it upon itself to persuade skeptical European allies "there has to be an acceptance that that was the decision made in the election campaign and we should treat it seriously and with some respect."[24] Planning and talks continue, despite the prevalence of European reservations.

Even while maintaining the right to act unilaterally in the name of its own defense, the US has sustained a keen interest in monitoring the actions of the Europeans as they expand into the defense field. While the US implicitly supports European efforts to give themselves a defense capability, Washington nevertheless has undertaken to insure that such an organization does not grow away from NATO, perhaps leading to a collapse of the alliance. In order to avoid this from happening, the US has tried to "ensure that work in the EU and NATO remains harmonious, transparent, and complementary,"[25] and has continually sought assurances from the European allies that their decisions will not lead to a split in the alliance. So while the Americans have encouraged and been supportive of European initiatives, they have only provided support within a carefully crafted framework designed to insure continued European reliance on NATO, and more specifically on America's military superiority in NATO.

While the Kosovo war was a miltiary victory for the alliance, it was a victory that contained within it the seeds of the alliance's demise. The US used Kosovo to cultivate European military dependence on both NATO and on US leadership. The war in Yugoslavia required "reliance on air power, precision-guided munitions and the ability to manage the high-tech battle...that meant the United States had to bear the brunt of the fighting."[26] Only the US has the full range of modern weapons and the computer and information technology necessary to make a Kosovo style war work. In order to maintain NATO and transatlantic security cooperation, the US has tried to use its proven military superiority to establish a fine balance with the Europeans, so that they will spend more on defense, but not so much that they will no longer be dependent on the US.

Recently, "Washington has put increased pressure on the European allies to upgrade their military forces by implementing NATO's new defense capabilities initiative, agreed to at its Washington summit in April."[27] Even if this effort leads to refinement and progress on specific NATO configurations like the Combined Joint Task Force, the long term political consequences of this American attempt are likely to damage the alliance, as the political–military split becomes more acute. "America's global responsibilities, matched with sizable and growing investments in high-technology warfare, from satellite communications to Predator drones, are leaving even NATO's most gung-ho European members farther behind;"[28] continued US military growth and development will only worsen the rift already threatening to destroy the alliance.

Cognizant of what is at stake for NATO's future, the US has attempted to use NATO's 1999 military intervention in Kosovo to underscore the importance of transatlantic security cooperation to the European allies. Although the US was not successful in bridging the political and economic gaps separating the American and European NATO allies, it did succeed in demonstrating to the allies that collective action through NATO is still possible, and is contingent on European acceptance of the reality that Europeans, "in their quest to operate more independently of the US military...will need the help of Americans to narrow the technological gap that became glaringly obvious during the war in Kosovo."[29] Despite the differences separating the European and American allies (the most recent one being NMD debate), Kosovo demonstrated that the Allies continue to share some military interests. NATO, in "supplying the muscle that so often makes the difference between diplomatic breakthrough and diplomatic breakdown...[tried to] provide the confidence and security necessary for a political settlement to take root."[30] And in so doing, the US insured that the 19-nation alliance, whose military operation must, by law, be led by an American general, would continue to rely on the United States' military superiority in air power and technology, and to depend on its resultant disproportionate political influence. Kosovo did *not* show that the Americans and the Europeans have shared values as much as shared military interests.

While it remains unclear whether the Europeans are willing to finance a defense structure that would render NATO irrelevant, it is apparent that public support for a single defense policy that would make Europeans less dependent on NATO has been growing,[31] and that American efforts to underscore NATO's relevance and importance have ceded way to urgent efforts to sidestep the outdated alliance in order to form more reliable, efficient, and effective coalitions of the willing in the war against terrorism.

Only time will reveal the extent to which the European NATO allies will continue to see their own interests intertwined with US strategies in the war on terrorism. But in order to succeed in its campaign, the US will continue to need access to airfields and supply routes in Europe, both "as staging posts for the support of Israel and for the conduct of actual and future campaigns in the

Muslim world."[32] Without NATO as an institutional framework for transatlantic security cooperation, the US risks having to struggle with individual European countries to gain their cooperation; this process could prove to be an administrative nightmare. One other alternative no less fraught with potential problems would be for the US to increase its reliance on Turkish, Israeli, or Pakistani help, but doing so would involve providing a degree of reciprocal support for these countries' policies that the US would most likely be uncomfortable with.

In America, there is concern that "American manpower, firepower, equipment, and resources will be neither politically nor militarily sustainable, given the competing commitments our nation has in [the war on terrorism,] the Gulf, on the Korean Peninsula, and elsewhere around the world," accompanied by an undertone of murmuring to the effect that "never again should the United States have to fly the lion's share of the risky missions in a NATO operation and foot by far the biggest bill."[33] In Europe, there is also unease. "Many Europeans seem determined never again to feel quite so dominated by the US as they did during Kosovo or, for that matter, during Bosnia."[34] The allies have expressed a desire for a say in the conduct of operations commensurate with the political onus that they bear in supporting the war; the US response has been to avoid completely their institutionalized participation in the current war on terrorism. The allies failed to confront the waning levels of cooperation in the alliance's military, economic, and political aspects following the Kosovo intervention, and NATO is now paying the price in its unwillingness and inability to successfully evolve in light of the current challenges posed by the current state of international security.

The economic, commercial, and political dimensions of alliance cooperation pose the most serious threats to the future of the alliance, and have led NATO, over time, to lose the ability to direct its members' national policies. The issue of defense industry cooperation, stemming as it does from the broader context of US-EU trade relations and disputes, threatens to stump NATO development. As the ESDI seeks to develop into a more militarily capable force, new ways of promoting technology sharing and of fostering joint ventures will become increasingly difficult to achieve; cooperation between defense firms on both sides of the Atlantic threatens to diminish over time, and there is little that the alliance can do these days in order to stop this trend.

In addition to the economic problems, there are also serious political problems that threaten to undermine the alliance's ability to adapt and remain important. The Washington Declaration, approved by heads of state and government in April 1999 stating their mutual commitment to the goals of the Alliance, "to defend our people, our territory, and our liberty...to stand firm against those who violate human rights, wage war and conquer territory...and to maintain political solidarity and military forces to protect our nations and meet the security challenges of the next century,"[35] represents little more than

rhetoric that only thinly disguises an underlying lack of agreement between the allies, with regards to the future role of NATO. Differences of opinion between the allies abound, and the US's military might, while it held the alliance together in the Kosovo conflict, has not proven fungible. Despite its military puissance, the US has failed in its efforts to coerce the allies to do as it sees fit. The failure of Senator Roth's Resolution urging for NATO-EU coordination attests to the US's political weakness in the alliance. While the resolution, "presenting a number of principles that should be the basis for a NATO-EU relationship that will further reinforce the transatlantic partnership, establishes guidelines for coordinating respective roles in transatlantic security affairs...urging NATO's European Allies to redress the shortcomings in their military capabilities highlighted during NATO's airstrikes in Kosovo and the rest of Serbia against the forces of Milosevic,"[36] strove to set the tone for NATO's evolution, in reality it held no sway outside of the United States, where analysts are now declaring that the current war we are fighting is "not a struggle in which the Europeans can play a military role. Europe can play its part by finally taking responsibility for its own space."[37]

If the US has proven both unable and unwilling to direct the political evolution of the NATO alliance, the institutional strength of the alliance itself has also proven to be an ineffective means of holding the allies together. The alliance's new strategic concept claims to enable "a transformed NATO to contribute to the evolving security environment, supporting security and stability with the strength of its shared commitment to democracy and the peaceful resolution of disputes. The Strategic Concept will govern the alliances' security and defense policy, its operational concepts, its conventional and nuclear force posture and its collective defense arrangements, and will be kept under review in the light of the evolving security environment."[38] But this concept can not be successfully used as a guide to policy making, because it means different things to different countries, none of whom is capable of leading, and none of whom is willing to follow subserviently.

While NATO, as a military structure geared to defending against the Soviet Union, became profitless with the collapse of the USSR, the European and American allies still had reasons to keep the alliance strong. The Europeans needed the guarantee of US military protection while they worked on strengthening their own military and security identity, and the Americans had a continued vested interest in "monitoring" security developments on the continent, something they had done since the end of World War II. Working from the basis of a common political desire to maintain the alliance, its members were able, throughout the 1990's, to develop new security interests that would serve everybody's needs. But the longevity of these concepts proved to be finite.

The events of September 11th have changed vested interests on both sides. The US is less interested than ever in continuing its struggle to patch together the alliance by imposing military solidarity and efficacy on the foundation of

political disunity, an effort that was only marginally successful throughout the aftermath of Kosovo. A US-led NATO has become less and less appealing to the Europeans as it became clear that military dependence necessarily entails a sort of political "cooperation" that in reality translates into political subordination. This has proven to be a consequence that the allies are not prone to embrace.[39]

Conclusion

The war on terrorism has led the US to reduce its long term security interests in Europe, leaving the Europeans little choice but to take control of their own security situation, much the same way the US has done in its own anti-terror campaign. While it is true that "NATO's war in Kosovo showed the extent to which Europe depends on American military power and technology,"[40] the implications of this reality do not bode well for the future of the alliance. The Europeans face three fundamental security tasks, none of which will take place within the NATO framework. First of all, they must accelerate the creation of usable European armed forces; secondly, they must treat EU enlargement to the central European and Baltic states as a vital European security interest; thirdly they must create institutionally solid security relations with Turkey and Russia, the two continental military powers who are not part of the EU.[41] As the NATO alliance continues to change and evolve, continually vying to maintain its historic position as an essential vehicle for US security interests in Europe, the underlying lack of transatlantic solidarity will undoubtedly become increasingly manifested. Already, US efforts in the Balkans have European critics claiming that the Kosovo war was simply an American attempt to drag the EU behind US leadership of both NATO and of the world, designed to prove that NATO has a permanent role to play, and that it can play that role even if it means imposing consensus on the European allies.[42] Throughout Europe and in the US today, there is acute concern about the future role of NATO that is increasingly divorced from the security, economic and political realities that characterize life on both sides of the Atlantic.

