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The role of major players in finding solutions
to common problems

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Evolving Chinese defense technologies
as a threat to American hegemony?

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The wheel of change moves on, and those who were down
go up and those who were up go down.
~ Jawaharlal Nehru ~

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Dear Readers,

The collapse of the Wall Street banking industry in September 2008 precipitated a global financial crisis economists believed was analogous to the Great Depression. Heralded by some as the end of capitalism, the crisis provoked calls for change around the world, including those of British Prime Minister Gordon Brown and French President Nicolas Sarkozy for a “new Bretton Woods.” But after two years, and billions of dollars worth of bailouts, capitalism remains and the world order is much the same as it had been. The United States may initially have lost some credibility, but it quickly helped to orchestrate a decisive response and remains the world’s hegemon, albeit in an increasingly multipolar world. China and other emerging powers continue to win more seats at the head of major international institutions and global decision-making forums, but they have joined, not displaced the established order. And while the crisis inspired efforts to overhaul financial regulatory regimes, it seems that in many ways it’s back to politics as usual.

As a consequence the change that has occurred has been more moderate than revolutionary – the system is not being overhauled, but rather adapted. With this in mind, the editorial team has decided to dedicate this edition of the Journal to examining the on-going process of change, and the possible trajectories that might result. Florian Weiler considers the cautious global response to climate change and the dynamics of reaching a consensus in a divided world. David Calleo and Mark Gilbert reflect on American decline and the inadequacy of “old assumptions that lay behind America’s unipolar role and identity.” Samuel Adamson charts the failure of post-war Britain to adapt to a changing world order, while David Ellwood explores the American question in Britain’s identity debate. Mahrukh Doctor evaluates the extent to which big business contributed to the rise of Brazil, Robbert Van Eerd describes the impact of the discovery of natural gas in the 1960s on the political economy of the Netherlands, and Bastiaan Verink, Thilo Schroder and Matthew Sollenberger examine China’s evolving defense technologies and their implications for US hegemony. Finally, Lara Loewenstein extrapolates lessons from the rise of the political Islamic movement *Al-Ittihad Al-Islamiyya* in Somalia, and Allison Hart reflects on the “Islam problem” in Europe.

In light of the recent tragedy of the death of Poland’s president Lech Kaczynski and the dozens of political and military leaders aboard the plane, this edition of the Journal also includes an interview with Agnieszka Łada, the Head of the European Program at the Institute of Public Affairs in Warsaw. We extend our deepest condolences to our Polish colleagues. Our thoughts and prayers are with you.

I would like to thank the authors for their contributions, and the Bologna Center faculty – Professor Erik Jones in particular – for their support. I am especially grateful to the Journal staff, who worked tirelessly to produce this volume. Thank you for all the time and effort you devoted to putting together this year’s edition of the Journal. I hope you are as proud of the outcome as I am.

Best regards,

Analisa Bala
Editor-in-Chief
April 2010

Since the inception of the Bologna Center 55 years ago, the Center has existed to promote a “trans-Atlantic dialogue.” With its diverse student body representing over 35 countries, its location alongside Europe’s oldest university, and its proximity to the political centers of Europe, the Bologna Center was ideally suited for that role.

Over the last several years, however, there has been an important evolution in how we interpret that role. At an earlier time it was effectively the goal of the Center to solidify relations between the U.S. and Europe. However, now that the rest of the world has begun to assert itself, the trans-Atlantic dialogue has evolved from being a goal in itself to serving as a mechanism through which both of these important actors can confront the many political and economic issues that globalization has brought about. These issues can only be dealt with effectively with a common strategy, requiring dialogue, mutual understanding and coordinated action between countries.

This shift is apparent in the articles in this year’s volume of the *Bologna Center Journal of International Affairs*. Global climate change, the emerging role of China in international affairs, the new economic influence of the BRICs and Brazil in particular, and the rise of political Islam—none of these are directly related to issues in the U.S. or Europe, but all are vitally important to the U.S. and Europe. And, of course, each affects the international role of the traditional powers, covered in several of the other articles.

As always, the *Bologna Center Journal of International Affairs* presents the work both of graduate students and established scholars, which is another important dimension in the dialogue that is at the heart of a SAIS education, and a source of satisfaction for those of us who teach at SAIS. The Journal is entirely a student enterprise. The editorial staff issues the call to authors, selects the papers, and edits and assembles the final product. In doing so, they engage the Center’s students and faculty, enriching the educational experience for us all. And, as will be evident to the reader, they produce a volume that is a useful and significant contribution to the literature.

This is the 13th year in which the Journal has been published. It has become a tradition at the Center and a source of pride to all of us. I hope and fully expect you will find this year’s volume both enlightening and engaging.

Kenneth H. Keller
Director and Professor
April 2010



Poland Mourns: A view from Warsaw

On April 10, 2010 Lech Kaczynski, the President of Poland, his wife and dozens of top government officials were killed in a plane crash near Smolensk, Russia. Poland's army chiefs of staff, deputy Foreign Minister and central bank governor were among the 96 passengers on board. The delegation had been flying to Russia to commemorate the 70th anniversary of the Katyn massacre, in which an estimated 22,000 Polish POWs were executed by the People's Ministry of Internal Affairs (NKVD). Ironically, some on board the plane were relatives of the officers slain in the Katyn massacre.

Bologna Center's Monika Noniewicz interviewed Agnieszka Łada, the Head of the European Program at the Institute of Public Affairs in Warsaw, Poland, about the implications of the crash.

We hear a lot about the symbolic dimension of the tragedy. What are the ramifications for the Polish political scene?

First of all, we lost our president, so Poland is now facing a snap presidential election. Every election is an organizational challenge and entails rivalry between different political parties. Two big parties lost their candidates as well as very prominent members who were therefore considered as possible candidates. As far as the organizational aspect is concerned, parties now have to get a certain number of signatures in support of their candidates to officially register them for running. The question arises; will smaller parties have enough time to organize? Is the electoral law in Poland inherently biased against smaller parties?

Another issue is the fact that many other important positions have to be filled in. Apart from the president, there were many people on board of the plane, like the head of the

Poland in mourning, but the state holds on

“Polish officials decided to announce the date of the elections on April 21, after the funerals of the victims. The short time limit will probably push



candidates supported by smaller parties out of the running. Meanwhile, largest opposition party Law and Justice (PiS) is weakened by the loss of many prominent members and left without a candidate with the death of President Kaczyński. Opposition party Democratic Left Alliance (SLD) candidate Jerzy Szmajdziński also died in the crash.

The biggest question now is who PiS and SLD will choose as candidates.

Sources close to PiS say the party wants to put forward its leader and the deceased president's twin brother Jarosław Kaczyński, who, under huge personal strain, has not spoken out since the tragedy. However, some see the choice of Wawel Castle, where important Polish historical figures are buried, for the burial place of the presidential couple as the beginning of an election campaign.

It is hard to assess now whether the wave of sympathy for PiS could significantly influence the outcome of the elections. Opinion polls before the crash showed Mr Komorowski as the clear winner, but experts say he should tread very carefully during his time as acting president, not to be seen as taking advantage of the situation.”

Martyna Olik, Journalist.
Warsaw Business Journal,
15th April 2010

central bank, the head of the National Security Bureau, the Commissioner for Citizens' Rights, etc. Temporarily, their deputies have taken over, but these positions will have to be filled in permanently. Different rules apply to how they are nominated. Candidates for some of these posts are picked by the president, who we do not have at this point.

We also need to have an election for the Senate in three regions. Due to the death of a number of MPs the activity of several parliamentary commissions has been severely disrupted. We lost three speakers of the Polish parliament. It will take time for new people to be appointed and get accustomed to their duties. All of that has a potentially destabilizing effect on the smooth functioning of state institutions, which needs to be reigned in. But what must be underlined – Poland has passed this test – all the institutions are functioning really well, there is no institutional or political crisis. It shows that the Polish democracy, albeit still young, is stable.

What is the biggest challenge for those who will be taking over after their tragically deceased colleagues?

It always takes time to get settled in any position. In this case, the transition is particularly abrupt. We also need to take into account that it is taking place in an atmosphere of utter shock, and emotions experienced by those involved definitely play a role in the smoothness of the transition. There is also the issue of whether the deputies who came into their new positions in these extraordinary circumstances will feel that they are legitimate in their new roles. They are well aware of the transiency of their tenure, they know they could soon be replaced, and this awareness may not be conducive to an effective fulfillment of their duties. Another thing is that they may be concerned over whether those who will eventually replace them on a permanent basis will not question the decisions being made now. And finally, they may also be facing a dilemma whether to honor the national mourning or get straight to work. So far, however, all of the people who already assumed their new duties are working really well.

A lot has been said about the breakthrough in Polish-Russian relations fostered by the recent tragedy in Smolensk. What is your view on this?

There is a lot of symbolic meaning to it. We must remember that the crash happened three days after another commemoration event took place, in which both PM Tusk and Putin participated, and already that was widely commented on. Putin is said to have shown a lot of good will. Right now, in the aftermath of the accident, we not only see a lot of matter-of-factly assistance on the part of Russia, but also ordinary Poles feel that the Russian people are genuinely sympathetic of their plight, and that can definitely bring the two nations closer together.

Would a breakthrough in Russian-Polish relations have any impact on EU-Russian relations?

EU institutions are definitely observing Russia's reaction right now as well as the thaw in Polish-Russian relations, which may eventually improve Russia's image in the EU. Russia could be perceived as a country that can pass the test it was faced with. Its institutions will be seen as working effectively. On the other hand, Russia for some time now seems to be more and more aware that Poland's position in the EU is growing stronger. For this reason, Russia is trying to improve its relations with the Polish state. In the long run, however, economic issues will be of paramount importance, but there can be no doubt that Polish-Russian relations are entering a new phase so the EU-Russian relations will also not be the same as before 10 April 2010.

Commemoration at SAIS:

Students at the SAIS Bologna Centre wore mourning ribbons throughout the week following the crash and held a screening of a screening of 'Katyń' by Andrzej Wajda on Thursday, 15th April 2010. The screening was preceded by a speech given by the Polish students at the Centre on the political consequences of the crash. Students and staff sent a letter with condolences to the Polish Embassy in Rome.

Obama's Dilemma: Enraged opponents or disappointed followers

David P. Calleo

Abstract

Contrary to what was widely expected when the Soviet Union imploded, the collapse of the old bipolar system has led not to a closely integrated “unipolar” global system but to a more plural world of distinctive and independent-minded states and regions. The old assumptions that lay behind America’s unipolar role and identity – that it possesses infinitely attractive soft power, incomparably superior hard power, limitless economic means, and intrinsic legitimacy – no longer hold true. Instead, the coming world of regional blocs raises questions as to how the West can accommodate the new Asia and avoid a dismal degradation of the Earth’s environment.

So far the twenty-first century has been a time of exceptional economic and political fluidity. Contrary to what was widely expected when the Soviet Union imploded, the collapse of the old bipolar system has led not to a more closely integrated and “unipolar” global system but to a more plural world of distinctive and independent-minded states and regions. This pluralist transformation challenges powers around the world to reinvent themselves – to reconsider their place among nations and how they should present themselves to others. This is a troubling task for Western nations – for the prosperous but vulnerable European states, and above all for the United States. For decades, America has been accustomed to seeing itself as the leading power within an increasingly united cosmopolitan “global” system. In the administration of George W. Bush this “unipolar vision” is widely believed to have inspired a disastrous series of dysfunctional policies. In 2008, Americans elected Barack Obama, a leader of impressive intelligence, eloquence and grace. Many supporters hoped Obama’s own multicultural life experience would prove well designed to reorient his countrymen

David P. Calleo is University Professor at Johns Hopkins University and Dean Acheson Professor and Director of European Studies at the Nitze School of Advanced International Studies. The article is developed from the author’s *Follies of Power: America’s Unipolar Fantasy* (Cambridge 2008), and was first published in *Politique Américaine*, no. 16 (2010).

away from unipolar views toward a more pluralistic vision of world order. But what seemed Obama's advantage may also prove his undoing. His exceptional experience separates him from many of his fellow citizens. Fearing their alienation, Obama grows too cautious and thereby risks alienating his own most ardent supporters. This appears to be the pattern exemplified by his recent Nobel Prize speech, particularly when followed by his escalation of the war in Afghanistan.

Accepting the Nobel Peace Prize might seem an event ideally designed for exposing fresh thinking about the new world order and America's place within it. Instead, the speech was a vigorous affirmation of traditional American aspirations for global leadership. To be sure, the speech was delivered with the President's habitual grace and intelligence. And it neatly sidestepped the objection that many people felt toward the award: Why to Obama now, at the start of his Presidency? Obama's solution was to say the award was not to him, but to America – for helping to underwrite global security over many decades, “with the blood of our citizens and the strength of our arms.”¹

But while Obama's solution was a tactical success, it may also have been a strategic misstep. What the President said was certainly true. Americans have good reason to be proud of their country's postwar role. But Obama's speech was one that could have been expected from any American president since Franklin Delano Roosevelt. Most notably, it was a speech that could have been given by Mr. Obama's predecessor, George W. Bush. It seemed designed to show Obama's own continuity with the past, rather than to lead Americans into a more plural future. It did not reflect why many Americans had voted for Obama. While Obama's compromise did little to satisfy increasingly violent critics of his “weakness,” it disappointed many of his own ardent supporters. In the long run, of course, the real challenge for Obama is not merely to present an identity that suits the current psychological preferences of Americans, but rather to bring those preferences into accord with the realities of a rapidly changing world. Obama's critics on the right seem to think calls for American retrenchment are merely signs of a weak-willed leadership. Arguably, however, the change is required, above all because the old assumptions that lay behind America's unipolar role and identity no longer hold true.

The assumptions themselves may be summarized into four propositions:

- America's soft power is infinitely attractive.
- America's hard power is incomparably superior.
- America's economic power renders it invulnerable to the overstretch that has regularly defeated the hegemonic ambitions of others.
- America's power is widely seen by others as intrinsically legitimate.

Why are these assumptions no longer valid? In each case there are general and particular reasons.

For several generations America's soft power has consisted mainly of its image as the world's

land of capitalist opportunity. With the present financial crisis, the prestige of American capitalism seems at a new low point throughout the world. Numerous studies now argue that there is less circulation in American society than in most of Europe.² In any event, America's domestic accomplishments are not easily exported to other countries and neighborhoods. This is not a new lesson, but one we have been re-visiting at great cost in places like Iraq and Afghanistan.

That America has overweening hard power seems obvious. The U.S. spends as much on its military as does all the rest of the world combined. While we have not fought a first-class army in some time, we could presumably defeat any other "advanced modern" military force – one, at least, that chose to fight our kind of war. From time to time we have felt emboldened to use our hard power to destroy enemy states and their armies, thereby hoping to create an environment where our soft power can penetrate and prevail. It turns out, however, that this is not something we can reliably accomplish.

Our armed forces are designed according to a different model and for a different purpose. Ours is meant to be a post-Vietnam military – relatively small, highly professional, trained for "net-centric" warfare, with electronic battlefields and weapons of great accuracy causing overwhelming destruction in limited spaces. It is a military that hopes to wage its wars with relatively few but well-trained professional soldiers, with low casualties among them. But our opponents, we discover, don't fight our kind of warfare. Confronted with our overwhelming force, they turn to guerrilla tactics and terrorism – warfare of the weak. Our military find it difficult to eliminate opposition of this kind. Our hard power allows us to defeat and destroy a state and its traditional army with ease, but we lack the means to follow through to a real victory. Applying our hard power merely turns rogue states into failed states, over which we have few means of control. Ours seems the wrong kind of army for a unipolar role. A Roman vocation for world management calls for different forces – an army of occupation, skilled in languages, police work, economic reconstruction, and "re-education." It requires an abundance of troops and a tolerance for high casualties. Grafting this kind of army on to what we already have would be preposterously expensive. We lack the means for so extravagant a transformation.

Considering the military costs brings up another critical assumption behind the unipolar role: unlimited economic means. American political elites find it difficult to accept any limits on their financial power. The American economy has been in deficit to the world economy throughout most of the postwar era.³ The deficits reflect the cost of our military operations abroad, our heavy consumption at home, as well as the huge foreign investments of our corporations. Since the dollar was the world's reserve currency, we paid our deficits abroad by issuing more dollars. In other words the US leveraged the "exorbitant privilege" of the dollar as the world's reserve currency in order to create virtually unlimited credit for itself. Throughout the Cold War, America's ability to create credit for itself in this fashion depended on two conditions: First, there was no real substitute for the dollar as a reserve currency. And second, the principal accumulators of exported dollars were Germany and Japan, US military protectorates who absorbed their dollars as a kind of imperial tax. All things considered,

the costs of accumulating the exported dollars was a cheap price for America's protection, and awkward to refuse. The US was spending more on Europe's defense than the Europeans themselves. With the end of the Cold War both conditions ceased. Within a decade, the Europeans had created the Euro and the US was no longer so urgently indispensable for protecting Germany and Japan. Indeed, for Germany, America's belligerent attitude toward Russia soon began to seem a security problem rather than a solution.

By now, holding up the dollar's exchange rate depends heavily on China, which is, after all, a country with a low standard of living and enormous infrastructure needs. Like many other countries, China has used export-led growth to begin its ascent to modern prosperity. To retain the high competitiveness of its exports it ties its currency to the dollar, despite an already huge trade surplus with the US. Since Chinese investments abroad are often deeply suspected and resisted, the natural result has been an ever-growing Chinese accumulation of inert dollar reserves. Such flagrantly mercantilist trade and currency policies invite retaliation and grow increasingly unsatisfactory for China's own purposes. A massive accumulation of dollars does not serve China's urgent need for domestic development and, on the face of it, is not a particularly attractive way to store the nation's savings.⁴ Compared to the Euro, the dollar has lost nearly half its value in this decade.⁵ Of course, European central bankers have little desire to see the Euro replace the dollar. But Europe's export industries grow increasingly uncomfortable as the relatively scarce Euro keeps appreciating against the all-too-abundant dollar. In this respect, as in numerous others, America's perennially weak and volatile currency has begun to undermine the stability of world capitalism.

For several years the global "financial" economy has been absorbing an ever-increasing flood of dollars. Markets in futures contracts for currency or raw materials have, for example, grown several times larger than the actual markets themselves. This surplus money normally remains confined to the financial economy, but increasingly also enters the "real" economy, where it can cause severe problems: periodic currency crises, bouts of asset inflation, a banking system loaded with unsound assets, threatening a 1930s style breakdown.⁶ The present banking crisis combines a collapse of credit with an explosion of liquidity. The general climate of uncertainty saps business confidence and feeds already record unemployment. This combination of monetary instability and high unemployment is almost certain to have major political consequences. Logic and historical experience together suggest four likely reactions.

First, enthusiasm for the "global" free market will give way to demands for the reassertion of political power over national economies. Politics will be invoked to protect employment and to reestablish order and predictability to markets – especially currency markets. Few nations, however, will be able to progress far toward these goals without the cooperation of their neighbors.

Second, like-minded countries will intensify their regional blocs to stabilize their currencies and trade. This has been happening for some time in Asia and Latin America. The hope is to preserve the advantages of wider trade specialization without the incipient chaos of

full “globalization.” For such blocs, the European Union is an obvious model. As a model, the EU has great advantages: It accepts that all members have an equal right to prosper. It commits its political machinery to mutual appeasement and the search for collective interests. Its method is to search for harmony through political negotiation rather than through the market alone. Nevertheless, the EU also has strong liberal elements, with a reasonably open-minded attitude toward the rest of the world and a tolerant view of foreign investment.

Third, within a world of budding blocs, conflict between China and the West remains a strong possibility. Given the huge size of the Chinese workforce, and its radically lower living standard, Western labor cannot be expected to compete against Chinese labor without strong political adjustment. Growing consciousness of environmental limits will greatly impede closing the gap in living standards through rapid growth. Much of China's growth is thus likely to come at someone else's expense. Mastering the situation peacefully calls for restraint and reciprocal sympathy on all sides. The West must accept China's right to return to its normal place among the world's rich nations. But China will need to recognize that its own prosperity is unlikely to be achieved peacefully if it is accompanied by a precipitous decline in Western living standards. To limit conflict with the West, and with its own Asian neighbors, China will have to turn inward – to cultivating its own self-development as a nation and society.

Finally, there is also great potential for conflict within the West itself, in particular if the US tries to close its very large current account deficit by depreciating the dollar against the Euro. Without serious mutual regulation to curb fiscal deficits and credit creation in both Europe and the United States, a severe breakdown in transatlantic relations will be difficult to avoid.

This last observation should remind us that a world of blocs will not be easy to govern. How does a plural world give itself some form of stable management? It may prove instructive to consider the prospects in the light of three fundamental theories of interstate relations:

- Hobbesian – where order is sustained by a benign and all-powerful hegemon.
- Liberal – where order and efficiency follow from freedom, with empires dissolved, and creative human energy liberated within free markets.
- Constitutional – where order is sustained by a collaborative balance of political and economic power, in a system whose partners are committed to negotiating common interests.

The first and second models appear to offer little hope in present circumstances. A Hobbesian hegemon cannot provide stable order because no hegemon is available. American unipolar dominance is an illusion and no one else is in position to bid for the global crown. With an appropriately disciplined policy, the US may continue to be the world's most powerful state well into the future, but for all the reasons just outlined, America cannot sustain the power for an essentially unilateral policy. Nor can it expect others to grant its leadership exceptional legitimacy. Instead, as our present decade indicates, the US pursuing

a hegemonic role points toward a progressive disintegration of world order.

Nor does the liberal model provide a credible global order – as we are discovering once more. Not only is there the ever-present danger of chaos in an over-globalized system, but the inherent conflicts between a rising and populous Asia and a stagnant West are, in themselves, too great to be reconciled by the market alone – above all in a world where urgent environmental concerns curb rapid growth.

There remains the “constitutionalist” model – with regional blocs achieving a collaborative balance of power within themselves, and multilateral institutional connections among the separate blocs to help them generate and identify common interests. Here Europe – for all its troubles – remains the most promising political experiment of our time. Member states retain their primary role as the creators and harvesters of political and economic consensus, but are linked in networks that favor compromise and the search for common interests. As an external actor, the EU is prominent and generous in the global system, and can marshal vast resources. Nevertheless, the EU’s confederal internal structure limits its imperial ambitions. In other words, Europe’s constitutionalist model favors balance and cooperation not only in Europe’s national and regional levels but also in its global behavior. By contrast, the U.S. is constitutionalist at home but Hobbesian abroad. As a model, the EU seems better adapted to a plural world. Of course, it is the Europeans primarily who have created their Europe. But Americans have helped. American protection, encouragement, and opposition have all played a major role in giving European states the incentive and courage to cooperate. At the same time, America’s hyperactive world role has helped to preempt Europe’s own ambitions for global domination. Thus, the bipolar Atlantic relationship between the EU states and the US has become a vital piece of the world’s constitutional architecture. It seems fitting to close with some reflections on the global significance of the Atlantic relationship.

As de Gaulle told a skeptical Roosevelt toward the end of World War II, it is America’s great interest that there be a strong and vigorous Europe – even if Americans don’t always realize it. De Gaulle was pleading not only for a postwar partnership to manage the new global system, but also for restoring a healthy balance of power across the Atlantic. Across the decades, de Gaulle’s advice now speaks to Obama’s task. A world order of cooperating blocs will probably have to start with deep and enduring success within the West itself. But the prospect for serious transatlantic conflict is today probably greater than we realize, even if the need for genuine collaboration is greater than ever. In the years following Roosevelt’s death, the United States did respond handsomely to Europe’s political and economic needs. And Europe’s states did regain their vigor and began building their Union. By now, perhaps another moment for mutual aid has come. This time, however, it is Europe’s turn to rescue America. The requirements for transatlantic balance and collaboration are complex. To finish with a few reflections from my own recent study, *Follies of Power*:

“Like all great powers, the U.S. needs to be checked and balanced. With so much power concentrated in Washington, to preserve America’s own domestic balance, something beyond a purely national constitutional framework is required. Keeping power in check at

home requires balancing it abroad. Balance among states requires balance within them. Two world wars exacted a terrible price before Europe's states learned this lesson. Their expensive education led to the EU. Their subsequent progress suggests a more general historical lesson: Among states, as among individuals, balancing is often better done among friends than between enemies; in other words, in a cooperative rather than a zero-sum relationship. To be Europe's stabilizing friend was America's vital postwar role. Europe must now assume that role for the overstretched and disoriented constitution of post-Soviet America. The Iraq misadventure has shown how urgently America needs to be contained by its friends – by those who share the values of liberty at home and respect for the rights of other peoples. Restoring balance to America requires more political and military weight for Europe. To succeed, each will need the other.”

“If America's political imagination regains its balance, and Europe rises to the occasion, there may be hope that the West can accommodate the new Asia and perhaps even avoid a dismal degradation of the Earth's environment. The twenty-first century may then come to reflect Europe's new model for peace rather than its old model for war.”

1 Barack Obama, “A Just and Lasting Peace,” Nobel lecture delivered in Oslo, Norway, December 10, 2009 <http://nobelprize.org/nobel_prizes/peace/laureates/2009/obama-lecture_en.html>

2 See “Meritocracy in America: Ever Higher Society, Ever Harder to Ascend,” *The Economist*, December 29, 2004, pp. 22-24; Aaron Bernstein, “Waking up from the American Dream,” *Business Week*, 3860, pp. 54-58; Jo Blanden, Paul Gregg, and Stephen Machin, “Intergenerational Mobility in Europe and North America,” Centre for Economic Performance, April 2005 <<http://cep.lse.ac.uk/about/news/IntergenerationalMobility.pdf>>

3 US Department of Commerce, “U.S. International Transactions,” March 2010 <<http://www.bea.gov/international/index.htm#bop>>

4 See Morris Goldstein, “Adjusting China's Exchange Rate Policies,” Peterson Institute for International Economics, 2004, Available at: <http://www.ciaonet.org/wps/gom07/gom07.pdf>; Goldstein and Nicholas R. Lardy, “Chinese Exchange Rate Policy: An Overview of Some Key Issues,” in Goldstein and Lardy, ed., *Debating China's Exchange Rate Policy*, 2008 (Washington: Peterson Institute for International Economics), pp. 1-60.

5 ■ Decline of 42.5% from January 1, 2000 to January 1, 2010.

6 For a good explanation, see Charles P. Kindleberger, *Manias, Panics, and Crashes: A History of Financial Crises*, 1996, (New York: Wiley).

Global Climate Change and Leadership:

The role of major players in finding solutions to common problems

Florian Weiler

Abstract

The world is still far from reaching a meaningful agreement on climate change. Neither the US nor China are willing to play the role required of them to ensure the international climate change negotiations are successful. Europe is to some degree willing to lead but lacks leverage. Using a game-theory approach this paper will show the difficulties with the way the climate change negotiations are currently conducted. If leaders are to find a consensus solution to the global warming problem, they will need to consider changing the negotiation rules.

Introduction

Who leads the world in the search for a solution to global climate change? Why was there such a weak agreement after the two-week long Copenhagen Conference? This paper attempts to answer these questions by applying a game theory approach. It sets out to prove that, given the way climate change negotiations are conducted, finding commonly agreeable solutions to the global warming problem through negotiations at a global level in an increasingly multipolar world is almost impossible. After outlining the theoretical framework, the paper will consider the most important parties to the climate change negotiations and analyze their goals and strategies.

A theoretical framework

Why is real progress absent in the post-Kyoto negotiations, despite the widely recognized

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need to act swiftly to prevent dangerous levels of global warming?¹ Or, more simply stated, why are powerful countries like the US or China evidently unwilling to lead the negotiations by example? To answer this question, let us first look briefly from the neorealist² and institutionalist³ perspective that states are unitary and rational actors. If states were indeed unitary and rational actors, how would they most likely behave in the climate change negotiations? Given that the climate system and greenhouse gas emission are global public goods⁴ or, more narrowly defined, common-pool resources⁵, the costs of polluting are not born by the emitter alone, while the benefits of a country's abatement efforts are commonly shared. In other words, countries will not do enough to limit their emissions individually as the individual costs outweigh the benefits. Thus, there is no incentive for any rational individual, firm, or state to reduce emissions. Stern therefore calls greenhouse gas emissions externalities indicating a market failure.⁶ In such settings, externalities combined with rational unitary actors, the expected outcome is agent free-riding, insufficient action to combat the adverse effects of the externality, and the eventual need for a central authority to control the externality.

If this rational choice approach were applied to climate change, we would indeed expect relatively little action taken by individual states. No state alone can secure the global action needed to prevent the planet from warming, hence every state would be expected to be reluctant to reduce its own emissions.⁷ However, this does not mean that there would be no action at all; instead of climate change mitigation, the more likely course taken by countries would be unilateral self-protection, e.g. adequate measures to adapt to future impacts triggered by global warming.

An overuse of common-pool resources, known as the tragedy of the commons⁸, can be formalized using a game theory approach.⁹ The matrix for this game, a classical prisoner's dilemma, might look as follows:

	Party B	
	Cooperate	Defect
Party A		
Cooperate	1,1	-3,3
Defect	3,-3	-2,-2

The best outcome for both parties would be to cooperate. However, no matter whether the other party defects or not, each county has a dominant strategy to free ride on the other's effort and thus not implement strong mitigation efforts itself. Nalebuff and Dixit state the problem this way: "The *jointly* preferred outcome arises only when each [party] chooses its *individually* worse strategy."¹⁰ Therefore, the most likely outcome is the lower right box of the above diagram. From a common perspective, this outcome is the least favorable one. Of

course this game is oversimplified, in reality there are more than two players. Furthermore, actions to prevent climate change should be seen as a cooperative game, while the prisoner's dilemma is a non-cooperative game. Regarding these aspects, Brennan notes:

It seems that in analogous prisoner dilemma experiments, some proportion of experimental subjects will act 'co-operatively' even in tolerably large number settings – and this is especially so if there is prior discussion and a capacity to punish at some cost to the punisher. Even so, in almost all such experiments, the proportion of 'co-operators' is less than half the population of players; and the proportion tends to decline over repetitions of play.¹¹

For climate change this implies that although cooperation is possible and a large number of players are involved, the dominant strategy of defecting is still expected to prevail. This is in line with game theory's prediction that existing dominant strategies will be played even in co-operative game settings, as well as with the introductory claim that finding solutions to prevent global warming through global negotiation rounds is extremely difficult.

Barrett notes that there are three possibilities to overcome the free-rider problem:¹² a) leadership of one or more parties in the hope that others follow suit, b) making a country's climate policy contingent on those of others, and c) a legally binding international agreement. The first two options have failed to tackle global warming,¹³ hence the reliance on international negotiation rounds that aim to establish widely accepted, legally binding international treaties.

It should be noted at this point, however, that the incentives to agree to legally binding agreements are closely correlated with the abatement payoff matrix shown above. To clarify this point I will employ the concept of *Best Alternative to a Negotiated Agreement* (BATNA), which Hopmann defines as the "value of no agreement."¹⁴ Only if the value of an international climate treaty is higher than the value of the BATNA are parties expected to accept the deal. Hence the value of the BATNA is also known as the resistance point, as any negotiated outcome yielding a lower payoff than no agreement will be resisted by a party. One of the major problems with the climate change negotiations is that, as shown above, defecting generally yields higher payoffs than cooperation. In other words, the BATNA value is very hard to overcome through negotiations. Hence the free-riding problem is directly passed from the underlying commons problem to the climate change negotiations; the dominant strategy not to implement meaningful emissions reduction policies to solve a global public good problem translates to uncooperative behavior in the consequent negotiations aimed at breaking the deadlock.

Common but differentiated responsibility

This theoretical outline leaves little hope that any meaningful agreement can ever be reached to tackle global warming. However, as the Kyoto Protocol demonstrated, there are certain circumstances under which an understanding is possible and an agreement can be reached. What then has changed since Kyoto?

The Rio Declaration on Environment and Development of 1992 states that “in view of the different contributions to global environmental degradation, states have common but differentiated responsibilities. The developed countries acknowledge the responsibility that they bear in the international pursuit to sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command.”¹⁵ This “common but differentiated responsibilities” principle is also stated several times in the UNFCCC founding document and is dogmatically repeated in climate change negotiations. This principle is also one of the major reasons why parties were able to reach agreement in Kyoto. In 1997 the developed countries accepted their historic role as CO₂ emitters, as well as the notion that developing countries could not be held liable for global warming, nor would they be willing or able to pay. As no action was required from developing countries to comply with the Kyoto Protocol, they had no incentive to reject the treaty; their resistance points could be overcome. Of course the story is not that simple. At the time when Kyoto was signed, much less was known about global warming, and as it was only a first step, individual country targets for the developed world were not particularly ambitious. Additionally, the Clean Development Mechanism (CDM) was introduced, offering developing countries the prospect of attracting foreign investment and developed countries the opportunity to buy cheap offset credits abroad.¹⁶ Common but differentiated responsibilities had helped to lower the BATNA value for both developed and developing countries in 1997 and made a positive negotiation outcome possible.

