# POWER SHIFTS

## Revolution, Global Uncertainty and the Evolving Balance

Power Shifts
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The *SAIS Bologna Center Journal of International Affairs (BCJIA)* was established by the graduate students at the SAIS Bologna Center in 1997 to provide a forum for discussion and the dissemination of ideas about current issues in the field of international relations. The BCJIA aims to provide a formal outlet for thought-provoking scholarship from students and faculty at the Bologna Center and other graduate institutions, and welcomes work from experts and practitioners.

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**Note from the Editor-in-Chief**

Dear Readers,

A cursory glance at global events and developments over the last year is all one needs to understand why we have chosen "Power Shifts" as the theme of this year's issue of the *Bologna Center Journal of International Affairs*. The Arab Spring continues to roil the Middle East and North Africa, where four regimes have succumbed to popular calls for change and others seem increasingly fragile. As China, India, Brazil and Russia continue to boast impressive growth rates, the USA – no longer "AAA" – continues to experience economic woes, overwhelmed by public debt and facing structural deficits. In the Eurozone, the tribulations of an increasingly moribund-looking monetary zone have seen heads of state shunted from office as decrepit growth rates, public debt and political discord threaten the European unification project. Throughout the world and in so many ways, power is shifting.

A "power shift" is a nebulous concept, oft-used but rarely defined by journalists, commentators and academics alike. This issue of the BC Journal has offered its contributors the opportunity to use and address the notion as they see fit. In the context of international politics, "power shifts" can be understood in a multiplicity of ways.

Perhaps most commonly, the term is used systemically to refer to fundamental structural change in the world order. The much-ballyhooed "decline" of the West and the "rise" of the so-called BRIC countries represent such a shift, as pundits herald the transition from a "unipolar" to a "multipolar" world. The term is also employed to indicate shifts in the context of regional power struggles, when one state gains the upper hand vis-à-vis a competitor. In both of these senses, power shifts are conceptualized as changes of relative power between states. Yet states' monopolies on power are decreasing, and authors increasingly write about the shift or "diffusion" of power to non-state actors. Finally, power may shift within countries, as despotism gives way to democracy, as states transition to alternative forms of governance, and as women, ethnic, and religious minorities – long-marginalized throughout the world – stake a claim in governing their countries.

The articles contained in this volume draw upon a number of these conceptualizations, forming a rich assortment of papers addressing salient academic and policy debates which concern shifts of power. Charles Doran's opening piece interprets the rise of China, discussing systemic power shifts within the scheme of his own power cycle theory. Karim Mezran and Alice Alunni analyze how power has shifted to new political actors in North Africa as a result of the "Arab Spring" uprisings. Çiğdem Akın explores the influence of emerging markets and the power shifts underlying structural change in the increasingly multi-polar world economy. Patrick Mendis and Leah Green examine the strategic policies underlying the U.S.-Indian Civil Nuclear Cooperation Pact and how this agreement impacts the evolving struggle for pre-eminence in South Asia, and David Gilmour brings our academic world-tour of power shifts back home in an article that argues for a federalization of political power in Italy.

Alongside these articles by established academics and writers, this volume includes a number of papers from students of the Johns Hopkins University SAIS Bologna Center. Carlos A.B. Góes examines Brazil's rise as a major global economic power while Shelley Ranii explores a power shift of a very different character in interpreting the rise of women in Latin American politics. Anticipating the considerable role that global climate change will play in shaping international relations in the coming century, Chiara Rogate and Marco Ferrara analyze how climate change is fueling security competition in the Arctic region. Geoffrey Levin re-examines the record of George W. Bush's "Freedom Agenda" in light of the 2011 Egyptian uprising, and Maximilian Meduna explores the complex dynamics of intra-state power shifts in Somalia in a paper that assesses the prospects for achieving sustainable peace in the world's most failed state. Completing this volume, Graham Norwood contributes to the debate on American decline in a critical review of Jeffrey D. Sachs' *The Price of Civilization: Reawakening American Virtue and Prosperity*.

The sub-title to this issue, *Revolution, Global Uncertainty and the Evolving Balance,* serves both to characterize the way in which many power shifts are manifesting themselves in contemporary world affairs, and to underline the fluid and uncertain nature of shifting power. Power and its shifts, however they are defined, are always contextualized by the unpredictable happenings of international politics and world affairs. The product of power shifts – the "new look" of the world – can only be explored through rigorous contextual analysis. Each contribution in this issue recognizes this truth, and makes a serious attempt to interpret past and present power shifts and to assess how they might shape the "new look" of tomorrow's world.

It is my great pleasure to introduce readers to the 15th issue of the *Bologna Center Journal of International Affairs*, which comprises a powerful, diverse, and thought-provoking collection of articles. It is the product of enormous hard-work, commitment, and creativity. I would like to thank all of the authors, editors, the entire journal staff, and the Bologna Center faculty for making the production of this volume possible.

We hope that you enjoy this issue as much as we have enjoyed putting it together.

Jamie Pleydell-Bouverie
Editor-in-Chief
The Bologna Center Journal of International Affairs
Power Shifts: Revolution, Global Uncertainty and the Evolving Balance
April 2012

# Note from the Director of the Bologna Center

Dear Readers,

Since its inception some 14 years ago, the *Bologna Center Journal of International Affairs* has sought, through the themes it has adopted each year, to tackle important questions, to seek generalizations, and to explore its themes in a contextual way in order to elucidate them in a conceptual way. It is an ambitious task, but one which is reflective of the goal of SAIS itself: to combine the intellectual depth of a graduate education with the practical focus of a professional school; to look at the world up close through first-hand experience, but to look at it through the multi-disciplinary lenses which are key to a SAIS education.