Strong Structures Versus Common Destiny: The Future of NATO

Recognition of the reality that European and American politico-military aims often differ is essential to understanding the future of NATO. Divisive issues such as policies toward Iraq, Iran, Israel, the Palestinian Authority, and North Korea, will require political consultation among the allies, if they are to be dealt with successfully within the NATO framework. Otherwise, the growing rift between the political and military aspects of the alliance threatens to lead the allies to regard the alliance as no more than a security capability on which they depend, simply for budgetary and technological reasons. If this happens, NATO will no longer be able to provide a framework for substantive debate on the strategic and political aspects of security. These sorts of debates will in-

creasingly take place either in an atmosphere of rivalry between the American and European allies, an atmosphere of selective bilateral cooperation, or an atmosphere of US unilateral action, all of which would severely undermine the NATO alliance.

NATO today is faced with the ageless question of alliances: "How much unity do we need? How much diversity can we stand? An insistence on unanimity can be a presumption for paralysis. But if every ally acts as it pleases, what is the meaning of alliance?"[43] The alliance has, throughout its history, proven its capacity to formulate cooperative solutions to collective problems, preventing its own demise via intra-alliance negotiations, policymaking, and policy implementation. Through its changes, NATO has proven that the primary reason for an alliance's creation does not necessarily have to be the reason for its continuation. In the process of transition from a doctrine of massive retaliation to the adoption of flexible response, NATO was largely under the auspices of US hegemony. Its immediate post-communist policy reorientation owed its success to the military security assured to the allies in an uncertain time for the international system. In the future, as NATO attempts to reflect the realities of a new era and the external developments that define it, the institution's resilience will necessarily reflect more than ever before the differing views of its members, on both sides of the Atlantic.

In order to succeed, NATO will have to deal with three challenges: First, it must respond to European bids for increased political and military power within the alliance. While "the absence of an EU CFSP has remained the key to American influence [in NATO], if the alliance is to continue, its main purpose must not be merely to keep the US in Europe, but rather to evolve into a genuine transatlantic partnership."[44] Second, NATO must avoid buckling to the pressures of parsimony. As it continues to redesign itself, there will be pressure within the organization to placate divergent interests by encouraging a weakened political consensus. The attraction of parsimony and the lowest common denominator security alliance will be made more critical by the third challenge that NATO will face; How to deal with the changing definition of security. The fact that security is no longer defined as lack of conflict, but rather as stability, a comprehensive concept addressing military, political, and economic aspects of peace, means that NATO will have to overcome not just intra-alliance, but also external, obstacles in order to be successful in its future evolutions.

Whereas the alliance has, historically, succeeded in formulating cooperative solutions to collective problems, the growing political gap between the allies has rendered modern security problems less collective, and has made it more difficult for the allies to conceive truly cooperative responses. Changing relations within the alliance presently have the unprecedented potential to undermine alliance efficiency. The implications of NATO's binding commitment to collective action threaten to become increasingly problematic for the "unallied" allies. The growing military-political divide will also work to the demise of the

alliance, as it loses its capacity to engage in collective diplomatic efforts to prevent aggression, and becomes capable only of engaging in preemptive military action, an unattractive alternative for many member states.

As NATO members lose the sense that policy is being formulated on the basis of an integrated political-military organization, they will become less likely to reform and preserve the alliance in order to continue to meet the security requirements of the new era. As both the American and European allies become less willing to make concessions for the sake of the alliance, collective action will have a chance to emerge, in a more complete and soldiery manner, out of the foundation of the European Union. Key NATO members like Great Britain, France, and Germany, will likely continue to look outside of the NATO framework, and to take security decisions in bilateral or contact-group style. While this development will work to the detriment of NATO, it holds the promise of allowing for collective action based on true political consensus. This foundation for security action will enhance true flexibility and resilience by decreasing the need to rely on ambiguity and codified flexibility, two factors that have played a key role in NATO's resilience. The decision making process will become more streamlined and efficient outside of the NATO framework. Countries who share similar policy goals will be able to formulate quick and decisive plans of action outside of the alliance framework. Ultimately, the NATO alliance will be forced to accept its status as a dependent variable in the security arena.

Notes

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Multi-Level Governance Beyond the Nation State

The End of Legitimate Democratic Politics?

Astrid Harnisch

The Impact of Globalization and Individualization on the Global Environment

Today, democracy is being constantly challenged by the processes of globalization and individualization. Due to a changing global environment, nation states increasingly transfer elements of their sovereignty to transnational and international levels. Although the consequences remain unknown, the concept of democracy changes and the legitimacy of political decisions at the global level is put into question. Global decision-making procedures are increasingly influenced by non-state actors, civil societies and businesses alike, and often lack transparency, participation and efficiency. After analyzing the democratic potential of the concept of 'global public policy' based on a 'triangulate diplomacy' and the challenge of inclusion, this paper provides a framework of representative multi-level governance including the international, transnational, national and local levels. Within this framework, the concept of democracy changes and can no longer be associated with its original idea or with the ideal model of direct democracy. Instead, it is based on the principle of subsidiarity

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and a balance between participation, efficiency and transparency at the different governance levels. However, concepts alone cannot close the gap of increasing poverty rates around the world and inequality particularly between developing and developed countries. Therefore legitimate global politics are going to be limited in the next decades and the only way to establish a global civil society is to first close these inequality gaps.

The term globalization has become a buzzword nowadays, but it still lacks precise and complete definition.[1] Broadly defined, it refers to a wide range of continuous political, economic, social and cultural processes related to different levels of interaction across territorially defined boundaries. Anthony Giddens already in 1990 described globalization as "the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa. This is a dialectical process because such happenings may move in an observe direction from the very distanciated relations that shape them. Local transformation is as much a part of globalization as the lateral extension of social connections across time and space."[2] It is obvious that globalization is not merely an explanation for quantitative changes such as increasing international trade, capital flows or foreign direct investment. Qualitative aspects of globalization processes, including an increasing individualization within societies and emerging governance gaps, requiring new forms of regulation and governance from the international to the local level, are the subject of ongoing discussions.[3] We can therefore argue that globalization refers to heterogeneous processes and developments involving different strategies and forms of cooperation. Many scholars have pointed out that globalization and international agreements lack efficiency, transparency and broad participatory mechanisms.[4] Clark expresses his view in radical terms, claiming that "just as globalization has led to the death of the national economy, it now entails the death of national forms of democracy, except in so far as the latter are restructured as part of a global system."[5]

While some observers argue that the nation-state is becoming an institution of the past, this paper states that globalization requires new forms of governance and a representative framework in which the nation-state and governmental actors (governments and intergovernmental bodies) remain constitutive elements. Governance is changing and non-state actors are becoming increasingly important, because no single actor, public or private, has the knowledge, resources and capacity to solve problems unilaterally. In this context governance is understood as an *interactive process* between all relevant stakeholders.[6] According to UNDP, governance is identified as "the set of values, policies and institutions by which a society manages its economic, political and social affairs through interactions among the government, civil society and private sector. It is the way a society makes and implements decisions – achieving mutual understanding, agreement and action."[7] The question of whether forms of global governance are democratically legitimized has been asked by many different scholars. This paper aims to give a constructive contribution to the

ongoing debate of the impact of globalization and individualization on the concept of democracy. In doing so, I will look at the changing global environment and the transformation of democracy. I will then analyze the global public policy concept and its implications for democracy at the international level. To answer the key question of whether the development of global politics implies the end of legitimate democratic politics, I will outline a representative multi-level system of governance that takes into account horizontal and vertical interactions at the international, transnational, national and local levels.

Governance and Democracy

As Diamond points out, "never in human history have so many independent countries been demanding or installing or practicing democratic governance. Never in history has awareness of popular struggles for democracy spread so rapidly and widely across national borders."[8] Just a century ago – more than 350 years after the national state entered into the field – New Zealand was the only state to give both men and women the universal, equal and free right to vote. Around the year 2000 about 114 out of 191 states introduced democratic elections, meaning that almost 60 percent of the world's population are able to elect their own governments.[9] Nonetheless, problems of democratic transition and consolidation are widespread. Free and equal elections are the most important element for democratic transition and the key in building the basis for democratic consolidation. But they are only the beginning of a democratic state. Linz and Stepan argue that "democracy is a form of governance of a state. Thus, no modern polity can become democratically consolidated unless it is first a state."[10] Studying the transformations of democracy around the world, they identify five interconnected and mutually reinforcing conditions that must exist for a consolidated democracy and a functioning state to be able to ensure a balance of participation, efficacy and transparency in governance decisions. These elements are:

· a free and lively civil society,

· a relatively autonomous and valued political society,

a rule of law to ensure legal guarantees for citizens' freedoms and independent associational life,

a state bureaucracy that is usable by the new democratic government, and

an institutionalized economic society.[11]

Although these elements are associated with democratic systems in the traditional nation state, it is crucial to keep them in mind when thinking about

democracy beyond national borders and possibilities for legitimate global democratic governance.