Still, the 1997 Kyoto agreement did not eradicate the commons problem. The United States infamously refused to sign up, and others such as Canada, Japan, or New Zealand, are failing to reach their targets.¹⁷ Even within the European block there are a host of countries not meeting their obligations (most notably Spain and Italy), and the EU (the old 15) as a whole will only be able to reach its goals as a group, because some countries are over-compliant (e.g. Germany and the UK), a distinct advantage.¹⁸ Consequently the Kyoto Protocol is seen by many, including some developing countries, as a failure. In the negotiations the EU repeatedly fended off accusations that the bloc would be unable to reach its targets. In the process, one other vital ingredient for successful post-Kyoto negotiations (and to overcome a prisoner’s dilemma) was lost: trust between the North and the South.¹⁹ The lack of confidence in other parties, particularly the doubt of many developing nation that Annex 1 countries were willing to live up to their historic responsibilities, could be felt throughout the two weeks in Copenhagen, as well as in the previous talks in Barcelona, Bangkok, and Bonn.

The world has changed dramatically since 1992. Developing countries, now major, relevant players on the international level, are confidently expressing their national self-interest. Developed countries, on the other hand, see the time fit to shift some of the burden of emissions reduction to richer developing countries, whereas in Rio and Kyoto they were still prepared to shoulder the weight alone. The Kyoto negotiations were able to overcome the prisoner’s dilemma due to a clear division between developed and developing countries. As some of these countries such as China, India, and Brazil have grown to challenge the West economically and politically, the prisoner’s dilemma and thus the dominant strategy

to defect is again setting the rules of the game; this makes finding a negotiated agreement extremely challenging.

Having laid out a general framework for analyzing the Copenhagen negotiations, the remainder of this paper will examine the negotiation positions and strategies of a selection of the key players (China, the USA, and the EU), as well as the most important country groups (in particular the G77 and China group).

China: Unwilling to lead?

China is undoubtedly one of the most important players in the climate change talks. Already the biggest emitter of greenhouse gases, the country's emissions continue to grow at an astonishing rate. Recent research shows emissions growth was even faster than previously predicted.²⁰ Yet under the UNFCCC, China is one of the many countries that are not obliged to take any measures against global warming (apart from implementing the means to measure the country's greenhouse gas inventory). China is thus in the ideal position for demanding strong commitments, as well as leadership from developed countries without being forced to promise anything legally binding itself. China can occupy this convenient position, which I would term *permitted defection*, as long as the so called "firewall"²¹ between Annex 1 and the developing world, of which China and most other developing countries are fiercely protective remains. Looking again at the payoff matrix above, this means that the world's biggest emitter of CO₂ would gain from free-riding on the effort of other countries and would benefit from access to an important and globally-watched forum where it could criticize the developed world and place its demands. Thus, it is no surprise that one of the US' top priorities in Copenhagen was to break the firewall and to force China to accept commitments.

To defend their comfortable position, the Chinese negotiators repeatedly stressed the notion of common but differentiated responsibilities. China reminded the West again and again that Western countries had released most of the current CO₂ content above preindustrial levels, while China was still comparably poor and therefore much less responsible for current CO₂ levels. China thus had a right to continue to pollute to ensure growth and prosperity. Unsurprisingly, China placed higher priorities on growth and development than on preventing future environmental damages.²² The country chose the dominant strategy to defect, although no one in the Chinese delegation or government would ever refer to it as such. A commitment to an uncooperative strategy by a major player, although explicable through theory, is a strong impediment to finding negotiated solutions and confirms the thesis that the growing influence of developing countries complicates international negotiations.

Still, China could not fail to recognize that as a future superpower it had to offer something to overcome the apparent deadlock of the negotiations and show some leadership. What China offered was to reduce its greenhouse gas intensity by 40 to 45 percent by 2020, compared to 2005 levels.²³ Greenhouse gas or carbon intensity is the ratio of a country's emissions to

its economic output, i.e. the amount of emissions necessary to produce one (international) dollar of GDP. Generally there is a tendency for more developed countries to have lower carbon intensities.²⁴ Hence China's proposal reflects an almost natural development. Nevertheless, cutting intensities by as much as 45 percent in ten years or less is indeed a demanding task. Still, the proposal was criticized, mainly by the US, because China refused to make this target legally binding.²⁵ The reason, as given by the country's representatives in Copenhagen, was that if China promised something others could count on the country, the leadership and its people to keep their word.²⁶ This may sound like an odd argument, given that even a legally binding treaty like Kyoto failed to force (some) countries into compliance, but it allowed China to stick to its position that developed countries had an obligation to cut emissions while China and the developing world continue to emit ever higher amounts of CO₂. Additionally, China was able to exhibit at least partially, the leadership expected from this rising superpower. Indeed, the Chinese do lead in certain areas, exemplified by the fact that the country is quickly moving into green technologies and is becoming one of the world's leaders in this domain. Chinese politicians, negotiators and business leaders have recognized the important roles that wind, solar, and geothermal power, and other technologies are likely to play in the country's economy in the foreseeable future, and they are moving fast to become a leader in these technologies.²⁷

Though China's national pride and self-confidence are growing, China refuses to accept measures it understands as either politically intrusive (no outside power should be allowed to scrutinize China too closely) or economically limiting (growth is the most important goal). China would like to be seen as a leader, but when it is to the country's disadvantage, Chinese heads of state are still unwilling to show real leadership. In this way China could be called an opportunistic leader, a coming superpower not yet willing to take responsibility for the future of the world. China is therefore stuck in an uncooperative position in regard to reaching a new and comprehensive treaty to tackle global warming, although it certainly shows leadership in certain areas such as technology. The notion of common but differentiated responsibility enables China, even as the biggest emitter of greenhouse gases, to argue for an environmentally effective post-Kyoto treaty without being coerced into committing to legally binding targets. To use game theory terms, China plays cooperatively in areas where it hopes to gain advantages and defects when this strategy is in the national self-interest. China is an unwilling and thus uncooperative leader, yet it demands more mitigation action from its Western partners. These partners cannot easily accept such a position; hence China's quick rise to become a superpower (and the accompanying propensity of all sides to return to defecting strategies) is one of the major reasons why international negotiations have become more complicated.

The US: Leadership and trust

With China unwilling to lead, what role did the US play in the climate change negotiations? It should be remembered that the US never ratified the Kyoto Protocol, although President Clinton signed the document in 1997. Even before the protocol was officially adopted in

Kyoto, the US Senate had unanimously passed the Byrd-Hagel Resolution, which states that it is “critical for the Parties to the Convention [...] to include limitations on Developing Country Parties’ greenhouse gas emissions” and that the “Senate strongly believes that the proposals under negotiation, because of the disparity of treatment between Annex I Parties and Developing Countries and the level of required emission reductions, could result in serious harm to the United States economy.”²⁸ On account of this resolution, President Clinton never submitted the Kyoto Protocol to the Senate, which must ratify all international treaties signed by the President.²⁹

Therein lies the major problem with the American position to this day: the US seeks to bring down the firewall dividing developed and developing nations though it is unable to make meaningful promises during the negotiations itself, as the Senate’s consent is highly uncertain. This latter point was made clear by US Senator and climate skeptic Republican James Inhofe, of Oklahoma, who travelled to Copenhagen with the sole purpose of publicly announcing that the Senate would not adopt any bill to reduce greenhouse gas emissions and the risks of global warming.³⁰ While his is only one voice out of 100, President Obama needs a majority of at least 60 Senators to overcome filibusters in the Senate, and as it is highly unlikely that all Democrats would vote in line with the President’s view on environmental issues (even if they still had the super-majority). In this area it is extremely difficult for the US to lead by example, due to the structure of the US congressional system.

To account for the fact that the American President is unable to commit the country to legally binding targets and to guarantee ratification, he unwillingly (in the case of Obama) has to act uncooperatively during the negotiations, as any other behavior would immediately be rebuked at home. It is possible for a US President to be a strong and highly influential leader with a positive impact on global warming negotiations; however, this would mean making climate change one of the key issues of the presidency, which Obama does not seem willing to do. Domestic issues like health care and the state of the economy, as well as the two wars in Afghanistan and Iraq have dominated Obama’s first year in office and have caused many rifts between parties and within the Democratic Party itself. Global warming, another issue with potential for conflict, therefore remains a relatively low priority on the President’s agenda. The hope held by many other parties to the UNFCCC that a new American president would bring inspired leadership to the negotiation table seems to have been premature. Disappointment and frustration could be felt throughout the Bella Center, the venue of the Conference of the Parties (COP) in Copenhagen, directly after Obama had delivered his long-awaited speech to other world leaders.

Observers described President Obama as “clearly frustrated”³¹ directly after his speech in Copenhagen, and there are reasons to believe he was. The Chinese Prime Minister Wen Jiabao is said to have avoided Obama, and there are stories the President had to track the Premier down in the Convention Center and force him to engage in direct negotiations.³² Of course it is also highly unusual for such high level meeting that heads of state and heads of government have to draft text themselves, a task usually left to the lower ranks of negotiators. However,

civil servants are only at liberty to reach agreement within clearly defined parameters. Due to domestic pressures and its own priorities, the Obama administration was unable to restore the lost trust in US leadership and could not surmount growing domestic distrust of other countries, particularly China. This distrust of the outside world stems from the perceived threat of so called carbon leakages, i.e. the significant increase in emissions in developing countries without emission reduction targets as domestic firms shift production (and thus jobs) to these countries to remain competitive.³³ It is not easy for any American president to mitigate distrust, but it is particularly difficult during an economic crisis and with a combative Republican Party.

Due to the reasons outlined above, the US and China were entrenched in their mutual positions, unable to break the deadlock and find a meaningful deal in Copenhagen. Although Obama was able to broker the Copenhagen Accord, he was widely seen to be the loser in the face-off with China, as it was his declared goal to find a solution to the climate crisis. His own unwillingness to make global warming a higher priority is key in explaining this failure and international actors' consequential loss of confidence in the new administration. Is it now correct to assume that the US is unable to lead the world on climate change issues? To some degree the answer must be yes, as the constitutional arrangement makes ratifying an international agreement a troublesome affair, particularly now that the public opinion (and to some degree Congress) seems to have lost confidence in the science of global warming,³⁴ a trend that has not abated due to recent scandals like "Climategate"³⁵ and "Himalaya-Gate."³⁶ Consequently, the inability to lead in the climate change negotiations due to the structure and functioning of US democracy, and the distraction of other higher-priority issues at home and abroad led the Obama administration to play an uncooperative strategy, despite Obama's personal rhetoric to the contrary. Yet with the US and China playing uncooperative strategies, and both sides perceiving each other as a future competitor, the likelihood of finding negotiated solutions diminishes.

The EU and the G77: Made to look like fools?

The G77/China group appeared to behave in a relatively unified manner throughout the negotiations, standing together against what they saw as a plot by developed nations to "kill the Kyoto Protocol."³⁷ The negotiations up to and during Copenhagen had two tracks: to find a post-Kyoto agreement (without the Americans) and to define the long-term cooperative action to tackle climate change (joined by the US). The wish of the EU and other Annex 1 countries to merge the two priorities separated negotiations and was seen by most developing nations as an attempt to kill the only existing and binding agreement to tackle climate change. It was also viewed as an attack on the principle of common but differentiated responsibilities, and therefore an assault on their right to continued growth and development. Bolivia and Venezuela even started to call it the "air grab" by rich nations.

Yet in the final days of the negotiations, friction within the G77/China alliance became increasingly apparent. While China, along with its peers India, Brazil, and South Africa

(sometimes called BASIC), directly brokered the Copenhagen Accord with President Obama³⁸, others were left out of direct consultations. For BASIC the looming dangers were legally binding targets for rich developing countries, something the Copenhagen Accord managed to achieve without portraying them as being too destructive. For many other members of the group this accord was an outrage. The small island states (gathered together in their own group called AOSIS) demanded a much more ambitious agreement, with binding targets for many countries and particularly tough ones for Annex 1 countries. Left leaning governments from Bolivia, Cuba, and Venezuela, supported by others, denounced the deal as proof that the rich world's only goal was to destroy the South and kill its people.³⁹ Sudan's main negotiator, Lumumba Di-Aping, even compared the deal to the Holocaust.⁴⁰ Many other countries were unsure whether to accept or reject the Accord, as it offered them relatively little in terms of safety from a warming atmosphere, but included some carrots such as \$100 billion for an adaptation fund, as well as a vague promise to implement a REDD+ scheme⁴¹ over the coming years (with the potential of further financial transactions to developing nations). The new approach adopted in the Copenhagen Accord to deal with climate change is bottom-up, in contrast to the Kyoto-style top-down method, and it allows all developing countries to play their dominant strategy to defect while hoping that others implement meaningful emission targets. Combined with the incentives mentioned above, this eventually led most countries to sign the Accord. However, as some governments could not be convinced to accept the agreement,⁴² the final trick used to accomplish something in Copenhagen was for the plenary to "take note" of the accord⁴³ instead of approving it unanimously as normal procedure dictates.

So far, all parties to the COP in Copenhagen discussed in this paper were basically playing a more or less non-cooperative strategy, apart from some of the very small island states such as Tuvalu and the Maldives. The big exception to the rule is the European Union, which tried to lead by example together with some of its close allies including Switzerland, Norway, and Japan. Yet the EU's strategy, promising to cut emissions by 20 percent of 1990 levels by 2020 and to beef up this promise to 30 percent if others adopted similarly ambitious targets, seems not to have succeeded. The question is why? Perhaps the EU's targets were not ambitious enough to lure others to follow suit. This is indicated by the ferocious criticism by developing countries of Europe's lack of leadership and concern for the future of the poor. This criticism also reveals that what divided the rich and the poor, the big and the small emitters, the powerful and the powerless, was and still is, a lack of trust in each other. This was strikingly apparent when a document prepared by the Danish hosts was leaked to members of the media, NGOs, and party delegates. There was an enormous outcry against this document, which allegedly only catered to Western wishes and disregarded the views, proposals, and vital interests of developing nations.⁴⁴ In any case, the feeble attempt of the EU to show leadership backfired and EU members only played a marginal role in the talks that led to the Copenhagen Accord.⁴⁵ It is not an overstatement to say that Europe is presently incapable of leading the world on environmental issues. Whether this weakness could be mitigated via a stronger display of unity, increased direct dialogue with other parties to overcome the lack of trust, or even a tougher and more self-confident appearance to gain respect, is another

matter to examine. Suffice to say the EU lacks credibility to lead the effort to prevent global warming.

Conclusion

In search of a global agreement to prevent the earth's atmosphere from warming every country has an incentive to free-ride on others' efforts, while failing to implement stringent emission targets domestically. This incentive, in combination with the rules that were established after almost 20 years of climate change negotiations, make it easy for developing countries like China, Brazil, and India to reject any legally binding measures. Since the world has changed dramatically since 1992, when the UNFCCC was adopted, this position is unacceptable to some developed countries, most prominently the United States. Presently, no party seems capable of leading the world out of this deadlock; China and the US are unwilling, while Europe appears to be too weak. The increasing multipolarity of the world gives big developing countries more influence in the negotiations, yet they lack incentive to play a more cooperative strategy. As their influence and power increase, developed countries are growing reluctant to play cooperative strategies themselves. These reasons explain why international negotiations under present conditions are prone to fail.

Additionally, the principle of common but differentiated responsibility, which helped in drafting the Kyoto Protocol, is now one of the major obstacles to a new treaty. The combination of these factors has resulted in an almost poisonous atmosphere of distrust, amplified by the failure of Copenhagen. This is exemplified by the leaked paper commissioned by the Chinese environmental ministry that discusses the rich nation's "climate conspiracy" to divide developing nations.⁴⁶ Many Western countries, on the other hand, try to pass the blame onto China.⁴⁷ Unless the present circumstances change dramatically, i.e. unless the mutual finger pointing stops⁴⁸ and reason and some willingness to make concessions prevail, no major breakthrough should be expected when parties meet again next December in Mexico.

One possible solution could be smaller scale negotiations between the major polluters. As the new Copenhagen regime is bottom-up, the major players have the ability to negotiate their respective emissions targets with each other. It is also possible that this could be done on a larger scale, bringing together the world's biggest emitters. Such an approach would be criticized by smaller developing countries, as well as most NGOs, yet the prospect for successful negotiations might improve dramatically. The odds could increase further if the organizers were able to avoid the frenzy of 20,000 participants, as was the case in Copenhagen, by closing the meetings to the public, e.g. at the G20 level. However, the question then becomes, who would speak for the poor?

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- 21 See for example: Jan van der Goltz, "High Stakes in a Complex Game: A Snapshot of the Climate Change Negotiation Positions of Major Developing Country Emitters," *Center for Global Development Working Paper No. 177* (2009): p. 11.
- 22 China, supported by Brazil and India, explicitly opposes any reclassification of developing countries with higher emissions, GDP, and abatement capacity into a separate country group (including a gradual transition process). See van Goltz, op. cit., p. 8-13.

- 23 This offer is also reflected in China's submission to the UNFCCC under the Copenhagen Accord. See p. 1. of <http://unfccc.int/files/meetings/application/pdf/chinacphaccord_app2.pdf>
- 24 Timothy Herzog, Kevin Baumert, and Jonathan Pershing, "Target: Intensity. An Analysis of Greenhouse Gas Intensity Targets," *World Resource Institute*, November 2006, p. 3-7.
- 25 See the Chinese submission (endnote 22). China stressed that "the above-mentioned autonomous domestic mitigation actions are voluntary in nature."
- 26 Jonathan Watts, "China 'will honour commitments' regardless of Copenhagen outcome," *The Guardian*, December 18, 2009 <<http://www.guardian.co.uk/environment/2009/dec/18/china-wen-jiabao-copenhagen>>
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- 39 Müller, Benito, "Copenhagen 2009: Failure or final wake-up call for our leaders?" *Oxford Institute for Energy Studies*, EV 49 (February 2010): p. 13-17 <<http://www.oxfordenergy.org/pdfs/EV49.pdf>>
- 40 John Vidal and Jonathan Watts, "Copenhagen closes with weak deal that poor threaten to reject," *The Guardian*, December 19, 2009 <<http://www.guardian.co.uk/environment/2009/dec/19/copenhagen-closes-weak-deal>>
- 41 Reduced Emissions from Deforestation and Forest Degradation (REDD+) is a scheme to protect forest areas in developing countries. Similar to the CDM (see footnote 17), carbon credits can be earned by reducing deforestation and land degradation below an established baseline. These credits can then be sold to developed nations and firms in these countries in need of carbon offsets. It has yet to be determined whether the generated certificates will be traded on carbon markets (could potentially destroy the market if too certificates are released) or an alternative means of funding will be established. See Wertz-Kanounnikoff, Sheila, and Arild Angelsen, "Global and national REDD+ architecture: Linking institutions and action," in Arild Angelsen, ed., *Realising REDD+: National strategy and policy options* (Bogor, Indonesia: Center for International Forestry Research, 2009).

42 “The main opposition came from the ALBA bloc of Latin American countries to which Nicaragua and Venezuela belong, along with Cuba, Ecuador and Bolivia.” See “Copenhagen climate deal meets qualified UN welcome,” *BBC News*, December 19, 2009 <<http://news.bbc.co.uk/2/hi/8422133.stm>>

43 Andrew Revkin and John Broder, “U.N. Climate Talks ‘Take Note’ of Accord Backed by U.S.,” *New York Times*, December 19, 2009 <<http://www.nytimes.com/2009/12/20/science/earth/20climate.html>>

44 For a more detailed description of the views expressed by developing countries regarding the “Danish Text” see Müller, op. cit., p. 9-12.

45 “I have remarked to some people that there is something about being a community organizer which gives you the confidence to walk into a room and sit down at a table and engage in a conversation. Except that his [President Obama’s] table consisted of four players. His table was President Lula from Brazil, and President Singh from India, and President Zuma from South Africa, and Wen Jiabao who is the Premier of China. That is the table he walked into. And he created an outcome with that community, having first gone through consultations with Gordon Brown from the UK and with Sarkozy from France and a set of our allies, Hatoyama from Japan, and created an outcome that did not exist until he came there!” Jonathan Pershing, Center for Strategic and International Studies, 13 January 2010, transcribed by Benito Müller from the webcast at <http://csis.org/event/post-copenhagen-outlook> and cited in Müller, op. cit., p. 13.

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47 Mark Lynas, “How do I know China wrecked the Copenhagen deal? I was in the room,” *The Guardian*, December 22, 2009 <<http://www.guardian.co.uk/environment/2009/dec/22/copenhagen-climate-change-mark-lynas>> and John Vidal, “Ed Miliband: China tried to hijack Copenhagen climate deal,” *The Guardian*, December 20, 2009 <<http://www.guardian.co.uk/environment/2009/dec/20/ed-miliband-china-copenhagen-summit>>

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Supreme Effort: A lesson in British decline

Samuel H. Adamson

“We in this small island have to make
a supreme effort to keep our place and station,
the place and station to which our undying genius entitles us!”¹

— Churchill

Abstract

This paper charts the failure of the post-war British governments to adequately acknowledge and adapt to the changing world order, in which the United States (U.S.) was in ascendancy and Britain, with its Empire, was in decline. Characterized by the deliberate preservation of sterling’s prestige on the international stage, fueled by a lingering nostalgia for the halcyon days of international British supremacy, the argument put forward describes the punishing and painful damage inflicted upon the domestic British economy in an effort to achieve successive governments’ international agenda. The conclusion is, therefore, that a strong element of dynamic self-awareness should be promoted when an international power is faced with decline, in order to better facilitate a controlled and measured descent, rather than an abrupt and precipitous deterioration.

Introduction

When, in 1988, Jeffrey E. Garten asked the question “Is American Decline Inevitable?” one cannot help but draw the immediate conclusion, “Yes.” If ever history has presented one notably convincing and consistent model, it is that of the rise and fall of empires. Take, for example, *A Study in History* — the twelve volume *magnum opus* of historian Arnold J. Toynbee, detailing the growth, flowering and decline of over 20 major civilizations, ranging from the Egyptian, Andean and Sinic to the Mexican, Yucatec and Babylonian. It is of interest (in the context of Garten’s argument) to note that Toynbee himself remarks that, “Of the twenty-two civilizations that have appeared in history, nineteen of them collapsed when they reached the moral state the United States is in now.”² His assertion may include a certain degree of hyperbole, but the general sentiment is one that deserves recognition and, indeed, has been the subject of growing attention in recent years.

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Even before the collapse of the Soviet Union, Paul Kennedy was drawing attention to the relative decline of the United States. In his seminal work *The Rise and Fall of the Great Powers*, Kennedy presents the thesis that due to the incessant fluctuations in relative strength between nations (resulting from technological, political, economic innovations, etc.), the power and influence of “leading nations” never remain constant. Consequently, such nations find themselves in a position where they are no longer able to fulfill the commitments they made at times of relatively greater prosperity, and the resulting misallocation of national resources leads to the beginning of decline. Kennedy labels this syndrome, “imperial overstretch” and, making reference to its extensive international obligations (“whose mere listing leaves one breathless”), identifies the United States as a possible sufferer, concluding that “the fundamental grand-strategical dilemma remains: the United States today has roughly the same massive array of military obligations across the globe as it had a quarter of a century ago, when its shares of world GNP, manufacturing production, military spending, and armed forced personnel were so much larger than they are now.”³

Even in a post-Soviet world, there is a continued use of the word “overstretch” with reference to the United States and its relative decline. Today, the contrastive subject is a rising China rather than a crumbling USSR, financial crises and trillion dollar wars are cited as evidence for American “overstretch.” Notably, Robert A. Pape of the University of Chicago makes extensive use of statistical data to paint a compelling portrait of a global power experiencing a significant loss in international influence and in particular identifies the beginning of a new and precipitous decline post-2000.

Pape argues that economic strength is at the heart of the United States’ global influence, noting that “[p]roductive capacity — defined by indicators such as wealth, technology and population size — is a prerequisite for building and modernizing military forces.”⁴ Therefore, in support of his declinist thesis, Pape presents a cogent set of data detailing the fall in the U.S. share of world product using three distinct measurements, reproduced below as TABLE 1 and TABLE 2.

TABLE 1: Percentage of World Product (in current-year U.S.Dollars).

	1990	2000	2006	2008 (est.)	2013 (est.)	Change 2000–13
USA	26	31	28	23	21	-32%
China	2	4	6	7	9	144%
Japan	14	15	9	8	7	-55%
Germany	7	6	6	6	5	-11%
UK	5	5	5	5	4	-9%
France	6	4	5	5	4	6%
Russia	2	1	2	3	5	455%

Source: IMF World Economic Outlook Database (Oct.2008), adapted from Pape (2009).

TABLE 2: Percentage of World Product (Constant 2000 U.S.Dollars and Purchasing Power Parity).

<i>Constant 2000U.S.Dollars</i>					
	1990	2000	2008	2013	Change 2000–13
USA	31	31	27	24	-22%
China	2	4	6	8	100%
<i>Purchasing Power Parity</i>					
	1990	2000	2008	2013	Change 2000–13
USA	23	24	21	19	-19%
China	4	7	11	15	104%

Source: Calculations based on IMF World Economic Outlook (Oct.2008), adapted from Pape (2009).

His first choice of measurement (a comparison of each country's output in current-year U.S. dollars, TABLE 1) is that which is most frequently used by Pape's opponents. Indeed, he makes explicit reference to its employment by Brooks and Wohlforth in their 2008 argument for America's exploitation of its hegemonic position.⁵ However, whereas Brooks, Wohlforth and others tend to employ single year "snapshots" to paint an overly rosy view of U.S. unipolar dominance, Pape examines the trend over time and, deftly turning their own figures against them, confronts his critics head-on, concluding that the U.S. will see a 32 percent drop in its percentage of world product between 2000–2013. His justification for taking a long-term trend perspective is clear:

Single-year 'snapshots' of America's relative power are of limited value for assessing the sustainability of its grand strategy over many years. For grand-strategic concerns —especially how well the United States can balance its resources and foreign-policy commitments— the trajectory of American power compared to other states is of seminal importance.⁶

As further evidence for the declinist trend identified in TABLE 1, Pape also employs two further methods of calculating the U.S.'s percentage of world product: constant-dollar calculations and purchasing power parity, both of which are commonly used to determine GDP (TABLE 2). Although the percentage drop predicted using these alternative methods is less than that of TABLE 1, Pape remains resolute, remarking that "regardless of the metric, the trend is the same."⁷ Indeed, both predict a significant decline of around 20 percent which Pape states "form[s] the lower bound of America's decline."⁸ His conclusion is unambiguous and frank: "Simply put, the United States is now a declining power."⁹ He continues,

The United States has always prided itself on exceptionalism, and the U.S. downfall is indeed extraordinary. Something fundamental has changed. America's relative decline since 2000 of some 30 percent represents a far greater loss of relative power in a shorter time than any power shift among European great powers from roughly the end of the Napoleonic Wars to World War II. It is one of the largest relative declines in modern history.¹⁰

Garten himself does not fundamentally disagree with Pape's conclusion that the U.S. is in decline. Indeed, he expresses his own concern at the "speed at which Washington's power and influence are tumbling down."¹¹ But the purpose of the review and thesis Garten presents is to find solutions to this decline, rather than to encourage an analysis of its nature in order to better prepare the nation for the coming realignment in international station. This is where this paper finds issue with Garten's discourse. The argument presented here aims to warn of the dangers of remaining stubborn and inflexible in the face of decline and, by contrast, extols the virtues of maintaining a sense of self-perspective regarding international position. Rather than "breaking the fall" of decline as Garten would have it, this paper encourages an awareness of the inevitability of decline and the importance of a self-aware dynamic reaction to it, thereby allowing a more controlled and gradual decline, rather than a crashing to earth as is exemplified by the British case.¹² This argument will be illustrated using the example of the post-war British governments' failure to properly identify and accept Britain's changing place and status on the world stage. Taking the preservation of sterling's prestige as its primary illustration, this paper argues that by focusing excessively on Britain's international role, domestic industry was time and again subject to punishing economic policy for the sake of maintaining sterling's prestige. In response to the effects of this internationally focused policy set, growing domestic unrest eventually led to a breakdown of the post-war consensus, precipitating a painful decline for the British economy. As such, it will also be seen that although the short term effects were particularly painful, the heavy burden of mismanagement of the economy—particularly throughout the 1950s and 1960s—is still being felt in Britain today, thus adding weight to the central argument of the paper.

The Rise And Fall Of Sterling¹³

Following the victories of Nelson and Wellington in the early nineteenth century, Britain was able to seize upon an invaluable opportunity to develop an unrivalled naval dominance and begin to propagate British influence throughout the globe. The fortuitous circumstances of a century of relative British stability compared to the political distemper of the continent, combined with what Balogh describes as London's "double superiority" of "mercantile supremacy [and] industrial leadership" had established Britain as the world's unrivalled colonial power by the mid-nineteenth century.¹⁴ Moreover, the security afforded to sterling transactions by the seemingly omnipresent British merchant ships (with Royal Navy backing), the financial liberalism of British colonies and the legal support of British law in financial transactions provided the groundwork for the development of sterling as an international currency of trade and, later, reserve. There is no suggestion here, however, that sterling was without its drawbacks. Indeed, as with any international reserve currency, those who chose to take advantage of sterling had to bear the brunt of London's justifiably self-serving monetary policy. However, the lack of any credible alternative prior to the ascent of the dollar ensured sterling's global position as *Top Currency*. (Technically, however, sterling was only *Top Currency* in those states not under British political control. Throughout the Empire, sterling was utilized as a *Master Currency*. Colonial governments were obliged to use it, albeit often through the pegging of local currencies (of alternative appellation) to the pound.)

The process of sterling's decline (or "slippage") from its position as *Master* and *Top* currency began, predictably, with the decline of British political and imperial power. Perhaps the first watershed in the transition of world currencies from sterling to the dollar came when, in the face of failing confidence in British supremacy in the inter-war period, combined with the high price of sterling at a time of severe balance of payments difficulties, the British government was forced to abandon the Gold Standard in 1931. Consequently, the world had to decide how best to ensure the stability of their own currencies. Canada responded by turning away from the pound towards the dollar, while the major European powers formed a "gold bloc" and the rest of the Empire remained, for the most part, loyal to Britain, forming as they did the "sterling bloc." Strange notes:

"between the wars [...] [sterling] had first of all required the support of another strong currency—the dollar: that it had, with American support, tried to regain its pre-war position of universal acceptability; but the opposition to this purpose, which was primarily political and not technical in character, had been underestimated. And under the stress of a crisis in international financial markets, which constituted a major threat to the whole international commercial and monetary system, the Top Currency role had to be—finally and reluctantly—abandoned."¹⁵

Subsequently, in an already evolving international environment, the crippling financial burden imposed on Britain by the Second World War presented the United States with an opportunity not dissimilar to the British position in the early nineteenth century. Taking full advantage of the geopolitical situation (as Britain had done) and combining it with what Jean-Jacques Servan-Schreiber described as the "all too potent [...] U.S. know-how, business methods, and brain power," the United States was in a position to gradually assume the role of international hegemon.¹⁶ Moreover, with its gradual political ascendancy came economic power and, ultimately, dominance. As Aubrey notes, "The United States [...] emerged from the Second World War as the world's financial center and its currency as the most important medium of exchange. The dollar has become the hub of the international monetary system on which the stability and liquidity of other currencies depend."¹⁷ Aubrey's observances were the plain fact of the matter, and it is this transition from sterling's international dominance to that of the dollar which forms the crux of this paper.

Protecting The Prestige Of Sterling

The influence exerted by the British Empire is unparalleled in history. Even in the wake of the First World War and the beginning of sterling's decline, Britain was able to maintain an Empire that covered a quarter of the globe and governed the same proportion of the earth's population. Both its beginning and end are marked by military victories and heroes that enjoy unrivalled legend in British history and culture. It is little wonder then, that the generation of politicians, colonial administrators and bureaucrats who were presented with the beginning of decline found it not only difficult to plan for but rather must have found the idea of decline itself entirely inconceivable. Indeed, it is perhaps easy to find sympathy for those who saw victory in two world wars as a validation of the old, British-dominated world

system, rather than the catalyst for its removal.