In that respect, the theme of this present issue of the BC Journal, "Power Shifts", fits the tradition. It deals ambitiously with a broad topic and examines it from many different angles and in many different contexts, from traditional interstate power shifts to the rise of non-state actors on the international scene, to transfers of power within states from governments to non-government organizations.

Perhaps most importantly, it doesn't seek "conclusions" so much as it seeks to provoke further thought and stimulate further debate. For example, to what extent have these shifts, particularly those that go beyond traditional interstate power politics, been fueled by information technology? Will economic issues dominate security on the future international agenda? Does context change our view of such values as "democracy" and "freedom", or does it force a more nuanced view of what those terms mean? If the journal succeeds, as I think it does, it will provide a context for these further discussions and will be evidence of the value of the journal.

As always, the Bologna Center Journal presents the work both of graduate students and established scholars, an important dimension in the dialogue that is at the heart of a SAIS education and is a source of satisfaction for those of us who teach at SAIS. The Bologna Center 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 all of us. And, as will be evident to the reader, they produce a volume that is a useful and significant contribution to the literature available. This is the 15th year in which the Journal has been published. It has become a tradition at the Bologna Center and a source of pride for all of us.

It is a personal pleasure for me to introduce you to this year's volume, *Power Shifts: Revolution, Global Uncertainty, and the Evolving Balance.* I hope and fully expect you will find this year's issue enlightening and engaging.

Kenneth H. Keller
Director and Professor
The Johns Hopkins University
SAIS Bologna Center
April 2012

# Power Cycle Theory, the Shifting Tides of History, and Statecraft: Interpreting China's Rise

## Charles Doran

## Abstract

*Integrating China into the global balance of power and the community of nations is the greatest challenge facing statecraft in the 21st century. According to power cycle theory, the "single dynamic" that has always mapped the structural trends of history is shaping China's power cycle. This cycle will contain the same "critical points" of suddenly shifted trends that challenged every other rising power historically, all too frequently ending in major war. Viewing history's dynamic through the lens of meanings embedded in the power cycle trajectories, this article argues for careful management of the future systems transformation that will occur.*

## Introduction and Definitions

Today, as throughout history, a single dynamic of structural change is shaping the power cycles of all the great powers – and the expectations that each state has about its future security and foreign policy role.[1] The overriding concern of statecraft today is the quintessential problem that a century ago preoccupied the founders of the field of international relations and world statesmen negotiating international regimes, witnesses to history's plunge into the First World War. At issue is integrating an increasingly powerful great state into the existing global balance of power and community of nations experiencing the challenges of structural change. This is something that has proven to be extraordinarily difficult. Today China is the state ascending to great power status. China has been accelerating up its power cycle for several decades now, and like rising great powers throughout history, China has begun to push for a greater foreign policy role.

I will interpret this issue from the perspective of power cycle theory. Its lessons are striking. In 1989 the world anticipated that skyrocketing Japan would become the new "Number One." I could assert on the contrary that Japan's peak on its power cycle was imminent because China's much smaller yet ever-increasing gains in absolute terms were severely constraining Japan's further gains in relative share. Today I emphasize a lesson of power cycle theory regarding ineluctable structural constraints on China's ascendancy in the global system. The very same principles of relative power change that have always mapped the structural trends of history are shaping China's power cycle, and that cycle will contain the same "critical points" of suddenly shifted trends that have challenged every other rising power historically and that, all too frequently, have ended in major war.

What is the "power cycle"? What is a "shifted trend" on the cycle, and what do I mean by the "shifting tides of history" in the title of this paper? During the past decade, the related term "power shift," the theme of this issue, has appeared in the title of numerous articles and books with very broad differences of conceptualization. Those meanings go well beyond the classical notion of a "shift in the balance," a notion that has a long and familiar tradition in the literature on diplomatic history and the balance of power. The term sometimes refers to a general sense of changing relative power, wherein some states are

rising, some states declining. Other authors use the term to mean a change in the hierarchy (a so-called transition). Elsewhere power shift refers to a state's shift from rise into decline, although not necessarily at the state's peak or irrevocably. In this essay I will explain the other two concepts, the "power cycle" and history's "shifting tides," for they are my own, have precise meaning, and account for much of the variance in the onset of major war. We will use a schematic across 600 years of history that I conceptualized over 45 years ago in assessing historically the very same issues that confront us today in facing the rise of China. What do we mean by the rise and decline of states, and why has it been so traumatic historically? What is the "foreign policy role" both as a conceptual category and as a practice in statecraft?

Power cycle theory offers a dynamic understanding of history which is anchored in and speaks to the particulars of state power and foreign policy behavior as they evolve, moment by moment, across long periods of history. Everything is emergent; nothing is deterministic. The theory establishes and discloses meanings embedded in the power cycle trajectory, meanings that capture at once the structures, concerns, and behaviors of international politics experienced at each moment in statecraft. Thus, the full meaning of power cycle theory emerges within the particulars of history itself. My presentation of the theory will move back and forth from the analytic and general to the historical particulars.

From the power cycle perspective, power is what government officials and diplomats perceive it to be. Perceptions of power have been shown to be highly correlated with a bundle of indicators of national capability – variables such as GDP, per capita wealth, size of armed forces, military spending, population size, and the capacity for technological innovation – that together facilitates a state's ability to carry out a foreign policy role and, hence, compose the state power cycle. Most importantly, the power cycle is a cycle of "relative" power in a very specific sense. Each state in the central system (or a regional system) possesses a percentage share of overall power in that system at any given time. States in the system "compete" for relative power share, where the "competition for share" depends on the differing levels and rates of absolute growth among the states comprising the system at each moment in time. But there are undercurrents within this structural dynamic that create the "power shifts" at issue in power cycle theory. To discern history's dynamic, we must understand how historical trends and suddenly shifted trends on the state power cycles impact the expectations and behaviors of statecraft.