Transformations of Democracy

The term democracy goes back to ancient Greece and implies two concepts: 'demos – the people' and 'kratia – power and rule' or, as Abraham Lincoln phrased it, "government of the people, by the people, for the people."[12] Democracy is not a static concept, and it has developed different forms depending on the context, society and people involved.[13] This paper focuses on the third great transformation of democracy in the age of globalization.[14] However, to understand recent developments it is crucial to outline briefly the first two phases: The first transformation changed the non-democratic city-state into the early democratic city-state during the first half of the fifth century B.C. The second transformation is known as the development from the city-state to the national-state on the basis of the Westphalian system. "Democracy came to be understood not as assembly democracy in the city-state, but as representative democracy in the national-state. As a consequence of that transformation in scale and form, a set of political institutions and practices, which taken as a whole were unknown to the theory and practice of democracy up to that time, came into existence."[15]

The third transformation of democracy was indicated by increasing interdependence and globalization processes, particularly after the end of the Cold War, and it continues until now. Dahl argues that "just as earlier city-states lost much of their political, economic, social, and cultural autonomy when they were absorbed into larger national states, so in our time the development of transnational systems reduces the political, economic, social and cultural autonomy of national states."[16] Dahl is strongly in favor of sound democratic institutions, which would provide democratic control over transnational decision makers. Stronger democratic institutions could also help to provide a healthy democratic political life and while freedom and control might be lost on one side, they could be gained on others. The consequences and outcomes of the third transformation remain unknown and are the subject of continuous debates around the world. Those dialogues, however, take place mostly in developed countries and therefore often ignore the interests and cultures of developing states in Latin America, Africa, parts of Asia and Eastern Europe. Furthermore, although we can identify these three "great transformations" according to Dahl, there are also smaller transformation processes, transition phases and the development of a wide range of different governance forms under the header of democracy.

· First, the Westphalian world order and the nation-state have not always been characterized by legitimized democratic politics.

· Second, democratic institutions (if they already exist in a country) and societies are not static and develop over time. Current transformations within nation-states as well as developing democratic institutions in new democracies are challenging the ongoing debate.

· Third, one must keep in mind the different forms and aspects of democracy, which could become part of a global governance system.

The question remains whether the people around the world are ready to establish a possible system of global governance based on democratic principles.[17]

"Governing without Government" or "Governing without Governance"?

In current debates, two questions have been asked about the consequences of globalization: Does globalization mean or imply *"Governing without government?"*, or even *"governing without governance?"*[18] Does the current situation indicate that world affairs and world politics are managed and governed without government(s) or even without governance? This leads as well to the question of the establishment of a world government, which Kant already in the 18th century considered as not desirable and hardly practical.[19] In recent debates few scholars judge the idea of a world government as a realistic possibility; one exception is Dani Rodrik. Focusing on international economic integration, he argues that "if we had a perfectly integrated world economy, national jurisdictions would not interfere with market mechanisms. Transaction costs and tax differentials would be insignificant and convergence in commodity prices and factor returns would be almost complete. To reach this stage, we have to institutionalize federalism in a global scale to align jurisdictions with the market and remove the 'border' effects" (comparable to the United States today or the European Union in the future). He further states that "under a model of global federalism, at least the parts that matter economically, would be organized along the lines of the US system. National governments would partly transfer their power to supranational legislative, executive, and judicial authorities and a world government would take care of a world market."[20] However, Rodrik concludes that this scenario, including the election of international politicians, is rather unrealistic in a short-term perspective when one takes into account ongoing financial and political crises such as the one in Argentina. Within the next 120 years though, he would place his bet on the emergence of a global federal system.[21]

Analyzing political and social aspects in addition to economic integration, most scholars are critical about the effectiveness and feasibility of a world government: Although nation-states have begun to transfer elements of their sovereignty to other levels, they do not want to give up their formal sovereignty as such. The process of European integration is one example illustrating the difficulties involved in integrating a limited number of players. It has often

been stated that a 'democratic deficit' exists regarding the legitimacy of deci-sions and the decision-making processes in Brussels. This does not suggest that European institutions are not legitimized *per se*. It implies that their legiti-macy is seen as insufficient, which obviously is difficult to measure and de-pends on the expectations and the understanding of the governance system by its members.[22] In addition, questions of national interest, which are related to state sovereignty, cannot be ignored.

The transformations mentioned imply changes for the concept of state-sovereignty. MacLean finds, for example, that "globalization has constructed new non-territorial and non-sovereign forms of governance, while simultaneously confirming the sovereign state, transformed from its original historical form as the defining, territorially located site of central and legitimate government, to a new form of local and regional 'subsidiary' government."[23]. This statement im-plies two things: First, states as such will still play a crucial role in world politics, and second – according to the principle of subsidiarity – states will transfer elements of sovereignty and decision-making competences to both the local and transnational levels. The concept of subsidiarity states that responsi-bilities and tasks should only be transferred from a 'lower' to a 'higher' level of governance, if the 'lower' level is not able to provide adequate solutions. In the case of the European Union the responsibilities are outlined in different trea-ties and were part of different reforms.[24]

Rethinking Governance in a Global Context

Since a democratically elected legitimate world government does not seem to be a feasible near-term answer to globalization, a responsive system of multi-level governance seems to be a far more realistic perspective. This implies that there is no traditional model of democracy, which can be easily applied to all levels of governance at the same time. The diversity among countries, their citizens and political systems, as well as the differing understandings of the concepts of democracy, power, economic development and cultural as well as religious backgrounds, require flexible and appropriate approaches. Before char-acterizing a multi-level governance system, I will outline possible mechanisms for global governance and the concept of global public policy analyzing criti-cally its democratic potential.

Global Governance and Global Public Policy

The concept of global public policy (GPP) has become one model for inter-national cooperation.[25] Based on the idea of a "triangulate diplomacy" – which includes networks consisting of governments and international organizations, civil society actors, and the private sector – this concept might present one option to fill governance gaps at the global level and create a forum for an emerging global civil society. However, the question of the legitimacy of non-

state actors has not been adequately addressed, and many scholars are skeptical about the democratic and legitimate potential of those actors. Networks and their capacity to tackle problems effectively are reoccurring issues. The terms network, coalition or partnership refer to interactive processes and different formal and informal structures of cooperation. Similar to globalization, these terms are often used inconsistently. Networks are seen as innovative institutional arrangement and sometimes a panacea for problem solution.[26] Global public policy networks can be based on advocacy coalitions and intergovernmental processes; alternatively they are interpreted as part of international regimes (such as the International Ozone Regime among others).

In addition to the inclusion of divergent actors, implementation processes and links to the local level are particularly important for an effective model of global public policy. Reinicke (et.al.) argue that GPP networks are a potentially useful tool to increase the effectiveness of global governance through the inclusion of relevant stakeholders. Building on the fact that globalization increases political and economic liberalization and technological changes, they identify two governance gaps in global affairs that undermine the legitimacy of existing governance mechanisms within states and the multilateral system: an 'operational' gap and a 'participatory' gap.

The operational gap arises from the fact that a growing number of public-policy issues can no longer be effectively addressed in existing institutional frameworks, whether at the national or intergovernmental level. Environmental issues, such as the impacts of increasing forest degradation and climate change, are primary examples. It is obvious that national or regional approaches alone cannot solve these problems or deal with the consequences. It is not only necessary to link different issues, but also to come to solutions among different countries, particularly between developed and developing states.

The participatory gap is directly related to the operational gap: "As states and international organizations lose their credibility and legitimacy, (...) an acute participatory gap emerges in international governance. Private entities, business and civil society, many of which have successfully reorganized themselves on the transnational level, now operate in a governance vacuum."[27] Global public policy networks aim to close these governance gaps and to create legitimacy by performing the following six functions:[28]

    1. Contribute to establishing a global policy agenda, and offer mechanisms for developing a truly global public discourse in which to debate this agenda.

    2. Facilitate processes for negotiating and setting global standards.

    3. Help develop and disseminate knowledge that is crucial to addressing transnational challenges.

4. Help create and deepen markets.

5. Provide innovative mechanisms for implementing global agreements.

6. Address the participatory gap by creating inclusive processes that build trust and social capital in the global public space by furthering transnational and trans-sectoral discourse and interaction.

Theoretically, local participation brings legitimacy to the process, particularly in issue areas where global networks may be viewed as interventionist or as a source of interference in internal affairs. It may also assure the inclusion of local interests and needs, and strengthen transparency. However, as we can see in case studies on GPP networks, they often remain incomplete and only partly successful due to the following:

1. Global networks and arrangements in most areas and sectors are characterized by a confrontation between developed and developing countries (see among others the example of environmental negotiations in this paper).

2. Most international arrangements lack effective implementation and enforcement procedures and therefore remain incomplete.

3. Although networks may include various actors from different governance levels, decisions are always based on the idea of representation. The direct inclusion of all relevant stakeholders is not only unrealistic but also not necessary, as it will be pointed out again later. Therefore I argue that the idea of networks dealing with global governance issues can contribute to an international multi-level system, but it does not necessarily ensure efficacy, transparency or participation.

4. Closely linked to the third point, GPP networks foster the emergence of self-appointed elites mainly from the western developed part of the world.