This paper argues that the apparent refusal by Britain to recognize the detrimental effects of the international economic policies it pursued post-1945 was primarily motivated by a failure to recognize the shift in power and position on the international stage, both of the United States and Great Britain itself. By maintaining the policies of the old world order, Britain time and again inflicted punishing policy on the domestic economy and by the time the extent of the situation was realized, the damage was so significant that there is argument as to whether Britain has actually ever recovered.

This repeated damage to Britain's domestic economy is best illustrated by what has come to be known as the "stop-go" cycle of the post-war period. In a herculean attempt to preserve sterling's international position, a succession of British governments between 1950 and the early 1960s maintained an artificially high, fixed exchange rate under the Bretton Woods system, encouraging sterling's use as a reserve currency by other governments. 'Devaluation' became taboo within the Treasury and Foreign Office and indeed throughout the government. The idea of devaluing the pound was analogous with acknowledging British decline on the world stage — a fact no government seeking re-election would be willing to concede. The responsibility felt by successive governments regarding the protection of sterling (and also themselves) is aptly illustrated by an excerpt of an emotive 1949 House of Lords Speech concerning devaluation, made by Lord Woolton:

"The ordinary people of this country do not understand what devaluation means, but they feel disturbed. Their pride has had a shock. To them the pound sterling abroad is a matter of pride; it is a sort of financial Union Jack; and they hate to see any foreigner putting his flag above theirs."¹⁸

In addition to this, the large reserves of sterling still held by foreign governments continued to put pressure on Britain, both diplomatically and financially. Were Britain to devalue the pound, not only could this make sterling vulnerable to huge speculation and a subsequent plunge in its value, but there was also a sense of duty maintained in London on a diplomatic level, the feeling being that a revaluation of the pound would essentially amount to a defaulting by Britain on its international obligations to overseas holders of sterling.¹⁹

The absolute rejection of devaluation as a policy option and the maintenance of the pound's strength therefore had the effect of incentivizing the British people to consume more imports, while making British exports particularly uncompetitive abroad. The result was, of course, severe and recurrent balance of payment crises for which there was an extremely limited range of policy tools available. The apparent consensus of successive governments was to deflate the domestic economy when aggregate demand was critically affecting the balance of payments. Then, following what was deemed to be a sufficient curtailment of demand, a reflationary budget would then be introduced, beginning the whole process again. This is the essence of the 'stop-go' cycle which characterized the British economy between 1950 and the

early 1960s. So, for example, 1951 saw Clement Attlee's government pursuing deflationary measures that, due to international pressures on the pound, were only to be reversed in 1953–4 during the Churchill restoration. Domestic deflation then was re-imposed as sterling again came under pressure from international speculators in the period 1955–56. Harold Macmillan's government then proceeded to followed expansionary and deflations policies within just a few months during 1957.²⁰

The Damage Inflicted

By the beginning of the 1960s, there began a gradual recognition that the economy was experiencing chronic underperformance, although by this point the damage done to Britain's domestic economy through the ravages of the deflation/expansion cycles was considerable. It was, Blank notes, "difficult, almost impossible, to repair."²¹ The mal-effects were most keenly felt in the comparatively low rate of growth in Britain since 1950, in particular in comparison to Germany and Japan which were undergoing exponential export-driven growth — the polar opposite of what British governments had been unwittingly engineering. With each deflationary budget the Treasury introduced, investment was severely affected. Sir Alec Cairncross, then the government's Chief Economic Advisor, emphasizes the point: "Monetary policy affects, and is intended to affect, investment much more than consumption,' and in practice this means particularly 'industrial investment' as well as the smaller firms 'because they are more vulnerable than their large competitors.'"²² Pollard cites the example of the British Motor industry, whose decline was particularly exacerbated by a lack of proper investment, resulting in a "failure to bring the capital equipment up to date."²³ He also notes that in "growth industries heavily based on science and technology, like electronics and man-man fibres [...] we find the same story of inadequate investment in new capacity and tardy adoption of new technology, so that the windfall technical lead which was acquired during the war and still held in 1950 was lost and competitive power suffered."²⁴ The resultant poor levels of growth can be seen in TABLE 3.

Unlike its economic rivals on the continent, by this period Britain had already made full use of the gains in efficiency to be drawn from the transfer of labor from agriculture to industry. On the continent, however, this process was only now taking place in earnest, with France in particular experiencing great growth gains as a result. Blank maintains, however, that the other economic tools which were also accelerating the French economy and producing the German *Wirtschaftswunder* — namely "capital investment" and "the application of technological and managerial knowledge to production" — were also, technically, available to the British government.²⁶ However, the consistently recurring deflationary spates in defense of sterling had dramatically limited the British government's ability to utilize either of these factors, adding to the woes of British industry.

TABLE 3: Annual U.K. rates of growth of GDP at constant prices, 1951–1973 and from 1973 (percentages).²⁵

	GDP	
	1951–73	1973–79
Belgium	4.1	2.4
Canada	5.1	3.3
Denmark	3.9	1.8
France	5.1	2.9
Germany	5.9	2.3
Italy	5.2	2.3
Japan	9.5	4.0
Netherlands	5.0	2.5
Norway	4.2	4.3
Sweden	3.8	1.6
UK	2.8	0.8
USA	3.5	2.3

Transition To Further Strife

Although by the early 1960s there was a growing domestic awareness as to the station Britain ought to be occupying within the global economy, the “tragic and absurd”²⁷ situation in which it found itself was only to become worse as, with increased awareness, came the apportioning of blame: “Industrialists, the TUC, academics, and the media, even high-ranking civil servants, all pointed to ‘stop-go’ economic policies as the major cause of the stagnation which seemed to grip the British economy,”²⁸ whereas the government remained unrepentant and made no signs of even moving towards the dethroning of sterling. At a conference held by the Federation of British Industry in the winter of 1960, Viscount Amory, the then Chancellor of the Exchequer made no diversion from the Treasury’s “traditional priorities,” declaring his primary concern to be that “sterling must be kept strong and respected.”²⁹

The standoff between industry and government was exacerbated by the frustration of the labor unions throughout the 1960s and led to the next major phase of British decline. In 1945, Clement Attlee’s Labour government had been elected on a revolutionary manifesto, marking what many saw as a break away from the old, rigid order and a move towards a Britain more responsive to the needs of the common man, who, after all, had just secured Britain’s triumph over fascism. At the heart of Attlee’s “New Jerusalem” vision, was the creation of the Welfare State and a commitment to achieving full employment. In what came to be known as the “Welfare Compromise,” the nation’s new order was to be achieved

“...by the use of Keynesian economic policies in which government acted to regulate demand and smooth the business cycle by public expenditure. [...] Government

intervened to regulate macroeconomic variables but left the details of employment relationships to be resolved by employers and employees.”³⁰

This non-legalistic system of volunteerism served British business, workers and government with a good deal of success for many years, with healthy levels of growth and employment maintained for the best part of twenty-five years. It was not until the 1960s (when the pressures of propping up sterling and the consequent under-investment in British industry began to be felt by the government) that increasingly interventionist policies emerged, disrupting the Welfare Compromise and eventually ensuring its downfall. By the introduction of the 1964 Industrial Training Act and the 1965 Redundancy Payments Act, for example, the government was acting outside of its traditional remit within the post-war compromise. Similarly, a tightening of the judicial system was evidenced in 1964 when judgments were made restricting the labor union’s power to strike. Both Labour and Tory governments alike were making these “incursions into the old voluntary system of regulation.”³¹

Labour And The Unions

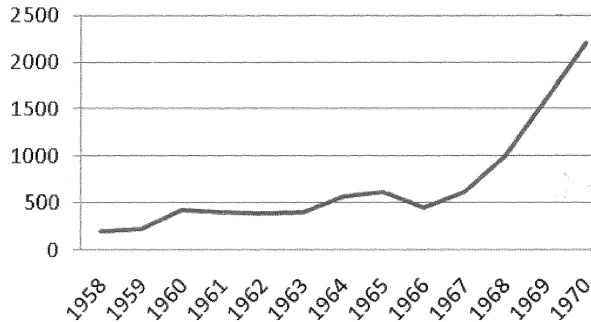
In spite of its evolving nature and organization, the Labour Party remained a party which was created by and for the representation of British workers. Their election in 1945, bolstered by the nation’s wartime triumph, represented the beginning of the powerful post-war compromise, and a nation unified in its desire for progression, regained power and social justice. However, the loyalty of the unions was to be tested to breaking point during the 1960s by the combination of repeated demands placed on the purchasing power of British people as part of the post-war stop-go cycles (at a time when the acquisition of consumer durables was for many a real sign of progress and wealth) and the beginning of the end of the Welfare Compromise through the introduction of Labour’s price and incomes policy. The social revolution of the time also played no small part in the re-evaluation of the party in the eyes of previously dependable voters, and the new post-war generation of workers began to call into question a government, which after all, was still made up of Oxbridge-educated political impresarios.

Wilson’s eventual devaluation of sterling in 1968 was too little too late. And although “the illusions about Britain’s financial and military role in the world —of which Mr. Wilson had originally been the foremost exponent, and which had held the country back for so long— were at long last jettisoned,” the tardiness of this realization only served to force upon the government the need for further restraints on the domestic economy: “The economy was still more drastically deflated, public expenditure was cut, and unemployment was permitted to rise to its highest level since 1940.”³² Prices rose and real disposable income fell for many workers.”³³ It is clear to see how this must have felt like somewhat of a betrayal to the Labour faithful. The “white heat of technological revolution” of which Wilson had spoken so highly was nothing compared to the white heat of incandescent rage expressed by union officials at this time. British industrial relations subsequently began to experience a precipitous decline.

Plumbing New Depths

The late 1960s and 1970s became characterized by growing strife within British industry, the now chronic underinvestment caused by the sterling-induced stop-go cycles exacerbating the ruinous state of industrial relations. The sharp increase in strikes witnessed in the U.K. at the end of the 1960s is illustrated in FIGURE 1.

FIGURE 1: Number of wage increase strikes (excluding Mining and Quarrying) in the UK, 1958–1970



Adapted from Jackson et al. (1979), p87

Supporting this evidence, Blank notes:

After 1966, the paths of the unions and the government diverged sharply. There was a strong trend towards the left in many unions, and union-government cooperation declined significantly. Strikes increased as workers sought to force higher wage settlements to keep pace with inflation and to maintain their living standards. That a Labour government was in power and demanding still greater sacrifices of higher levels of unemployment, declining standards of living, and reduced social welfare programs, substantially heightened the alienation of unions.³⁴

The aggravation and malcontent of the unions and the damage to British economy were only to be worsened with the coming of Heath's 1970 Conservative government, which embarked on a campaign at odds with its predecessors, but to equally damaging effect:

[The government] was totally opposed to incomes policy and disbanded the Prices and Incomes Board. It abolished the [Industrial Relations Commission] and throttled back the Ministry of Technology's interventionist approach to industrial policy. The new government was determined to confront the unions: it promised to put heavy pressure on public and private sector employers to resist wage increases and introduced a new industrial relations act.³⁵

The result has come to typify the 1970s — soaring inflation and unemployment or *stagflation*. Exacerbated by the 1973 oil crisis and the non-cooperation of the National Union of Mineworkers, Britain hit its lowest point with the introduction of the three-day working

week in early 1974 and inflation peaking at 26.9 percent a year later.

Heath's government subsequently lost the February 1974 election, though the general malaise of the British electorate was evidenced by the election of a hung parliament. Moreover, in spite of initial hopes surrounding the "social contract" being brought about by the newly elected Labour government of October 1974, it would not prove to be the perpetual cure that Britain sought. Struck as an agreement between the shadow Labour cabinet and the Trades Union Congress in joint abhorrence at the 1971 Tory Industrial Relations Act and an unwillingness to return to the fraught relations of the previous Labour government, the new "social contract" essentially amounted to the acceptance by both parties of the repealing of the incomes policy and a return to collective bargaining, with the trade unions agreeing to "exchange their support in voluntary wage restraint for legislation favourable to trade unions."³⁶ This new agreement with the unions, combined with an immediate pay-off of the miners' union led to a relatively calm period in industrial relations, though in the long-run it would become clear that Wilson's restored government had merely papered over the cracks in the economy and, in fact, the major structural flaws remained. Indeed, in trying to pressure the unions into taking a fourth year of wage restraint with a pay limit of only five percent there was again widespread industrial malcontent, resulting in the infamous "Winter of Discontent" of 1979.³⁷

Thatcher's Lingering Legacy

This Britain of "discontent" was that which Margaret Thatcher inherited in May 1979. In so many ways distinct from her predecessors (of either party), Thatcher's approach to the problems of high inflation, unemployment and unruly labor unions was, unsurprisingly, equally divergent. Basing policy on her own brand of neo-liberalism and monetarism, Thatcher brought the government's focus to the reduction of levels in inflation, rather than the nation's level of unemployment. With an unmitigated and unrepentant belief in individualism, government non-intervention, privatization and deregulation, Thatcher was attempting to revitalize British industry by focusing on inflation control:

The government announced that it would not directly intervene in the economy via incomes policy-type measures aimed at controlling wages and prices. Instead the government was committed to using tight monetary controls and high interest rates to control the economy and to use deflation and unemployment to reduce wage claims and price inflation.³⁸

Much debate remains as to the successes this revolutionary set of principles had on the British economy, with Thatcher attracting perhaps as much violent criticism as she does idolatrous praise. Her fierce attacks on labor unions and the liberalizing deregulation of the City led to simultaneous bust and boom for different sectors of society, fueling the controversial nature of her legacy. What is clear, however, is that her reorienting of Britain's means of government has not been drastically shifted since she unleashed the raw forces of *laissez-faire* onto the British market. Most significantly, the deregulation of the financial markets cemented and

expanded Britain's focus and dependence on the City — a fact of which Britain is all too aware in the current financial crisis.

Wider Implications Of The British Experience

The aim of this essay is to demonstrate the extent to which the initial failure by British governments to recognize, accept and adapt to the country's new position in the post-war world had deep, painful and long-lasting effects on the domestic British political economy. Rather than being a time of reflection and re-evaluation of the world order, the post-war consensus amongst successive governments was that Britain's victory was a validation of the old, rather than a trigger for its removal. As such, sterling was expected to continue as the world's reserve currency and the preferred unit of exchange. From 1945 until the major devaluation of 1968, one after the other, British governments oriented economic policy towards the maintenance of sterling's international prestige, through the manipulation of the domestic economy. Using deflationary packages to curb demand and defend the pound against external pressure, the government indirectly (but repeatedly) inflicted punishing restrictions on British industry through a chronic underinvestment in capital. As Samuel Brittan has it, "The position of sterling as an international currency, with all the risks to which it exposed Britain, was regarded as desirable in itself, like a prisoner kissing the rod with which he is being beaten."³⁹ In a desperate attempt to improve British competitiveness, British governments then began to intervene in industrial relations, to the detriment of the Welfare Compromise that had presided over a relatively stable period from 1945 –1960. Government-union cooperation worsened throughout the 1960s under a Labour government and reached exploding point following the election of Heath's conservative government. The British economy plumbed new depths in the 1970s, with factories being reduced to a three-day working week and with the entire population having to endure the infamous "Winter of Discontent." Such harsh times brought about harsh measures, to be administered by Margaret Thatcher. Her reshaping of the British political economy marks the beginning of the current era for Britain, for better or worse. With increased focus, she drew onto the City's financial services; however, at the moment it is difficult to see past the latter. Britain, still today, feels the pain of bone-breaking readjustment to the post-war world.

It should also be emphasized that the thesis put forward here is only one example of the way in which the British government failed to adapt properly to the nation's declining position in the post-war world. This paper could easily have taken as its topic of investigation the exuberant defense spending exhibited by an unbroken succession of British governments, characterized by the costly maintenance of an independent nuclear deterrent in obedience to the "Top Table" argument or, as Churchill had it, "our badge to the Royal Enclosure."⁴⁰

The wider lessons to be drawn from the British experience are complex and difficult to identify clearly, as each declining hegemon (of which there have been —and will be— many) faces a potentially different set of international and domestic conditions. However, there is a clear and universal warning to be taken from the illustration presented here — a world

power that may be in decline needs, more than ever, to maintain a high level of vigilance and flexibility in its attitudes to its international position. Being prepossessed of pretensions of past glories serves for nothing; rather it inhibits a nation in its readjustment. Therefore, the attitudes put forward by E. Garten in his essay regarding American decline (as outlined at the beginning of this paper) should be regarded as, at best, unhelpful, and at worst severely damaging to the future of the United States. For reasons that will not be argued here, however, I find myself in complete agreement with Garten regarding the undesirable nature of American decline, particularly in light of the candidates currently waiting in the wings to take the crown. Indeed, it is for that reason that this paper argues that it is wrong to assess the methods of “how to remedy signs of decline” (as Garten does), but rather suggests that it is instead critical to accept the inevitability of its occurrence, allowing for a more controlled descent, thereby minimizing domestic damage and allowing declining powers to still exert a good deal of influence on the international stage — at least due in part to their masterfully orchestrated readjustment to their dethronement.

1 Randolph Spencer Churchill and Martin Gilbert, *Winston S. Churchill*, vols. 3-4 (Boston: Houghton Mifflin, 1988), p. 773.

2 Quoted in Dan J. Sanders & Galen Walters, *Equipped to Lead: Managing People, Partners, Processes, and Performance* (New York: McGraw-Hill, 2008), p. 12.

3 Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Random House, 1987) p. 521; for the quotation “whose mere listing leaves one breathless,” please refer to Barry Rubin, “The Reagan Administration in the Middle East” in Kenneth Oye et al., eds., *Eagle Defiant: United States Foreign Policy in the 1980s* (Toronto: Little, Brown and Company, 1983) p. 367.

4 Robert A. Pape, “Empire Falls,” *The National Interest*, 22 January 2009 <<http://www.nationalinterest.org/PrinterFriendly.aspx?id=20484>>

5 Stephen G. Brooks and William C. Wohlforth, “World Out of Balance: International Relations and the Challenge of American Primacy” (Princeton: Princeton University Press, 2008).

6 Pape, *op. cit.*

7 *Ibid.*

8 *Ibid.*

9 *Ibid.*

10 *Ibid.*

11 Jeffrey E. Garten, “Is American Decline Inevitable?” *World Policy Journal* 5, no. 1 (Winter 1988): p. 151.

12 *Ibid.*, p. 151.

13 This section makes use of Strange’s now classic delineation of four (not necessarily mutually exclusive) scenarios in which a people or government may come to use the currency of another: Master Currency – an inherently political arrangement whereby a politically and economically superior state imposes its currency on one of lesser status (e.g. the imposition by European powers of their currencies upon their colonies); Negotiated Currency – a currency which has previously had the political or economic power which allowed them to function as a Master Currency but following a decline in power must now engage in diplomatic negotiations to induce the adoption of its currency (e.g. Sterling, post-war); Top Currency, one which through its economic strength, frequently bolstered by political prowess, becomes the choice reserve currency of world markets, (currently the dollar); Neutral Currencies also enjoy a strong economic standing, and are consequently used as a private reserve

currency by private users to whom the currency's issuing state is politically indifferent (e.g. Swiss Franc). Please refer to Susan Strange, *Sterling and British Policy: A Political Study of an International Currency in Decline* (Oxford: Oxford University Press, 1971).

- 14 Thomas Balogh, *Unequal Partners*, vol. 2 (Oxford: Oxford University Press, 1963), p. 25.
- 15 Strange, *op. cit.*, p. 55.
- 16 *Life*, May 17, 1968, p. 49, quoted in C. Fred Bergsten, *Dilemmas of the Dollar* (New York: New York University Press, 1996), p. 176.
- 17 Henry G. Aubrey, "The Dollar in World Affairs: An Essay in International Financial Policy" (New York: Harper & Row, 1964), p. 109.
- 18 House of Lords Debates, Hansard, 1949, 8 April 2010 <<http://www.parliament.the-stationery-office.co.uk/pa/ld/ldhansrd.htm>>
- 19 Peter A. Hall, *Governing the Economy: The Politics of State Intervention in Britain and France* (Oxford: Oxford University Press, 1986), p. 58.
- 20 *Ibid.*, pp. 50–51.
- 21 Stephen Blank, "Britain: The Politics of Foreign Economic Policy, the Domestic Economy, and the Problem of Pluralistic Stagnation" *International Organization* 31, no. 4 (Autumn 1977): p. 691.
- 22 Sidney Pollard, *The Wasting of the British Economy*, 2nd ed. (Guilford: Biddles, 1982), p. 49.
- 23 Sidney Pollard, *The Development of the British Economy 1914 — 1990*, 4th ed. (London: Edward Arnold, 1992), p. 244.
- 24 *Ibid.*
- 25 Adapted from G.B. Stafford, *The End of Economic Growth?: Growth and Decline in the U.K. since 1945* (Oxford: Martin Robertson, 1981), p. 106.
- 26 Blank, *op. cit.*, p. 697.
- 27 Andrew Schonfield, *British Economic Policy Since the War* (London: Penguin, 1958), p. 218.
- 28 Blank, *op. cit.*, p. 698.
- 29 *Ibid.*, p. 698.
- 30 Howard F. Gospel and Gill Palmer, *British Industrial Relations*, 2nd ed. (London: Routledge, 1993), p. 165.
- 31 *Ibid.*, p. 167.
- 32 Samuel Brittan, *Steering the Economy: The British Experiment* (New York: The Library Press, 1971), p. 379.
- 33 Blank, *op. cit.*, p. 709.
- 34 *Ibid.*, p. 709.
- 35 *Ibid.*, p. 710.
- 36 Gospel and Palmer, *op. cit.*, p. 243.
- 37 George Sayers Bain, ed., *Industrial Relations in Britain* (Oxford: Basil Blackwell, 1983), p. 169.
- 38 Gospel and Palmer, *op. cit.*, p. 252.
- 39 Brittan, *op. cit.*, p. 223.
- 40 Peter Hennessey, *Cabinets and the Bomb* (Oxford: Oxford University Press, 2007), p. 116.

Challenging US Command of the Commons:

Evolving Chinese defense technologies as a threat to American hegemony?

Thilo Schroeter, Matthew Sollenberger and Bastiaan Verink

Abstract

This paper argues that the advancement of Chinese capabilities in the areas of information warfare, anti-access measures, and strategic nuclear forces has substantially altered the balance of forces between China and the US, particularly regarding potential conflicts in China's littoral waters, including over Taiwan. This challenge to US "command of the commons" may undermine America's regional dominance in East Asia.

More specifically, the article argues that the nature of any conflict between the two powers has been fundamentally changed by China's development and implementation of technologies aimed at: degrading US communication and intelligence gathering capabilities; limiting the ability of the US to deploy air and sea assets in the Chinese theater of operations; and denying the US the ultimate trump card of an assured nuclear first strike capability.

Introduction

The ability to dominate rivals militarily is one of the pillars of hegemony. The US has long enjoyed a "command of the global commons," i.e. the ability to freely use sea, air, and space

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for projecting military power and if necessary, to simultaneously deny the use of these spaces to others.¹ It has been argued that command of the commons acts as a multiplier for other sources of US economic and military power, and thus, is even more central to the maintenance of US hegemony. This article argues that China's technological advances in certain fields already threaten US command of the global commons, which we also take to encompass the domain of cyberspace. By converting sea, air, space, and cyberspace into "contested zones" for the US military, China undermines the existing basis of US influence in East Asia and possibly, US hegemony.

History provides many examples where technological breakthroughs have not only affected tactics, but have also had a direct influence on strategy. The development of siege artillery in Europe in the 15th century was seen as central in reducing the strategic value of medieval castles and town fortifications.² Additionally, the simple ability to drop torpedoes into waters 6-9 meters shallower than before gave Japan the option to pursue a strategy that included a surprise strike against US naval power at its core.³ Meanwhile, the development of nuclear weapons led to a revaluation of military strategy by both nuclear and non-nuclear powers.⁴

China is purportedly making active use of the lessons of history. This article argues that Chinese technological developments in certain fields have substantially altered China's strategic options in potential military conflicts with the US. Such military confrontations are arguably most likely to erupt if hostilities break out between China and Taiwan. This paper is not intended to be an exhaustive study of evolving Chinese military capabilities and Chinese policy vis-à-vis Taiwan, nor is it meant to encompass all of the dynamics of a possible US-China conflict. Rather, by examining a few key technological developments and exploring the implications of their deployment, the article aims to demonstrate how China's leveraging of asymmetric warfighting technologies is redefining the battlefield. This paper analyzes technological advances in the areas of:

- Information warfare
- Anti-access measures
- Strategic nuclear forces

Evolution Of Information Warfare

The Chinese military is placing increasing importance on information warfare (IW), particularly in the context of battles against advanced or technologically superior adversaries.⁵ These priorities largely stem from Chinese observations drawn from the First Gulf War (1991), where the overwhelming US victory was initiated by strikes focused on information targets, such as Iraqi radar sites and communications hubs. Chinese experts believe these and other IW tactics contributed heavily to the US military's ability to achieve a quick and decisive victory.⁶ Chinese theorists have gone so far as to redefine the traditional battlefield objectives away from Clausewitzian kinetics, claiming that "the operational objectives of the two sides on attack and defense are neither the seizing of territory nor the killing of so many enemies, but rather the paralyzing of the other side's information system and the destruction

of the other side's will to resist.”⁷

The People's Liberation Army (PLA) views US command and control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) capabilities as both a source of great strength and as a potential strategic vulnerability. Chinese military strategists believe that successful strikes against US C4ISR capabilities could help level the battlefield in any US-China conflict. While there are many emerging Chinese IW capabilities, for the sake of brevity, this section will focus on two well-developed technologies: kinetic anti-satellite (ASAT) weapons and cyber warfare.

Anti-Satellite Weapons

Both Chinese and American military counterparts are aware of the substantial vulnerabilities of space-based communications and surveillance systems—some have gone as far as to label satellites as the “Achilles heel” of American military might.⁸ There are many ways to degrade or even destroy such satellite systems; the PLA's successful test of a ground-based kinetic ASAT weapon in 2007 was merely the latest and most public of its ongoing efforts to develop effective ASAT systems. The January 2007 test demonstrated considerable technological sophistication. The Chinese interceptor successfully struck its target, an aging weather satellite that was flying at a speed (7.42 km per second) comparable to that of an intercontinental ballistic missile (ICBM) in an atmospheric re-entry phase.⁹ The test represented the most difficult of interceptions, a maneuver often referred to as “hitting a bullet with a bullet.”¹⁰

China's space capabilities are growing, and their kinetic ASAT systems are advancing in lockstep. In 2008, China conducted 11 space launches that put a combined 15 satellites into orbit, and the country is in the process of developing more highly advanced rockets that could deliver greater payloads to a wider variety of orbits. The 2009 edition of the annual Pentagon report on the *Military Power of the People's Republic of China* noted that once the ongoing developments of China's Long March V rocket are complete, they will “more than double” the size of the payloads that China can deliver into low-earth and geosynchronous orbits.¹¹ In addition to new launch vehicles and expanding launch capabilities, China is also developing improved long-range ballistic missiles capable of delivering ASAT payloads into geosynchronous orbits. These new missiles might be capable of directly attacking satellites in a geosynchronous orbit, effectively giving the Chinese military the capability to use direct-ascent methods on satellites operating at any altitude.¹² At present, China's ability to strike at targets in geosynchronous orbits is somewhat limited, as it only possesses the facilities to launch simultaneously four rockets capable of reaching satellites at that altitude.¹³

While the long-term implications of such a strike for satellites would be devastating, the short-term impacts would be significant, although less encompassing.¹⁴ Depending on target selection and hit rates, it is conceivable that the Chinese could achieve the following:

- Reduction of the US Navy's satellite-based ship surveillance capabilities
- Temporary elimination of high-resolution imagery coverage over much of China

- Creation of a GPS “gap” over China of approximately eight hours per day¹⁵

Cyberwarfare

Since 2002, the PLA has been actively bolstering the ranks of its information warfighters, both within official military units and within the civilian ranks, by creating militia units that incorporate technical and computer specialists from both the private IT sector and academia.¹⁶ The PLA has also integrated cyber warfare into its military exercises and its formal doctrine. In a series of war games conducted in 2004, a red team used computer network operations to briefly penetrate and gain control over military command and control centers.¹⁷ In a 2009 publication, the PLA formally outlined a new strategy of “Integrated Network Electronic Warfare,” which called for, among other goals, the development of “techniques such as electronic jamming, electronic deception, and suppression to disrupt information acquisition and information transfer, launching a virus attack or hacking to sabotage information processing and information utilization.”¹⁸

It is difficult to precisely assess Chinese cyber warfare capabilities: as of 2010, China continues to strenuously deny that it possesses or is developing any offensive cyber measures. That said there is little doubt within the US defense community that the Chinese are highly capable in cyber warfare and continue to increase their capabilities. A defense assessment report prepared by Northrop Grumman notes that Chinese military “operators likely possess the technical sophistication to craft and upload rootkit and covert remote access software, creating deep persistent access to the compromised host and making detection extremely difficult.”¹⁹ The presumed rise in Chinese cyber warfare capabilities has paralleled a steep rise in “malicious cyber activity” targeting US Department of Defense (DOD) networks: such incidents have surged from around 10,000 per year in 2003 to almost 55,000 in 2008, and many appear to have Chinese origins.²⁰ These probing attacks have had serious consequences, for instance:

- In 2007, the US Office of the Secretary of Defense had to take its information systems offline for more than a week to deal with suspected Chinese infiltration.²¹
- Attacks on US defense contractors in 2007 and 2008 resulted in the theft of several terabytes of data on the design and electronic schematics for the F35 Joint Strike Fighter.²²

Chinese agents clearly have the ability to penetrate US networks. The supposed limiting of these incursions to mapping and data theft is indicative not of limited capabilities, but rather of intent: in 2007, the Commander of US Strategic Command noted that China is “actively engaging in cyber reconnaissance.”²³ China’s ability to create virtual beachheads within US military and defense contractor networks has substantial implications for US-China military scenarios. PLA cyber attackers would only need to modify or corrupt relatively small data packets to seriously degrade the performance of even the most sophisticated combat systems. For example, a US Air Force study concluded that integrated air defense systems could likely be disabled by cyber assaults, noting that such systems, “can fail by not seeing the target,

seeing too many targets, failing to give or receive cueing information, not getting missiles to fire, firing missiles in directions that do not let them hit the target, or inappropriately emitting detectable energy” – or in other words, that such advanced systems need only suffer one, relatively small area of compromised performance to fail utterly.²⁴

The US is not unaware of these threats. The US military is investing in cyber-defense, and in 2009, Defense Secretary Robert Gates went so far as to order the creation of a Cyber-Defense Command, which would be tasked to both defend military networks from cyber threats and develop offensive cyber capabilities.²⁵ Nonetheless, US cyber defense efforts are likely playing catch-up at this point, and it remains quite conceivable that a Chinese cyber assault on US targets could noticeably, perhaps significantly, degrade the performance of US military networks for a period of time.

Development of anti-access measures

China is aware that, in order to be successful in a military confrontation over Taiwan, it must prevent the US from entering the conflict or at least degrade the size and effectiveness of a projected US military intervention.²⁶ In view of the US military’s superiority, China has developed anti-access measures which have “the effect of slowing the deployment of friendly forces into a theater, preventing them from operating from certain locations within that theater, or causing them to operate from distances farther from the locus of conflict than they would normally prefer.”²⁷

Chinese anti-access measures focus strongly on US air power. Command of the air has been one of the cornerstones of US military superiority in the post-cold war era, a fact that became most evident to China during the Taiwan Strait crisis of 1995-1996.²⁸ Parallel to its long-term effort to modernize its air force and other air defense capacities, China has invested significant resources to develop anti-access measures to prevent the deployment of US naval and land-based air power in a potential conflict with Taiwan.²⁹

Conventional ballistic missiles

China has sharply increased its capacity to attack US air bases in the region, particularly in Okinawa.³⁰ China has been modernizing its fleet of fighter-bombers and arsenal of cruise missiles, but these systems continue to be vulnerable to more advanced US and Japanese fighter aircraft, supported by ground and air-based early warning systems.