For didactic reasons, it is useful to inventory some key features and concepts of the theory at the outset, assisted by the graphics in Figure 1 and the historical dynamic depicted in Figure 2. Power cycle theory establishes and explains:

- the "single dynamic" of state and system which sets the power cycles in motion – namely, the competitive dynamic whereby, at each point in time, each state's absolute growth rate contributes to and differs from the system's resulting *average* absolute growth rate (the "systemic norm");

- the "first fundamental principle of the power cycle," holds that a state rises (or declines) in relative power if and only if its absolute growth rate is greater (or less) than the systemic norm;

- the "second fundamental principle of the power cycle," is whereby a rising state accelerates up its power cycle (as its "growth rate advantage" increases with size) until it reaches a level at which its own absolute growth begins to increasingly weight the systemic norm (decelerating its "growth rate advantage"), so that thereafter the state increasingly "competes against itself" as well as against other states for a larger share of power (feeling for the first time the effect of the "bounds of the system");

- the "bounds of the system," which effectively both *limits* a state's growth in relative share – even, counterintuitively, when the state continues to have dynamic absolute growth and its gains in absolute power continue to be far greater than the absolute gains of competing states – and *contours* the nonlinear change on its power cycle;

- the resulting "nonlinear pattern" of the power cycle, wherein the state's accelerating rise abruptly shifts (at an inflection point) to decelerating rise until it reaches a peak level of relative share, followed by accelerating decline that abruptly shifts (at an inflection point) to decelerating decline;

- the state's "competitiveness" in the system as reflected in the "*slope*" of its power cycle – that is, in the *direction of change* on the power cycle indicated by the line drawn tangent to the cycle at each succeeding point.

This line tangent to the power cycle at a given point in time gives us access to the perceptions and expectations of the historical moment. Like the statesman in history, the analyst grasps the full significance of systemic bounds in the "discordant expectations" that arise with no warning as the state traverses its cycle. Power cycle theory further establishes and explains:

- the "trend of the power cycle" (conveyed by its changing slope) as reflecting "the tides of history" and "the perspective of statecraft," providing a foundation for the state's future security and foreign policy "expectations;"

- the abrupt and irrevocable "shift in the trend of the power cycle" that occurs at a "critical point" (experienced as the "shifting tides of history") when powerful "structural undercurrents" in the single dynamic make the state's long-developing historical trend suddenly shift direction – exposing the "structural bounds on statecraft" that, counterintuitively and without warning, alter what is possible and likely in statecraft itself, in particular establishing ineluctable structural constraints on the ascendancy of a great power;

- the abrupt "shocks to foreign policy perception" that occur at those critical points when – amidst radically conflicting messages in absolute and relative power change – the state is abruptly pulled onto a new, unexpected, and uncertain course;

- the "foreign policy expectations" tied to the slope of the state power cycle at each point in its historical experience as providing the basis for planning and carrying out effective foreign policy roles;

- the sudden "discontinuity in foreign policy expectations" that occurs at a critical point, and therefore the moment in statecraft when "everything changes" – when the "shifting tides of history" impact the ability to act in foreign policy terms;

- "systems transformation," where the undercurrents shifting the tides of history force several states to pass through critical points at about the same time, causing huge political uncertainty to ricochet throughout the system, forcing revision of foreign policy expectations, and greatly increasing the probability of major war – wars of long duration, intense battlefield casualties, and the highest magnitude in that it involves most, if not all, of the great powers fighting for highly-valued stakes;

- a strong positive correlation between critical change on the power cycle and major war, both for individual states and during systems transformation.

This dictionary of concepts, dynamic principles, meanings, and implications reproduces the lessons and the logic of history that underpin the power cycle interpretation of statecraft.

In brief, power cycle theory establishes the fundamental principles of the "single dynamic," whereby absolute growth rate differentials across states in the system set the power cycles in motion (via alterations of the systemic average growth rate) and create a particular nonlinear pattern of change on each state's relative power trajectory, which is interpreted as reflecting the "perspective of statecraft" – giving thereby a very specific meaning to the concern that the "tides of history" have changed, a meaning absent from balance-of-power assessment. This competition for power share produces powerful undercurrents that contour structural change via critical shifts in the state power cycles, and each of these so-called "critical points" matter in an existential sense as the state traverses its cycle:

- a lower turning point beginning a state cycle: "birth throes of a major power"

- an inflection point on its rising trajectory: "trauma of constrained ascendancy"

- an upper turning point: "trauma of expectations foregone"

- an inflection point on its declining trajectory: "hopes and illusions of the second wind"

- a lower turning point at the end of the cycle: "throes of demise as a major power.