Rethinking Democracy and the Question of Inclusion

The difficulty of inclusion is often a key factor in the debate on global governance. The global public policy approach aims at including actors, private and governmental alike from various parts of the world. However, as the example of the World Summit in Rio and subsequent negotiations show us, important agreements can be reached (Agenda 21 is one example) through negotiation processes that lack transparency and in which it is not possible for all actors to participate.[29]

Similar to Rodrik, but focusing on societies rather than only economic develop-ments, Iris Marion Young proposes a global system of regulatory regimes to which the local level and regions relate in a federated system.[30] In interna-tional relations theory, according to Krasner, regimes are defined as "implicit or explicit norms, rules and decision-making procedures around which actor's expectations converge in a given area of international relations. Principles are beliefs of fact, causation, and rectitude. Norms are standards of behavior de-fined in terms of rights and obligations. Rules are specific prescriptions for action. Decision-making procedures are prevailing practices for making and implementing collective choice."[31] This definition provides the basic ideas for Young's regulatory regimes, which lay down rules regarding a vital set of issues that call for global cooperation. She mentions the following seven regimes, each having a distinct functional jurisdiction, with some need for overlapping responsibility and coordination:

- Peace and Security; Environment; Trade and Finance; Foreign Direct Investment and Capital Utilization; Communications and Transporta-tion; Human Rights including Labor Standards and Welfare Rights; Citi-zenship and Migration.

The most important elements in the federal system are local government units. They are autonomous in the sense that their members construct their own institutions of governance as they choose, within limits of global regula-tion. The global level of governance can therefore be characterized as rather "thin" in the sense that it only lays down general principles regarding the sorts of issues mentioned above. Local institutions "thicken" them into adminis-trable programs and rules by interpreting and applying them according to their own procedures, priorities, and cultural understandings. "Self-determination understood as non-domination, means a presumption of non-interference for autonomous units that are embedded in institutionalized relationships that protect them from dominative threats."[32] Global regulatory regimes should aim to minimize domination of both individuals and self-determining local units and actors. Furthermore, regulatory institutions should protect both individu-als and groups from the domination of powerful private economic actors.

A vision of global governance with local self-determination ought to in-clude democratic values and paramount institutions. Young criticizes existing transnational institutions and firms as rather undemocratic. She emphasizes the importance of UN reforms that should ensure democratic values beyond national borders.[33] Although this model establishes some linkages between the different levels, it remains unclear how they will be implemented. Crucial for the following analysis is the importance of the local level, which gives room to different cultures, traditions and stages of development, in addition to the glo-bal public policy approach. Taking this into account, the following section will outline a design for an international system of multi-level governance based on the key idea of representation.

The Representative International Multi-Level System of Governance

Relating the international multi-level system of governance to the concept of legitimacy, the framework faces the following challenge: "To be stable, democracy [and governance mechanism] must be deemed legitimate by the people. ... This legitimacy requires a profound moral commitment and emotional allegiance, but these develop only over time, and partly as a result of effective performance. Democracy will not be valued by the people unless it deals effectively with social and economic problems and achieves a modicum of order and justice."[34] To reach this ideal form over the long term, a world civil society would have to be established, which is questionable given the fragmentation and inequality existing in world politics today.[35] Keeping this in mind, the figure below visualizes simply the relationships among international, transnational, national and local levels and horizontal and vertical interactions between the actors involved.

The Global System of Multi-Level Governance
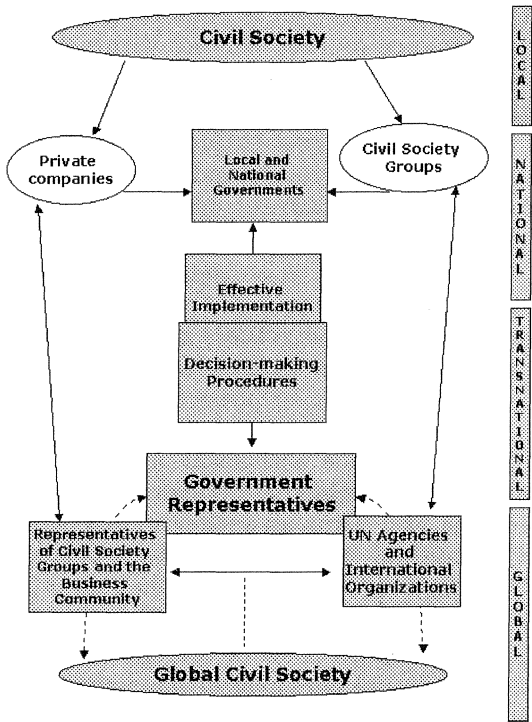
According to the principle of subsidiarity, decision must be made at the 'adequate' governance level and implemented effectively. Whereas every citizen would theoretically have the opportunity to become actively involved in decision-making process at all governance levels, the level where a broad participation and inclusion can best be ensured is the local level. This leads to the following effect: the more indirect the level of governance, the more indirect is the level of representation. As Kleger (et.al.) analyzes with regard to the European Union, legitimacy can be direct or indirect depending on the governance level.[36] Although members of international institutions may not be officially elected, they can be considered as indirectly legitimate if they are delegated by elected representatives within a country. Democracy can be understood as purely representative, but due to the complexity with a changing grade in representation.[37] Supplementary analysis, research and case studies are needed to further develop these assumptions.

Looking at the different models and possibilities for democratic theory beyond national borders, none of these approaches seem ready for implementation today. There is not 'one theory of global democracy' that can be applied and it is unclear when and whether there will be one.[38] It rather seems that all the different approaches have very essential and useful elements, all of which we must keep in mind when modeling the complex international multi-level system on the basis of subsidiarity. In the long term, a balance of power system could be based on agreements on the needs and responsibilities of each level. The challenge remains for "Western well-established democracies," "Southern democracies under construction" as well as other countries to create a common international system that builds trust as a basis for legitimacy and democracy.

The performance of the local Agenda 21 is one example of the implementation of global agreements and shows the dynamic and shortcomings at national and local levels. This does not mean that every citizen participates actively in politics, but the mechanisms have to ensure that every citizen has the right and possibility to participate as she or he wants to. However, this process indicates both the importance of diversity and the need for an adoption of global agreements to specific local needs.

Political Fragmentation vs. Political Integration

Most of the ideas outlined above are still almost exclusively based on conceptual work. With political fragmentation, increasing inequality and growing poverty, one must be very optimistic to believe that a global governance framework can function in the future.[39] So far, the main players in the global governance architecture are the G7 countries, political scientists from the United States or Europe and of course the business community (overall dominated by white men). Looking at newer democracies in Latin America, for example, we can hardly speak of a "democratic culture," one of the preconditions to achiev-

ing legitimacy. As mentioned above, the multi-level governance system only has a chance "to be considered as legitimate" by the world's population and a chance of survival, if it allows a wide range of diversity and gives room to different cultures and religions – as long as those are not questioning the system itself, as, for example, international terrorism does. This would allow indigenous groups and women in the Andean region to be part of the same system as the businesswomen in New York City on Wall Street.

The current discussions about a European constitution and the introduction of the Euro are challenging and show first possibilities of democracy beyond national borders. But the historical development of European countries and the economic, political, social and cultural integration of the European Union cannot be transferred easily to global governance. However, we will be able to learn from these processes (although a world currency is hardly desirable) and move towards greater political and institutional integration in discussing some form of 'world constitution' (such as the Declaration of Human Rights) some day in the future. A lack of adequate governance mechanisms leads to a decreasing legitimization of world politics. Future challenges will continue to bridge the gap between political fragmentation on one side and integration on the other, and may increase the level of democracy and legitimization of world politics from the inside, in a possible framework of global governance. According to the terminology of consolidated democracies mentioned in the introduction, the relevant aspects of this framework may be a free and lively civil society, a relatively autonomous and valued political system, an institutionalized economic society, rule of law, and an effectively functioning bureaucracy.

Notes

[1] For working definitions see e.g. David Held, Anthony McGrew, David Goldblatt and Jonathan Perraton, *Global Transformations* (Stanford: Stanford University Press, 1999).
[2] Anthony Giddens, *The Consequences of Modernity* (Cambridge, Mass, Oxford: Polity Press, 1990) p. 64.
[3] Joseph S. Nye and Johns D. Donahue, eds., *Governance in a Globalizing World* (Washington, DC: Brookings Institution Press, 2000).
[4] See e.g. James N. Rosenau and Ernst-Otto Czempiel, *Governance without Government: Order and Change in World Politics* (Cambridge: Cambridge University Press, 1992).
[5] Ian Clark, *Globalization and International Relations Theory* (Oxford: Oxford University Press, 1999) p. 155.
[6] Like globalization, the term governance has been widely discussed among scientists. For an overview see Holger Mürle, *Global Governance* (Duisburg: Institut für Entwicklung und Frieden der Gerhard-Mercator-Universität-GH-Duisburg, 1998).
[7] UNDP, ed., *The UNDP Role in Decentralization and Local Governance, A joint UNDP-Government of Germany Evaluation* (New York: UNDP) p. 27.
[8] Larry Diamond, "Three Paradoxes of Democracy", *Journal of Democracy* vol. 1, no. 3 (1990) p. 48.
[9] Wolfgang Merkel, „Der diskrete Charme der Demokratie", *Frankfurter Allgemeine Zeitung* no. 52 (December 30, 2001).
[10] Juan L. Linz and Alfred Stepan, *Problems of Democratic Transition and Consolidation* (Baltimore, London: The Johns Hopkins University Press, 1996) p. 7.
[11] Ibid., p. 7.

[12] Quoted e.g. in Heinz Kleger, I. Pawel Karolewski and Matthias Munke, *Europäische Verfassung* (Münster, Hamburg, London: LIT, 2001) p. 163.

[13] Dahl defines at least five standards, which describe democracy: Effective participation, voting equality, enlightened understanding, and control of the agenda and inclusion of adults. See Robert Dahl, *On Democracy*, (New Haven, London: Yale University Press, 1998) p. 37-38. One distinction has often caused misunderstanding: The distinction between the concept of Polyarchy and Democracy – "rule by many" and "rule by all the people for the people" which we should take into account when analyzing concepts of transnational democracy. See Robert Dahl, *Modern Political Analysis,* 5th edition (London: Prentice Hall, 1991) pp. 71f.