However, an attack by ballistic missiles can only be countered by anti-ballistic missile (ABM) systems.³¹ Although these systems offer a certain degree of protection against ballistic missile attacks, a completely successful defense against a surprise attack with ballistic missiles is highly unlikely.³² While ballistic missiles are not effective at destroying aircraft in hardened aircraft shelters, they can destroy large, high-value aircraft such as AWACS and tanker aircraft too large for normal shelters. Furthermore, ballistic missiles can destroy runways with sub-

munitions and thus leave the paralyzed air bases vulnerable to follow-on attacks.³³

China has been deploying the DF-21C, a conventionally armed medium range ballistic missile (MRBM), since 2004-2005.³⁴ Using this missile, PLA forces could attack US airbases in Okinawa, South Korea, and mainland Japan. Currently, hardened aircraft shelters are available only at four US air bases in the region. The base closest to the Taiwan Strait, Kadena Air Base on Okinawa, has only 15 hardened aircraft shelters, leaving most of the 190 aircraft likely to be deployed in a crisis vulnerable to attacks.³⁵ Unless additional hardened aircraft shelters are constructed, effective ABM systems are deployed, and damage control capacities are strengthened, the deployment of Chinese MRBMs will make dispersal and basing at a greater distance necessary to avoid the risk of a crippling strike against US land-based air power.³⁶

Anti-ship ballistic missiles

China is also strengthening its ability to attack US aircraft carriers at long distances using anti-ship ballistic missiles (ASBM). Since the mid-90s, China has modernized its submarine force, deployed anti-ship cruise missiles on its ships, and introduced modern Russian fighter-bombers equipped with anti-ship missiles.³⁷ However, all of these weapon systems are constrained by their limited range and limited ability to penetrate the protection afforded by the anti-submarine warfare and anti-air warfare capacities of US carrier strike groups.³⁸

In contrast, ASBMs have the potential to destroy US carriers before they even enter the theater of operations around Taiwan – a potential “game-changer” in a military conflict.³⁹ Based on a survey of Chinese technical and doctrinal publications, a number of US non-profit and government institutions claim that China has had significant success in its pursuit of an ASBM capacity. Although there has been no official acknowledgment by Chinese authorities, nor any known test of ASBM assets, an initial capacity is estimated to be available in 2010.⁴⁰

The Chinese ASBM capacity is based on the existing DF-21 class of medium-range ballistic missiles with a range of 1,500–2,000 km.⁴¹ The first anti-ship variant of this missile will likely have a comparable range, while future models may use “boost-glide trajectory” capabilities to allow ranges of 3,000–8,000 km by 2020.⁴²

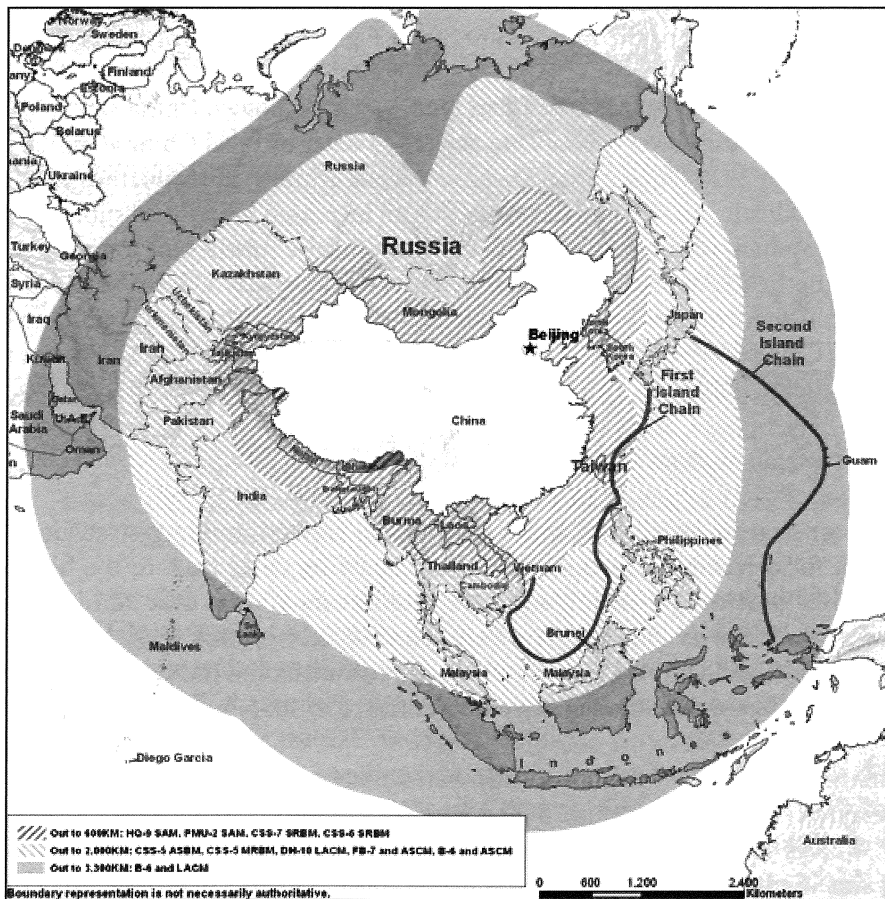
Targeting data for ASBM launches could be provided by over-the-horizon (OTH) radar systems and different types of satellites. China already operates an OTH radar with a range of up to 3,000 km, allowing it to monitor ship movements in a wide arc between Japan and the Philippines.⁴³ China is also developing satellites that can detect carriers using synthetic aperture radar (SAR) or by tracking their electronic emissions.⁴⁴

Once an ASBM is launched against the approximate position of an aircraft carrier, an on-board SAR system would provide mid-course guidance from an altitude of around 80 km to the missile’s maneuverable reentry vehicle (MARV).⁴⁵ In order to specifically target and

destroy key carrier infrastructure, including “carrier-borne planes, the control tower and other easily damaged and vital positions,”⁴⁶ terminal guidance to the conventional warheads would be provided by a combination of millimeter wave radar and infrared seekers.⁴⁷

The consequences of this development are significant. ASBMs offer an unprecedented and relatively low cost surgical strike capability against aircraft carriers, to which there are only limited and risky countermeasures available. Because of the precision of ASBM warheads, it is not necessary to sink an aircraft carrier to achieve a “mission kill,” allowing China to strike at carriers while avoiding the risk of escalation that would most certainly incorporate the sinking of an aircraft carrier and the resulting deaths of up to 5,000 US sailors.⁴⁸ Additionally, ASBM systems appear to be both effective and highly cost-efficient: assuming a relatively low success rate of 25%, only 4 ASBMs, costing between 40 and 80 million USD in total, would suffice to disable a US aircraft carrier.⁴⁹

FIGURE 1: Range of Chinese MRBMs.



Source: OSD 2009, *Military Power of the PRC*, p.23.

Countermeasures to ASBMs are either limited in their effectiveness or bear risks of escalation. Direct defense is hard to achieve, given the extremely high speed of ASBMs and the ability to use mid-course maneuvers to change the trajectory. A further disadvantage for a ship defending against an ASBM attack is the limited number of ABM missiles carried onboard. So far, only 75 SM-3 ABMs, to be carried by 18 destroyers and cruisers, have been ordered for the US Navy.⁵⁰ If a carrier is augmented with two ships carrying six SM-3 each, only 12 ASBMs could currently be defended against in a best-case scenario, as reloading at sea is not possible.⁵¹ While defense against ASBMs in flight is difficult, preemptive attacks against the launch platforms and C4ISR infrastructure are risky alternatives. To destroy the mobile launchers, which could be stationed throughout much of Eastern China, or the supporting radar systems, air strikes might be necessary against targets over 1,000 km inland. However, executing such attacks against the depth of the Chinese mainland would be a difficult and highly escalatory option.

When Chinese ASBMs become effective to a range of 2,000 km, US carriers might have to operate at distances far from Taiwan and the Chinese mainland, such that carrier-based fighters such as the F/A-18 or the future Joint Strike Fighter could hardly enter the fight.⁵²

Using ballistic missiles against US naval and land-based air power, China can substantially reduce the volume of air power available to the US to deter or repel Chinese military action against Taiwan. The 2010 Quadrennial Defense Review acknowledges the threat posed *inter alia* by Chinese ballistic missiles and has suggested an increased reliance on submarine-based weapons, development of armed naval UAVs and new cruise missiles for long-range strikes, as well as strengthened active and passive defenses for overseas US air bases.⁵³ However, until the US has fielded these and other effective countermeasures to the Chinese ballistic missile threat, China's anti-access strategy may be successful in deterring US intervention in a military conflict over Taiwan.

Expanding strategic nuclear deterrence

Thermonuclear strategy is still very much a part of the modern military-strategic balance.⁵⁴ China's quest for a credible strategic deterrence capability dates back to the beginning of the communists' control over mainland China. Both in the Korean War and in subsequent conflicts with the US over Taiwan, China was confronted not only with conventional US military power, but also with US nuclear weapons.⁵⁵ China lacked the capability to resist US coercion and decided to start developing a nuclear force in 1955.⁵⁶

China's first nuclear bomb was successfully tested in 1964.⁵⁷ Lacking the technology for a credible Chinese nuclear deterrence in the first decades after this testing, China adopted a nuclear strategy based on the possible infliction of a punishment large enough to offset possible gains by opponents.⁵⁸ The aim of the strategy has been to deny the US, which is presumably sensitive to high casualties, a credible first strike capability. In a situation where China could potentially survive a first strike with some nuclear assets intact, US first strike

credibility would depend on its willingness to accept China's retaliatory blow.⁵⁹

ICBMs

As of 2010, three Chinese ICBMs are known to be able to deliver a nuclear payload to the continental US when launched from within Chinese territory: the liquid-fueled DF-5, the new solid-fuel-based DF-31, and the modified DF-31A, with a significantly extended range.⁶⁰

The DF-5 model holds a single warhead, is liquid fueled, and is silo-based—major shortcomings for a strategic arsenal. Single warhead-capability limits the power of Chinese rockets, making them dramatically inferior to US missiles equipped with multiple nuclear payloads. Furthermore, liquid rocket fuel is highly corrosive and thus cannot be stored inside the missiles, which means the DF-5s must be fueled just prior to launch. Fueling takes two hours and thus dramatically increases response time. Silo basing further exacerbates these weaknesses, as silos provide fixed targets and thus make the missiles highly vulnerable to an opponent's first strike.⁶¹

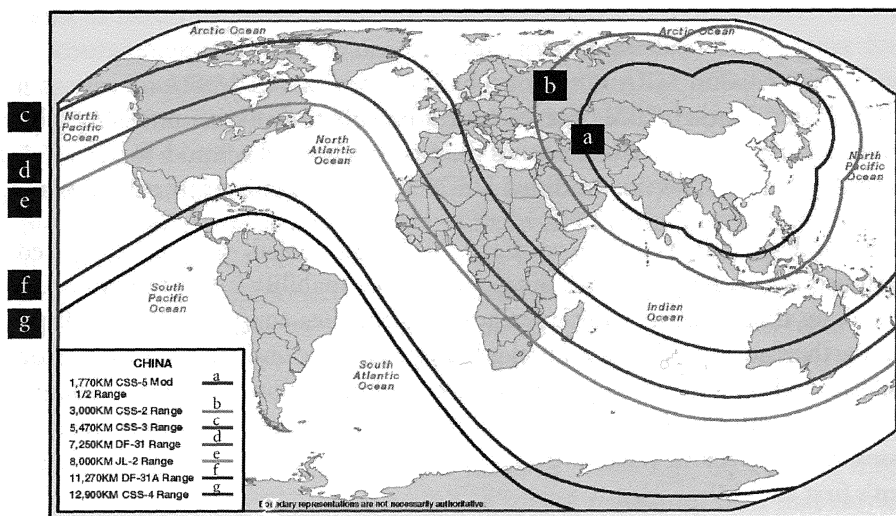
FIGURE 2: China's nuclear forces January 2009

Type	No. deployed	Year first deployed	Range (km)	Warheads x yield
<i>Land-based missiles</i>				
DF-3A	17	1971	3,100	1 x 3,3 Mt
DF-4	17	1980	5,500	1 x 3,3 Mt
DF-5A	20	1981	13,000	1 x 4-5 Mt
DF-21	60	1991	2,100	1 x 200-300 kt
DF-31	~10	2007	>7,200	?
DF-31A	~10	2008-2010	>11,200	?
<i>SLBMs</i>				
JL-1	12	1986	>1,770	1 x 200-300 kt
JL-2	36	2009-2010	>7,200	1 x ?

Source: SIPRI Yearbook 2009, *Armaments, Disarmaments and International Security*, (Stockholm: IPRI, 2010) <<http://www.sipri.org/yearbook>>

The DF-31 and DF-31A are major developments for China's strategic capability, as they mark the potential establishment of a credible Chinese second-strike capability. Use of solid-fuel propellant and mobile launch capability dramatically increases the difficulty of locating and eliminating these assets, particularly in combination with an off-road transport vehicle.⁶² Launch preparation time for the DF-31 class of missiles is estimated at 10-15 minutes, a significant improvement over the two hours needed for a launch of DF-5 ICBMs.⁶³ The range and mobility of the DF-31 class of ICBMs affords China a greater survivable capability to attack the continental US. Should the DF-31/DF-31A ICBMs be equipped with multiple warheads, this would mark another significant increase of Chinese strategic nuclear capacities.⁶⁴

FIGURE 3: Estimated range of China's ballistic missiles.



Source: Kristensen, et al., *Chinese Nuclear Forces and US Nuclear War Planning*, p. 58.

Sea-Launched Ballistic Missiles (SLBM)

For China, contingency planning and force diversification are essential to preserving strategic deterrence, particularly due to constantly improving US ABM technology. Submarine-launched nuclear ballistic missiles (SLBM) provide this diversification.

The type 094 *Jin* class ballistic missile submarine is expected to become operational in 2012-2015, and will complement the limited range type 092 *Xia* class, first launched in 1981.⁶⁵ The *Jin* class will carry JL-2 ballistic missiles. Derived from the DF-31, the JL-2 missile has a range of 7,000 km—meaning that to hit the continental US, it would have to be launched outside of Chinese waters. While this requires a degree of operational skills that may not currently be present in the Chinese navy,⁶⁶ the production of the *Jin* class nuclear submarine will nonetheless provide China with another survivable nuclear option.⁶⁷

Nuclear command & control

The PLA is also improving its nuclear command and control (NC2) systems.⁶⁸ This chain of authority is vital to the functioning of any nuclear force as the command lines are meant to function up to and including thermonuclear war. The commander of the Second Artillery Corps General Jing Zhinyuan was assigned a special seat in China's Central Military Commission (CMC) in September 2004, showing the increasing integration of nuclear forces into the decision making process.⁶⁹

The use of information technology and systems of release authority has modernized Chinese NC2. The development of a fiber-optic network, as well as switching systems, satellite

communications, and microwave communications has increased operational flexibility and survivability of Chinese NC2.⁷⁰ Communications with SSBNs will be an essential part of naval NC2 and will most likely happen through a diverse set of means, most probably via high frequency and very-high-frequency radios. Extremely low frequency communications offer more stealth and survivability as it is receivable up to a depth of 200-300 meters, but it is doubtful whether China possesses the capability.⁷¹

Strategic Implications

The PRC's expanding strategic nuclear capabilities will likely lead to a shift in strategic nuclear deterrence strategy – it has already significantly reduced China's sensitivity to nuclear compellence. Improved NC2 will not only reduce the chance of accidents or launches by rogue elements, but will also contribute to the credibility of a rapid Chinese nuclear response.⁷² Overall, this may shift China's nuclear strategy from a mature minimum deterrence strategy, to a strategy more in conformity with finite deterrence.

This evolving strategic situation could enable China to distance itself from its earlier No First Strike policy and thereby create a more assertive foreign policy stance. Improved command and control will provide for more operational flexibility and “muscle flexing” and might directly improve the PRC's nuclear brinkmanship capabilities. Increased flexibility combined with a stronger nuclear posture may allow for greater emphasis on limited war-fighting strategies for China.⁷³ Over the medium-term, the United States is not without recourse when it comes to countering Chinese strategic nuclear threat. The much-discussed National Missile Defense System (NMD), while touted as a defense against rogue nuclear states, could perhaps be adapted to defend against larger numbers of incoming nuclear ICBMs. However, this program is not only heavily disputed; it is also far from completion.⁷⁴

The second-order consequences of increased Chinese nuclear forces may prove significant. With the credible risk of US nuclear blackmail reduced or altogether eliminated, the US ability to escalate any conflict over Taiwan to the nuclear level becomes much more problematic, making an outcome favorable to China more likely.

Conclusion

The advancement of Chinese military capabilities in the areas of information warfare, anti-access measures, and strategic nuclear forces has substantially altered the strategic environment surrounding a US-China conflict, particularly in the Chinese littoral theaters.

By hampering US intelligence gathering and communication assets and using anti-access measures, China could delay a US military response to a possible confrontation across the Taiwan Strait. Given the Chinese-Taiwanese balance of forces, which has tilted significantly against Taiwan in the last years, any delay in the US response to such a crisis could allow China to achieve its unification goals militarily and present the US with a *fait accompli*. Meanwhile, China's enhanced capability to inflict substantial damage on US military and civilian assets

at different levels of escalation has increased the costs of a potential military conflict between the US and China and thus, may reduce the readiness of US decision-makers to intervene in favor of Taiwan – particularly given China’s evolving ability to withstand US nuclear coercion and deny the US potential benefits from escalation. China has thus effectively challenged US command of the commons, contesting US military power in several key areas. By definition, this erodes one of the pillars of hegemony, namely unrivaled military prowess.

Yet the strategic implications of China’s technological advances outlined above are not inevitable. The 2010 Quadrennial Defense Review Report stresses the need for measures that allow the US to “operate effectively in cyberspace” and “deter and defeat aggression in anti-access environments,” calling inter alia for strengthened cyber warfare capacities, improved long-range strike capacities, more resilient US forward bases, and more robust space and ISR assets.⁷⁵ In short, the proven potential of the US military for innovation and technological leadership may be able to reverse the asymmetric gains made by China’s military and once again secure unrivaled US “command of the commons.”

1 Barry R. Posen, “Command of the Commons: The Military Foundation of U.S. Hegemony,” *International Security*, Vol. 28, No. 1 (Summer 2003): pp. 8-9.

2 Carlo Cipollo, *Guns, Sails and Empires: Technological Innovation and the Early Phases of European Expansion, 1400-1700* (New York: Minerva, 1965), pp. 21-30. For a more skeptical assessment, see George Raudzen, “War-winning weapons: The Measurement of Technological Determinism in Military History,” *Journal of Military History*, Vol. 54, Issue 4 (October 1990): p.407.

3 Roberta Wohlstetter, *Pearl Harbor: Warning and Decision* (Stanford: Stanford UP, 1962), pp. 364-69.

4 Theo Farrell and Terry Teriff, “Introduction” in: Theo Farrell and Terry Teriff (Eds.), *The Sources of Military Change. Culture, Politics, Technology* (Boulder: Lynne Rienner, 2002), p. 5.

5 For the purposes of this piece, information warfare in the Chinese context is defined as:

“The integrated employment of the core capabilities of electronic warfare, computer network operations, psychological operations, military deception, and operations security, in concert with specified supporting and related capabilities, to influence, disrupt, corrupt or usurp adversarial human and automated decision making.” See, US Department of Defense, “Information Operations,” *Dictionary of Military and Associated Terms*, October 31, 2009.

6 Roger Cliff et al. *Entering the Dragon’s Lair: Implications of Chinese Anti-access Strategies* (Santa Monica: Rand Corporation, 2007), p. 21.

7 Ibid, p. 39.

8 Ibid, p. 48.

9 Ashley J. Tellis, “China’s Military Space Strategy,” *Survival*, Vol. 49, No. 3 (Autumn 2007): p.41.

10 Geoffrey Forden, “How China Loses the Coming Space War,” *Wired.com*, (January 10, 2008).

11 Office of the Secretary of Defense (OSD), *Military Power of the People’s Republic of China 2009*. Annual Report to Congress (Washington D.C: Department of Defense, 2009). p.52.

12 Tellis, op cit., p. 48.

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14 The 2007 Chinese ASAT test has been described as the “largest debris-generating event in Earth orbit ever

recorded.” NASA estimates that the collision created more than 35,000 pieces of debris that could potentially damage or destroy satellites. The debris has fanned out in an orbital belt through which almost 1,900 orbital payloads orbit—i.e., almost 70% of all orbital payloads. The debris clouds generated by even a handful of successful ASAT weapons, let alone a dozen or more, could slowly devastate existing satellite constellations over a period of a few years, rendering large swathes of Earth’s orbit inaccessible to satellites. See, Mark Williams, “China’s Antisatellite Missile Test: Why?” *MIT Technology Review*, March 8, 2007 <<http://www.technologyreview.com/computing/18281/?a=f>>

15 Geoffrey Forden, op. cit.

16 Bryan Krekel et al, *Capability of the People’s Republic of China to Conduct Cyber Warfare and Computer Network Exploitation*, Northrop Grumman (October 9, 2009), p. 33.

17 Ibid, p. 16.

18 U.S.-China Economic and Security Review Commission (USCC), *2009 Report to Congress*, November 2009 (Washington D.C: USCC, 2009), pp. 171-172.

19 Krekel et al, op. cit., p.27.

20 USCC, op. cit., pp. 168, 193.

21 Ibid, p. 167.

22 Ibid.

23 Krekel et al, op. cit., p. 52.

24 Libicki, Martin C., *Cyberdeterrence and Cyberwar*, Santa Monica: RAND, 2009.

25 Ellen Nakashima, “Gates Creates Cyber-Defense Command,” *Washington Post* (June 24, 2009).

26 Cliff et al., op. cit., pp. 27-28.

27 Ibid, p.11.

28 Cliff et al., op. cit., p.72. For more on the decisive role of the 1995-96 crisis in the development of Chinese weapons against aircraft carriers, see Andrew S. Erickson and David D. Yang, “Using the Land to Control the Sea? Chinese Analysts consider the Antiship Ballistic Missile,” *Naval War College Review*, Vol. 62, Issue 4 (Autumn 2009): p. 56.

29 See Posen, op. cit.

30 Cliff et al, op. cit., pp. 62-64; 81-84.

31 A Patriot PAC-3 missile battery has already been deployed to Okinawa. See, “1-1 ADA PAC-3 Battalion officially at Kadena,” Pacific Air Forces (November 30, 2006).

32 John Stillion, “Fighting under Missile Attack,” *Air Force Magazine*, Vol. 92, No. 8 (August 2009): p.35.

33 For possible attack scenarios against air bases, see John Stillion and David T. Orletsky, *Airbase Vulnerability to Conventional Cruise-Missile and Ballistic-Missile Attacks: Technology, Scenarios, and U.S. Air Force Responses* (Santa Monica: Rand Corporation, 1999).

34 SinoDefence.com, *DongFeng 21C (CSS-5 Mod-3) Medium-Range Ballistic Missile*, October 3, 2009 <<http://www.sinodefence.com/strategic/missile/df21c.asp>>

35 Stillion, op. cit., p.35.

36 Cliff et al., op. cit., pp. 95-99. For different basing options, see Stillion, op. cit., pp. 36-37.

37 Ronald O’Rourke 2009, *China’s Naval Modernization: Implications for U.S. Navy Capabilities – Background and Issues for Congress*, Report for Congress, RL 33153, 23 November 2009 (Washington D.C.: Congressional Research Service, 2009), p. 8; OSD, op. cit., pp. 21-23.

38 Current US ships were specifically designed to counter similar (non-ballistic missile) threats by the Soviet

Navy and Air Force during the Cold War. Moreover, China's submarine force mainly consists of diesel-powered submarines, which have a limited range and thus operate "in and just beyond [China's] littoral waters," see USCC, Hearing on the Implications of China's Naval Modernization for the United States, testimony of Cortez A. Cooper, June 11, 2009, cited by USCC, *2009 Report to Congress*, November 2009 (Washington D.C.: USCC, 2009), p. 136. For long-range air strikes, China is lacking in aerial refueling capacity, see OSD, op. cit., p. 38.

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43 O' Connor, op. cit.

44 Stokes, op. cit., p. 17.

45 Stokes, op. cit., pp. 23-24.

46 OSD, op. cit., p.21.

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71 *Ibid*, p. 20.

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Brazil's Rise and the Role of Big Business

Mahrukh Doctor

Abstract

The heart of Brazil's recent rise in international relations lies in its growing influence in the global economic arena. This article evaluates one aspect of economic activity – the emergence of Brazilian transnational corporations. The article argues that an important legacy of decades of state intervention in the market fostered the successful internationalisation of big business in Brazil, impacting on Brazil's international profile. However, this legacy also hampered its systemic competitiveness as evidenced by various international competitiveness rankings. The article concludes with some remarks on the long-run sustainability of Brazil's current economic performance.

Introduction

In 2003, a Goldman Sachs study included Brazil as one of the top four emerging markets in the so-called BRICs, leading to scepticism about whether it deserved this position. Five years later, few doubters remain. By 2008, Brazil had not only gained investment grade status from the major international credit rating agencies, it also had greater clout in a number of issue areas of global importance, including a prominent role in trade, international finance, environment and energy debates.

Today, few would disagree with the claim that Brazil's star is on the ascendant. Winning the bid to host the Olympics in 2016 was generally interpreted as a sign of Brazil's rising importance both in Brazil and the world. World leaders have acknowledged Brazil's growing influence on the world stage. President Obama famously greeted his Brazilian counterpart with "you're my man" at the G20 Summit in London in 2009. Brazil also has received more coverage and attention in the international media and amongst prominent think tanks. In

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2009, the Financial Times, The Economist and the Brookings Institution dedicated special sections, reports and books respectively to understanding Brazil's growing global economic weight. President Luiz Inácio (Lula) da Silva's high profile and Brazil's good economic performance in the midst of global financial crisis are the dominant themes.

This article examines one key, but little studied reason for Brazil's recent rise to international prominence – the role of its big businesses. More specifically, it evaluates to what extent economic conditions and business actions have contributed to the enhanced image and influence of the country. It argues that an important legacy of decades of state intervention in the market and a continued willingness to do so when necessary (albeit in a generally stable and liberalised economic context) fostered the success of big business in Brazil, contributing directly to the growth and internationalisation of the Brazilian economy.

The article is divided into five sections: (i) historical context and economic background; (ii) current economic context within which business operates; (iii) contribution of Brazilian big business to the economy's enhanced performance; (iv) reasons for their successful internationalisation; and (v) prospects for Brazil consolidating its growing global influence.

Historical Context

Brazil's economic growth and industrialisation in the second half of the twentieth century took place under the aegis of an interventionist state and a policy of import substitution industrialisation (ISI), guided by the principles of the structuralist school as best embodied in the early work of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). From the point of view of Brazilian economic policymakers, the Cold War was actually perceived of as a unipolar rather than bipolar system, since joining the Soviet camp was simply never an option. Notwithstanding heavy state intervention in the economy and its nationalist and third-world rhetoric in the 1960s and 1970s, Brazil was always resolutely capitalist. It never adhered to the Non-Aligned Movement and only rarely took positions against the United States on security related matters. It was less clear to what extent Brazil's inwardly oriented developmentalist project to create a diversified and modern economy relied on the 'embedded liberalism' of the Cold War period and the benign neglect of the US where economic policy was concerned.

By the 1980s, ISI had run its course and the debt crisis ended the high spending ways of Brazil's national developmentalism.¹ The economic downturn also ruptured one of the main features of the previous economic model, that is, the *tripé* or tripod of actors (state-owned, foreign-owned and national family-owned enterprises) supporting Brazil's economic growth and industrialisation.² The *tripé* model's collapse dissolved the mutual development-enhancing interaction of previous decades.

Although Brazil was a laggard in terms of adopting the Washington Consensus policy prescription, it reluctantly introduced some market reforms in the early 1990s.³ Unilateral trade liberalisation and other reforms, such as privatisation and deregulation, forced a

massive restructuring of industry. At the same time, business had to grapple with out of control inflation until 1994, when the launch of the Real Plan finally brought price stabilisation. This plan also became the subsequent foundation for strictly managed and prudent macroeconomic policy. After a brief sharp economic crisis in 1998-99, adjustments were made to the Real Plan, and in the following decade Brazilian macroeconomic policy remained focused on three pillars: inflation targeting, primary surplus and floating currency. Although the heavy emphasis on generating a primary surplus reduced state support and subsidies to business, overall the three pillars and policy continuity directly benefited business and shaped corporate strategies in these years.

However, it is important to understand that even at the height of market-oriented reforms, the Brazilian government was prepared to engage in industrial policy.⁴ The government took a pragmatic approach to microeconomic or industrial policy, with pro-interventionist and state developmentalist elements always represented in policymaking circles, but it also continued to acknowledge that market forces should be given a primary role in boosting economic performance.⁵ It is within this context that Brazilian business consolidated the gains of restructuring and in some cases utilised these gains as a springboard for adopting internationalisation strategies as discussed below. The mixed economic policy context and nuanced approach to market oriented reforms created an ideal environment for business to look to emerging opportunities in global markets.

Current Policy Context

Two favourable factors stood out in the current policy context: stable macroeconomic fundamentals and changes in the microeconomic policy framework, especially in the area of technology and innovation policy. However, these sometimes were more than counterbalanced by two crucial factors standing in the way of better results. These were the difficulty of inculcating a shift in the mindset of business towards expectations of state intervention and the on-going practical constraints on Brazil's economic expansion collectively referred to as *Custo Brasil* or Brazil Cost. While the former set of favourable factors fostered Brazilian TNC successes, the latter set were a drag on the competitiveness of businesses.

The stable macroeconomic context combined with a vigilant state on all economic matters directly contributed to Brazil's recent rise to prominence in the world economy. By the beginning of the twenty-first century, Brazilian economic policy could be labelled 'neo developmentalist'.⁶ Brazil had learnt the benefits of stable monetary policy and solid fiscal accounts, but policymakers also continued to emphasise the idea that the effective operation of market forces demanded complementary state actions.⁷ Many businesses saw the benefits of this approach, what Kurtz & Brooks call 'embedded neo-liberalism' and Leiva identifies as the distinct feature of 'neo-structuralism'.⁸ It was precisely the neo-structural argument to balance the benefits of state intervention with macroeconomic prudence, which shaped corporate strategies. In fact, it is difficult to understand the successes of Brazilian TNCs without understanding the nature of the state's implicit supportive role in building their

global competitiveness.

Given the limited scope for government action in the macroeconomic area, in November 2003 President Lula announced the Policy for Industry, Technology and Foreign Trade (PITCE), which focused on microeconomic policy to enhance business operating conditions and boost competitiveness. This included changes in corporate governance legislation, better access to credit and financing, and some limited tax reform. However, it was technology and innovation policy that was put at the centre of the new policy and that was identified as one of the most significant areas for government action. Accordingly, in his first term in office (2003-2006), President Lula sponsored legislation and created new institutions to deal with this policy area. For example, Laws 10,973/2004 and 11,196/2005 covered provisions for supporting technological innovation. He also set up the National Industrial Development Council (CNDI) and the Brazilian Industrial Development Agency (ABDI) to provide institutional oversight of policy formulation and implementation in this area. These policies were later extended and deepened in his second term (2007-2010) in the Production Development Plan (PDP) announced in May 2008.

However, it was not so simple to instigate a shift in the mindset of businesses. Not only were they reluctant to give up the privileges of past corporatist protection and special access to the state, but they also found it singularly difficult to move from conceiving of the economy as a system of production to thinking of it as a system of innovation.⁹ Although the scope of this article prevents a full discussion of technology policy and the challenge of building a national system of innovation, it is crucial to understand its key importance to the growing influence of Brazil in the global economy and the rise of Brazilian TNCs.¹⁰

The other key constraint on improving Brazil's relative performance in global markets relates to overcoming a series of issues affecting its systemic competitiveness. Some aspects of *Custo Brasil*, such as the onerous tax system and high tax burden, poor and expensive transport infrastructure, regulatory uncertainties, inflexible labour code, etc. seriously hampered the competitiveness of Brazilian firms and arguably delayed their internationalisation, when compared to their Asian counterparts. Businesses often reminded the government that it was remarkable that Brazilian exports still managed to be competitive in world markets.

It is also worth considering how Brazil compares with other economies as analysed in global surveys such as the World Bank's *Doing Business Report* and the World Economic Forum's *Competitiveness Report*. The latest edition of the World Bank study ranked Brazil 129th overall out of a total of 183 countries. This is hardly an encouraging or image enhancing position. Table 1 indicates a more detailed breakdown of the analysis for Brazil.¹¹

TABLE 1: EASE OF DOING BUSINESS IN BRAZIL (2010)

Ease of...	2010 Rank	Change in Rank over 2009
Doing Business	129	-2
Starting a Business	126	+1
Employing Workers	138	+3
Registering Property	120	-4
Getting Credit	87	-3
Protecting Investors	73	-3
Paying Taxes	150	-4
Trading across Borders	100	-6
Enforcing Contracts	100	-1
Closing a Business	131	-2

Source: World Bank *Doing Business Report*, 2010

Examining the details in each of the sub-categories gives one a better picture of the systemic obstacles to developing a competitive business in Brazil. For example, one of the worst ranked categories relates to paying taxes: for a medium sized company, it takes 2,600 hours each year to prepare, file and pay taxes in Brazil, in contrast to an average 194 hours/year in the OECD and an average 385 hours/year in Latin America and Caribbean (LAC). The total tax rate as a percentage of profit in Brazil is 69.2, while it is on average 44.5 in the OECD and 48.3 in LAC (note that LAC averages are considerably raised by Brazil).