Each critical point corresponds in the state's experience to a time when the tides of history have shifted in the international system.
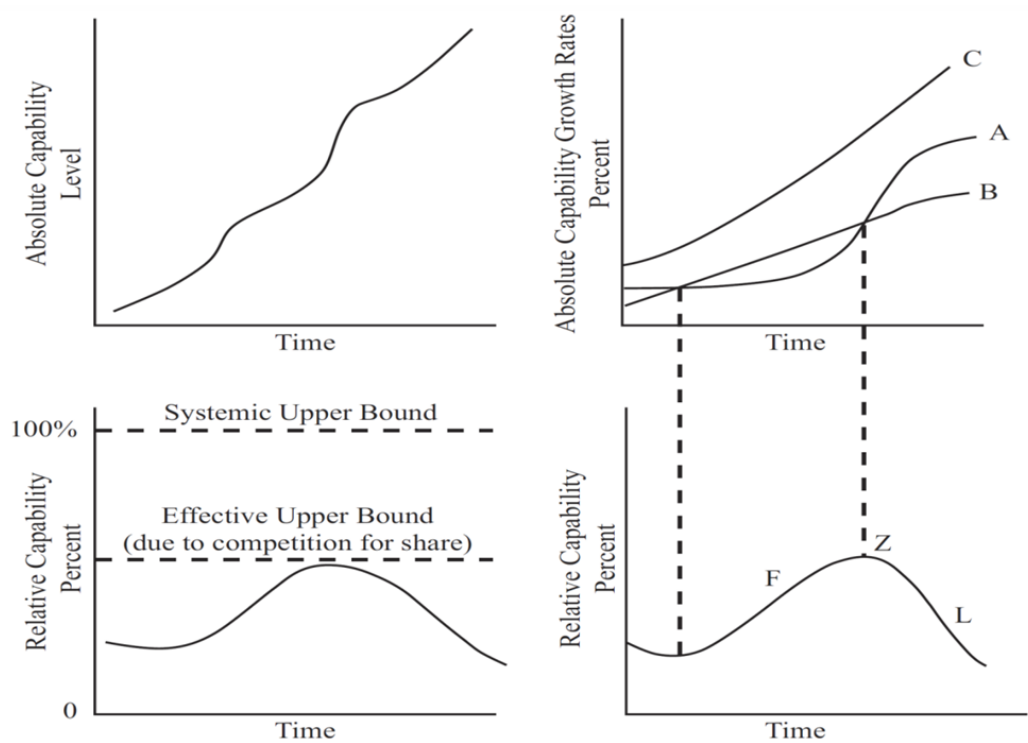


**1A.** The Dynamics of Absolute and Relative Capability: Principles of the Power Cycle (Changing Systems Structure).
* Curves of absolute growth rate (depicted is an accelerating system):
    A: major power system;  B: state B;  C: entire system
* Critical points:  F: first inflection point;  Z: zenith;  L: last inflection point
*Source*: Doran (1971: 193). This figure appears as figure 3.1 in Doran (1991: 63).

FIGURE 1.  *Limits of Power: Bounds on Relative Growth*

*Figure 1: Limits of Power: Bounds on Relative Growth*
The Dynamics of Absolute and Relative Capability: Principles of the Power Cycle
(The "Single Dynamic" of Changing Systems Structure)

> *Curves of absolute growth rate (depicted is an accelerating system):
> A: major power system  B: state B        C: entire system

> *Critical points:
> F: first inflection point        Z: zenith        L: last inflection point

*Source*: Doran (1971: 193).  This figure appears as figure 3.1 in Doran (1991: 63), and as figure 1A in Doran (2003: 22) where the lower left label was incorrectly labeled but is corrected here.

Largest State: Absolute Growth
(Trend of Absolute Gain in Level)

Large State

Corresponding Relative Growth
(Trend of Gain in Relative Share)

Small State
(growing faster)

(a) Conflicting Messages of Absolute and
Relative Growth after Inflection Point

(b) The Tiny Absolute Gains that Win
"Relative Share"
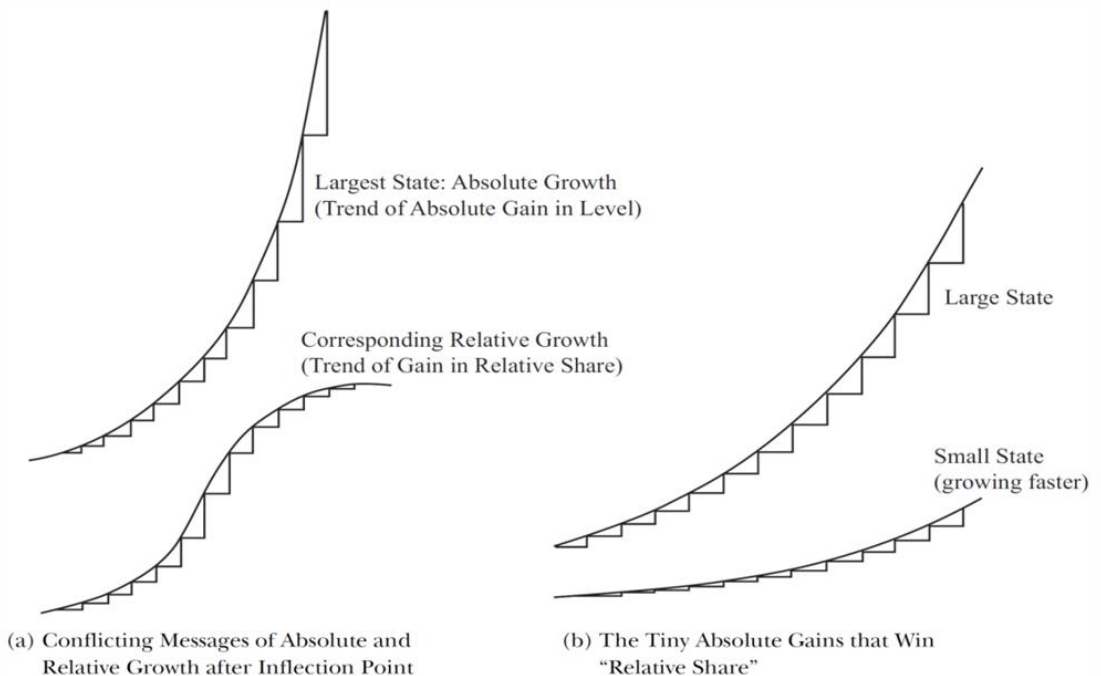
**1B.** Delusions of (a) **Huge Absolute Gains** and (b) **Absolute Divergence.**
Assumes constant rate of absolute growth (no decrease or increase in % growth rate), so
that the trend of absolute gain shows continuing increase in gain, but the trend of gain in
relative share shifts from increasing to decreasing gain.