[14] Robert Dahl, "A Democratic Dilemma: System Effectiveness versus Citizen Participation" *Political Science Quarterly*, vol. 109, no. 1 (1994) pp. 23-34.

[15] Ibid., p. 25.

[16] Ibid., p. 26.

[17] Various conferences mostly in Europe and the United States are forums to discuss these issues.

[18] See for example: R.A.W. Rhodes, "The New Governance: Governing Without Government" *Political Studies*, vol. 44, no. 4 (1996) pp. 652-667; Wolfgang H. Reinicke, *Global Public Policy*, (Washington, DC: Brookings Institution, 1998); James N. Rosenau and Ernst-Otto Czempiel, *Governance without Government: Order and Change in World Politics*, (Cambridge: Cambridge University Press, 1992) and Lothar Brock, „Staatenpolitik in der Weltgesellschaft: 'Government without Governance'?", in Wolfgang Glatzer, ed., *Ansichten der Gesellschaft*, Frankfurter Beiträge aus Soziologie und Politikwissenschaft, (Opladen: Leske+Budrich, 1999) pp. 261-273.

[19] Immanuel Kant, *Zum ewigen Frieden* (Leipzig: Reclam, [1795] (1954).

[20] Dani Rodrik, "How Far Will International Economic Integration Go?" *Journal of Economic Perspectives*, volume 14. no. 1 (2000) pp. 182-3.

[21] Rodrik argues that the framework of global governance should be an alliance of those who perceive themselves to be the 'losers' (environmental and labor groups etc.) from economic integration and those who perceive themselves as the 'winners' (exporters, multinational companies ...). Part of this process will be to make international policymakers accountable through democratic elections. Ibid., p. 185.

[22] See e.g. several contributions to Beate Kohler-Koch, ed., *Regieren in entgrenzten Räumen* (Opladen: Westdeutscher Verlag, 1998) and Heinz Kleger et.al. (2001), Ibid.

[23] John MacLean, "Philosophical Roots of Globalization and Philosophical Routes to Globalization," in Randall D. Germain, ed., *Globalization and its Critics* (London: Macmillan, 1999) p. 62.

[24] See e.g. Heinz Kleger et.al. (2001), Ibid.

[25] Wolfgang H. Reinicke, *Global Public Policy* (Washington, DC: Brookings Institution, 1998).

[26] See e.g. Wolfgang H. Reinicke and Francis M. Deng, *Critical Choices: The United Nations, Networks, and the Future of Global Governance* (Washington, DC: IDRC, 2000).

[27] Ibid., p. 10. Kaul et.al. furthermore identify three key weaknesses in current arrangements for providing public goods: A jurisdictional gap, a gap in participation, and an incentive gap: The jurisdictional gap is defined as the discrepancy between the global boundaries of today's major policy concerns and the essentially national boundaries of policy-making. The participatory gap results from the fact that we live in a multi-actor world, but which is internationally still primarily intergovernmental. And the incentive gap emerges, because moral suasion is not enough for countries to correct their international spillovers or to cooperate for the global public good. See Inge Kaul, Isabelle Grunberg and Marc A. Stern, eds., *Global Public Goods* (New York: Oxford University Press) pp. 450-451.

[28] Ibid., Chapter 3.

[29] See e.g. the implementation process of Agenda 21, the difficulty and still ongoing discussion of a Global Forest Convention within the United Nations Forum on Forests (UNFF). See e.g. Astrid Harnisch, *Global Public Policy Networks and International Forest Management – A Case Study*, February 20, 2002, http://www.globalpublicpolicy.net.

[30] Iris Marion Young, *Inclusion and Democracy* (Oxford: Oxford University Press, 2000) p. 267.

[31] Stephen D. Krasner, *International Regimes* (Ithaca: Cornell University Press, 1983) p. 2.

[32] Young, p. 259.

[33] Ibid.

[34] Diamond (1990) p. 49.

[35] Michael Zürn, "The Challenge of Globalization and Individualization: A View From Europe" in Hans-Henrik Holm and Georg Sörensen, eds., *Whose World Order? Uneven Globalization and the End of the Cold War* (Boulder: Westview Press, 1995) p. 158, Figure 8.1.

[36] Kleger et.al. (2001).

[37] Even the 'ideal form' of direct democracy and the concept of Rousseau did only include formal citizens in political life. People without the right of citizenship were excluded like women or poorer people, however, they have also been affected by political decision. Therefore we can argue that even this concept contains representative elements.

[38] As Rodrik points out in a paper prepared for a conference on 'Globalization and Democracy' mentioned above, there is no "one way". In his third principle for democratic governance of globalization, he points out that "democratic institutions differ in their social and institutional arrangements, for reasons of both historical accident and genuine differences in national preferences. (...) The need for institutional diversity applies with even greater force to developing countries." See Dani Rodrik, *Four Simple Principles for Democratic Governance of Globalization*, October 10, 2001, http://www.demglob.de/rodrikpaper.html.

[39] World Bank Chief Economist Nicholas Stern commenting on the new World Bank study "Globalization, Growth and Poverty: Building an Inclusive World" published in December 2001: "Globalization has often been a powerful force for poverty reduction. But too many people have been left by the wayside." This exclusion is mainly due to "the weakness of governance and policies in the non-integrated countries, to tariffs and other trade barriers with which poor peoples are confronted when they try to enter the markets of rich countries, and to the decline of official development aid" World Bank, ed., *Development News Press Review*, Thursday December 6, 2001. See also discussions during the World Social Forum in Porto Alegre.

Turkish Democracy at a Crossroads

Charalambos Konstantinidis

Introduction

In December 1999, Turkey officially became a candidate for accession to the European Union, a decision that was hailed as a milestone in that country's turbulent history. Turkey seemed to be at last within reach of membership in the community of Western, prosperous democracies that its founder, Kemal Atatürk, had always tried to imitate. However, the Europeans soon made it clear that unless Turkey made substantial progress in rendering its political system purely democratic, accession would remain a distant dream.

This insistence on Turkey's full democratization might sound striking if one keeps in mind that countries with only little more than a decade of democratic experience, such as Poland and Hungary, will certainly join the Union much sooner. Indeed, the Turks can arguably boast that since 1950 they have enjoyed free elections, a relatively free press, a multiparty system, secularism, the right to unionize and a quasi-independent judicial system.[1] And all this, they are quick to note, despite unfavorable geopolitical surroundings, which include notoriously authoritarian regimes such as Syria, Iraq, Iran, and, until recently, the USSR. Why then is the democratic progress of Turkey overlooked for the sake of some imperfections?

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The reason is simply that Turkey has set *upon itself* the objective of be-
coming a "Western European democracy." Therefore, it has to be judged based
on the standards prevailing in the West, not on those of its neighborhood.
Clearly such a comparison does not favor Turkey. The military still plays a
major role in the political process, either directly or indirectly; political parties
have repeatedly been shut down by the authorities; and freedom of expression
and human rights in general are often arbitrarily restricted in the name of the
protection of "national sovereignty, national security, public order, general peace,
the public interest and the public morals."[2]

This paper will examine the major characteristics of democracy in Turkey
and propose reasons for the country's inability to complete its democratization.
In order to do so, it is important at first to establish what democracy is, what
standards it entails, and in what stages it can be accomplished. This theoreti-
cal framework will be applied to the case of Turkey, in order to show that its
unfinished democratization is the combined result of fundamental flaws in the
application of democratic principles, as well as the inability and/or unwilling-
ness of Turkish society to rid itself from the "cushion" of military intervention
and assume the burden of democratic leadership itself.

Democracy: A Theoretical Approach

Which Democracy?

There are numerous notions associated with democracy nowadays, though
not all of them may qualify as indispensable elements of a democratic system,
nor can they necessarily be applicable on all societies or at all times. We usu-
ally distinguish two major schools of thought in regard to the characteristics of
a democracy: One seeks a minimalist definition, namely the existence of free
elections, and another emphasizes the need for a number of further guaran-
tees on individual and civic liberties in a truly democratic society.

The first view draws on the arguments of Joseph Schumpeter, who claimed
that "the democratic method is that institutional arrangement for arriving at
political decisions in which individuals acquire the power to decide by means of
a competitive struggle for the people's vote."[3] Samuel Huntington, in his book
on democratization *The Third Wave*, subscribes to this definition, looking for
democracies wherever there are "fair, honest and periodic elections, in which
candidates freely compete for votes and in which virtually all the public popu-
lation is eligible to vote."[4]

Huntington recognizes the minimalism of this definition, but considers
elections held under the aforementioned conditions as a *sine qua non* for a
democracy. Sporadic elements of individual freedoms may exist in other re-
gimes, but without elections, one cannot speak of democratic legitimacy and

thus of a true democracy. For this reason, he chooses to exclude from his definition any "fuzzy norms [such as liberté, egalité, fraternité, which] do not yield useful analysis."[5]

This minimalist approach, however, is not useful for the purposes of the present analysis. Here, Huntington's definition would certainly lead to what his opponents have termed the "electoralist fallacy": In many so-called democracies free elections have not guaranteed popular sovereignty, as the former rulers have kept for themselves substantial prerogatives even under the new regime[6] (and Turkey is, as will be shown, a case in point).