The latest *World Competitiveness Report*, published in 2009, ranked Brazil in the upper mid-range of the surveyed economies at 56th out of a total of 134. Here again, Brazil's performance was less than stellar on a number of fronts. More interestingly, the private sector often came out looking much better than the state, and it probably compensated for the inefficiencies of the latter. Table 2 provides some more details.

TABLE 2: BRAZIL'S WORLD COMPETITIVENESS RANKING (2009-10)

Disadvantages	Rank	Advantages	Rank
Taxes	133	Financial Market Sophistication	13
Regulatory Burden	132	Business R&D Expenditure	29
Government Services	129	Product and Process Sophistication	31
Time to Start a Business	128	Professional Management	35
Quality of Port Infrastructure	127	Quality of Local Suppliers	35
Quality of Science & Maths Education	123	Technology Assimilation	36

Source: WCR 2009-10; Mendonça de Barros, 2010

Thus, Brazil presented a mixed policy context in terms of economic issues, although the overarching context of democracy and fortunate leadership choices over the past sixteen years not

only raised Brazil's international profile, but also helped establish opportunities for Brazilian big business to internationalise. The next section examines some of the contributions that Brazilian TNCs have made to enhancing Brazil's image abroad, and the following section considers some of the reasons for their success.

Contribution of Big Business

Brazil's largest corporations experienced both quantitative and qualitative changes in the past decade, but especially from 2004 onwards – perhaps coincidentally also the tenth anniversary of the Real Plan. Whereas in 2004 there were only three Brazilian firms listed in the Fortune 500, there were six in 2009. However, unlike the rest of Latin America, where most big business was characterised by diversified family-owned groups, Brazil's largest firms additionally included institutionally-owned as well as specialised producers.¹⁴ Another relevant feature of these firms was that many of them began as state-owned enterprises under ISI, but were later privatised in the 1990s as part of the market reform agenda. Also, noteworthy was the heavily domestic market oriented strategies of even the biggest firms. Thus, there were no Brazilian firms in the world's top 100 non-financial TNCs *ranked by foreign assets*, and only three Brazilian firms in a similar list for developing countries.¹⁵ Finally, an important characteristic of Brazil's largest domestic-owned firms was their concentration in natural resource based sectors and in services, especially finance and construction. This was partly because of the legacy of the *tripé* model, which encouraged foreign TNCs to invest in many manufacturing sectors in Brazil. UNCTAD reports that there were 4172 foreign affiliates in Brazil in 2008. Thus, manufacturing, especially consumer durables, was mainly in the hands of large foreign-owned firms, leading to a rather different profile compared to big business in East Asia.

Despite this rather modest overall picture, big business was key to raising the international profile of Brazil. Here, the internationalisation process usually began with a growing foreign trade component in the firm's output, revenues and profits. In some cases, this led to listings in foreign stock exchanges, which was also seen as a demonstration of good corporate governance, and finally to outward investment flows. Thus, internationalisation of Brazilian big business was best analysed in terms of firms' contributions to international trade, attracting foreign direct investment (FDI) as well as portfolio investment, and finally in outward investment flows, i.e. Brazilian direct investment abroad (BDI).

Brazil's trade grew every year from 2002 to 2008. In 2008, it achieved record exports of US \$197.9 billion, a surplus of US \$24.8 billion, and a 1.1% share in total world trade. Brazil exported a diversified range of goods and services to a geographically diversified set of trade partners.¹⁶ While foreign TNCs in Brazil contributed to exports, mainly transport equipment, domestic firms also played a key role. This ranged from firms engaged in the commodity trade – meat, orange juice, sugar, soybeans, coffee, iron ore, and a variety of other metals and minerals – to manufactured and semi-processed goods – aircraft, buses, footwear, machines & equipment, steel, etc. Some of the largest exporters eventually also

extended their internationalisation strategies to acquiring assets abroad as discussed below.

According to the *World Investment Prospects Survey 2009-2011*, Brazil was ranked the fourth most attractive destination country for FDI, after China, the US and India.¹⁷ Some of the highest scoring sub-categories in the survey for Brazil were size and growth of local market, access to international and regional markets, presence of suppliers and partners, cheap labour, and a stable and business-friendly environment. Thus, market-seeking FDI remained the main reason for investing in Brazil in the twenty-first century, much the same as in the mid twentieth century in the early days of the ISI process. Although inward FDI fell year-on-year by 49.5% to US \$23 billion in 2009, this was not surprising in the global context nor given that in 2008 Brazil registered a record US \$45 billion inflow.

Brazil's main stock market, BOVESPA, has boomed since 2004, with the exception of the months immediately following the onset of the global financial crisis in September 2008. It launched 121 initial public offerings between 2004 and 2009. Accumulated gains in 2009 were over 84% in nominal local currency terms. Portfolio inflows from abroad were also consistently high for most of this period, including a record US \$47.1 billion in 2009.¹⁸ While the article does not intend to discuss this issue, financial analysts repeatedly comment on how the healthy domestic capital market was a contributing factor to the expansion of many Brazilian firms. Also relevant was the listing of Brazilian companies on foreign stock exchanges, usually New York. In March 2010, there were 33 Brazilian firms listed on the New York Stock Exchange (NYSE). This compared with Mexico (20), China (52), India (12), South Korea (8) as per the NYSE website. A significant aspect of NYSE listings was the recognition this earned firms with respect to their corporate governance and accounting practices.¹⁹

However, the most interesting trend in terms of the internationalisation of big business and the growing influence of Brazil in the global economy was the emergence of Brazilian TNCs. In 2005, Brazil had some 165 TNCs, and this number grew to 226 by 2008. While there were thirty four greenfield projects undertaken in 2005, these had risen to 97 by 2008. These TNCs also participated in cross-border mergers and acquisitions (M&A) in both advanced and developing countries. In 2007, Brazilian firms spent a record US \$1.37 billion on M&A abroad.²⁰ Outward FDI increased every year since 2002 to a record US\$ 45 billion in 2007.²¹

In 2006, Brazil ranked sixth among developing countries in terms of outward FDI stock. In the same year, outward FDI flows were greater than inward FDI for the first time ever. High levels of FDI were maintained through to 2008, but 2009 saw Brazilian TNCs decide to make a tactical retreat in the context of the global financial crisis. The drop in outward flows was exclusively via a rise in inter-company loans rather than a reduction in assets abroad. The turnaround in the retraction and a return to trend was already evident in the first two months of 2010, where BDI was US \$5.4 billion. A survey of TNCs indicated that 38.8% of firms intended to increase outward investment flows in 2010.²²

Most of Brazil's largest TNCs operate in natural resource based sectors (mining, energy and agricultural commodities) or in services (mainly engineering and construction, with an

incipient role for financial services). The big names included mining giant Vale (formerly CVRD with investments in 33 countries) ranked 12th among developing country based TNCs in terms of foreign assets; energy sector state-owned enterprise PETROBRAS ranked 14th; and the steel manufacturer Metalurgica Gerdau ranked 28th.²³ There is only one outstanding example of manufacturing in a high technology sector in Brazil, the commercial aircraft manufacturer EMBRAER.²⁴ Other big business names with an international presence include meat processors JBS and Sadia-Perdigão, drinks company AMBEV, pulp and paper firms Suzano and Aracruz, engineering and construction firms Odebrecht and Camargo Corrêa, airlines Gol and TAM, financial services and banks such as Itaú and Bradesco.²⁵ The 20 largest Brazilian TNCs earn 25% of their revenues abroad, hold 28% of their assets abroad, and 27% of their employees abroad.²⁶

The above analysis demonstrated the role and contributions of Brazilian TNCs to Brazil's overall international presence. Although in some areas they are acknowledged as global players, there are many more sectors where they play a much smaller role than could be expected. For example, notwithstanding the impressive absolute growth in exports, Brazil still only had a small share in overall world trade. Similarly, despite the success of certain Brazilian TNCs, in absolute terms they did not rank amongst the biggest in the world. More troublingly, from a neo-developmental perspective, Brazil's largest firms do not operate in high-technology sectors, with the exceptions of EMBRAER and certain aspects of PETROBRAS' business. More worryingly, the share of manufactures in its exports has been gradually shrinking from over 69% in 1996 to 55% in 2005 and most recently to under 50% in 2009. So, should Brazilian big business be seen as a success in terms of their role and influence in global markets? Why were some Brazilian TNCs successful? What was the role of the state in their internationalisation?

Reasons for Success of Brazilian TNCs

Although it is tempting to credit business' strategic decisions for success, it is difficult to get away from the conclusion that Brazilian big business thrived precisely due to the critical role of the state in their growth and evolution. This holds for SOEs, ex-SOEs as well as many of the largest family-owned business groups. The state's role was best analysed both in terms of past policies that shaped 'dynamic legacies' as well as the impact of current policy priorities on the business environment.²⁷ In terms of the past, few of the biggest global players in Brazil today would have been in a position to expand their operations without prior state support under ISI.²⁸ In terms of the current situation, the state not only shaped the context within which these firms operated, but also specifically utilised macroeconomic and microeconomic policies to guide business strategies and choices in terms of investment, employment and innovation. These implicitly also determined the opportunities for internationalisation. In some cases, the Brazilian TNCs international advantage was reinforced by special technological advantages they might have acquired in the course of doing business at home, often conditioned by the state's previous policies for technological development in the firm's area of specialisation. PETROBRAS and EMBRAER were excellent examples of this phenomenon.

Even after privatisation and economic liberalisation, the state still played a significant role in shaping corporate strategies.²⁹ For example, export financing, credit and loan policies of the Brazilian National Development Bank (BNDES) directly affected internationalisation strategies. More general state policies related to company law, bankruptcy provisions, technology policy, growth of equity markets, higher education provision, etc. materially impacted the efficiency and competitiveness of Brazilian business. Thus, the domestic policy environment – past and present – was crucial in placing firms in a position to take advantage of global market opportunities.

Another explanation for successful internationalisation of Brazilian big business could be found in the boom in global commodity markets that specifically favoured Brazil's natural resource endowments. Here it was imperative to highlight the role China's growth and appetite for commodities played in raising Brazil to the status of global player. The commodity bonanza of the past decade contributed to higher export earnings as well as opportunities for well-placed Brazilian firms to expand their operations abroad. However, commodity exporters rarely achieved global brand recognition, since they competed more on price than quality and usually directly supplied a small number of clients abroad minimizing the need to spend on marketing and advertising. Thus, although their names were not recognised by the average final consumer, they were well known to their direct clients and to customs authorities and trade policy officials dealing with their sector.

To summarise, the two main reasons for success of Brazilian TNCs and rising profile in the world economy – role of domestic policy and demand in world markets – were mutually reinforcing. It remains to be seen whether changes in the global economic context translate into more presence and a better opportunities for Brazilian firms.

Prospects

So, although overall a positive reading of Brazil's increasingly prominent TNCs was the dominant theme in international capital markets and media coverage, it is important to note that much of their rise was associated with past state interventionism and on-going neo-developmental proclivities. This might raise some questions about whether this process can be replicated indefinitely, and about whether it makes sense for Brazil to expect growing influence as a global player. Should the commodity boom fade, where would Brazil's TNCs feature? Can Brazil be satisfied with its current export and FDI profile? Why was Brazil, one of the top ten largest economies in the world, unable to develop a more prominent position in dynamic sectors of the global economy? If the future lies in the hands of the knowledge economy, Brazil is going to have to do much more to maintain its place as a global player.

To conclude, it is still too early to say whether Brazil will consolidate its position as one of the countries included in the small group of agenda setting states in the global economy. Clearly, both state and business were engaged with the process of internationalisation. Democracy

and the absence of any internal or external disputes provided a stable political and economic context for business to thrive. Brazil certainly was good at balancing its actions and enhancing its influence in the North-South as well as South-South arenas. It was successful in showing an increasingly internationally appreciated ability for inclusion and dialogue with the full ideological spectrum on security and economic matters. For example, President Lula has had positive interactions with Iran and Venezuela, even while maintaining good relations with the US, Israel and Europe. Finally, Brazil undoubtedly benefited from the generosity of nature – it was in an extremely comfortable position and feared no shortages with respect to food, energy, water and other resources in the coming century when compared to the other BRICs. So, although Brazil may be the least spectacular performer of the four BRIC economies at the start of the twenty-first century, it may go on to become the most stable and secure of them all.

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Bemused by America, Terrified of Europe? The politics of identity in Britain from Blair to Cameron

David William Ellwood

Abstract

The financial crisis and the approach of Britain's general elections have given a new twist and urgency to the long-running British debate on national identity. The British governing class and Gordon Brown in particular, have responded to the consequent political and economic challenges in three ways. They have intensified the debate on identity and citizenship. Brown himself has inspired a major new reflection on Being British: the Search for the Values that Bind the Nation. Secondly, they have carried forward long-developing and quite radical plans for constitutional reform. Finally they have continued to draw on the United States for models, examples and precedents with which to pursue the 'modernisation' of Britain. These trends all point to a decisive shift in the nation's political development: towards the production of a written constitution. The evidence suggests that London will look first to American experience and expertise when this historic moment arrives.

Who do we think we are?

It's a well-known moment in the Churchill – de Gaulle relationship of the Second World War. Urged by the French leader to move closer to Europe after the conflict and lead its reconstruction, the greatest Briton supposedly replied: "If you press us to choose between Europe and the United States, we shall always choose the open sea." With the imaginary narrowing of the ocean in the subsequent decades, Tony Blair felt free to choose an architectural metaphor for his personal vision of the nation's role in the Atlantic world. Britain, he insisted in 2000, would offer itself as the 'bridge' nation, explaining Europe to the Americans and vice-versa, facilitating dialogue, providing common ground or a meeting point.¹ With the collapse of this fantasy in the trauma of the Iraq war of 2003 – a shock from which the British have still not recovered, judging from the latest of the five official enquiries

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into it – a renewed sense of disorientation has flooded into debates about which way the United Kingdom should stand when facing the profound political and economic challenges coming simultaneously from the US, Europe and the rest of the globalised world. As the 2010 general election looms, the comforting old off-shore, semi-detached formulas are looking more care-worn and tired than ever. But how to replace them, and with what new vision or narrative?

Over recent years, the concept most often called upon to take the strain of analysis in this situation has been ‘Britishness,’ in other words national *identity*: the old ‘who we do we think we are?’ question revived once more. In his, *Patriots. National Identity in Britain, 1940-2000*, the historian Richard Weight demonstrated how the 1990’s witnessed the most intense inquiry into the nature of Britishness since the Suez drama of 1956. The political scientist Joel Krieger explained in 1999 how:

..The boundaries of inclusion and exclusion (are) fluid and vexed, the representations of nation hotly contested, the attachments at once robust and uncertain...²

This post-Cold War effort of self-interrogation has never ceased and is still going on.³ Like France, the land has for twenty years been caught up in self-conscious and politically-oriented debates on its ideas of citizenship, community, ethnicity, nationality and other identity characteristics and labels, debates led these days from the top, in Britain’s case by the Prime Minister himself. Compared to President Sarkozy however, Gordon Brown has preferred a more discreet approach, using speeches, interviews and debates and, as we shall see, inspiring an important essay collection.⁴

The financial crisis and all that lies behind it has simply made more urgent to the governing classes in Britain the dilemmas faced by their long-established national settlements. From the 1990s onwards, deep anxieties began to emerge over everything to do with ‘Europe’, around immigration and multiculturalism, the unity of the kingdom, the monarchy, the structure and function of the armed forces, the welfare state, the mass media, and the education system. Now the debates center around the balance of the economy: the hegemony of financial services and the marginalisation of manufacturing industry, the reliance on a bloated universe of private credit and ever-increasing housing prices, the resentments of the winners and the losers in the trends of the last 20 years.

By looking at all this through the lens of ‘identity’, such issues have become in a sense domesticated. Sovereignty and hence a sense of control have been reasserted, however illusory. The nation-state nexus has apparently been re-vitalised, and ‘globalisation’ contained. The persistence of identity debates in every corner of Europe (and perhaps elsewhere: Russia, Turkey, Israel, Japan even the US itself come to mind) is beginning to suggest that in a post-ideological age, this is the place where national political leaders will try to locate the biggest, most enduring political questions of the times.⁵ “Economics is global, politics is local,” Martin Wolf of the *Financial Times*, said recently, in one of his reflections on the meaning of the

great financial drama of 2007-9, unwittingly reviving old debates from the 1920s and 1930s when the full consequences of 'inter-dependence' were first discovered.⁶ How to manage the balance between these two dynamics and with what political, intellectual and moral assets? With what explanations of how the British got to where they are, and where they might look for a new way forward?

In the pages that follow I would like to suggest that one of the resources the British governing class feels it is able to count on in the emergency is 'America.' Not American policy or money of course, not even that 'Special Relationship' which London clings on to so desperately and forlornly.⁷ Instead it's an inspirational version of the United States, a source of models, examples, energies, ideas, stimuli, standards, an invoked America whose soft power influence and prestige never fade. It is a form of virtual political capital that the Thatchers, Blairs and Browns feel they can draw on to compensate them for all of their frustrations in Europe, their humiliations in the wider world and the intractability of their problems at home. As previous versions of this essay have shown, there has long been an American question in Britain's identity debate.⁸ It has not been put there by artists, experts, army officers, sports personalities or even Rupert Murdoch. It has been imported systematically and with great persistence by the governments of the last thirty years, and with it they have brought a series of possible answers. The underlying purpose has been to solve the identity crisis by way of ceaseless efforts to 'modernize' the nation, to renew its democracy but also to raise its ranking in those league tables of world competitiveness which the land of Darwin takes so seriously, and – of course – to distinguish it from everything supposedly going on in the European Union. Where better than America to find inspiration and encouragement for this permanent revolution of change the governing class relentlessly insists on?⁹

And all the while the great paradox remains: the American question is the dog that does not bark, that provokes no comment, that which is ducked or elided in every discussion. "Just how *like* the United States do the British wish their society to become in the future?" that is the American question. It refers of course not to the many hundred varieties proposed by the real America, but to a luminous, visionary edition as imagined by successive governments in London since 1979. From Mrs Thatcher on, British prime ministers have provided their own distinctive, forceful answer to the American question, and the financial system in particular embraced this response with enthusiasm, following the 'Big Bang' moment of de-regulation in the City in 1986. It was that event which 'ushered in the Americanisation of the City' a banker remembered ruefully in September 2008.¹⁰ Now that this experiment has crashed in ruins, one might reasonably expect a more critical, conscious and detached outlook to have emerged following thirty years of top-down Americanisation. But there is no sign whatsoever that this is happening. Instead there is every indication that David Cameron and his crew will enthusiastically continue this curious, unrecognised tradition, supplying a response sourced in the United States to the great conundrum: who do we think we are?

Gloom and doom again?

These are not happy days in the United Kingdom. One of the nation's celebrity historians,

Simon Schama, speaks of 'a time of deep and unrelenting trouble for the people of Britain.'¹¹ *The Times* recently featured a poll suggesting that a significant majority of citizens were unhappy with the direction in which the nation seemed to be heading.¹² "Now, British society is atomised," editorialised Deborah Orr in *The Guardian*, "...and the most cursory glance at the bottom quintile is enough to justify contempt and repulsion. They are bad – bad parents, bad kids, bad lots, just bad."¹³ In *The Economist's* 'World of 2010' special issue, the historian Paul Kennedy, long since emigrated to Yale, deplored "the growing coarseness" he saw, suggesting that "the mixed fabric of British society... is fraying in so many ways, notably in the general sense that a yobbo/hooligan culture is taking over." On the global stage, said Kennedy, the nation's real resources were falling well short of its governments' ambitions and strivings. It was time to stop pretending that the UK could "punch above its weight" (a notorious boxing metaphor invented by John Major's Foreign Secretary, Douglas Hurd), i.e. somehow exert influence abroad in the national interest well beyond what the objective power of its economy or armed forces would predict. In pre-election mode, the Tory Party talks of "Broken politics, broken economy, broken society."¹⁴

The immediate cause of the misery is, of course, the great financial crash of 2007-9. Confidence collapsed and macroeconomic stability vanished between 2008 and 2009. A huge fiscal deficit emerged: up from 3% of GDP in 2004 to 12.4% in 2010. From 40% of GDP before the crisis, overall public indebtedness shot up to 60%. There was talk that this debt might lose the triple AAA status awarded by the US ratings agencies that it had always enjoyed, which would add to its cost. Notoriously, one minor and three major banks had to be bailed out, to the tune of £70 billion. The Bank of England spent over £200 billion on buying government debt by printing money (the 'quantitative easing' tactic.) Unemployment, inflation, and bankruptcies began to expand in ways not seen since the 1970s and tax revenues fell off a cliff. The British had become used to 3% growth a year; however, between April 2008 and the end of September 2009 it declined 5.9%.¹⁵

So where does all this leave the long debate on Britishness? The eminent political philosopher John Gray writes:

The passing of the Thatcherite settlement may seem to be only marginally relevant to the character of Britishness, yet it is bound to have a far-reaching impact on Britain's public culture. All three parties have converged on a consensus on the role of the state at just the moment in history when that consensus has definitively ceased to be viable.

That agreement involved a limited role for the British state, one where government – as Tony Blair put it in 2001 – has "less to do with detailed day-to-day policy...and more to do with project management and delivery."¹⁶ No longer. "This image of Britain is one of the casualties of the financial crisis," says Gray and "as a result, politicians lack a narrative that is capable of interpreting events that are happening to us every day." The only prospect, concludes the Cambridge philosopher, is to fall back on old-fashioned British makeshift and muddling through.¹⁷

National destiny after the disaster

John Gray's reflection came in an essay that fed into one of the most provocative contributions to the post-crisis debate on 'Britishness', the edited volume inspired directly by Gordon Brown and entitled *Being British. The Search for the Values that Bind the Nation* published at the end 2009. This is an extraordinary collection, not least since its contributors were chosen, and the whole book edited, by one of Brown's more severe journalist critics, Matthew D'Ancona of *The Times*. Among the 35 personalities present, both men and women, are senior clerics and politicians, a banker and a number of academics, a senior policeman, together with psychologists and musicians. The metropolitan media village is heavily represented, and there are high-profile essays from the Muslim community of England. No economists, scientists, doctors, judges, business leaders or military figures were invited to the party. There are, regrettably, no contributions from the Royal family or the landed gentry (which still survives). Although there is much hand-wringing over the break-up of the United Kingdom, Scotland and Wales are almost completely absent. Ireland merits one historical chapter. As usual in Britain, this is London speaking.

The whole point of the exercise is spelled out by Brown himself, who introduces the collection. For some years now this worrisome, restless politician from Scotland, heir to a political tradition adept in placing its men (no women) at the top of UK government, has taken up the question of national identity forcefully. Here, in his latest attempt to promote a wide-ranging debate on the topic, the Prime Minister offers his own version of what the traditional narrative still looks like:

Britain today – with its centuries-long history of resilience, adaptability and outward-looking engagement with the world; its inventiveness and creativity; and its traditions of openness and internationalism, tolerance and respect for liberty – has much to be proud of and much to give: both to us, its citizens, and to the world beyond its borders.¹⁸

Brown is anxious to celebrate the 'intuitive empiricism and rationalism' of the 'island trading nation', its long-nurtured 'combination of duty and liberty, of rights and responsibilities', all adding up to a very distinctive shared idea of 'fairness' and 'fair-play', of respect for the rules and consideration for the norms of civilised co-existence. The British heritage of civic pride and community spirit, suggests Brown, has provided a solid basis for the nation's own version of multiculturalism. Its quirky institutions and constitutional arrangements have supported the long development of a healthy, Orwellian culture of patriotism: understated, moral, emotional, not in any way intellectual. The sense of common destiny which enabled the Union to function harmoniously from 1707 on, (give or take an Irish misadventure or two), will, if renewed, enable the extraordinary variety of immigrant communities now present in the land to strike their own balance between distinctiveness and assimilation, suggests the Prime Minister, enriching the nation's 'common values, behaviours and traditions.' More specifically:

...We need to both to build on the successful constitutional changes introduced by this government since 1997 [year of election of the first Labour government of which Brown was a member], and to fully describe the covenant that the state makes with those who hold UK citizenship, across the whole range of rights and responsibilities involved.¹⁹

This indeed is the nub of the question that successive Labour administrations – and Brown in particular – have raised in the last 13 years. ‘Covenant’ is the key word or concept, an idea of a convention, accord, or pact, between the state and all its components, down to the last stake-holding citizen. In this view it must be comprehensively debated and radically redefined if the whole – Great Britain, the United Kingdom, the British Isles or whatever it cares to call itself – is to survive and go forward beyond the torments of the times, of which immigration is the biggest and the financial crisis but the latest (and mentioned in the book in the way that a natural disaster might be).

Throughout *Being British* the notion of ‘covenant’ keeps re-appearing. It’s particularly prominent in the essay by Sir Jonathan Sacks, the Chief Rabbi of the United Hebrew Congregations of the Commonwealth, “Covenant and the Remaking of a National Identity”, which insists that such are the nation’s crises at this point that it must face up to an unaccustomed challenge: conscious society-building, by way of a “politics of narrative and the language of hope,” all embodied in rituals, re-dedication and openly-expressed faith in the future of British freedom.²⁰ But only one of the contributors dares to speak the name of the final destination to which such considerations must inevitably lead. That individual is not Michael Wills, the Minister of State for Constitutional Renewal (sic) at the new Ministry of Justice, present in the volume with an essay on “Belonging and being British.”²¹ It is instead the Chair of the Equality and Human Rights Commission, Trevor Philips, in his reflection on “Fair Play: It’s What We’re About”:

We need to learn to be more explicit about the way we interact, bottom-shufflingly uncomfortable as that may make us...the time has come for a written constitution which might define more closely what we aspire to in British citizenship... This guarantee would be a powerful public declaration of what people can expect from public authorities and the state. It would be another step towards institutions being compelled to comply with basic principles of fairness. We can no longer, in this changing world, take our inheritance of parliamentary democracy, the rule of law, freedom of expression and protection from tyranny for granted.²²

By any historical standard of governmental practice and culture in Britain, it’s a remarkable statement, pointing to the great weight of what is thought to be at stake: no less than the need to rebuild the very foundations of the ways of life and functions of this history-encrusted nation-state, this ‘muddle of monarchy and ultimately democracy’ by which the British are still governed.²³ But not only is Philips’s declaration consistent with what a number of very distinguished essays in the book spell out, it’s also a logical product of one of the biggest and yet the most discreet and soft-spoken of all the projects of the Labour governments of the last 13 years.

‘The Governance of Britain’

In a pamphlet of March 2008, *A brief guide to the governance of Britain* the Minister of Justice, Jack Straw, a central member of the Blair-Brown cabinets of these years, explained one of the key purposes of his new department:

When the Government was elected in 1997 it began an ambitious programme of constitutional reform. The measures it passed included:

- Devolution to Scotland, Wales and Northern Ireland, passing power closer to the people.
- Human Rights Act, enshrining your fundamental rights in UK law.
- Freedom of Information Act, giving you the right of access to public information.
- Removal of 90% of hereditary peers from the House of Lords.
- Making the Bank of England independent.
- Creating an independent Supreme Court.

The Government are thinking about two basic questions: how we should hold power accountable, and how we should uphold and enhance the rights and responsibilities of the citizen.

So Straw went on:

Now is the time to build on that by transforming the ‘software’ too, and work towards a new constitutional culture, which entrusts Parliament and the people with more power. The aim is to create a renewed relationship between government and the people it serves, to bring people closer to decision-making so they are, and feel, engaged in the choices that affect their lives. If we can revitalise our political system, and articulate and celebrate what it means to be British, our society will become stronger and more confident. We will renew our sense of purpose and national unity, equipping us to meet the challenges of a world changing at a dizzying pace.

The Government wants to achieve its goals by reforms in four areas: it wants to limit its own powers, to make itself more accountable for those powers it retains, to reinvigorate our democracy and to build a new relationship between the citizen and the state.

Along the road the Minister promised a review of citizenship, a major consultation on a new British Bill of Rights and Responsibilities, and “an inclusive national debate to develop a British Statement of Values.”²⁴

In January 2008 the Ministry of Justice carried out its own opinion poll on “Belonging, Identity and Values.” The results were presented as follows:

“Which four or five of the following, if any, would you say are the most important values for living in Britain?”

[Note that respondents were asked to pick “four or five” items from the list shown in the table. On average, each picked about four items and so the percentages add up to more than 100%.]