FIGURE 1. (*continued*)

*Figure 1. (Continued)*
Delusions based on (a) Huge Absolute Gains and (b) Absolute Divergence
Assumed here are constant rates of absolute growth (no decrease or increase in % growth
rate), so that the trend of absolute gain – in upper graph of (a) and both graphs of (b) –
shows continuing increase in absolute gain, but the trend of gain in relative share (lower
left) shifts from increasing to decreasing relative gain.

## Viewing History's Dynamic

Let us turn to the power cycle view of history's dynamic in Figure 2, moving gradually to
ever more detailed fact and analytic meaning. Like waves in some ocean sweeping forward
across the international politics of time, the power cycles of individual states in the
central system are distinct, implacable, and enduring. Across these six centuries, states
have competed for power share, attempted to establish and advance their foreign policy
roles, and struggled against the "bounds of the system" that limits and contours their
cycles of relative power and role possibilities. This "single dynamic" of state and system
establishes the number of players in the central system, which player has power when,
where, and how, and how the rules of balance emerge. Rising and declining states interact
conjointly and cooperatively as well as competitively.
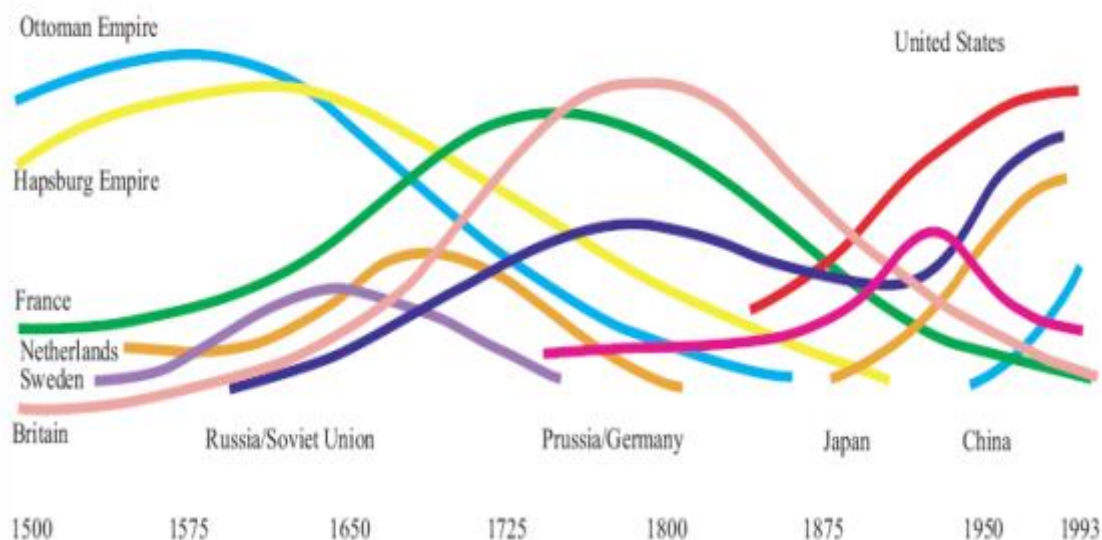
*Figure 2. Dynamics of Changing Systems Structure*
Legend: Each curve represents the state's evolving Percent Share of Power in the Central System, 1500-1993. This representation stresses the "historical trends" in changing relative power and is not to be taken as a precise metric for the actual levels attained.
*Source: Conceptualized by Doran (1965; updated 1981, 1989, 1993), based on estimations for the period 1500 to 1815, and data for the years 1815-1993).*

Amplitude and periodicity vary with each state cycle: from the very lengthy cycle of France that encompasses the entire 600 years of the graph, to the quite abbreviated cycle for Sweden; and from the towering power levels of the Ottoman Empire, the Habsburg Complex, France, Britain, and the United States to the more diminutive cycle of the Dutch Republic. In each historical period a complex balance emerges. In the 16th century, both the Ottoman Empire and the Habsburg Spanish-Austrian Complex contended with France (and to some lesser extent the declining Venetian Empire) for role within the central system. In the 17th century, seven actors struggled for role intermittently: the Habsburg Complex, France, the Ottoman Empire, Russia, Sweden, the Dutch Republic (more briefly), and ultimately Britain. For most of the next two centuries, states on their power cycles shaped a five-actor system in which the Ottoman Empire, Sweden and the Dutch Republic all declined in relative power terms such that they dropped out of the central system. France, Britain, Russia, Austria-Hungary, and Prussia became the major players in Europe, with the rise of Japan and the United States on the outskirts. Only briefly was the system ever characterized by a dyadic relationship, with bipolarity emerging between the United States and the Soviet Union in 1945 and collapsing abruptly with the sudden demise of the Soviet Union in 1989.