For this reason, the broader definition of democracy of another school of thought is more pertinent, in particular that of Robert Dahl in his book *On Democracy*. Dahl has coined the term "polyarchy" to describe the way democratic principles have actually been applied in Western Europe and North America. The term, derived from the Greek words meaning "many" and "rule", implies a "rule by many" as opposed to *mon*archy (one ruler) or *olig*archy (few rulers). Dahl uses the term to refer to a political system that basically includes *elected officials, free, fair and frequent elections, freedom of expression, alternative sources of information, associational autonomy, and inclusive citizenship.*[7]

In breaking down this definition, Dahl argues that large-scale democracy is possible today only through representation, where officials are selected among the people with a mandate to manage the domestic and foreign affairs of the state. The reference to elections (where Dahl and Huntington agree) specifies the terms under which this mandate is given: The elections have to be free (people should vote free from coercion), fair (everyone runs for office under equal terms), while the mandate has reasonably limited duration (elections every 4-5 years).

Freedom of expression bestows citizens with the right to discuss and criticize without fear of punishment any matter and in particular issues related to the state and the political process. The fourth criterion is inextricably linked with the ones above: If the citizen is responsible for choosing his leaders, a wise choice can only be made through consultation of alternative, independently run means of information, such as newspapers and the radio.

To exercise their rights, citizens should also be permitted to associate themselves freely and contribute to the democratic process in the form of political parties, trade unions, citizens' movements or non-governmental organizations. A final indispensable element, then, has to be an inclusive citizenship, i.e. one that does not exclude any members of the society and does not distinguish them in terms of their ethnic backgrounds, religion or sex.

How Can States Become Polyarchies?

In addition to the criteria for a polyarchical political system, Dahl also describes what he considers to be the "conditions" for a stable democracy.[8] Discussion of these conditions is useful here as they complement the afore-mentioned democratic institutions and have important implications for the nature of democracy in Turkey. Essential conditions are *control of military and police by elected officials, democratic beliefs and political culture, and no strong foreign control hostile to democracy.*

Civilian officials, even if they are *de jure* in power through free and fair elections, also need to be able to exercise their functions *de facto*. This is im-possible if the military and the police, which guarantee the Weberian state's legal monopoly on coercion,[9] have "reserved domains" of authority, are in-volved in the political process, or at the very least exert some sort of "behind the scenes" leverage on civilians. Democracy can also hardly take deep roots in a country lacking a firm belief in its benefits as a system, and where a culture of negotiation and conciliation is missing. There is however no doubt that a democratic culture takes time and effort to build, and is normally the result of a successful process of democratic consolidation.

Apart from these essential conditions, Dahl also cites two other favorable for democracy conditions: a free-market economy and cultural homogeneity. Free market economy has historically been correlated with the successful es-tablishment of liberal democracies. It is important to keep in mind though that if liberal democracy requires a free-market economy, the opposite is not true.[10] As Dahl puts it: Economic inequality often hardly coincides with - and may indeed prove an obstacle to - true political equality.[11] Finally, Dahl speaks of cultural homogeneity. It is much easier for a common ideal (such as democ-racy) to develop and be accepted by people sharing certain values than in a country whose population consists of multiple ethnicities. Even in the latter case though, democracy is possible (as the United States example has shown), but it largely depends on the success of an additional step to the ones already mentioned, namely the integration of different ethnic affiliations into a new, common national conscience that will lead to a truly inclusive citizenship.

There is no doubt that Dahl's definition requires states to meet particu-larly high standards in order to qualify as modern democracies. Indeed, it is often the case that even the traditional western democracies might fall short of satisfying them in their entirety.[12] Overall however, these criteria do form an accurate picture of what a realistic application of the democratic ideal may be nowadays, and in the following pages the Turkish political system will be evalu-ated according to them.

Is It Possible to Measure Democratic Progress?

Our understanding of modern Turkey cannot be complete without a discussion of the country's progress towards meeting the democratic standards over the past decades. Generally, this process entails two stages – transition and consolidation – which normally, but not necessarily, occur in that order. In their quintessential book on democratic transitions, Guillermo O'Donnell and Philippe C. Schmitter define transition as the interval between the end of a political system and the establishment of its successor: "Transitions are delimited, on the one side, by the launching of the process of dissolution of an authoritarian regime and, on the other, by the installation of some form of democracy, the return to some form of authoritarian rule, or the emergence of a revolutionary alternative."[13]

Consequently, transition does *not* have to lead to democracy. This is often due to the fact that the "rules of the game," to the extent that there are any in a transitory period, tend to be in the hands of the authoritarian rulers who may "retain discretionary power over arrangements and rights which in a stable democracy would be reliably protected by the constitution and various independent institutions."[14] When these leaders start to relinquish some of their privileges that are directly linked to their authority over the state, then a process of transition is underway.

O'Donnell and Schmitter's definition makes it easier to recognize a transition when it occurs, but it is vague as to when it is completed, particularly in the context of democratization. According to Juan J. Linz and Alfred Stepan, the following conditions have to be met in order for a transition leading to a democratic outcome to be successful:

> A democratic transition is complete when sufficient agreement has been reached about political procedures to produce an elected government, when a government comes to power that is the direct result of free and popular vote, when this government *de facto* has the authority to generate new policies, and when the executive, legislative and judicial power generated by the new democracy does not have to share power with other bodies *de jure*.[15]

A completed transition, therefore, should lead to the satisfaction of several of Dahl's criteria. This definition then makes the very important distinction: Liberalization (the attribution of certain rights to the individual) does *not* equal democratization unless it is linked to genuine popular involvement in the political system.[16]

The process of democratization however cannot be concluded unless a fundamental goal of consolidation has been reached. In simpler terms consolidation means that democracy is considered "the only game in town," the only political system envisaged by the clear majority of its citizens. If an emerging democratic state faces the fear of domestic (or external, as Dahl would argue) subversion, it will find it hard to focus its energy into something much more

productive than simply defending itself. Only after such obstacles have been removed can its democracy be considered consolidated: still striving to assure its citizens more rights but free from the threat of a rollback. Finally, Linz and Stepan note that a consolidated democracy requires the rule of law, a functioning state bureaucracy and of course a political class trusted to carry out its tasks, rendering any alternative political system unnecessary.[17]

The definitions above may imply that consolidation should generally follow transition; however, transition does *not* have to be completed in order for consolidation to begin. Indeed, in the case of Chile there were signs of consolidation in the early 1990's before all the elements of transition had been achieved, whereas in Portugal they were achieved simultaneously.[18] This should not be confusing: the two notions may be distinct, but they are also quite naturally interconnected. In fact, in Turkey some of the prerequisites of transition and consolidation have been fulfilled without the completion of either. The following pages will explain why and how this has been the case.

The Turkish Experiment With Democracy

Ottoman Legacy and the Republic of Turkey

On October 29, 1923, the Grand Turkish National Assembly proclaimed the Turkish Republic and elected Kemal Atatürk as its first president. The illustrious leader of the Turkish War of Independence of 1919-22 was charged with a daunting task, having to build a nation-state from scratch on the ruins of the Ottoman Empire. Apart from the difficulties present in almost any state-building effort, Atatürk faced an even more formidable obstacle: the Ottoman legacy. An examination of this legacy is indispensable at this point, for it explains many of the constraints of the current political system; only after these confining conditions have been overcome can we really speak of a completed transition.

Even though Atatürk proved capable of reforming even the most profound characteristics of the Turkish society (secularism, Latin alphabet, abolition of the fez), he was much more cautious in changing the form of the state. As Sunar and Sayari note:

> [T]he overall system remained similar in its structure to the Ottoman past. It was organized, cohesive, and closed at the top, with selective penetration and restricted institutional permeation of society. It was primordial, segmented, and disconnected at the bottom. These characteristics had strong effects upon the nature of the later democratic process. The state-dominant, bureaucratically constituted political system, its formal institutionalization in a *regime d'assemblee*, the weakly organized, diffuse, and inert periphery, and the low level of ideological and institutional permeation of the periphery- all of the factors had a shaping effect on the mode of transition to democracy and the democratic process itself.[19]

Atatürk's revolution from above required a centralized state, to ensure the implementation of his program, and a periphery that could not pose any serious resistance. Thus a strong state bureaucracy was needed to guarantee control of this reformation process. *Liberalism* and *democracy* clearly did not fit this process, and therefore never became Kemalist principles *per se*.[20]

It is indicative of the attitude of Kemalism toward the individual that the latter was completely excluded from participation in this process, even though it affected the very foundations of individual life. This was a consequence of both culture and ideology. Culturally, the Turks "are agglutinative, with a strong sense of group membership and a concomitant – almost instinctive – awareness of an obligation to provide assistance to others when required."[21] Therefore, individualism, a characteristic of Western liberal democracy, is a foreign concept for the average Turk. This cultural trait became a major tenet of Kemalism, and was transformed into an overall "denial of the idea of a pluralist society in favor of an organic view of society and people."[22] In this system, pluralism, personal freedom and individuality do not fit, and an allusion to them may even pose a threat to this organic view that lies at the core of the Turkish state.

Creating Turkish Subjects or Citizens?

The success of the new nation-state and the Republic depended largely on the successful creation of a Turkish national identity and citizenship, respectively. This was probably the hardest goal to accomplish. The Ottoman Empire had been a melting pot, a mosaic of innumerable nationalities that had managed to coexist peacefully for centuries under the sultan's rule. After World War I, with its painful experience of nationalism and the distrust it fostered among the different groups of the former Ottoman Empire, that seemingly idyllic coexistence was not possible anymore. Either through forced or "negotiated" expulsion, the different non-Muslim *millets* were forced to flee Turkey.[23]

Many of their members had cooperated in the grand designs for the creation of new states on the ruins of the Ottoman Empire and therefore the new Turkey could not afford to preserve such a *Trojan horse* threatening its existence from within. The distrust for minorities and the precarious geopolitical surroundings created a siege mentality among the country's elites. Turkey had to be united, if possible monolithic, in order to resist successfully any claims against its independence. This unification was accomplished between 1919 and 1922, with an insistence that all Muslim peoples of the Anatolian plain form the nucleus of the new Nation, whether they liked it or not, even though many – such as the Kurds –had a clearly distinct cultural tradition:

> The original Kemalist doctrine of "civic nationalism" would, indeed, make a differentiation based on ethnicity unnecessary if it had been pursued diligently by the state authorities. [Nevertheless] the state policy of spreading Kemalist norms among the people of Anatolia slowly but constantly deviated from creat-

ing a "new Turkish citizen" to assimilating members of different ethnic back-
grounds, that is, creating "new Turks."[24]

The creation of a Turkish citizenship was thus never pursued thoroughly, largely
due to the fact that liberalism was not among the Kemalist principles.