	All respondents (in Great Britain)
Respect for the law	59%
Tolerance and politeness towards others	48%
Freedom of speech / expression	43%
Justice and fair play	39%
Equality of opportunity	31%
Everyone should speak English	30%
Respect for people from different ethnic groups	27%
Respect for all faiths	25%
Freedom from discrimination	24%
Freedom to criticise the views and beliefs of others	21%
Pride in country / patriotism	19%
Freedom to follow a religion of choice	16%
Everyone should vote	15%
Everyone has a voice in politics through democracy	14%
National policy is not made on the basis of religious beliefs	9%
Freedom of dress (e.g. can wear religious dress)	5%
Other ²⁵	0%

The evidence suggests that in its reforming zeal, it is to America that the Labour governments look for their models in creating the new democratic Britain. By 2010 the Justice Ministry – spun off from the old Home Office and a major systemic innovation of 2007 – had launched a wide-ranging review of citizenship, introduced US Congress style hearings in the House of Commons, and created out of the old House of Lords Judicial Committee the new *Supreme Court*, launched on the 1st of October 2009, whose expanded powers included a degree of judicial review. The former Attorney General called for children to pledge allegiance to Britain (or the United Kingdom?) in regular citizenship ceremonies. As these lines were being written (March 2010), Gordon Brown was talking again of a reform of the basic voting system in general elections, while Jack Straw was alleged to be on the verge of demanding nothing less than the abolition of the House of Lords. A new assembly – probably to be called ‘*The Senate*’ – would take its place, elected on new principles of suffrage.²⁶

That American question

The *Senate* proposal is but the latest of a long line of imports of methods, structures, ideas and people from the U.S., by all the governments since Margaret Thatcher’s time, a trend which I first documented in 1996.²⁷ These include innovations in labour market policy, in crime

and justice management, in policies for innovation and entrepreneurship, in health care, education, media and of course governance itself – the so-called New Policy Management paradigm, dating back to the 1980s. This was the enabling, delivery-oriented State mentioned above, ruled by the priorities and private business methods.²⁸

Chancellor, Gordon Brown was tireless in his efforts to get Britain's business "to rival America's entrepreneurial dash," as he told *Daily Telegraph* readers in December 2003, with speeches, conferences, educational programs and other forms of propaganda, including visits from stars such as Bill Gates and Alan Greenspan. Brown, who has made no secret of his great admiration for America and his scorn for the European project, as Chancellor promoted broad policy thinking that was all imported from the US, as the *Financial Times* explained in 2006.²⁹ This included "the promotion of enterprise, tax credits for research and development, central bank independence." Even a pet project, the idea of setting up a national youth volunteering service in Britain "had roots in US ideas," said the paper. As Prime Minister, Brown has promoted the idea of a British day to emulate the 4th of July, is planning a permanent exhibition of historic documents – as in the National Archives in Washington – and wants his fellow citizens to put out more flags. In a 2007 speech on Britishness, Brown said explicitly:

And just as America is strengthened by the institutes that encourage discussion on the very idea of America, an Institute for Britishness could encourage debate on our identity, and what documents from Magna Carta onwards mean for today.³⁰

A close reading of Brown's speeches over the years, not perhaps the most absorbing of tasks, will reveal that Brown's political and personal identity is inseparable from his ideas and perceptions of America. Like Tony Blair, he is the living embodiment of Joseph Nye's Soft Power theory at work: the capacity to generate by the magnetism of example a situation where others come – apparently spontaneously – to desire what the hegemon desires, preferably in foreign policy.³¹

While one might assume that the Conservative opposition would be of a different mind, it has, during the Blair-Brown era, been even more enthralled by the American inspiration. Tory leaders were much taken by President George W. Bush when he arrived on the scene. A reporter from *The Times* listening to the first speech of then new party leader, Iain Duncan Smith, in May 2002, found its themes and slogans to be exactly those he had heard covering the Bush campaign of 2000. On his return from VIP treatment in the United States, Duncan Smith wrote an article entitled "My Manhattan project for a transatlantic conservative revival." His successor as Tory leader, Michael Howard, was the Thatcherite Home Secretary who led the way in bringing the reforms made to America's penal system to the United Kingdom, a process that is still continuing. After 9/11, as Shadow Minister of Homeland Security he appeared for a while in the parliamentary party's front rank.³²

At the top of the Tory Party's foreign policy program in the 2010 election campaign is the creation of a new *National Security Council*, with its own *National Security Adviser*. The other

three points of the program are all too familiar: cleaving to the United States through thick and thin, as little truck with the EU as possible, sticking up for our own interests everywhere. They could have been written at any time in the last 50 years, although only now would it appear normal that they come from of a resident of the Heritage Foundation in Washington D.C.³³

The principal parties have long used electoral marketing as developed across the ocean, and in the current election period have relied heavily on veterans of the 2008 campaigns in the US. For the first time, a series of live TV debates between the candidates took place in April 2010.³⁴ Following Tony Blair's use of Bill Clinton at the annual Labour Party congress, David Cameron has imported the voice and image of Arnold Schwarzenegger. Choosing a rather different Austrian émigré as his inspiration compared to Mrs Thatcher, with her passion for Friedrich Hayek, Cameron is said to see in Schwarzenegger "a key role model...a charismatic centre-right politician whose bipartisan approach and trail-blazing green policies have won him popularity in a traditionally liberal state." But once the election campaign started in earnest, Obama became the example, right down to the way Cameron would start his public appearances by discarding his jacket, undoing his collar and rolling up his shirt-sleeves, in exact imitation of the American hero's campaigning style.³⁵

But Cameron's affiliations in America are deepest in parts of California where even T. Blair does not reach, in particular the Google Corporation. A featured speaker at Google Zeitgeist conferences, Cameron is said to believe that the internet revolution as configured by Google, "meshes with the modern conservative mission – flattening hierarchies and empowering people...a revolution which is flipping the balance of power from – for instance – Fleet Street to the high street." With repeat visits to Silicon Valley and Google in particular by Cameron and his strategists, this is the place where they find the ideas to rebuild post-recession Britain, says an admiring journalist, a land where "a dynamic economy meets the family-friendly work-place...where hard-headed businessmen drink fruit smoothies and walk around in recycled trainers."³⁶ Expert on-lookers are not convinced. In *Being British*, Charles Leadbetter, a web designer and internet consultant, condemns the superficiality and opportunism he sees in the new Tory leaders' efforts to present themselves as 'the Google generation.' Compared to the world-class success stories of technological innovation and modernity on display in Finland, South Korea, Japan, India and of course the US, the Tory posturing look very puny, says Leadbetter.³⁷

Why it matters

There is very little evidence that the weight of these developments and debates is making any great impression at all on voting intentions, social attitudes, economic confidence or popular sentiment generally, as the British people attempt to find their way out of the recession. On the specific question of the impact of the American model of modernity, the *Financial Times* asked its readers explicitly in April 2008 whether they felt the nation was becoming the 51st state. The blog-space attracted four non-descript comments in a week.³⁸ Back in 2004, the BBC's in-depth investigation of national identity never thought of asking the question,

and repeated investigations of Englishness, Scotland's re-creation, or those functional areas where American innovations are highly visible – the health service, the media, sport, business or even language – seem quite unable to contemplate this reality, let alone fit it into the overall debate about Britishness. In *Being British*, the afore-mentioned Minister of State for Constitutional renewal notes that “the imagined community once populated with monarchs and the British Grenadiers now shares space with Tom Cruise and Starbucks and dreams of self-fulfillment.” In the very next sentence his discussion moves on to the importance of a strong sense of national identity, not to reflect on America's place in it, following the logic of his own suggestion, but to ask where Islam might fit in.³⁹

The financial crisis threw into sharp highlight the areas of convergence between the American and British economies and their governance: the weight of free-market ideology, the centrality of over-extended banks, the deliberately-contrived undermining of regulators, the vast reliance on personal credit, the appropriation of extraordinary amounts of wealth by tiny minorities of plutocrats, the short-termism and the avarice.⁴⁰ The rest of the world, and the continental Europeans in particular, gloated for a while at this come-uppance for what they all unhesitatingly called ‘Anglo-Saxon’ or ‘Anglo-American’ capitalism. But the British kept quiet. Their local bankers took all the heat, briefly.

This is not the 1970s. Then, the first great postwar settlement – the one that had built the welfare state – had come to grief in stagnation, inflation and a panic-stricken crisis of basic governability. Today, there is nothing like the desperation that gripped the governing class as they arm-wrestled with the National Union of Mineworkers over ‘who governs Britain’, and put the entire national economy on a three-day work week.⁴¹ It was from the misery of this disintegration that the Thatcherite project arose and affirmed its hegemony over the succeeding thirty years. The leading economic commentator Will Hutton called it Mrs Thatcher’s “two-fold mission: to pull down the social democratic settlement [of the post-1945 welfare state] and to construct in its place a simulacrum of the United States.”⁴² But that was an exceptional comment. Thatcherism was not described as such at the time, and never has been in all the succeeding years.⁴³ Nor did Thatcher’s many opponents of that era bring up her dependence on her trans-Atlantic sources of inspiration. If anything it was American commentators who looked on and wondered.⁴⁴

The dust-cloud left by the latest collapse has yet to settle, but one or two voices are beginning to notice that there might be risks in such dependence of Britain’s rulers on their American inspiration. Linda Colley, author of a highly influential book on the origins of the Great British nation-state, has denounced the ‘Britishness’ debate for having too exclusive a focus on domestic identities and values, and has repeatedly raised the question of why the British defend so aggressively in Europe those very ideas of national sovereignty that they instantly abandon when confronted with the influence of Washington.⁴⁵ Here the influence Colley is referring to largely concerns foreign and security policy, but her message is amplified in a new report by American and British experts working for the European Council on Foreign Relations. This damning indictment lumps Britain in with all the other EU Europeans and

denounces them all for a quite excessive political and mental dependence on the US, coupled with a general reluctance to contemplate any other option, least of all, any that might involve increased involvement with each other.⁴⁶

But these questions about why the British political class is at once so enamoured of America, yet so nervous of Brussels, go much further than the defence and security realm. After all even the Royal Shakespeare Company itself was once described as “bemused by America, terrified of Europe.” A glimpse of a larger perspective comes in a collection of policy-oriented essays provided by *The Political Quarterly* and Nuffield College, Oxford. In a fine analysis of British Euroscepticism, Patrick Diamond and Roger Liddle write:

The media and the political class share in common a passionate belief in the virtues of the British polity. Among politicians there is a deep attachment to sovereignty in Westminster politics on both right and left. There is also the strength of Anglo-American ideology in Britain’s political class, which manifests itself as a military and strategic alliance, a capitalist model, a model of governance, a set of doctrines and ideas, as well as a popular culture. These convictions run deep.⁴⁷

Comments of this sort are still very rare and there is no trace of them in debates such as those found in *Being British* or their ilk.⁴⁸ Instead the talk is of the search for new narratives of inclusion, fresh sources of hope and progress, rebuilding a dominant theme. “Defining and promoting ‘British identity,’” says the Archbishop of Canterbury, “is a serious enterprise only if it is about finding sources of general moral energy that make for a just and truthful society.”⁴⁹ Some dream of promoting the ‘Anglosphere’, an organised unity of the English-speaking peoples dedicated to the heritage which has allegedly produced the freest, most successful economies and polities in the world. This notion, another spin-off of the Thatcher era, was already looking frayed when the Iraq war came along.⁵⁰ Led by the US, Britain and Australia, this was a crusade which, one would have thought, laid the Anglosphere fantasy low for good. Yet not even the financial crisis has finished it off. In *Being British* it re-appears, from the pen of a young conservative in rebellion against the cultural nihilism, as he sees it, of the baby-boomers, his parents’ generation.⁵¹

The evidence of these pages, and all that lies behind it, suggests that in their failure to invent a generally agreed moral theme or narrative of renewal for their nation, and in the evaporation of the Christian Socialist and communitarian values which inspired the birth of the New Labour project,⁵² the British governing class clings to the America of their imaginations to fill the void, to give direction to the problem of where to look for answers to all the challenges of globalisation. Not because the creed of Americanism as such can provide the cohesiveness required, but simply because it shows how such a powerful machine of consensus and aspiration, embodied in institutions, law, documents, rituals, stories, and proclaimed values, can keep an immigrant nation glued together in the face of so many pressures pulling it apart.

The refrain that America and France have always been two artificial nations constructed

from founding documents always came over in previous eras as a proud boast: pragmatic folk like the Brits, said this line of snobbery, didn't need such ploys. Now it sounds more like a lament tinged with envy.⁵³ In these times all the talk of pacts, covenants and written constitutions points in the same direction: the British will sooner or later have to come up with a comparable document of their own. In that moment, with or without the help of America's legions of constitutional experts, we shall finally have one formal, partial answer – provided from above – to the question we started out with, namely: just how *like* the United States do the British wish their nation-state to become in the course of the this new century?

1 Systematic use of the 'bridge' metaphor reported in David Ellwood, "American Myth, American Model and the Quest for a British Modernity," in R. Laurence Moore and Maurizio Vaudagna eds., *The American Century in Europe* (Ithaca: Cornell University Press, 2003), pp. 142-43; the phrase was launched by Tony Blair in a wide-ranging foreign policy speech of 13 Nov. 2000; cf. <<http://http://www.fco.gov.uk>>; a headline in the *Financial Times* of 16 March 2002 announced: "Blair bid to bridge gulf between allies over Iraq action."

2 Richard Weight, *Patriots. National Identity in Britain 1940-2000* (London: Macmillan, 2002), p. 665; Joel Krieger, *British Politics in the Global Age* (Oxford: Oxford University Press, 1999), p. 137.

3 In 2004, for instance, the Royal Society of Arts carried out a world-wide survey on Britishness, and matched the results with a similar a survey in an English town. The results were summed up by the former US Ambassador Raymond Seitz: the British "seem to know mainly what they used to be"; *Daily Telegraph*, 15 Nov. 2004. On Seitz, see below n. 48.

4 President Sarkozy's formal effort in the same direction appears to have back-fired, cf. *Le nuovel observateur*, Dec. 2009, and comments after the March 2010 regional elections, which saw a resurgence of the nationalistic far right

5 Cf. Manuel Castells, *The Information Age. Economy, Society and Culture*, Vol. II, 'The Power of Identity' (Oxford: Blackwells, 2nd ed., 2004), pp. 30-5.

6 *Financial Times*, 9 Dec. 2009.

7 Since this article was written the House of Commons Foreign Affairs Committee has published a detailed report on the US-UK Relationship, calling for the use of the phrase 'Special Relationship'; and all it implies, to be generally abandoned. <<http://www.publications.parliament.uk/pa/cm200910/cmselect/cmfa/114/11402.htm>>

8 "The American Challenge Renewed," *The Brown Journal of World Affairs* (Winter/Spring 1997); "American Myth, American Model, and the Quest for a British Modernity," in R. Laurence Moore and Maurizio Vaudagna eds., *The American Century in Europe* (Ithaca: Cornell University Press, 2003); "Bridge, Beacon, or 51st State?" in *The Bologna Center Journal of International Affairs* (Spring 2004).

9 In the run up to the general election of 2010, the political satirist Armando Iannucci prepared a YouTube video showing the identical language used by Blair and Cameron in ceaselessly urging *change* on the nation's citizens, <<http://www.youtube.com/watch?v=xmVhB01-nIk&feature=related>>

10 Philip Augar, "The Big Bang model that blew up in our faces," *Financial Times*, Sept. 28 2008.

11 *Financial Times*, 7 April 2010.

12 *The Times* 11 Feb. 2010

13 *The Guardian*, 9 Oct. 2009

14 Paul Kennedy, "A history lesson," in *The Economist* (November 12, 2009), p. 43, <http://www.conservatives.com/.../David_Cameron_Britains_Economic_Future.aspx>

15 *Le Monde. Bilan Economie 2010*, p. 57; Matthias Matthijs, *Ideas and Economic Crises in Britain from Attlee to*

Blair, 1945-2005, (forthcoming), Postscript, manuscript version, p. 7.

16 Cit. in Peter Hennessy, "The Blair Government in Historical Perspective," in *History Today* (January 2002): p. 22.

17 John Gray, "A Mini Version of the Hapsburg Empire," in Matthew D'Ancona, ed., *Being British. The Search for the Values that Bind the Nation* (Edinburgh: Mainstream, 2009) p.120; Matthijs, op. cit., p. 10.

18 G.Brown, Introduction, in D'Ancona ed., op.cit., p. 26.

19 Ibid., pp. 33-4.

20 J. Sacks, in D'Ancona ed., op.cit., pp. 172-3.

21 In a key speech of March 2008 on "the Politics of Identity," Wills launched the latest official round of debate in this area. See < <http://webarchive.nationalarchives.gov.uk/+http://www.justice.gov.uk/news/sp260308b.htm>>

22 T. Philips in D'Ancona ed., op.cit., p. 253.

23 'Muddle' phrase in Robert Jackson, 'The Cameron Temptation' in *Prospect* (August 2006): p.43; cf. Andrew Gamble, *Between Europe and America. The Future of British Politics* (London: Palgrave Macmillan, 2003).

24 <<http://governance.justice.gov.uk>>; full background and context of Labour's constitutional reform push in Gamble, op. cit., pp. 22-5, 146-54.

25 < <http://governance.justice.gov.uk> >; no mention then of such old-fashioned notions as work, the family, community, equality, solidarity, respect for nature et al which might be associated with previous phases of British moral evolution.

26 *Financial Times*, on House of Lords abolition, *Sunday Telegraph*, 14 March 2010. The Ministry of Justice's web-site made no mention of this proposition.

27 "Do We Need Them to Define Our Identity? Europe's American Challenge Today," in Thomas Row ed., *Reflections on the Identity of Europe* (Bologna: The Johns Hopkins University, Bologna Center, 1996).

28 Matthew Flinders, "The Future of the State," in Varun Uberoi et al. eds., *Options for Britain II. Cross-Cutting Policy Issues – Changes and Challenges* (Chichester: Wiley-Blackwell, 2010), p. 21; on US origins of this model, *ibid.*, p. 37.

29 *Financial Times*, 20 April 2006.

30 *The Independent*, 14 Jan. 2006; Brown speech of January 2007 reproduced at <http://www.telegraph.co.uk/news/uknews/1539367/We-need-a-United-Kingdom.html>.

31 Cf. James Naughtie, *The Accidental American. Tony Blair and the Presidency* (London: Macmillan, 2004); David Owen, *The Hubris Syndrome. Bush, Blair and the Intoxication of Power* (London, 2007) pp. 30-2, 102 (Owen spoke also as a former hospital doctor with an interest in mind-body questions); for denunciation of former Cabinet Secretaries to House of Lords constitution committee, *The Guardian*, 24 Aug. 09.

32 *The Times*, 25 May 2002, *The Guardian Weekly*, 14-20 Nov. 2002.

33 Nile Gardiner, "A Conservative Vision for British Foreign Policy," in *Wall Street Journal*, 5 Jan. 2010. The author is Director of the Margaret Thatcher Centre for Freedom at the Heritage Foundation; cf. speech by David Cameron at Chatham House in January 2010 <[http:// www.conservatives.com/.../David_Cameron_The_Conservative_approach_to_national_security.aspx](http://www.conservatives.com/.../David_Cameron_The_Conservative_approach_to_national_security.aspx)> The Shadow Cabinet already contains a 'National Security Adviser,' in the shape of Pauline Neville-Jones, a former Political Director in the Foreign Office.

34 Details in *The Guardian Weekly*, 1 Jan. 2010. The newspaper reported that Labour had already sent officials to the US to "talk to TV production teams."

35 *Daily Telegraph*, 10 Oct. 2007; *ibid.*, 8 April 2010. The latter report details the people, methods and messages Cameron borrowed from the Obama campaign, while pointing out that all the parties looked to it for lessons in success.

36 Fraser Nelson, "They wish we all could be Californian: the new Tory plan," in *The Spectator*, 28 Feb. 2009.

Bloggers who commented on this article, published in the leading conservative weekly, largely poured cold water on the idea of California as offering any sort of model, and the relevance of Google in particular to Britain's problems; other references to Cameron's American heroes – including John F. Kennedy and George W. Bush – in Christopher Caldwell, "Arriva Cameron," in *Internazionale*, 23 Oct. 2009 (translated from *The New York Times* magazine, n.d.).

37 C. Leadbetter, "Can National Identity Survive the Web?" op. cit., p. 265. In fairness, Labour governments first started to construct a British narrative of technological modernity in the 1960s, with Harold Wilson's 'white heat of technology' discourse. The problem was that for reasons long discussed, no project public or private brought lasting success. The Anglo-French *Concorde* supersonic airliner was the most enduring monument to that era.

38 *Financial Times*, Westminster Blog, 21 April 2008.

39 M. Wills, "Belonging and Being British," in *Being British*, op. cit., p. 190.

40 On general pattern, Gamble, op. cit., p.145; on risks, Larry Elliott in *The Guardian Weekly*, Dec. 15-21, 2006, Sarah Lyall in *International Herald Tribune*, 21 Sept.2007; on disastrous consequences, Willem Buiter in *Financial Times*, 27 Oct. 2008; cf. Matthijs, op. cit., p. 11.

41 Graphic evocation of those years in Philip Whitehead, *The Writing on the Wall. Britain in the Seventies* (Michael Joseph: London, 1985); contemporary political analysis in Ken Coates ed., *What Went Wrong. Explaining the Fall of the Labour Government* (Nottingham: Spokesman, 1979).

42 Will Hutton, *The World We're In* (London: Abacus, 2002), p. 267.

43 Cf. sources cited in Ellwood, 'American Myth, American Model...' cit., p. 142.

44 Cf. Raymond Seitz, *Over Here* (London: Phoenix, 1998) pp. 318-19. Seitz was the US Ambassador in London during the transition from Thatcher to Major.

45 L. Colley, "The real threat to Britain's autonomy," *The Guardian Weekly*, 30 Nov. 2007; her interventions in the debate on identity organized by *Prospect* magazine in 2005 – present G. Brown – go in the same direction; edition of April 2005.

46 Jeremy Shapiro and Nick Whitney, *Towards a post-American Europe: A Power Audit of EU-US Relations* (European Council on Foreign Relations, London 2009), p.39; the House of Commons Foreign Affairs Committee on Anglo-American relations (see above n.8), which interviewed Whitney, endorsed a milder version of this judgment as applied to Britain; op.cit., para. 225.

47 P. Diamond and R. Liddle, "Options for Britain: Europe," in Oberoi et al., op. cit., p. 173.

48 Others include *Prospect* round table, cit., n. 45.

49 Archbishop Rowan Williams, 'The Scepter'd Isle: Culture and Power in an Offshore Setting,' in *Being British*, op.cit., p152.

50 Cf. Ellwood, 'American Myth, American Model,' op. cit., p.135.

51 Douglas Murray, "Rediscovering Our Core Culture," in *ibid.*, pp. 121-9; it also has backers in the Heritage Foundation; cf. James C. Bennett, *The Anglosphere Challenge, why the English-speaking nations will lead the way in the twenty-first century* (Lanham, MD: Rowman & Littlefield Publishers, 2004); discussion in *Daily Telegraph*, 29 Dec. 2007; cf. 'Britain's 'imagined community' of 'Anglo-America', Ch. 5 of Gamble, op.cit.

52 Cf. section on "New Labour's Normative Community," in Krieger, op. cit., pp. 143-5. Krieger wrote (in 1999): "...the normative appeal of New Labour's narrative of community has enormous cultural and political force, and lies at the heart of its claim to a third way model of organizing politics."; op. cit., p.145.

53 Cf. Gray, op. cit., pp. 115-16.

Timeline

1953: Founding of Institute of Islamic Studies in Mogadishu
1960: Independence
1960–1969: Somali Republic
1969–1990: Siad Barre regime
26 January 1991: Siad Barre ousted from power
1991: Somaliland Secedes
1977–1978: Ogaden War with Ethiopia
1996: Death of Aideed
1998: US Embassy Bombings in Nairobi, Kenya and Dar es Salaam, Tanzania
2000: Peace talks in Arta, Djibouti
2000: Initiation of Transitional National Government
11 September 2001: Terrorist attacks on the World Trade Center
December 2002: Bombing of Paradise Hotel in Mobasa, Kenya
2004: Transitional Federal Government established
February 2006: Formation of the Alliance for the Restoration of Peace and Counter-Terrorism
2006: War between Islamists and Alliance for the Restoration of Peace and Counter-Terrorism
Late 2006: Ethiopian offensive against the Council of Islamic Courts

Acronyms

AIAI: al-Ittihad al-Islamiyya
AMISOM: African Union Mission in Somalia
ARPC: Alliance for the Restoration of Peace and Counterterrorism
CIC: Council of Islamic Courts
IGAD: Inter-Governmental Authority for Development
ONLF: Ogaden National Liberation Front
SACB: Somali Aid Coordinating Body
SNA: Somali National Alliance
SNF: Somali National Front
SSDF: Somali Salvation Democratic Front
SYL: Somali Youth League
TFG: Transitional Federal Government
TNG: Transitional National Government
UNOSOM: United Nations Operation for Somalia
UNOSOM II: Second United Nations Operation for Somalia
USC: United Somali Congress
WSLF: Western Somali Liberation Front

Al-Ittihad al-Islamiyya and Political Islam in Somalia

Lara Loewenstein

Abstract

This paper analyzes the factors that aided and hampered the growth and popularity of political Islam in Somalia by tracing the history of al-Ittihad al-Islamiyya. After examining the emergence of political Islam in Somalia and the creation of al-Ittihad al-Islamiyya, this paper traces the growth of the group, its association with the Sharia courts in Mogadishu, and finally its subsequent downfall. There are many factors that allowed al-Ittihad al-Islamiyya to become a significant political force in Somalia. These include Somalia's status as a collapsed state and outside intervention in the country.

Introduction

This paper traces the rise and fall of al-Ittihad al-Islamiyya (AIAI), a political Islamic group in Somalia. AIAI's trajectory illustrates the factors that can aid in the growth and decline of groups dedicated to political Islam. Somali communities were ideologically opposed to much of what political Islam represented, but outside intervention allowed the AIAI to grow despite its anti-Somalia ideology. US and UN interventions in Somalia improved AIAI's organizational and financial standing. These interactions encouraged the growth of the organization raising questions about the utility of engagement with such groups.

The paper is divided into five chapters. Chapter II presents the role of traditional Islam in Somalia, and illustrates how external forces contributed to the development of political Islam in Somalia. Chapter III traces the growth of AIAI from its origins to the development of the Sharia courts in Mogadishu, and describes how both the United States and the United Nations came to be involved with AIAI. Chapter IV describes the decline of the group from its heyday during the period of the Sharia courts to the present, and addresses the current status of political Islam in Somalia. Lastly, Chapter V draws general conclusions and lists some recommendations for any country concerned with the development of violent political Islamic groups.

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II. The Development of Political Islam in Somalia

Somalia is one of the most religiously homogenous countries in the world, despite its significant ethnic diversity. The country is replete with clans and clan conflict, most notably between the Hawiye and the Darood. The ethnically heterogeneous nature of Somalia contributed substantially to its instability. Despite this ethnic diversity, nearly all Somalis are Sunnis and practice Sufism. The homogenous nature of religion in Somalia allowed Islam to become a political force, and is one of the main reasons behind the successes of political Islam groups in the country.¹

The traditional role of Islam in Somalia did not lend itself easily to the development of political Islamic movements. For Somalis, Islam has traditionally been a “veil lightly worn.” It is a part of everyday life, but does not normally dictate how everyday life is led. Islamic laws are only lightly enforced, if at all. Clan and civil law traditionally supersede Islamic law, which is commonly used only within the family. There is no culture of intense religious fervor and Somalis follow Islamic laws and guidance only when it benefits them. They are proud of this religious independence and consequently often perceive attempts to politicize Islam as an imposition from the Middle East.

Somalis are divided between three Sufi orders: the Qadiriyyah, the Ahmadiyah-Idrisiyyah, and the Salihyyah. These orders initially played a social role in the lives of Somalis, but this role diminished in the 1950s and 1960s when secular political leaders began providing more educational and legal services.² The apolitical nature of Sufism within Somalia can be seen through the relationship between religious and secular leaders:

Traditionally, relations between Sufis and clan-based actors were complementary: secular power lay in the hands of the clan leaders, religious authority in the hands of the Sufis. In turn, the latter were respected by the clan authorities because they had no political agenda of their own.³

The introduction of political Islam is thus interesting to trace because it went against the traditional role of religion for Somalis. One of the key elements of the rise of political Islam was the realization by political leaders that Islam was the one unifying force in Somalia.⁴

A Dervish State and a Nationalist Identity

The first prominent political Islam movement in Somalia, Salihiyyah, developed at the end of the 1800s under Said Mohammed Abdullah Hassan. Hassan came from the tradition of Sheikh Muhammad Abd al-Wahhab, who founded the conservative Sunni movement known as Wahhabism in the 1700s. In 1744, Wahhabism became the doctrinal foundation of the Kingdom of Saudi Arabia.

One of the central concerns of Wahhabism has been to prevent all foreign influences and

innovations in Islam. This includes the rejection of the Sufis' cults of graves and holy men. Hassan initially preached the revival of the religious spirit and the rejection of materialism and consumption [traditional Sufi values], but became increasingly radical toward the end of the 19th century. Finally, in 1899, he began the fight against the British colonial rulers and declared Jihad on all non-Muslims.⁵

Starting in 1901, the British, with the help of the Ethiopians and Italians, took several offensive measures against Hassan and Salihiyyah. However, for domestic political reasons they were unable to commit themselves fully to the campaign. This gave Hassan room to maneuver diplomatically. In 1905, he signed a peace treaty with Italy that included conditions for the creation of an autonomous Dervish state. Dervish usually refers to Sufi Muslims who have given up most of their material possessions in their attempts to strengthen their personal relationship with God. Hassan ruled his Dervish state as a parallel structure to Italian colonial rule until the end of World War I, when the British bombarded it. Hassan then fled to Ogaden, the Somali-occupied region in south eastern Ethiopia, where he died in 1921. The remaining elements of the Dervish state were crushed, bringing an end to the anti-colonial movement.

Hassan is a national hero in Somalia, a notable accomplishment in such a diverse state. While the Dervish state was not completely devoid of clan conflict, Hassan managed to restrain potential problems with his charismatic persona. Ethiopia and the colonial powers allowed Hassan to use nationalist rhetoric along with Islamic teaching, through which Hassan managed to create a national identity based on Islam.⁶

Influences from the Greater Middle East

Islamic influences in Somalia also came from Egypt. In the 1950s, Egypt's al-Azhar University introduced an Arabic language curriculum that Somalia used as a basis for the Institute of Islamic Studies, established in 1953 in Mogadishu. Intellectuals from al-Azhar University taught at the Institute, and it became the base for Arabic-speaking Somali scholars of Islamism. Along with the introduction of the Arabic language, the institute taught Somalis about the ideology of the Egyptian Muslim Brotherhood, whose great thinkers Sayyid al-Qutb and Hasan al-Banna strongly influenced Somali Islamists. Somalis took from al-Qutb and al-Banna an emphasis on the importance of activism and sociopolitical change, along with their focus on creating an Islamic state. After Somalia's independence, Egypt continued setting up secondary schools in the country. During the 1960s and 1970s both Saudi Arabia and Egypt offered scholarships to Somalis to study at their universities. This helped develop a group of trilingual Islamist scholars that were ready to fill the shoes of the departing bureaucracy when the Siad Barre regime eventually fell from power.⁷

Independence

When Somalia gained independence from Italy in 1960, leaders of the Somali Youth League

(SYL) dominated the political scene. The SYL was a pan-Somali group that had been central in the independence movement. No significant extremist element emerged within the SYL or the Somali Republic, which lasted from 1960 to 1969. The independence of Somalia did, however, coincide with the proliferation of Islamism throughout the Middle East. The Somali elite, influenced by their Egyptian and Saudi educations, came into direct conflict with a Somali government that was looking to Western powers for economic support and technical assistance. Infuriated by this pro-Western attitude, radical religious leaders encouraged the development of Islamist groups despite their traditionally apolitical stance.⁸

Islamists and Siad Barre: 1969 – 1990

Islamist groups developed further under Siad Barre, who ruled from 1969 to 1990. Barre introduced scientific socialism, the social-political-economic theory pioneered by Karl Marx, in an attempt to foster economic development and national unity, but the experiment failed. As a consequence, Islamist groups managed to mobilize disgruntled Somalis. Barre also attempted to create a clan-unifying organization, which inadvertently benefited the Islamist cause by allowing Islamists to mobilize people from a diverse range of clans in a bid to create a pan-clan Islamist movement.⁹

By introducing his pan-clan organization, Barre inadvertently helped create both the leadership and member base of AIAI. Salafism garnered a strong following under Barre, and its prominent figures assumed the leadership of the AIAI. One of the most significant centers was Eel Hindi, a suburb of Mogadishu. A number of clerics there became known for their tafsir – commentary on the Koran that they offered after the evening prayer. Their mosques were often full. Due to this success, the most prominent Imams from Eel Hindi became AIAI leaders.¹⁰

Frustrations with Barre's policies catalyzed the development of a member base for AIAI. In 1974 the Barre government passed a family law that several religious leaders opposed because it implied gender equality. In response, the government branded these leaders as bad Muslims and executed them on 23 January 1975. This shocked the Islamists in Somalia and they retreated underground. Others disbanded and left the country, some for Arab universities. The increased migration of Somalis to the Gulf States helped usher in a second bout of Muslim revivalism in Somalia. This generation of Islamists became civil servants in the 1980s, and some of them became members of AIAI.¹¹

The Fall of Siad Barre: 1990

Both domestic and international forces played a part in the end of the Barre regime. Internationally, the end of the Cold War reduced Somalia's strategic value to the United States. Human rights abuses gave the US the political mobility to freeze all aid to Barre's government. Prior to 1988 Somalia had been one of the largest recipients of foreign aid per capita. Barre had used this money to build a patronage network, an excessively large civil

service, and one of the largest standing armies in Africa. By 1985, foreign aid was funding 100 percent of Somalia's development budget and 50 percent of all recurring payments. Once aid was frozen, the entire system collapsed.¹²

Like many other African leaders, Barre had set up a patronage system and siphoned off foreign aid money to his supporters. The beneficiaries of this system were limited to a small coalition of clans. Those outside this coalition faced harsh crackdowns if they dared oppose the regime. Barre was also known to use the power of the state to expropriate land, businesses, and other material goods from Somalis. When opposition movements did form, namely the Somali Democratic Salvation Front (SDSF) and the Somali National Front (SNF), Barre responded to the threats by attacking the clan that represented the opposition's base support.¹³ The opposition was not able to create a pan-clan movement, foreshadowing the difficulty of forming an effective government after Barre's ousting. Again, the only unifying force in Somalia was Islam, and Barre had helped radicalize it.

III. The Development and Growth of Al-Ittihad Al-Islamiyya

AIAI is one of the most influential Islamist groups in Somalia and many Somali Islamic leaders derive their ideology from its leadership. The AIAI did not start as a militant group, and its eventual embrace of extremist and militant elements proved to be self-destructive. The group formed soon after the Ogaden war of 1977–78, when Somalia fought Ethiopia over the Ogaden region. The AIAI helped reorganize the radical Islamist forces in Somalia.¹⁴ The war increased the recruitment efforts of Islamist groups who supported the war. AIAI formed out of the fusion of two of these groups, Wahdat al-Shabaab al-Islamiyya and al-Jama'a al-Islamiyya.¹⁵

Both groups had messages that conflicted with the relaxed Sufism popular in Somalia. Based in the north, Wahdat drew most of its ideology from Wahhabism. Wahhabism's focus on the oneness of God contradicted Sufi ancestor worship. Wahdat also looked to the Egyptian Muslim Brotherhood for inspiration. While the Egyptian Muslim Brotherhood does not believe in a secular state government, it is much more modern in its beliefs with respect to women than Khomeinism in Iran or the Saudi version of Wahhabism. Wahdat inherited the Brotherhood's emphasis on education and promotion of public social roles for women. The other group, Al-Jama'a al-Islamiyya, considered itself a Salafi society and focused mainly on the purification of the Muslim faith. Salafists idealize the time of Muhammad and believe Islam should exactly replicate that time period. However, al-Jama'a had no political aspirations prior to its merger with Wahdat. Its own members did not consider it a political movement.