The central system, Eurocentric for 500 years, began a move to the wider world by the end of the 19th century with the entry of the United States and Japan. But the struggle for power and role in the first half of the 20th century was centered firmly within the European state system. Imagine omitting the curves for Japan and the United States from Figure 1, so that competition for share is limited to the European great power system. The

power cycles of Germany, Britain, France, and Russia would all increase proportionally, and the seemingly diminutive rise of Germany would appear as a towering rush to a peak circa 1913-14, before the onset of the First World War. Data restricted to the European system before August 1914 confirm that the peaking of Germany occurred before the war and was not an artifact of either the entry of new great powers or Germany's defeat in the war. Power cycle theory argues that Germany abruptly peaked in 1914 despite its unabated absolute dynamism because of the accumulating tiny increases in power of newly industrializing Russia. Germany had bumped against the "bounds of the system" and confronted "the trauma of expectations foregone."

We see long intervals of history where change in the power cycles is essentially linear for nearly all of the states, for instance during most of the 19th century. Foreign policy is thus rather predictable and major war less likely. We see, in contrast, shorter intervals in which many state power cycles show characteristic critical points of sudden shift in the trend – peaks that abruptly turn into decline; inflection points that abruptly halt an accelerating rise (or decline), forcing thereafter a rise (or decline) at an ever declining rate. We see many transitions, where two states shift rank in the hierarchy, but such shifts in relative rank are neither surprising nor counterintuitive, for they occur simultaneously with a transition in absolute power.

Between 1648 and about 1665, five states (perhaps six) experienced critical change on their power cycles. This is extraordinary: all of these critical changes crammed into a mere 16 or so years. Similar to the interwar period in the 20th century, the mid-17th century systems transformation was explosive because it encompassed so many great powers and because all of this aggravated structural change occurred in so short an interval. In each case, the critical changes unleashed the most massive wars the world had ever known: the wars of Louis XIV (1667-1697) and the War of the Spanish Succession (1701-1714) that engulfed Europe, and World War II, which enmeshed the globe.

If we ask why the 17th century crisis was so wrenching, the power cycle answer is direct. Each great power saw its earlier trend of power and role expectations suddenly shift. Each tugged at the other through deep undercurrents of structural change; the architects of the balance of power sought order in vain. France under the reign of Louis XIV, experiencing constrained ascendancy of the first inflection point, attempted to consolidate its territory and concentrate its power at the expense of everyone else. (Germany reacted similarly 200 years later to its own first inflection point in instigating the Franco-Prussian War.) But to concentrate on France in the 17th century systems transformation is to miss all of the dynamics elsewhere that had very little to do with the Sun King. The turmoil unleashed by Sweden vis-à-vis Russia and Poland, by the Habsburg Complex vis-à-vis the Dutch Republic, by the Dutch Republic vis-à-vis Spain and Britain in terms of trade wars, and by the tension between the Ottoman Empire, the Venetian Empire, and the Habsburgs – all of these were virtually simultaneous confrontations extending across the entire map of Europe and many of its colonial appendages. The 17th century crisis was a crisis of systems transformation writ large.

The 16th century systems transformation differs in two important respects. Most obvious is the type of critical change involved. All about "down," the 16th century featured the apex and nascent decline of two great empires, the Habsburg and the Ottoman. All about "up,"

the 17th century featured the rapid ascendancy of two great emergent states, France and Britain, each of which experienced the trauma of constrained ascendancy of the first inflection point. More significant in an evolutionary sense, the 16th century was about empires, particularly the last of the primarily intra-European empires. Conversely, the 17th century transformation was about states, specifically the deepening of the modern system of independent great states [2]. In neither case was the stereotypical depiction of hegemon and challenger evident in state behavior. Composed of many actors vying for power and foreign policy role, each central system reflected competitive efforts to expand and to contract, to disperse and to concentrate. In each case, systems transformation occurred because the old order was crumbling. With the chessboard of statecraft twisted, the new order was impossible to conceive and scarcely in the making.

Certainly the immense intensity, duration, and magnitude of the Napoleonic Wars (1803-1815) were in great part due to the involvement of the three largest states, France, Russia, and Britain. Importantly, France and Russia had only recently passed through an upper turning point, exacerbating bitter challenges. Britain may also have reached its upper turning point during the war (certainly not much later), causing it to intensify its war effort. But much more structural change, and political and military assertiveness, was going on than is depicted in Figure 2. The primary members of the Habsburg Complex, Spain and Austria, which were long since severed and quite independent, enjoyed something akin to a renaissance in influence at the end of the 18th century – goaded on by the second wind of the second inflection point. The Dutch Republic also went through a second inflection point. The abrupt upsurge in Dutch, Austrian, and Spanish political and military assertiveness was a prime factor precipitating the massive Napoleonic Wars and surely accounts for their extensiveness.

How does a shifted trend on a state's power cycle lead to a massive change in governmental expectations about its future foreign policy role and security and increased probability of major war? We have argued that a line tangent to the power curve projects forward the state's past foreign policy experience. As this tangent (projection) moves along the cycle of a newly rising state, it becomes ever steeper, suggesting ever-greater future prospects. Each extrapolation of the past leads to more confident expectations for the future. But everything suddenly and irremediably changes at the first inflection point. The trajectory of future foreign policy expectations stops turning leftward to the vertical (steepening) and abruptly and unaccountably shifts rightward. Inexplicably, a discontinuity in expectations about future foreign policy role arrives. No structural change is as abrupt or disturbing as a discontinuity in expectations. Everything the government previously thought about its future foreign policy prospects is suddenly proven wrong.