In Turkey, cultural pluralism was seen as a menace and is still perceived
as such. Creating the myth of a unique Turkish nationality and imposing it by
force, the Turkish elites awakened the defensive reflexes of threatened groups.
At the same time, the promotion of secularism, as a pillar of modernity, in a
Muslim country estranged the devout Muslims who, only a few years before,
used to consider the Sultan as the representative of God on Earth.

Even though there was never an official definition, the new Turkish citi-
zen was expected to be a secular, sunni Muslim speaking the Turkish lan-
guage. Setting such preconditions meant excluding the nationally conscious
Kurds, and to a certain extent even the politically aware Muslims, as well as
the religiously heterodox Alewites, which altogether constituted about one fourth
of the population. "Exclusion is not at all a phenomenon alien to democratic
societies, but the exclusion of such a large proportion of a country's population
would be bound to create problems."[25] Thus, not only was an inclusive citizen-
ship - as Dahl had defined it - not achieved, but this attitude towards different
groups nurtured reaction and protest and has evolved into two major chal-
lenges to the Turkish Republic: the Islamic movement and the Kurds' struggle
for human rights.

Individual Freedoms

Countering these threats is a difficult task. Any compromise is seen as
imperiling the very essence of the rhetoric that the state has relied on from
Independence to this day: the unity and indivisibility of the Turkish state, its
territory and people. Because of the elites' siege mentality, solutions based on
negotiation and compromise, the essential conditions of democracy, were dis-
missed as dangerous. If Atatürk's revolution had started from above, the Kemalist
edifice would still have to be preserved from above through legislation that
penalized any dissent from the official version of Turkey's national background.
As Kinzer notes, any insult on the memory of Atatürk to Turkishness and its
guarantors (the military), and any broadcasts, parties or individuals promoting
the existence of minorities or other cultural differences are strictly forbidden
and punishable by law and the Constitution.[26]

Consequently, the political process and any form of civil society activism
is screened through these glasses and dealt with accordingly. As different au-
thorities, from the police to state courts, enjoy large leeway in determining
what constitutes a threat, repressive measures have become a generalized prac-
tice, often in anticipation of subversive action. *Amnesty International* records

numerous imprisonments of writers, politicians, religious leaders and human rights defenders "for exercising their right to freedom of expression, particularly when they expressed opinions on the Kurdish question and the role of Islam."[27]

Even the political system is not immune from this practice. The creation of Islamic parties after the 1971 coup was permitted by the military in order to counterbalance the ascendant Left extremism. But this movement gained a momentum of its own, even managing to win the largest number of votes in Parliament in 1995 and, a year later, to have its leader become the first Islamist prime minister of the secular Turkish Republic. It was only after yet another coup, a "velvet" one this time, that he was removed from office in 1997, his party banned, reorganized under a new name, and banned again.

In the Kurdish case, the situation is more complicated. Indeed, Turkey can arguably claim that the guerilla warfare of the PKK is the best example of what could happen all over Turkey if differences were allowed to emerge. By stating so (and thus recognizing the failure of their practices), the authorities not only tighten their grip on power, but they also neglect to make a distinction among various groups with different demands. There are other Kurdish parties that do not support the PKK war, but simply ask for an inclusive citizenship, right to education in their language and the freedom to claim their heritage. But recognition of such peculiarities would open a Pandora's box – and this cannot be permitted by the authorities.

Turkey's ranking as only a partly free society, according to *Freedom in the World 2000*, is not accidental. Both its political and civil liberties scores are very low (4 and 5 respectively, with 1 being excellent and 7 the worse) due to the restrictions explained above. Even the press shares a blame for this situation, since "it does not act as an independent watchdog or critic" and "publishers readily accept guidance from the state about what should and should not be published."[28] Civil liberties, therefore, are conditional on self-censoring. But if this does not contradict democracy, then what does? Political liberties are also rendered problematic, and as undesirable ideologies they are not allowed to evolve into political parties. Nevertheless, the problem of the party system is deeper and more serious than simple barriers to an individual's entry in the political process.

The Political Class in Turkey

As has already been mentioned, from 1924 until 1950, the Republic of Turkey practically had a "state-dominant monoparty authoritarianism,"[29] which was deemed indispensable for the pursuit and eventual success of the profound reforms of Atatürk. Even if Atatürk himself supported multipartism in principle, the few attempts he made toward that direction in the 1920s led to open criticism, for being too sweeping and rapid for the people to absorb. "Con-

vinced that his reforms were too important to be debated and delayed [...] he banned these parties before they could build popular bases"[30] and ruled more or less as an authoritarian leader until the end of his life in1938.

It would be his former companion in arms, Ýsmet Ýnonü, who succeeded him in the presidency of the country and in the leadership of the CHP (Atatürk's Republican People's Party), who would make the grand step towards a multi-party system in 1950, as the need to forge stronger bonds with the West be-came even more acute during the Cold War. Turkey experienced a uniquely peaceful transition to a two-party regime,[31] which was – quite expectedly per-haps – imposed from above. However, the three coups of 1960, 1971 and 1980 clearly demonstrated that this democratic transition was never completed.

Some of the fundamental weaknesses of the Turkish approach have al-ready been emphasized, but a major one is that the country lacks the appropri-ate political personnel to lead the democratization process. According to Jenkins,

> Despite more than 50 years of theoretical multi-party democracy, the way in which the political machinery operates in Turkey reflects the values and atti-tudes of Turkish society, which are authoritarian, patriarchal and conformist rather than democratic and pluralist. [...] Political parties tend to resemble clans rather than institutionalized organizations and form around charismatic individuals rather than ideological conviction or common goals.[32]

Charismatic leadership is of course not unique in Turkey, and other democra-cies have also had the same politicians dominating political life over a period of decades. A bit more original is Turkey's political vendettas: Even though neces-sity often requires coalition governments in Turkey, these will rarely develop among parties with similar ideological affiliation, but instead among these whose leaders will strike a better deal in sharing power,[33] even if it is to the detriment of the long-term course of the country. The cooperation of the "European" Tansu Ciller with Islamist leader Erbakan in 1996-97 is indicative of this situation.

Politicians are not seen as reliable representatives of the people, since the only way to make it to a ballot is by gaining the favor of the party leadership. Merit, sincerity or ideology do not seem to count – and if a party wins a seat in Parliament, emphasis is placed not on the promotion of the party's agenda (if a specific one exists, that is) but on ensuring reelection. "Parliamentarians who [are] skilled in developing benefit networks [have] an advantage over those with a strong background in policy making [as] skill in personal relations is more valued than expertise."[34] The development of a democratic culture of dialogue and debate cannot occur under such circumstances, as neither is present within the party structure, or in Parliament.

This undesirability stemmed from another weakness of the Turkish politi-cal system, political party fragmentation. Sunar and Sayari trace its roots to the proportionality of the electoral system and the weak cohesion of the par-ties, which make it easier for deputies to abandon them for better alterna-

tives.[35] The multiplicity of parties on the same side of the political spectrum (Center-Left and Center-Right) should have rendered the formation of grand parties possible, had it not been for leaders' feuds as well as the need to emphasize their differences, in fear of losing votes to smaller parties with a more distinct voice.

As a result, no coherent socioeconomic policies can be drafted and implemented to raise the standards of living in Turkey, since each party promotes the interests of its narrowly defined constituency. It was only Ozal (who led the Turkish transition after 1980 as prime minister and, since 1989, as president) who "was able to create a broad coalition of religious conservatives, technocrats and supporters of the center right."[36] It cannot be a coincidence that during the 1980's Turkey averaged 8 percent GDP growth per annum, leading to the emergence of an entrepreneurial class that has given signs of its intention to move towards democratization.[37] If only this had occurred consistently, Turkey might not have failed in its multiple transitions, which were all blamed on the corruption of the political class.

Corruption is probably the most profound weakness of the Turkish political system and the one that lies in the heart of many Turks' dislike for political parties. The Sosurluk incident of 1996, the "coincidental discovery of an illegal formation within the state apparatus when a parliamentarian, a police commissioner and a fugitive hitman were found to have been sharing a car involved in a traffic accident,"[38] shook the country as it revealed that corruption had reached almost every aspect of the public life. It is under such conditions that the people turn to the only institution in Turkey that they believe (not allowed to know otherwise) has remained immune to corruption, inefficiency and failure: the military.