The two groups merged sometime between 1982 and 1984 under the name al-Ittihad al-Islamiyya. However, despite the shared name, the groups remained relatively independent. AIAI combined the ideologies of Wahdat and al-Jama'a and applied their messages to politics, thus creating a political Islamic group. AIAI challenged both the Barre regime—claiming that politics could not be separated from Islam—and traditional Sufism by ridiculing the Sufis'

emphasis on spirituality and disparaging some of their traditional practices. Sufi religious leaders reacted to the mockery, calling AIAI “al-Saruuriyyina,” meaning “disciples of Sheikh Mohamed Zain al-‘Abidin Saruur,” a man who was expelled from the Kingdom of Saudi Arabia for his radical teachings. Al-Ittihad took this accusation and ran with it, giving the impression that they were proud of the association. Clashes between the Sufis and al-Ittihad soon escalated, and by the mid-1980s there was fighting on the streets of Mogadishu that involved fatal stabbings and beatings.¹⁶

The AIAI looked to create not only an Islamic Republic within Somalia, but also a union of all Muslim nationalities in the Horn of Africa. They believed that the remedy to all of Somalia’s problems was Islam. AIAI wanted Somalis to return to Islam, and they condemned tribalism and clan conflict. Ultimately they wanted to create an Islamic army.¹⁷

AIAI gained notoriety and power quickly, especially in the Mogadishu area. It was systematic and persistent in its recruiting efforts, and attracted both students and faculty by engaging them in the hallways of the Somali National University. AIAI’s radical platform was not the reason for its initial success. Rather, it was AIAI’s offer of an alternative to an abusive and strongly disliked regime. As one observer told the International Crisis Group: “Al-Ittihad offered an alternative to democracy, communism, and man-made constitutions. Koran and Sunna would be the basis for the application of all political, social, and other aspects of life.”¹⁸ The leaders of AIAI interpreted the early popularity of the movement as a sign that they were doing what was right in God’s eyes. Some refer to this period as the “Golden Age” of AIAI because the movement gained popularity, but had yet to become militant.¹⁹ This period lasted until the fall of the Barre regime when the group took up arms with the objective of creating an Islamic state.

The Collapsed State

Barre’s fall and the subsequent battle for control over Mogadishu crystallized the transformation of AIAI into a militant group. Barre was ousted from power on 26 January 1991 amidst jubilations and cheer, following an uprising of the United Somali Congress (USC), a Hawiya-dominated armed group. However, the joy soon dissipated as the USC fought among themselves for control and started killing civilians, especially members of the Darood clan.²⁰ The USC declared the formation of a government headed by Ali Mahdi, a hotelier and businessman, without consulting the other armed groups involved in the struggle, including a core group from within the USC led by General F. Aideed. There was an immediate backlash. Aideed controlled most of the arms left by Barre in Mogadishu. The result was a mass exodus of Darood clan members from Mogadishu to Kismaayo, a strategic southern port and gateway to the fertile Jubba Valley. This incited the Darood members of AIAI to respond militarily, especially once clan leaders in the area declared that Kismaayo could become an Islamic Emirate in return for the Islamist’s support.

The prospect of becoming a militant group divided leaders and members of AIAI. Certain leaders within the group welcomed the idea of an armed jihad. However, more conservative

members were wary and tried to convince the more militant-minded to abandon the cause. General Aideed gave them one final chance to avoid a full battle. He sent a delegation led by former army colonel Hassan Dahir Aweys, proposing that if the Islamists stayed in their camp he would leave them untouched on the march to Kismaayo. When AIAI rejected the offer, Aweys decided to desert Aideed and join the Islamists. He would become an important leader for the group, especially during the formation of the Islamic courts.

Aideed easily won the battle in Kismaayo, killing many members and leaders of AIAI. AIAI subsequently left Kismaayo in three separate groups. One group traveled to Bosaaso, a port town near Somalia's northeastern tip where they attempted to create the first Somali Islamic emirate. Thus, though the battle was a physical defeat for AIAI, it was a victory organizationally. The entire organization was now convinced that military force was necessary not only to achieve AIAI's goals, but for its very survival.²¹

A regime change in Ethiopia also helped AIAI to extend its influence to the Ogaden region of Eastern Ethiopia. AIAI found the situation in Ogaden much more conducive to setting up a large-scale movement. They extended their organizational network and tried to take control of the institutions in the newly emerging regional council, and agitated in favor of Ethiopian Somali secession. This put Ethiopia on edge, causing the Ethiopian government to take action against the parent AIAI association in southern Somalia. Amidst all of this, AIAI decided it was time to declare themselves as an official organization.

On 22 September 1991, AIAI officially announced its existence with the release of a document titled "The Manifesto of an Islamic Party." In it, AIAI declared their ultimate goal of creating an Islamic state and rejected the idea of forming political alliances with non-Islamist groups. Thus, AIAI officially emerged as a neo-Salafi group (traditional Salafists do not get involved in politics), combining Wahhabi theology, political creed, and political action.²² AIAI was now not only officially a political Islamic group, but also dangerous. It advocated military action to defend the beliefs of the organization and a consensus grew among its members that violence was a necessary evil.

The United Nations and Al-Itthad

Many interventionist efforts by the West impacted the Islamists, including the two United Nations operations in Somalia. The first operation (UNOSOM I) was carried out in the early 1990s after the end of the Barre regime. While attempting to stabilize the political situation, the UN pitted itself against Aideed, which caused the Islamists to temporarily join forces with the UN against the General, using the UN's presence to their advantage to weaken Aideed's position. Through their intervention against Aideed, UNOSOM I allowed the Islamists to infiltrate areas of the country that had formerly been controlled by Aideed's regime. This allowed AIAI to induce more local clans to join their cause, leading to the formation of the Somali National Alliance (SNA). The SNA operated mainly as a political force, which left it relatively undetected by the American security and military staff.

After UNOSOM I left, there was a political vacuum in southern Somalia, especially in Mogadishu. Clan authorities emerged in order to provide some semblance of governance. AIAI was involved in aiding the formation of these authorities and as a consequence, clan leadership began to become Islamized. In order to provide some form of security, there was a general desire for Shari'a courts, which AIAI happily established. The growth and impact of the courts will be discussed in the next section.

Another impact of UNOSOM I was on the development of civil society. Many businessmen, professionals, and former diplomats joined UNOSOM I in order to work on peace building within Somalia, and to solicit aid from foreign sources. Thus, UNOSOM I left behind a network of Somali nongovernmental organizations (NGOs), which turned out to be highly vulnerable to suave Islamist infiltrators. In a similar vein, by creating a basis for a service economy in Mogadishu, UNOSOM was also responsible for the development of a middle class in the area. While businesses flourished under UNOSOM, once the UN departed they were kept afloat with cash inflows from AIAI, putting them at the mercy of the Islamists.

UNOSOM II, which was in Somalia from 1993 to 1995, played an even bigger role in helping AIAI infiltrate Somali society. AIAI provided security escorts for the operation, and they received hefty payments in return for their services. The unintended consequences of this were the transformation of AIAI into a mafia-like business syndicate, the development of a thriving AIAI-run trade network, and the proliferation of Islamic oriented business tycoons.²³ In addition to its military and religious power, AIAI was now economically influential in Somalia.

US Anti-Terrorism Policy towards Somalia

Recent US policy toward Somalia has generally been counterproductive and the result of false or exaggerated sources of information. This has strengthened the cause of Islamist groups. However, not all US policy has had a negative impact. During the famine and humanitarian crisis that followed the attack on Mogadishu in 1992, the US supported major food assistance to Somalia from Kenya. However, since this period, the focus of US policy toward Somalia has rarely been humanitarian aid.²⁴

Somalia piqued the interest of US intelligence in 1998 after the bombings of the US embassies in Kenya and Tanzania. The bombings were linked to Osama bin Ladin and al-Qaeda and the US suspected that al-Qaeda was based in Somalia and was linked to AIAI.²⁵ The real change in the US's approach to Somalia came in 2001 with the initiation of the War on Terror as a reaction to the attacks on the World Trade Center. Renewed US interest in Somalia resulted from a mistaken belief that following the US invasion of Afghanistan, the Taliban would move to Somalia. When this did not happen, non-military interest in Somalia subsided and from 2001 to 2008 Somalia was on the US's radar mainly as a potential haven for terrorists and not as a country in need of humanitarian aid.²⁶

Beyond not supplying aid, the US's military focus on Somalia had a further negative impact. After the World Trade Center attacks, the US relied on Ethiopian reports on links between Somalia's Islamist groups and al-Qaeda, which were exaggerated to reflect Ethiopia's political interests. For instance, while there were demonstrable links between Somali Islamist groups and al-Qaeda, which used Somalia as a place of sojourn and transit, there were no al-Qaeda bases in Somalia. Hypersensitive to potential terrorist attacks, the US nevertheless planned for military intervention in Somalia. It eventually refrained from deploying ground troops and instead tried to isolate Somalia internationally. The Somali passport effectively became obsolete. International travel remained possible only to the few Somalis with foreign passports. Financial institutions and aid groups found their services disrupted. The US also put pressure on Arab organizations in the country. As a consequence, humanitarian groups such as the Saudi Arabian al-Haramayn closed orphanages and left the country.

After September 11th, the US specifically targeted financial institutions in both Somalia and Afghanistan through Operation Green Quest. It is not entirely clear why the US was targeting financial institutions in failed states, which could have been a safe haven for terrorist cells, as opposed to targeting financial institutions in the Gulf states, which had a long and demonstrable history of financing terrorist organizations. In the long run, this may have been a counterproductive activity, especially in Somalia. Within Somalia US operations targeted money transfer agencies known as *sharikat hawalat*. The US claimed that there was a clear link between these agencies and al-Qaeda, only to retract this statement five months later. These money transfer agencies are an integral part of the Somali economy—remittances make up about 70 percent of GDP²⁷—and by disrupting their ability to function, the US negatively impacted the daily lives of Somalis.²⁸ These actions benefitted Islamist groups, as public opinion turned against the US.

More recently, the 2006 war between Mogadishu's Islamists and the Alliance for the Restoration of Peace and Counterterrorism (ARPC) was at least partially caused by US anti-terrorist intervention in Mogadishu, and has put Somalia on a worrisome political trajectory. Worried that the state of lawlessness in Somalia would lead to its use as safe haven for international terrorist organizations, the US developed relationships with local warlords and businessmen in Mogadishu, in an attempt to monitor the situation and create an anti-terrorism network. These relations rarely succeeded in providing useful information as the neighborhoods that the US believed were housing terrorists could not be infiltrated. To make matters worse, many of these US emissaries were rivals, whose personal militias would often clash. However, the US pushed them to work together and in February 2006 a group formed the ARPC. Islamists in Mogadishu, including AIAI, viewed this as a direct attack. Armed clashes began within weeks between the two groups, the outcome of which was the formation of the Council of Islamic Courts (CIC). By June 2007 the Islamists had clearly won and taken control of the entire capital. This was the first time Mogadishu had been under unified rule in 16 years.²⁹

IV. Al-Ittihad and the Rise and Fall of the Islamic Courts

The first Islamic courts appeared in Somali in the early 1990s after the fall of Siad Barre. They were originally meant to impose some law and order among the chaos. But in 1998 courts with a militant focus appeared. Aweys, the former vice chairman and military commander of AIAI, led the court in Ifka Halane in western Mogadishu, which became the base for Jihadi Islam. Aweys was later accused of involvement in the 1995 and 1996 bombings in Ethiopia because of this. Al-Qaeda testimony from the 1998 bombings of the US embassies in Nairobi and Dar-es-Salaam also pinpointed Aweys as a central figure in its terrorist network, and identified a link between him and Osama bin Ladin.

Aweys was not the only prominent Somali with links to the terrorist network. Others were trained as fighters in Afghanistan. The most notable, Hashi Ayro—a military commander for the Ifka Halane court—desecrated an Italian cemetery in 2005 and was linked to multiple murders including those of four foreign aid workers, a Somali peace activist, and a British journalist. Ayro's militia also reportedly provided protection to al-Qaeda operatives during the US embassy bombings, the bombing of a Kenyan hotel, and the attempted shooting of an Italian charter plane.

The group used the courts as a structure around which to build militias and organize their constituents. Yet not all the courts were in al-Ittihad's control, as they were fairly heterogeneous. Some were controlled by clan leaders and continued to be autonomous. The typical court was organized around three elements: a shura or council that included political, traditional, religious, and business leaders from the clan; a chairman who was usually appointed by the shura; and a militia leader appointed by the chairman, but subject to the shura's approval. The courts were accepted in communities because of a general lack of political ambition, and because their militias were well-organized and provided a needed service: protection.³⁰ Financing came from member contributions and militia checkpoints, which were relatively unobtrusive.

Not long before the establishment of the Transitional National Government (TNG) in Djibouti in 2000, Aweys initiated the formation of the Sharia Implementation Council in Somalia. It was meant to unify the courts and to provide a political platform from which they could interact with the TNG. However, the council fell apart when it failed to convince the TNG that its members should be the main representatives of the permanent Somali judiciary. Aweys then left the council to set up courts in other locations in Somalia.

A second attempt to unify the courts was made four years later in 2004, and the Supreme Council of Sharia Courts of Somalia was formed in Mogadishu. Aweys was again involved, but was no longer the initiator. The council was led by Sheikh Sharif Sheikh Ahmed, a Sufi who had been trained in Libya and who was unrelated to AIAI. The courts quickly became aligned under the Supreme council, though some were still linked to AIAI. Members formed a militia, which included Somalis from many different clans and with different religious

leanings: a significant and important achievement for the Islamist unification in Somalia.³¹

These courts were further radicalized during the war between the Islamists and the ARPC. During the war another coalition of courts was formed, known simply as the Council of Islamic Courts (CIC), and it quickly gained power during its first few months of existence. It earned broad, passionate support from local Somalis and the Somali diaspora, accumulating vast sums of money and weapons. There was a strong sense within the country that the Islamists' time had come.

By far the CIC's most impressive success was their widespread support. This support may seem out of place considering the traditional Somali attitude toward religion, but it must be understood in context. It stemmed from the order and stability the CIC brought to Mogadishu. Many embraced the CIC because it rid Mogadishu of warlords and militia gangs. Others saw how powerful the CIC had become and joined them to be on the winning side. The pan-clan rhetoric and anti-Ethiopian attitude of the CIC also aided their popularity. In short, support for the CIC did not arise from religious fervor, but from pragmatism.

Despite this success, the CIC ran into problems both internally and externally. There was a divide within the CIC between Islamic moderates and radicals. AIAI members, including Aweys, fell in the latter group. The moderates were unable to control them and this eventually led to disillusionment with the CIC. The CIC also fell prey to clanism. Some thought that the CIC was really a Hawiye group trying to pass as a pan-clan organization. This latter problem may have been dealt with if the CIC had transitioned to a more neighborhood-based system, but it was never allowed to evolve because of external problems, specifically Ethiopia.³² Ethiopia was very concerned with the developments in Somalia for fear that it would lead to the radicalization of its own sizable Muslim community. Ethiopia invaded Somalia in March 2007, and marched to Mogadishu virtually unopposed. Most of the casualties on the Somali side were not Islamists but pious volunteers from local clans. The majority of the Islamist forces, including the hard-line Shabaab militia, stayed hidden.

The battle marked the end of the power of the Sharia courts in Mogadishu, and forced the Islamists, including AIAI, to once again retreat underground.³³ It is not clear at all why they put up almost no fight against Ethiopia when they had the chance to launch a successful retaliation. AIAI's future agenda is unclear but it is rumored that the group is now defunct. The radical Islamists lost much of their credibility and public support with the fall of the courts.

Al-Ittihad Outside of Somalia

AIAI had a presence in many countries with a Somali diaspora, including Kenya, Ethiopia, and Djibouti, and spread as far as Canada, the UK, and Sweden. It raised funds and popular support by publicizing itself in Arabic language newspapers, and distributing videos taken by its fighters. Within Kenya especially, the movement managed to have a significant impact. AIAI

formed a base in the Kenyan Somali diaspora and voiced the same ideals as its counterpart in Somalia: a form of radical Islam based on Wahhabist teachings. However, in recent years it appears that they have lost strength. Some attribute this to disappointment, but the exact status of the AIAI cells in Kenya is unknown. International Crisis Group informants claim that they are defunct. In the words of one informant: "People have become disappointed by them. They're not as strong as they were....The term [al-Itihaad al-Islamiyya] now carries a kind of stigma".³⁴

The New Jihadists

Since 2003 there has been a new Jihadi network in Somalia. Its most visible figure is Aden Hashi Farah Ayro, a supposed protégé of Aweys, who probably inherited Aweys' links to al-Qaeda. The unnamed group is based in Mogadishu. As of 2005, its membership was in the tens as opposed to the hundreds or thousands. Despite a small membership, they have been linked to the murders of four foreign aid workers. The group in many ways resembles Jihadi groups such as al-Qaeda. Its use of completely fluid organizational structures and terrorist tactics make it a worrisome menace for security in the region despite its small size.³⁵ Al-Qaeda, after all, may only have a few hundred members.³⁶ There is always the possibility that in the future the group could profit from a crisis and gather enough support to upset a stable regime.

V. Looking Forward

There are a number of reasons why it is important to understand Islamism in Somalia. First, US fears of international terrorist organizations using the country as a safe haven are not unfounded. US attempts thus far at reducing the attraction of Somalia as a destination for groups such as al-Qaeda have been counterproductive and based on a complete misunderstanding of the situation in the country. However, developing methods for counteracting groups that use ungoverned spaces, like Somalia, is an important goal for any country that believes it is at risk of a terrorist attack. Second, Somalia is in close proximity to Yemen, a known refuge for terrorism. Between Yemen and Somalia lies the Gulf of Aden, a major trade route for ships carrying oil and other goods from the Gulf and Asia. Recently Somali pirates have been in the news for attempting to disrupt this trade route.³⁷ An Islamist takeover in either Yemen or Somalia would be of serious concern to countries dependent on this trade route. Third, the stability of Somalia is important for the stability of the entire Horn of Africa. This region is one of the major conflict zones in Africa and, as we have seen, the existence of political Islamic groups only increases the risk of war.

For these reasons, the history of AIAI is interesting because it gives us a succinct story of the birth and death of a militant Islamist group. It consequently provides lessons of what did and did not work in attempts to thwart its growth. There are a number of aspects of AIAI's history that should be noted, especially with regard to interventions by the US and the UN, the most alarming being the collaboration between the two UN operations and AIAI.

This allowed AIAI to directly infiltrate the developing government and gain power in the Mogadishu area. How this was allowed to happen is not obvious, but future peacekeeping operations should move with caution when empowering certain groups within a collapsed and ethnically diverse nation. US support of warlords in Mogadishu is another incident that should be reassessed. While each political Islamic group is case-specific, the results of US and UN action in Somalia illuminates why experts should be involved in the planning of any interference in a country that is home to militant Islamists.

AIAI's growth and decline also highlights how international terrorist groups such as al-Qaeda use collapsed states to their advantage. As far as we know al-Qaeda never set up a base in Somalia, although AIAI did have links with the group. It obviously did not need a base in Somalia to use the AIAI network to its advantage. The bigger problem is the possibility of the growth of secondary groups with links to international terrorist groups. This is why Ayro's unnamed group is a serious concern. While this new group is distinct from AIAI, certain parallels can be drawn between the two, which could help anti-terror efforts.

Lastly, despite the impact of UNOSOM I and II and US intervention attempts with AIAI, the real reason for AIAI's downfall was not state collapse; rather, it was a return to the traditionally apolitical role of Islam in Somalia, the lack of ethnic unity within Somalia, and the radical nature of AIAI's ideology. Despite Somalia being religiously homogenous, clan cleavages never allowed AIAI to create a truly national movement. The closest the Islamists came to success was with the CIC in 2006, and this failed precisely because moderate Islamists were not able to control the more radical factions such as AIAI. There may be a way to create a greater sense of unity in Somali culture, but it is unlikely that it could be done directly by the US, as Somalis are adverse to interference. It is possible that a third party, preferably African and which wants to reduce the role of radical Islam in the area could be involved. Much more thought and energy needs to be put into exploring this option, because as this paper has demonstrated, without adequate planning, interfering almost inevitably causes more harm than good.

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Of Dutch Disease and Other Ailments

Robbert van Eerd

Abstract

In 1959, one of the largest natural gas fields in the world was discovered in the Netherlands. This article describes the impact these reserves have had on the political economy of the Netherlands, and some of the challenges associated with managing the “wealth effect.” Integrating the revenues accrued into the national budget has proven troublesome because of the highly volatile nature of commodity prices. Moreover, the management of the wealth accrued from the reserves has been subject to rent-seeking behaviour, imposing substantial losses on Dutch society. The case of the Netherlands serves as a reminder that rich resource-rich countries stand to lose if the wealth of a natural resource is not treated with the appropriate prudence.

Introduction

The term “resource curse” has been popularized in the last decade, often in relation to developing countries that face sudden influxes of resources, either through the discovery of natural resources or in the form of foreign aid.¹ The curse of natural resources is a notion in international economics that somewhat counter-intuitively theorizes that countries with a great abundance of natural resources tend to grow more slowly than countries without. Empirical studies have shown that this “paradox of plenty” is grounded in fact.² It seems that natural resource abundant countries face problems in achieving export-led growth – a path that has helped many other countries on the way to prosperity. The first account of the problem, however, was from a well-established developed country – the Netherlands. The “disease” associated with a large endowment of natural resources and further ailments caused by the mismanagement of this subterranean capital are the topic of this paper.

The Netherlands is blessed with significant natural gas reserves in the northern province of

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Groningen as well as offshore in the North Sea. But the Dutch case illustrates how this kind of blessing can sometimes be a curse. The first part of the paper will examine the negative effects of the natural gas revenues on the Dutch economy including its impact on manufacturing (the “Dutch disease”) and inflationary pressures. The second part of the paper will elaborate on the expenditure of additional revenues and the “wealth effects” of the Dutch natural gas reserve. The last 50 years of extraction have represented the wasting of billions of euros in revenues.³ More than half of all gas has been pumped already, while the remainder will be depleted within one generation. It is therefore important to use the remaining revenues in a sustainable way.

Although this paper focuses on the case of the Netherlands, the argument is relevant for other resource-abundant countries. While the discovery and exploitation of natural resources might initially lead to inflation, other negative effects can manifest decades later, even in a well-established economy. By analyzing the case of the Netherlands, a country that went through the natural resource experience relatively early, other countries can learn how to avoid the negative externalities that are associated with large natural resource endowments.

The Early 1960s:

The Discovery of the Groningen Gas Field and the Conversion of the Dutch Economy

The year 1959 saw the first exploratory gas drillings in the Dutch province of Groningen, which would turn out to be one of the largest gas fields in the world.⁴ Initially, the recoverable deposits were estimated to be 50 billion cubic meters. The estimates were repeatedly revised upwards, and by 1963, when the first concessions were granted, it was believed that the total reserve could be as large as 1,100 billion cubic meters.⁵ By 1967, estimates stood at 2,200 billion cubic meters (to illustrate how large this volume is, last year’s natural gas consumption in the whole of the Netherlands was about 50 billion cubic meters).⁶ It was soon understood that this discovery had major national implications for the Dutch government and a fierce debate arose about how to use the revenues.⁷

The Minister of Finance, the famous Piet Lieftinck, and the Minister of Economic Affairs De Pou, both members of the *Partij van de Arbeid* (Party of Labor), proposed putting the windfall profits into a “sovereign wealth fund” (SWF).⁸ Since the reserve was expected to be depleted within one generation, they thought the creation of a separate fund was justified.

Minister of Finance (and later President of the Dutch Central Bank) Jelle Zijlstra, who later became President of the Dutch Central Bank, was vehemently opposed to the idea of a separate fund, for three reasons. His first argument was ideological. He believed that “political initiatives and their financing should be weighted within the overall framework of the government budget,”⁹ and feared that a separate fund would only lead to extra government expenditures.¹⁰ Secondly, Zijlstra thought that the natural gas revenues would be too small to justify the establishment of such a fund. The perceived “impermanence” of the revenues contributed to this argument. In addition, one has to take into account the

politico-economical context: energy prices in the early sixties were low and were expected to remain low.¹¹ Zijlstra simply did not deem the reserves important or large enough to justify a deviation from the normal budgetary procedures. The third reason was political. Zijlstra was concerned that a state fund would be managed by the Ministry of Economic Affairs, and would thereby circumvent the Finance Ministry and its relatively austere rules with respect to additional expenditures.¹²

Zijlstra won the argument. A national fund would not be established until a reversal of the policy in the 1990s. Year after year, revenues became subject to the whims of political parties. In 1962, Communist MP Tjalle Jager set the tone by declaring that, “with that money, once it finally reaches the Treasury, we can do beautiful things: enhance social security of the handicapped and the old, improve the wages of government personnel, and build schools and sport centres.”¹³

The Dutch government promptly set about adopting policies and legislation to adjust to the new economic reality. One of the first acts was the establishment of *N.V. Nederlandse Gasunie* (Netherlands’ Gas Union plc), the largest public-private partnership in the world. Its shares were divided between the Dutch state (50%), Royal Dutch Shell and ExxonMobil (25% each). The *Gasunie* was commissioned to exploit the Groninger gas.

Meanwhile the Central Planning Bureau, a key voice in Dutch economic decision-making¹⁴ conducted studies about the optimization of the contribution of the gas revenues to the national income. It concluded that a rapid depletion of the reserves (within one generation) and deep, active market penetration offered the best outcome for the Dutch economy.¹⁵ It was assumed that cheap oil and nuclear energy would soon out-compete gas – hence the emphasis on a quick conversion of the Dutch energy infrastructure to accommodate natural gas. The *Aardgas Nota* (Natural Gas Note) of 1962 stipulated these findings and with its adoption, the Netherlands committed itself to expending its reserves within 25 to 40 years. Only one year later, Groningen was in production and the first Dutch towns were heated by gas. After another year, the primary pipeline network measured some 500km, supported by over 3,000 km of regional pipelines.¹⁶ The rapid expansion of the network had profound effects on the private sector, households in particular. They adopted central heating and cooking apparatus fueled with gas. Electrical power stations started converting too as industrial boilers were adapted to gas. Lastly, the grid meant cheap power for the chemical industry and other energy-intensive industries.¹⁷ The government had deliberately chosen a low gas price to spearhead the conversion.

The extra investments associated with the process of conversion to a gas-run economy initially led to higher economic growth. The investments caused the energy intensity of the national output (measured in the energy-to-GDP ratio) to shoot up. Efficiency was not a priority for large-scale industry or for household consumers. The development of natural gas also led to a hasty closing of the mines in the southern province of Limburg. In 1963, the operating company *De Staatsmijnen* or DSM (Dutch State Mines) employed about 50,000 people; ten

years later, this number had fallen to about one-tenth of its original size. Unemployment in the region would remain a problem for decades and is still higher than the national average. In the early years, there were three main macroeconomic consequences of the discovery of the natural gas reserves.¹⁸ In the first place, heavy capital investment in the grid and other infrastructure occurred as businesses prepared for a gas-fueled economy, as was mentioned above. Most of the capital goods were imported from abroad, leading to a deteriorating balance of payments. Secondly, the switch to gas created extra economic growth of up to 0.4 per cent per annum, while the wealth-effect of cheap gas (substitutes like oil would have been more expensive) yielded a surplus for domestic consumers. Thirdly, industry expanded as it switched to cheap gas, and energy-intensive industries, such as those producing artificial fertilizers and metal alloys, were established. A positive externality in the switch to gas could be found in the air quality, as burning gas emits fewer particles into the atmosphere than the burning of coal does.

The macroeconomic consequences of the natural gas reserves (the “gas effect”) were mainly positive. However, the positive supply shock provided by cheaper gas prices effectively acted as an unwelcome stimulus package for the Dutch economy, at a time when the economy was already overheating. By the early sixties, the Netherlands had achieved full industrialization and was experiencing strong growth combined with full employment in the labor market and only modest inflation. Soon, the post-war wage consensus broke down as workers laid down high wage claims. Labor’s share of national income increased sharply, but it is argued that the gas effect only had a limited role in the wage explosion.¹⁹ Given the timing of the breakdown – when the extent of the gas reserves was wholly unclear – this argument might not be too far off. Increasing welfare for workers inspired politicians to increase other public (social) services, as part of an overall emerging welfare state. The rising wage and expanding public sector were the first signs of what was to face the Dutch economy later in the decade.

The Late 1960s, Early 1970s: Inflationary Pressures Mounting - Dutch Disease

In the late 1960s, the Dutch economy experienced increasing levels of unemployment. Whereas the previous decades had been characterized by a policy of full employment, the sixties ended with the first signs of structural unemployment, i.e. unemployment independent of the business cycle.²⁰ The rise in unemployment coincided with the closure of the mines in the province of Limburg. On a national scale, the impact of the loss-making activity of mining was minimal, yet it proved disastrous for the region of South-Limburg. The effect was partly offset by early retirement schemes and by a rebuilding of DSM (*Dutch State Mines*) into a firm that specialized in chemicals.²¹ The revenues from the newfound natural gas resource financed this transformation.

A second characteristic of the Dutch economy in this period was the acceleration of inflation, which originated in part in the international economy, through higher commodity prices. Yet, for the most part the inflation stemmed from the breakdown of the wage consensus

earlier in the decade. Gross wage claims continued to drive up prices.²²

The government and the oil companies, which together controlled *Gasunie* – the company that had a legal monopoly on the distribution and sale of Groninger gas – agreed to work toward some economy in gas use. They brought up domestic gas prices to the level of world oil prices. This strategy has remained in place ever since. In addition, the State renegotiated the contract with Shell and Esso, and took a greater share of profits from gas, up to 85% above a certain price level.²³ Through the active marketing of natural gas, the Netherlands managed to penetrate foreign markets. *Gasunie* sold large quantities to companies in neighboring countries for a price that was cheaper than the alternative – oil. Consequently, both the government and the companies participating in the joint venture continued to reap enormous profits.²⁴ It was in this period that the first signs of “Dutch disease” (see below) emerged. The natural gas revenues started to have a negative impact on both the aforementioned unemployment and inflation. In addition, the gas revenues brought about an “income effect” (or “volume effect,” since prices were still modest.)

The effect on the Dutch balance of payments also became considerable. The Netherlands guilder appreciated, mostly because of the “gas effect.” The regular increase in exports as a result of higher prices for domestically mined raw materials led to a real appreciation of the exchange rate. This appreciation, in which rising prices in one specific industry (natural gas) worsen the competitiveness of other export-focused industries, is known as the “Dutch Disease.”²⁵ The composition of exports shifts away from manufacturing or services, which ordinarily contributes more to sustainable economic growth.²⁶ Furthermore, the wage pressure in the primary industry leads to wage pressure in other sectors of the economy. As workers seek out the highest wages, wage demands in the secondary sector need to mirror those in the primary sector (extraction and related industries).²⁷ The appreciation of the guilder thus had profound effects on the Dutch industrial base.²⁸ The apparel industry, for example, declined from 60,000 to 20,000 jobs between 1968 and 1978.²⁹ It was around this time that the government started to support major industries such as textiles, leather, shipbuilding and mining.³⁰ Industrial policy from 1963 was geared toward supporting these declining industries. The earlier case of the transformation of the state mines into a large chemical company DSM is just one example.³¹

It was clear during this period that the government had not developed a strategy to deal with the impact that natural gas would have on its other industries or on how to manage the revenues. Some of the revenues were usurped by participating extraction companies, while some were used to finance the restructuring of industries. A percentage of the revenues were also used for political goals that had little to do with supporting the economy of the Netherlands. Since gas prices were still low, the revenues and the ability to waste them remained limited, but this would soon change.

The 1970s and 1980s: Oil Crisis, Depression and the Welfare State

The gas contribution to the government budget started to become meaningful only after 1973. Before that time, low prices meant that revenues did not add much to the general budget. The 1973 oil crisis meant a boycott that specifically targeted the United States and the Netherlands, which seriously disrupted markets. OPEC's subsequent decision to increase oil prices by about 70 percent while cutting back production had profound effects on Western economies.³² For the Netherlands, the effects were mixed. Since the gas price had been linked to the world oil price, the gas reserves increased in value and the state's revenues from the sales of gas rose sharply. The Den Uyl government that had come to power the same year was determined to use the extra money to weather the effects of the recession.³³ Den Uyl's cabinet was an amalgam of progressive parties that, with the exception of the Labor Party, had assumed office for the first time.

During their term, Den Uyl made a clear choice in favor of consuming rather than investing the natural gas revenues.³⁴ The government was able to construct high-level social infrastructure as it tried to stimulate the economy with Keynesian fiscal policies.³⁵ These included re-employment plans and social security payments. Nearly 10 percent of public expenditure was financed through the natural gas revenues.³⁶ Because this ensured that wages and prices remained high, it further undermined the competitiveness of Dutch industry.