The bound of the system causes relative power to inflect and to peak even while absolute power continues to escalate. Wilhelmian Germany failed to make sense of this dilemma. Philip II of Spain in 1590 could not reconcile soaring Spanish absolute power with peaking Spanish relative power. Disparities in the future trajectories of absolute and relative power came to the surface in the tensions and uncertainties of a critical interval. Gaps between foreign policy role and power, long concealed, are squeezed to the surface during the pushing and shoving that occurs at a critical interval. Governments become assertive, demanding, and belligerent. An inversion of force expectations is likely: governments suddenly confronting massive political uncertainty about high stake matters allow their

foreign policy judgment to go awry, convincing themselves that war is a rational option. In short, the anchors of sound policy are cut away.

## Interpreting the Rise of China

China has the second largest military budget in the world, and given the Chinese military emphasis on cyber-warfare, submarines, stealth aircraft, space-based systems, and aircraft carriers, there is every reason to believe that China plans to challenge the U.S military presence globally.[3] But such a threat is unlikely in the near future and may indeed never eventuate. At the level of both economic and military power and of per capita wealth, the United States today is the largest actor in the system by a wide margin, and its relative decline – ongoing incrementally since 1970 – will take many more decades.[4] Europe, Russia, and Japan likewise remain important members of the central system with high levels of relative power and wealth. Notwithstanding recent theoretical arguments and policy practices to the contrary, history's dynamic has never been about a preponderant hegemon and a challenger. The bounds of the system constrain aspirations to hegemonic dominance. Hopefully China and the international system will avoid catastrophe during the difficult structural shifts of the systems transformation that is to come.

All of the members of the central system – the United States, the European Union, Japan, Russia, China, and India – are important regarding how China defines its foreign policy role and whether China is able to "rise peacefully" without threatening its neighbors.[5] Obviously, U.S-China relations are central to a stable and secure Asia. However, from the power cycle perspective, the tension is not just between the United States and China. The primary tension is likely to occur between India and China. India is the newcomer at the bottom of the central system and beginning to rise. As India rises, it continually cuts into China's potential power share, constraining China's gain even before China passes through its first inflection point. While individual issues could lead to conflict between China and Russia, or China and Japan, as well as with the United States, the primary dynamic of tension is between India and China because India is causing China to lose momentum on China's upward power cycle trajectory.

Although in a normal period of history, major war involving China and other great powers is of very low probability, that probability during systems transformation can soar. China will soon cross its first inflection point. It will continue to increase its level of relative power. Only much later in the 21$^{st}$ century will it peak. But passage through the first inflection point – when the rate of increase of relative power suddenly, and without warning, begins to fall off – will be a gargantuan shock to Chinese expectations about its future foreign policy role and security. Chinese growth in both absolute and relative power has outperformed every other country historically, due to the massive transfer of capital from the developed countries into Chinese manufacturing. Chinese expectations regarding its future world role have also been skyrocketing. As for all states accelerating up their power cycles, every forecast has exceeded all previous forecasts. But at an inflection point, the tides shift, the rate of growth in relative power falls off, and China's expectations predictably will shatter.

China is also concerned about maintaining a high GDP growth rate. China is only partially developed, and millions of people remain on the land and yearn for a new life in the prosperous Chinese cities. With an estimated 100 million workers roaming the labor markets countrywide, China has argued that it needs an absolute GDP growth rate of at least 8 percent to maintain social order.[6] Also, the growth dividend of the one-child policy combined with natural downward pressure on birth rates means that the demographic variable may turn against China. Fewer mouths to feed meant more rapid economic growth in the past; fewer pay checks and a larger fraction of dependents among the older members of the society will translate into a lower savings rate, less investment, and a slower economic growth rate.

A country governed by the communist party, China is today one of the world's most economically unequal countries. Many of China's citizens expect to be able to benefit from China's future growth even if wealth is not actually redistributed. A country beginning to slow down in its economic growth seems to promise less in terms of personal economic mobility. Similarly, a country entering a phase of slower growth in relative power senses the lost promise of unconstrained ascendancy. Chinese absolute growth could be continuing at the same vigorous rate. But an inflection point in Chinese relative power, indicating future constrained ascendancy up its power cycle, can become a symbol of lost hope.

Demonstrations of nationalism to protest the policies of other states – such as visits to the Yakusuni Shrine by Japanese government officials – can also turn against the Chinese government or lend support to more extremist foreign policies. Governments may be tempted to try to appeal to this nationalism by adopting more assertive foreign policies that could then backfire internationally.

In the sphere of Chinese foreign policy per se, an inflection point on the Chinese power cycle will not yield welcome returns. For a government desiring or accustomed to a large foreign policy role, an erosion of foreign policy expectations will likely be especially troubling. [7] Principal issues such as the status of Taiwan, if not already resolved, will be vulnerable to policy recommendations that seek a quick solution whatever the military consequence. Border issues that otherwise might remain neglected may be viewed by some within the decision-making elite as requiring the use of force. Governments such as India and Russia that have kept territorial conflict with China to a minimum may find their hand forced when interacting with a more petulant China. Any unresolved disputes in the South China Sea are likely to take on a "larger than life" quality, making conflict management there even more cumbersome. Any exogenous shocks, such as those involving North Korea, will become far less manageable during systems transformation.

For a society in which the legacy of Confucian values is still strong, the notion of "face" is as important at the societal level as at the individual level. Decimated foreign policy expectations at an inflection point are all about "face," about foregone foreign policy role, and about possibly inflated fears regarding future security. Hence other governments confronting their own security fears and anticipated challenges to national interests will find interaction with a besieged China during a systems transformation especially difficult.

Managing systems transformations historically have been uncertain and contested. Of the six systems transformations in the modern state paradigm, only the most recent one led to a peaceful outcome. China and its neighbors and competitors must recognize two realities.

> (1) Japan has already peaked in relative power terms. China will pass through an inflection point of slowing relative power growth. Other governments in the central system may also pass through critical points on their respective power cycles. Together all of these structural events would constitute a systems transformation in the 21$^{st}$ century.