The Significance of the Armed Forces

The strong role of the military in society, a characteristic of the Ottoman Empire, was transmitted also to the new state. Under the Sultan, the army symbolized authority; indeed, the glory of the Ottoman Empire was mostly related to its military successes rather than anything else. Nowadays, military service is perceived as the utmost duty towards the Motherland: "to the vast majority of Turks, the military and military values still lie at the heart of any definition of what it means to be Turkish."[39]

After Atatürk came to power, he took off his military uniform and insisted that if his war companions wished to be involved in politics they had to do so as well. Civilian control of the political process was important to Atatürk, but his reforms could not have been achieved based merely on his – undeniably enormous – prestige as national liberator. It was only with the help of the military that he managed to implement his ideas. "This support [...] was transformed into a guarantee for the legacy of Atatürk, Kemalism, to live on. And Kemalism

could strike roots because the birth of the Turkish Republic was experienced as brought about jointly by the people and the armed forces."[40]

Even today, the Turkish Armed Forces enjoy an enormous legitimacy because of this very reason, and they see themselves as guardians of the integrity of the Turkish state against any internal or external threat. It is yet another paradox that the military's actions are justified on the grounds of the protection of Kemalist principles, even though westernization, as envisaged by Atatürk, entailed the subordination of the military to civilians. But as has been consistently proven, civilian authority is primary rather than supreme,[41] so long as civilian governments function properly, i.e. in accordance with the Kemalist principles. The Armed Forces confine themselves to the management of defense and, indirectly, foreign policy.

Currently, the military exercises influence through the National Security Council, an "advisory" board included in the 1980 Constitution (drafted by the military junta under General Kenan Evren) aimed at assisting the government with issues relating to national security.[42] Hardly ever has the "recommendation" or "advice" of the NSC not been duly implemented by the civilian government. Civilians can act without the Armed Forces' consent but almost never over their objection.[43]

Through the NSC, "the military has actually become part of the constitutionally based state executive power without formally being legitimized to such a position."[44] As was explained by Dahl, this cannot be the case in a real democracy. The Armed Forces are aware of this abnormality and have restricted their intervention only on national security grounds, even though these in Turkey can be broadly defined, as shown above. Whenever the military intervened in the political process (in 1960, 1971 and 1980), it restored civilian rule quite swiftly. Apart from ideological conviction, the reason for this restraint of the military rule is undoubtedly the objection of the Turkish public to such practices.

The fundamental excuse for the continuing domination of the Turkish political process by the military, is then not only the Armed Forces' insistence on their prerogatives, but also the public's acquiescence.[45] Both sides agree that the corruption and incompetence of the political class stand at the root of evil but neither is willing to accept its responsibility for it. The Turkish people expect the military to intervene if things get out of hand, and might indeed overlook any excesses if order and stability are to be restored.

But this only demonstrates "the reluctance of the majority of the public to take the responsibility for change upon themselves."[46] Unless this happens, the present situation will persist as the fruit of a "shared complicity" of the public and the Armed Forces for the democratic impasse in Turkey. The past decade and the perspective of EU membership have actually demonstrated a changing attitude towards the role of the military, and an increasing desire to

catch up with the West. It will therefore be interesting to see whether the political class will grasp this message, and if the military accepts to be ruled rather than to be a ruler.

Conclusion

At the dawn of the 21st century, democracy in Turkey is still facing substantial problems that greatly inhibit its development, both in social and economic terms. While it would be unfair to call its system a dictatorship, the country seems more an "illiberal democracy"[47] than anything else. Indeed, free, fair and frequent elections are the norm in Turkey, and its people have often sent to power parties against the will of the military (1983 and 1995). But the attribution of full democratic rights has been reluctant, uncoordinated and eventually counterproductive. A fully operating civil society has not yet been allowed to emerge, and respect for anything associated with politics is lacking.

According to this analysis, reasons for this outcome include a heavy legacy from the Ottoman Empire, which the Republic repudiated and imitated at the same time, the uncompleted social transformation towards westernization as Atatürk had defined it, and the inability of the political class to assume responsibility and respond to social demands. These weaknesses are indeed profound, and it is to the credit of the Turkish people that, despite such constraints, they have made it that far since 1923.

Turkey initiated transition four times but never achieved permanent results, least of which to democratic consolidation. Even if some of Dahl's democratic criteria have been satisfied – such as elections of officials through free and frequent polls and the existence of some alternative sources of information – the country has been hesitant or unable to apply them all. Instead of consolidation, the argument goes, further democratization may lead to disintegration. But, as has been noted, a successful democracy cannot be built with such siege mentalities, with threats looming everywhere and diverging attention from the goal of liberalization.

The perspective of EU membership might provide the incentive, the additional stimulus as well as the safeguard for the country and its people to make this step towards democratization. The EU influence will guarantee human rights and at the same time the safety and integrity of the Republic; it may also impose a culture of negotiation and foster a more transparent political process. This is a rare chance that neither the military, the political elites, nor the people can afford to miss, if democracy is really what they want in Turkey. This is undoubtedly their big chance to achieve it. Whether they will seize this opportunity remains to be seen.

Notes

1   Katherine A. Wilkens, "Turkey Today: Troubled Ally's Search for Identity," *Headlines Series*. No
    317. (New York; The Foreign Policy Association, 1998) p. 53.
2   Articles 20 (Privacy of Individual Life) and 22 (Freedom of Communication) of the recently
    amended- after EU pressure- Constitution of the Republic of Turkey (October 2001).
3   Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* 2nd ed. (New York; Harper, 1947)
    p. 269.
4   Samuel P. Huntington, *The Third Wave. Democratization in the Late Twentieth Century* (Norman;
    University of Oklahoma Press, 1991) p. 7.
5   Ibid., p. 9.
6   Juan J. Linz and Alfred Stephan, *Problems of Democratic Transition and Consolidation* (Balti-
    more; The Johns Hopkins University Press, 1996) p. 4.
7   Robert A. Dahl, *On Democracy* (New Haven; Yale University Press, 1998) p. 85.
8   Ibid., p. 147.
9   Max Weber, "The Fundamental Concepts of Sociology" cited in Linz and Stepan, p. 17.
10 John Sheahan, "Economic Policies and the Prospects for Successful Transition"' in Guillermo
    O'Donnell and Philippe C. Schmitter, eds., *Transitions from Authoritarian Rule: Comparative
    Perspectives* (Baltimore; Johns Hopkins University Press, 1986) pp. 161-164.
11 Dahl, pp. 173-180.
12 For example, according to *Freedom in the World 2000*, an annual survey of political rights and
    civil liberties, countries like France, Germany, Japan and the United Kingdom scored less than
    perfect, due to a ranking of 2 (1:excellent, 7:worst) in the respect of freedom of expression,
    association, rule of law and human rights.
13 Guillermo O'Donnell and Philippe C. Schmitter, eds., *Transitions from Authoritarian Rule: Ten-
    tative Conclusions About Uncertain Democracies* (Baltimore; Johns Hopkins University Press,
    1986) p. 7.
14 Ibid.
15 Linz and Stepan, p. 3.
16 O'Donnell and Schmitter, Tentative Conclusions, p. 10.
17 Linz and Stepan, p. 6.
18 Linz and Stepan, pp. 115-116, and pp. 214-215.
19 Ilkay Sunar and Sabri Sayari, "Democracy in Turkey" in O'Donnell and Schmitter, p. 171.
20 Heinz Kramer, *A Changing Turkey: The Challenge to Europe and the United States* (Washington
    D.C.; Brookings Institution Press, 2000) p. 7.
21 Gareth Jenkins, "Context and Circumstance: The Turkish Military and Politics" *Adelphi Paper*
    337. (New York; Oxford University Press, 2001) p. 11.
22 Kramer, p. 5.
23 With the exception of the Greek, Armenian and Jewish minorities in Istanbul protected by the
    Lausanne Treaty of 1923.
24 Kramer, p. 40.
25 Ibid., p. 86.
26 Stephen, Kinzer, *Crescent and Star. Turkey Between Two Worlds* (New York; Farrar, Strauss,
    and Giroux, 2001) p. 147.
27 Amnesty International Report 2001, p. 247.
28 Kinzer, p. 21.
29 Guillermo O'Donnell and Philippe C. Schmitter, eds., *Transitions from Authoritarian Rule: Southern
    Europe* (Baltimore; Johns Hopkins University Press, 1986) p. 169.
30 Kinzer, p. 46.
31 Turgut Ozal, *Turkey in Europe (and Europe in Turkey)* (Nicosia, Cyprus; K. Rustem and Brother,
    1991) p. 264.
32 Jenkins, p. 14.
33 Eric Cornell, *Turkey in the 21st Century* (Surrey; Curzon Press, 2001) pp. 37-42.
34 Metin Heper and E. Fuat Keyman, "Doubled Faced State: Political Patronage and the Consoli-
    dation of Democracy in Turkey" in Sylvia Kedourie, ed., *Turkey Before and After Atatürk: Inter-
    nal and External Affairs* (London; Frank Cass, 1999) p. 263.
35 O'Donnell and Schmitter, Southern Europe, pp. 179, 180-182.
36 Wilkens, p. 56.

[37] TÜSIAD, the Turkish Industrialists' and Businessmen's Association, has often intervened in the political process supporting or denouncing policies and undertaking the promotion of EU membership within Turkey.

[38] Kedourie, p. 247.

[39] Jenkins, p. 9.

[40] Cornell, p. 71.

[41] Jenkins, pp. 34-35.

[42] The proportion of civilians to officers in NSC is indicative: chaired by the president of the Republic, NSC includes the Prime Minister and the Ministers of Foreign Affairs, Internal Affairs and Defense; the military is represented by the head of the General Staff, 'the three Chiefs of Staff and the head of the Gendarmerie.

[43] Kinzer, p. 12-15.

[44] Christian Rumpf, *Das turkische Verfassungssystem* (Wiesbaden; Harrassowitz Verlag, 1996) p. 180, cited in Kramer, p. 34.

[45] Cornell, p. 71, Kinzer, p. 20-21.

[46] Jenkins, p. 18.

[47] Fareed Zakaria, "The Rise of Illiberal Democracy" in *Foreign Affairs* Nov./Dec. 1997.