Throughout the 1980s, the effects of the Den Uyl policies were felt. In the mid-1980s, for example, social security payments alone totaled 20 percent of GDP. Four out of every five persons employed were collecting some form of benefit!³⁷ Apart from incomes policies and measures taken to keep purchasing power at old levels, the Den Uyl government engaged in industrial policy to stimulate the economy. The supply of cheap energy – gas at reduced prices – stimulated growth in industries such as oil refining, chemicals, steel, aluminum, paper and the intensive horticulture in the greenhouses of the Westland near The Hague.³⁸

Opposition parties in Parliament picked up on the dangerous developments set in motion by Den Uyl. The government was accused of squandering the revenues by subsidizing consumption and fueling transfer incomes. "The ratio of tax-to-GDP kept on going up, the budget deficit continued to increase, as did the gas reserves. This was great for Den Uyl, but it did start the explosion of public expenses that we are now still trying to curb," an opposition MP remarked.³⁹ Public money was "jubilated" by creating employment at the cost of 100,000 guilder per job and subsidies to community centers and local organizations.⁴⁰ To accommodate the de-pillarization and social uproar of the 1960s, Den Uyl used public money to buy off protesting students, to support health care users and those in the public housing system and to enhance the cultural sector.⁴¹

The wasting of public money on a large scale continued under subsequent governments. The Van Agt-government that followed Den Uyl allowed the government deficit to grow to a record 12 percent of GDP. In 1982, government expenditures equaled more than 55 percent

of GDP.⁴² The Netherlands had entered a negative wage-price spiral by then, which was only resolved with the Accord of Wassenaar in 1982 that stipulated wage restraints in exchange for more jobs.

Throughout the eighties, the Netherlands remained a large natural gas producer. In 1988, for example, Dutch gas production totaled 41 percent of the European Community production.⁴³ The value added of gas production represented a record seven percent of GDP in 1985, but decreased to 3 percent a few years later. Revenues from natural gas as a proportion of total state revenues fell from a high of 17 percent to four percent in 1989, mostly due to failures of OPEC to control the market fully.⁴⁴ Clearly, the volatility of natural gas revenues has had and continues to have a major impact on the government's finances. It is because of this large impact that the Dutch budget is so sensitive to price fluctuations of gas. Trade also had an effect: gas exports peaked in 1985 at 7.7 percent of total exports, while Dutch dependency on imported energy fell from 52 percent in 1970 to a mere 21.6 percent in 1988. The strong impact of gas on the current account balance led to a balance-of-payments surplus for the Netherlands.

Throughout the 1970s and 1980s, energy policy remained an important part of industrial policy. Large consumers of natural gas such as energy-intensive industries enjoyed a substantial discount to keep their costs low.⁴⁵ Chemical companies, the steel company *Hoogovens* and the green houses in Westland are all examples of industries that have flourished because of an active industrial policy.⁴⁶ The energy intensity of the economy jumped ahead.⁴⁷ The oil crisis made the jump possible, as it hugely increased the government's revenues. In large part, they were used to finance an ever-expanding welfare state.

The 1990s: The FES Fund and the White Elephants

The year 1995 saw the first reform to the system for allocating revenues. Instead of adding all revenues to the general budget, a special fund was established.⁴⁸ The *Fonds Economische Structuurversterking* (Fund for Economic Structural Reform), or FES Fund, was designed by the cabinet of Prime Minister Lubbers to diminish the effects of the natural gas revenues on the yearly budget.⁴⁹ Revenues in the fund were designated for "investment projects of national importance meant to reinforce the economic structure."⁵⁰ Categories of investment include a wide range of areas, such as traffic and transportation, knowledge and innovation, and, since 2007, water management and environmental investment. The Fund is administered by the Ministries of Finance and Economic Affairs. The latter ministry controls a greater part of the Fund, because much of the money ends up in the general budget for infrastructure.

The impact of the Fund was initially limited. For a one-euro increase in gas revenues, 30 cents ended up in the Fund or was used to reduce the national debt. The remaining 70 cents was used for increased government expenditure or to lower taxes. Over the years, however, the Fund has become more important. In the 2000s, it captured about half of all gas revenues.⁵¹ The money available for project financing quadrupled from 24 billion euro in 1998 to almost

100 billion euro in 2002. Ex-post assessments of the projects the Fund invested in show that the money was not well spent however.⁵² In 2006, the prestigious Dutch Central Planning Bureau (CPB) conducted a review of the Fund's investments. Its findings were alarming. Of the 49 projects that were surveyed, only 14 showed favorable or satisfactory results. Fifteen projects showed no clear results, and 20 showed clearly unfavorable results.⁵³ Overall, most projects contributed very little, if anything, to the overall health and wealth of the Dutch economy.⁵⁴ The "structural investments" aimed at achieving long-term profitability appeared to stimulate consumption more than investment – the majority of the money was simply spent,⁵⁵ and was occasionally "borrowed" by government to satisfy political demands.⁵⁶ If the Fund was designed to engage in rent-seeking activities, it clearly failed.⁵⁷

The Fund became particularly notorious for its investment in so-called "white elephants," all of which were highly *unprofitable*. Examples include large infrastructure projects such as the high-speed railway connecting Amsterdam to Brussels, to the European high-speed railway network and the Betuwe Line freight railway linking the port of Rotterdam to the German hinterland. In both cases, the costs of the project have escalated over the years.⁵⁸ In the case of the Betuwe Line, the costs ended up twice as high as originally budgeted, at an additional cost of 2.4 billion euro. These infrastructure projects were both financed from the Fund.⁵⁹

In recent years, criticism of the way FES funds have been allocated has increased. The disbursement of money to "infrastructure" or "innovation" is based on vague criteria. Ex post accountability is minimal and cryptic.⁶⁰ The Advisory Council for Science and Technology Policy (*Adviesraad voor het Wetenschaps- en Technologiebeleid*), the Council of Economic Advisors, the Court of Audits and the "Innovation Platform" all acknowledge that the FES Fund has wasted money.⁶¹ Former Secretary-General of Economic Affairs Van Wijnbergen has also acknowledged the failures of the Fund, and has criticized the government for using unexpected revenues to finance additional expenditures.⁶² Calculations show that a mere 15 percent of funds allotted ended up going towards infrastructure projects.⁶³ It is clear that plans to invest in infrastructure (the idea of transforming subterranean capital – the gas – into capital above the ground) have failed.⁶⁴

2000s – Halfway in a Sustainable Way?

By the 2000s there had been over 50 years of gas exploration in Groningen province.⁶⁵ New plans for offshore drilling at the Dutch Wadden Sea – a World Heritage site – were drafted. A commission had advised the government to allow drilling in the Wadden Sea, even though this would harm the environment.⁶⁶ As had become common practice, the Commission suggested the allocation of about 10 percent of the total expected revenues – 800 million euros – for the protection of some of the area.⁶⁷

Some, like Professor Scholtens from the University of Groningen were highly critical of the drilling plans and of the way in which the government had been managing the revenues. Others sought ways to benefit from the new drilling plans. Environmental organizations

pleaded to use part of the revenues for long overdue ecological investments in the Wadden Sea;⁶⁸ members of parliament and the government asked to use the money to restructure and/or compensate the cockle fisher fleet whose activities were no longer allowed under new European legislation.⁶⁹ In the end, the Minister of Finance agreed to compensate the fishing sector.⁷⁰

Other concerns with respect to economic policy have risen, especially with regard to demographics. Since the Dutch population is aging rapidly, many are concerned that the cost to the budget will eventually become unaffordable. The ratio of workers-to-pensioners will be too small, i.e. there are too few workers to pay for the rising number of pensioners and their escalating health care costs. If the Netherlands had had a sovereign wealth fund, the effects of the aging population could have been mitigated for at least a generation after the country runs out of natural gas.⁷¹ Several studies have run scenarios and based on the outcome have suggested that the natural gas revenues be used to finance the costs of an ageing population.⁷²

Similarly, the Dutch Central Bank (*De Nederlandsche Bank*, hereafter: DNB) did a study and published a report advocating for a separate fund for the natural gas revenues.⁷³ The report outlined three ways in which the remaining gas wealth could be used, for: 1) investment; 2) the creation of a Dutch Sovereign Wealth Fund or 3) the reduction of public debt, which has reached record levels since the state implemented a rescue package to mitigate the effects of the 2008 financial crisis.⁷⁴

The report also stressed that a fund could help counter the high volatility associated with commodity prices. Rising oil prices boosted income from natural gas extraction, effectively doubling the sector's contribution to the national economy since the year 2000 to 2.1 percent of GDP in 2008.⁷⁵ This totaled to an incredible sum of 13.5 billion, or 9.2 percent of state revenues.⁷⁶ Although this share is smaller than other, more notorious cases of resource-rich economies like Russia, Venezuela and some African states, its effect should not be underestimated. Fluctuations in gas reserve revenues of 0.5% of GDP cannot be neglected when compared to the usual fluctuations in the budget balance.⁷⁷ The figure above illustrates the increase in the natural gas revenues in the last ten years (left axis, billion euro revenues). The blue line shows that the gas revenues make up an ever-growing percentage of total state revenues.⁷⁸ Another problem associated with the management of natural wealth is that of optimization of inter-temporal consumption allocation. Because revenues are exhaustive and volatile, spending (consumption) will also be volatile, making redistribution between generations difficult.

Finally, the DNB recommended keeping the capital fixed, and using just the returns on the revenues,⁷⁹ instead of “magically” adding large amounts of revenue to the general budget every year. In this way, extraction is just a transformation of subterranean capital to financial wealth.⁸⁰ Currently the FES funds prevents this, as the revenues are mostly consumed.

Counterarguments to a complete separation have centered around the perceived trade-off between a financial form of wealth preservation (the Fund) and actual investments in the real economy.⁸¹ Restrictions would be too severe, resulting in money only ending up in the Fund rather than being allocated to major public investment projects. The aforementioned examples have shown, however, that politicians were not always able to correctly assess the uncertainties and risks related to projects. At other times, politicians carefully ignored economic theory to support coalition governments or specific interest groups (*cf.* the Wadden environmental organizations.) Both resulted into the financing of projects that were insufficiently profitable, a finding confirmed by the DNB.⁸²

The government at the time, a “grand coalition” of Christian-Democrats (CDA), Social Democrats (Labor - PvdA) and a smaller Christian party, gave the DNB report a lukewarm response.⁸³ The Ministers of Economics and of Finance were particularly eager to dismiss the suggestions of the report. Finance Minister Bos (PvdA) stated that he “favored investments in higher education and sustainable energy over civil servants speculating with public money [from a State Fund] at the stock market,” while Minister Van der Hoeven (Economic Affairs, CDA) said she thought her own plans were better (the Ministry of Economic Affairs controls the FES fund.)

It is very unfortunate for the Dutch that the proposal of the Central Bank was not more warmly received. As Milton Friedman acknowledged, only a real crisis – actual or perceived – produces real change.⁸⁴ At the beginning of this year, the Netherlands was chastised by the European Commission. Its Quarterly Report on the Euro Area states that the Netherlands will have to curb expenditures, since it faces “a very significant rise in age-related expenditure over the long term.”⁸⁵ The Commission placed the Netherlands in the same list of high-risk countries, such as Portugal, Italy, Greece and Spain, and judged that the status quo is unsustainable. The report caused quite the uproar in the Netherlands, but its findings are not surprising. Under the current government, the national debt grew by 33 percent in 2008, as it fought the recession and implemented rescue operations for the banks.⁸⁶ With the exception of Ireland, there was no other European country where the debt increased by such an amount – 87 billion Euros in one year. In the coming years, the Netherlands will have to pay about 13 billion Euros each year just to service the interest on its debts, which is about the same as what was accrued from gas revenues in 2008.⁸⁷ In 2009, the situation was even worse. GDP shrank by 4 percent, which is the worst drop in total output in recent economic history and even deeper than the drop at the height of the Great Depression in 1931. The current economic crisis may be sufficiently bad to induce change, as predicted by Friedman. Elections will occur at the beginning of this summer. Ideas for an alternative management of the natural resource wealth are ready and available, but it remains to be seen whether they will be promoted by political parties.

Conclusion

In a recent essay in *Foreign Policy*, journalist Thomas L. Friedman postulated “The First Law of Petropolitics.” It posited that “the price of oil and the pace of freedom always move

in opposite directions in oil-rich petrolist states.”⁸⁸ The article argues that there are several reasons why the democratic process of oil-rich states (or natural gas-rich states for that matter) is hampered, including a “spending effect” that leads to greater patronage spending. Friedman finds that there is a strong correlation between the oil price and the incidence of antidemocratic policies in a country. As the natural gas price is linked to the world oil price, we can infer that the same law applies to countries with an abundance of natural gas. Friedman, however, excludes countries like Norway, Britain, and the United States because they “were well-established states, with solid democratic institutions and diversified economies before their oil was discovered.”⁸⁹

Unfortunately, as demonstrated in this paper the effects of natural gas reserves are able to corrupt the systems of even advanced economies. The Netherlands has used its natural gas reserves to build an extensive welfare state and initiate grand projects, without having to worry about an appropriate financing mechanism; politicians have not been able to resist the temptation of spending money for which little accountability was required. The 1990s saw the creation of a special Fund for a better distribution of revenues, but as was proven, these attempts have largely failed. Money went toward typical white elephant investments including huge infrastructure projects, and in other cases was not even invested but just spent.

The evidence provided suggests that Friedman and others have too easily assumed that it is only developing countries, which lack the appropriate institutions that are at risk of mishandling funds generated from natural resource reserves. The risks and responsibilities that come with rich natural deposits should be well understood so as to avoid the mistakes that have been made in the Netherlands. With an aging population, the Netherlands will have to address the financing of its welfare state. After having enjoyed such generous benefits for so long, the adjustment process toward a sound, long-run fiscal balance will be tough.

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Rereading Paul Kennedy's Rise and Decline of the Great Powers

Mark Gilbert

Paul Kennedy's *Rise and Decline of the Great Powers* was first published in 1988. Unusually for a substantial work of historical argument, it enjoyed widespread critical acclaim and large sales. This was perhaps less for its enormous merits as a work of history than for its willingness, in its concluding eighth chapter, to draw conclusions from historical experience to make predictions. In particular, the book won notoriety for asserting that the U.S., like Britain or Spain before it, was running the risk of what Kennedy called, almost in an aside, "imperial overstretch." This phrase caught on. However, the almost immediate collapse of the Soviet empire and the failure of Japan after 1989 to maintain its post-war record of rapid growth and to transform its economic prowess into political power seemed to disprove Kennedy's pessimistic prognosis of relative American strength.

Times change. Kennedy's diagnosis now seems substantially right. Kennedy saw clearly that the United States, for all the excellence of its scientific know-how, unmatched military and deep capital markets, was being challenged by new rivals with larger savings, more engineers and big ambitions. As a result, the bipolar Cold War world was likely to be replaced by a multi-polar one in which the U.S. was first among equals but not necessarily supreme. It is a prediction that has weathered well.

The idea that America was "overstretched" followed on logically from the book's overall analysis. In brief, Kennedy argued that empires rose and declined as a result of their ability to stay abreast of economic and technological change to achieve relative prosperity and dynamism. Great Powers became and stayed great if they out-produced rivals by innovating more, organizing themselves better and balancing consumption and investment. They declined if they failed in these tasks (or if their rivals were more successful: mere competence is not always enough). Historically, the testing ground of national greatness has been the capacity to wage war on a large scale. In all the major wars of modern history, the decisive

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element has invariably been economic might: “victory has always gone to the side with greatest material resources.” Nazi Germany lost to Great Britain, the United States and the Soviet Union not because it had worse soldiers (its battlefield prowess was undeniable), but because Germany was matched for productive power by Great Britain alone. Once the colossal productive resources of the U.S. and the USSR were mobilized against Hitler, even the Wehrmacht could only postpone the inevitable, not overturn the result.

The same inexorable logic was visible during the Cold War, where the limitations of the Soviet command economy fatally weakened its challenge to its more innovative and flexible American rival. As weapons systems became more complex and expensive, and as economic growth became about improving productivity and adding value, rather than just turning out larger mounds of cement or steel, the strain of matching U.S. military strength became too much for the Soviet economy. Kennedy did not date the implosion that would end the Cold War within months of his book’s being published, but he did detail succinctly the structural problems that had left the USSR unable to compete with its great rival by the time Mikhail S. Gorbachev came to power in 1985. With only 12 percent of world output, hopelessly inefficient agriculture, a sprawling bureaucracy and huge areas of backwardness in non-military technology, the USSR was simply fighting a losing battle.

Kennedy’s core argument was that although the U.S. had amassed unprecedented war-making potential during the Cold war, its economic leadership, the crucial foundation for its military dominance, was being eroded. The book’s famous last chapter, “To the Twenty-First Century,” implied that three other “power units” (China, Japan and the European Community) were gaining rapidly in relative economic strength, although all three were problematic challengers for the U.S.’s title.

The EC, Kennedy suggested, clearly had the potential to be a Great Power. It had, in the mid-1980s, 320 million people, an economy as large as the U.S.’s, a highly trained population, a military establishment of no small size, including two countries each armed with an independent *force de frappe*. The EC’s problem was purely political. It was not unified and did not speak with a common voice in international diplomacy. It was, in short, like the German Federation before Bismarck: a would-be giant lacking cohesion, which is a polite way of saying the will to power. Kennedy was pessimistic about Europe’s ability to find unity. The EC was an “enigma,” he asserted. If the member states of the EC could really act together, they would greatly increase their standing in the world; if they did not, which seemed to Kennedy to be the more likely outcome “given human nature,” Europe was doomed to “relative decline.”

Few people who have studied the history of the European Union (EU) since the 1992 Maastricht Treaty will find Kennedy’s diagnosis anything other than convincing. Despite enlargement to 27 states and the introduction of the Euro, both of which generated loose talk of an emerging European superpower, the EU today is visibly losing momentum. Its leadership structures are contorted and it has still not learned to speak with a single voice in foreign affairs. Its economic performance has been mixed: the best performers in northern Europe are among the most competitive economies in the world; the worst, in the Mediterranean, are stagnant and/or debt-ridden. One has to wonder for how long Denmark and Italy can stay in the same

organization. Its military capacity has weakened since the 1980s and, except for a handful of peacekeeping missions, is not used under the EU flag.

According to Kennedy, Japan was akin to the EC. Like the EC it was mighty in economics, puny in politics. Japan had prospered since 1945 behind an American military shield. Tokyo had been able to spend even less on defence than the Europeans and had generally taken a low profile in international affairs: "For the past quarter-century...Japan has been able to enjoy all of the advantages of evolving into a global economic giant, but without any of the political responsibilities and territorial disadvantages that have, historically, followed from such a growth." But Kennedy argued that such political escapism was unlikely to last. What if a second Korean war broke out? What if an overextended America began withdrawing from the Far East? What if a "declining and nervous" USSR began behaving aggressively? Would Japan be able to find the political will to meet such challenges? Kennedy was doubtful.

This analysis seems even more apposite in the wake of Japan's lengthy depression in the 1990s, which sent the national debt to astronomic levels, and the series of ineffectual governments that have made little impact on international opinion since the 1980s. Japan has become Asia's Italy, rather than the would-be Pacific hegemon of East Asia that inspired so many alarmist works in the 1980s.

Above all, Kennedy predicted the rise of China. "Peking" was a "candidate super-power" in its own right. Its 1.3 billion people, rapidly rising GDP, impressive achievements in military technology, stable (albeit oppressive) government and willingness to say "no" to the superpowers all boded well for its future. China had the Great Power mentality. It was "only a matter of time" before China's sheer size and political will began posing geopolitical problems for the rest of the world: "the more that China pushes forward with its economic expansion in a Colbertian, *étatiste* fashion, the more the development will have power political implications." This was a prediction that was by no means as obvious in the 1980s as it seems now. Many scholars doubted that China could transform itself into a largely market economy without political disruption and social breakdown. Kennedy's confidence in China's emerging prowess was based upon his conviction that China had got its priorities right. Chinese leaders had made enhancing the military only the fourth of the "four modernizations" after agriculture, industry and science; they were concentrating, in short, on building up their economic power before attempting military adventures. This was just as well since China would remain a poor country even if its economic growth remained high. Its great weakness was that it could easily overstretch itself if it tried to do too much.

This precocious diagnosis of China's rising power was an impressive intellectual feat. China has surpassed even Kennedy's expectations and is now the second-largest economy in the world and the world's largest exporter of merchandise. Its insatiable demand for resources is causing it to expand its influence in the Pacific, in Africa and the Middle East. It has amassed vast reserves of U.S. dollars; dollars that it needs to use or potentially lose as the dollar erodes in value. It is surely only a question of time before its economic clout is turned into greater military power and its financial reserves are switched from T-bonds into other investments.

Recognizing that the U.S.'s decline would not be military, or even economic, but financial and political was a shrewd insight. The sheer size of the U.S. landmass, economy and military meant that it would be first among equals for the foreseeable future; Kennedy did not dispute this: indeed, he stressed the point. But Kennedy was already worried in the mid-1980s about U.S. deindustrialization and its implications for U.S. power and, in effect, doubted that the U.S. could wean itself off over-consumption. By the 1980s, the U.S. was turning itself into the world's biggest debtor: it ought to have been, like Britain before it, the biggest creditor. The only, hardly encouraging, precedent that Kennedy could find for such laxness was France before 1870. Kennedy perceptively saw that it would be hard for the U.S. economy to detox from its habits of over-consumption and debt, though he forgivably did not contemplate that the U.S. would spend most of the 1990s and 2000s binging on private and public debt in way that made the Reagan years seem almost lacklustre.

Kennedy is typically cast as a "realist." Relative power is the key determinant of world politics. Kennedy does believe this, but it is not the whole story. Unlike the many theorists who speak as if nations are entities that reason and act without human interference, Kennedy never forgets that states are led by leaders who make good and bad decisions. His realism is founded upon the historical pessimism of Machiavelli, not the abstractions of IR textbooks. Like Machiavelli, Kennedy regards fragility as the essence of history. Empires rise and fall unpredictably, as social changes and technological advances enable some countries to advance faster than others, and leave other nations floundering. But his argument is not deterministic. We are not wholly in the lap of the gods. Political leaders can make a "friend of fortune," to use Machiavelli's famous phrase, by following sound economic policies, living austere and investing in the military. Statesmen possessed of *virtù*, who are capable of steering the craft of the state along the "stream of time" without running into a backwater or, worse, heading over the rapids, are indispensable. Leadership is the true wild card: poor helmsmen can drive even the sturdiest craft on to the rocks, though even the most inspiring cannot prevent a craft from being overtaken. Historians may one day conclude that the United States experienced this fate between 2002 and 2012.

Such a picture of the world may seem a bleak one. Is this really how we should be looking at the future? As a Darwinian struggle between states in which only the fittest will thrive, and then only temporarily? What about using power collectively to slow the pace of global warming, or to alleviate world poverty? Should we not be empowering international institutions to ensure greater reliance on legality and to promote mutual trust? The EU's more vocal supporters make great play of its supposed "normative power" as a transmitter of the values of democracy, human rights, ecological awareness and free trade (except in agricultural products) to neighbouring nations and peoples without these good things. Surely all the great powers should take a leaf from its book?

Perhaps they should, but they probably won't. That is the explicit message of Paul Kennedy's book. The future is likely to be like the past. China is rising and threatening the U.S. just as Germany challenged Britain and France superseded Spain; as its economy grows in technological prowess and accumulates greater stocks of dollars its challenge is likely to

intensify. How will the U.S. or Japan react if the Chinese state's financial clout is diverted from keeping yields low on U.S. bonds? What will happen if China imposes client rulers in resource-rich countries in Africa and Latin America? What will happen if Beijing refuses to allow the yuan to float upwards for any length of time? What would be the consequences of a trade war between China and either the EU or the U.S.? Just to state the questions is to grasp how the potential for tension between the U.S. and China exists. Questions of power politics, in short, do matter and will continue to matter. Nor, incidentally, is China the only power capable of being assertive. Russia, Turkey, India, Brazil, and the EU all have the economic power and political ambitions to set their own agenda even when they conflict with those of the United States.

Rereading Kennedy's book, one realizes that he got far more right than he got wrong. The more gung-ho neoconservatives, with their at times delirious assertions of a U.S. "empire," were the ones whose world view was erroneous. As Kennedy predicted, the world has become a more complicated place and the U.S.'s dominant position has visibly diminished. It is the inevitable concomitant of being in hock to the rest of the world. Not so long ago, questions such as "If post-withdrawal Iraq collapses into turmoil, what will the U.S. do?" "If North Korea implodes, what will the U.S. do?" "If China and Taiwan get into a shooting war, what will the U.S. do?" would have been answered in military terms. They now emphatically have an economic dimension. Such questions can only be answered by also answering "how big a deficit can Americans stand?" Or, perhaps more accurately, "how big a deficit are foreigners prepared to fund?" Another major international crisis, with Iraq-style costs, would deliver the *coup de grace* to the U.S.'s credit rating with predictable and dismal effects on the dollar, on relations with trading partners, especially in Europe, and on American public opinion, which would not be willing, or even able, to pay the price of greatness if it meant cuts in Medicare just as the baby-boomers retire.

The overall conclusions derived from rereading Paul Kennedy's *Rise and Decline of the Great Powers* induce anxiety. This article has made the argument that Kennedy got the big trends right indeed, more right than he himself dared to speculate. The Soviet Union did succumb to its economic failings, fortunately with a whimper, not a bang; the EU is a flower that faded before it bloomed; China has become a candidate superpower; Japan's politicians steered along the stream of history with insufficient verve; the U.S. has, as Kennedy predicted, squandered much of the economic and political patrimony that it inherited at the end of the Cold War. There is no world policeman or even a single nation able by moral suasion or economic clout to set the global agenda. This situation, in historical terms, is normal but dangerous. Recognizing that perhaps unpalatable fact is a precondition for resolving the issues of climate change, freer trade and global poverty that world leaders have made their priorities in recent global forums.

Taking Islam out of Europe's Islam Problem: **A Review of Olivier Roy's *Secularism Confronts Islam***

Allison Hart

Whether considering the recent Swiss ban on the construction of minarets or the French and Belgian efforts to bar the burqa, there is little doubt that Europe continues to have a problem with Islam. There is, however, a real problem with the Islam “problem” in that it is a broad net cast over issues including immigration and integration, faith and fundamentalism. The desire to frame Islam in Europe as a single and easily definable phenomenon is understandable but damaging, as is the tendency to read “Islam” into myriad social issues. In *Secularism Confronts Islam*, Olivier Roy helps to disaggregate elements of Europe’s difficulties related to its Muslim populations. He steers the conversation about Europe’s Muslims in a useful direction by demonstrating how a focus on agreed rules of the game is more important than a debate over dogma and illustrates that, far from being incompatible with secularism, Islam in Europe has already been transformed by it.

Roy examines Europe’s Islam debates and finds that the arguments that cast Islam as incompatible with secular Europe fundamentally misunderstand the practice of Islam in Europe today as well as the contract between believers of any faith and the secular state. Secularization is a social process that occurs over time and changes the way religion is experienced, shifting it from the communal to the individual. Sometimes the effect has been to reduce religion to a historical idea—the mold for the foundation of society that is no longer necessary once the foundation has solidified. This has been the case among many of Europe’s Christian communities. In other cases, though, secularization changes the experience and practice of religion without removing its importance. Roy finds the latter at work among many practicing European Muslims. “Secularized” believers live their faith as individuals and create a new practice around the contexts in which they live. Moreover, Roy emphasizes, the successful relationship between the believer and the secular state need not come from an acceptance of the values of the state but rather from an agreement to abide by the state’s rules.

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In discussing the question of Islam's compatibility with Western values, those on both sides of the argument usually point to passages from the Quran and to anecdotes from Islamic history. Some find elements in sharp contrast with Western ideals while others see essentially common foundations on which Judeo-Christian society is built, but whether Islam is touted as a religion of war or of peace, the benefits of this debate are dubious. The experience of Muslims in Europe today is distinct from those of 7th century Medina (as well as of 21st century Cairo). European Muslims have in many ways adapted the conceptualization and practice of their faith in light of their current contexts, making the Islam practiced in Europe today distinct from traditional Islam and so not readily explicable by the study of Islamic traditions and theology.

And yet even if theology played a significant role, is there a place for non-Muslims in reshaping Muslim dogma? If as Roy points out the secular state does not attempt to instate female priests in the Catholic Church, why then does there seem to be such a concern with synthesizing Islamic religious practices with secular ideals? The key to the peaceful coexistence of religious citizens and a secular state lies not in adapting religious values but in adherence to a set of rules. Roy offers the example of abortion: it is not necessary for a citizen to believe that abortion is morally right, but he must agree not to bomb the clinic where it is performed, prevent a woman's access from the procedure, nor harm the doctor who might perform it. The rule in this case is permissive but does not compel – a member of the society, Muslim or not, may not like what is allowable but is not obliged to participate in the permitted act. While it may be unsatisfying to some that certain members of society strongly disagree with some of the rights guaranteed by that society, disagreement that does not impair the rights of others is not grounds for excommunication.

In highlighting why Islam does not need to be a part of the conversation about integrating Europe's Muslims, Roy neutralizes so much of the ammunition used by far right or anti-Muslim groups who claim an intrinsic incompatibility between Islam and the West. His focus on playing by the rules creates a space in which solidarity can be constructed without sacrifice. However, while Roy provides a useful reframing of the relationship between practicing Muslims and the secular state, he ignores the possibility that some might refuse to play by the rules. It seems there are two categories of rule-refusal that are useful to address: general rejection and general acceptance with specific violation. In the first case, there are those who reject the system on the whole. Concerns over this refusal are particularly relevant given that the context for refusal might arise from precisely a "secularized" Islam that is detached from tradition and therefore creating a new identity purportedly grounded in the "pure" fundamentals of the faith. Those who make up this category are likely to be radical and may be dangerous. Examples include members of groups like Hizb ut-Tahrir who may live in European countries but who seek separation from or even destruction of the secular systems under which they live. But legitimate as concerns over radical groups might be, those who might reject the rules wholesale make up a relatively small portion of Europe's Muslims, and like others who shun the social contract and break its rules, they are best dealt with by the law.

The second category presents more of a challenge. In this category, the system of rules is accepted, but particular rules are rejected not because they are permissive but rather because they are restrictive in such a way as to bring the requirements of faith into direct competition with the requirements of the secular state. The most prominent example of this type of rule is a ban on headscarves. If a woman chooses to break this rule, it is not necessarily a matter of theology—many Muslim women believe they are required to cover their hair in public while many others do not. Religious edicts have been issued by prominent theologians who have ruled that if a Muslim woman is living in a society that does not permit her to cover her hair she is not obliged to cover it. However, what is at stake here has less to do with Islamic principles than with Western ones. If a society is said to allow religious freedom and yet forbids elements of the practice of a particular religion—elements that do not infringe on the rights of other members of society—what message does that send to those members of society who see themselves as members yet are being denied their rights? Some of those in question will choose to violate the rule because they prize their faith over their membership in that society. Others, however, may violate the rule precisely because they believe in the importance of their membership in society and cannot tolerate society's rejection of what they see as a right that should be guaranteed by the system.

Not all who disagree with a restrictive rule will violate it, but the impact of the rule may be resentment. If individualism is part of the secularization of religion, it should not be surprising that in becoming secularized individuals, some would seek to assert their individuality through public manifestations of their personal beliefs, not wholly unlike so many teenagers who seek to assert their individuality by wearing the Chuck Taylors best representing their deepest selves. When the reaction to this assertion by Europeanized Muslims is rejection by the very societies they see themselves as part of, it is not surprising that they would feel wronged. However, though it does not exonerate the societies that bend their own rules to avoid the acceptance of a perceived other, demand for participation in the system will persist, and unless Europe's Muslims are forced to the outskirts of society, they will grow in their European identities. The Islam they practice will continue to evolve with them.

Not every headscarf-wearing European Muslim is a champion of the secular system. But the idea that for some, an insistence on the right to wear a headscarf does not mean the rejection of Western society but rather a manifestation of the embrace of rights granted by the secular state is worth consideration. Europe may think it has a problem with Islam, but Roy demonstrates that Europe can integrate its practicing Muslims just as it does its committed Catholics, its avid atheists, and its ambivalent agnostics—by moving the conversation away from disagreement over religious beliefs and toward a recognition that what matters more is that members of European societies, Muslim or not, agree with the rules of the game.



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