> (2) For China to enjoy a "peaceful rise," it must contend with the challenges of future systems transformation just as the other members of the system had to in the past. Other governments must learn to preserve their security and interests while assisting China to traverse this projected and particularly stressful interval future history.[8]

*Charles F. Doran is the Andrew W. Mellon Professor of International Relations at The Johns Hopkins University's SAIS, Washington, D.C. In his first book in 1971, Doran developed power cycle theory to analyze contemporary international relations in dynamic terms; it has been widely tested, replicated, and applied. In 2002, the Indian Institute of Advanced Study, Shimla, India, sponsored a research symposium on power cycle theory, and an entire issue of the International Political Science Review (2003) was devoted to the theory. Doran delivered a series of lectures at the Sorbonne (Paris I) in 2001, and the Alistair Buchan Club Lecture at Oxford University in 2004. In 2006, Doran received the Distinguished Scholar Award (Foreign Policy) from the International Studies Association*

Notes:
1. Power cycle theory was first articulated in published form in Charles F. Doran, The Politics of Assimilation: Hegemony and Its Aftermath (Baltimore: Johns Hopkins University Press, 1971). For a full elaboration, see Charles F. Doran, Systems in Crisis: New Imperatives of High Politics at Century's End (Cambridge: Cambridge University Press, 1991), and the special volume, Charles F. Doran, "Power Cycle Theory and Global Politics," International Political Science Review 24, no. 1 (January 2003).
2. For two among many contrasting interpretations of the meaning and possibility of empire, see Charles S. Maier, Among Empires: American Ascendancy and Its Predecessors (Cambridge: Cambridge University Press, 2006); and John Owen IV, The Clash of Ideas in World Politics: Transnational Networks, States, and Regime Change 1510-2010 (Princeton: Princeton University Press, 2010).
3. Aaron L. Friedberg, A Contest for Supremacy: China, America, and the Struggle for Mastery of Asia (New York: W.W. Norton, 2011).
4. Joseph S. Nye, Jr., The Future of Power (New York: Public Affairs Press), 202-203.
5. Henry Kissinger, On China (New York: Penguin Books, 2011).
6. Chinese Premier Wen Jiabao, on March 5, 2009, to the National People's Congress. See Blaskar Prasad, "China Growth Rate for 2012 Can Be Less Than 8 Percent," International Business Times, February 23, 2012.
7. David M. Lampton, The Three Faces of Chinese Power: Might, Money, and Minds (Berkeley: University of California Press, 2008).
8. Zbigniew Brzezinski, Strategic Vision: America and the Crisis of Global Power (New York: Basic Books, 2011).

# Power Shifts in the Arab Spring:
# A Work in Progress

**Karim Mezran & Alice Alunni**

## Abstract

*This paper examines the extent to which power has shifted to new political actors in North Africa as a result of the 2011 "Arab Spring" uprisings. Focusing on Tunisia, Libya, Egypt and Morocco, this paper identifies the changes taking place in these states, and elucidates the distinct ways in which power is shifting in each case. The emergence of Islamist movements as organized political actors is a common feature of all four countries and represents potentially the most significant power shift in a region yearning for democracy.*

From Morocco to the Persian Gulf, the 2011 Arab Spring brought turmoil and revolution to the Middle East and North Africa region. Whilst the fight against the regime in Syria is ongoing, and President Saleh of Yemen sacrificed the presidency only to leave control of the military and security apparatus along with the country's top political posts to members of his family, the world has witnessed a more profound change in the North Africa region. Indeed, it is in North Africa that the Arab Spring brought to power actors relatively new to the political arena, opening the way to real power shifts in the countries touched by the revolutionary wave.

Thus, this paper will focus on those countries where the regimes were either overthrown, like in Tunisia and Libya, and on those where the regimes were forced to allow elections to be held and new political forces to emerge, as in Egypt and Morocco. The common feature that these countries share is that during and/or after the fight against their respective regimes, Islamist movements emerged unparalleled in their organizational efficiency and capability to win democratic elections in the region. Their victories signal that power shifts are ongoing in the North Africa region, although the path forward remains highly uncertain.

## Power Shifts in North Africa: An Evolving Process

When using the term *power shift*, we refer to the progressive process of transformation that has occurred at the apex of the political systems in those countries where the regimes were completely or partially substituted by new political actors. By "new actors," we do not necessarily refer to forces born out of the uprisings themselves, but to those political forces that, for the first time since their existence, have been able to compete in fair elections and emerge as important political players. The Islamist movements, indeed, are not new to the Arab world, but this is the first time since their creation that they have been allowed to participate in elections whose results have not been rigged. In other cases, former members of the regime, or power structures tightly linked to them, have maintained some degree of power. For instance, in Libya and Egypt, former regime insiders either participated in the revolts or mediated between the respective autocrat and the protesters, thus becoming key figures in the post-revolutionary transition phase. It is far from certain that democracy will be the end-product of these power shifts. However, the early stages of the transition processes have displayed high levels of pluralism in

electoral competitions, signaling potential for the development of more democratic systems.

In North Africa, the overthrow of regimes and the subsequent power shifts were the result of anti-authoritarian uprisings that either occurred quickly and relatively peacefully, as in Tunisia, or that were prolonged and extremely violent, as was the case in Libya and Egypt. In all cases, the power shifts have been processes. In two instances, the regime, facing demonstrations, conceded to popular demands in an intermittent way in order to avert further upheavals, alternating between using violence and making concessions. This was the case in Morocco and in Egypt, where King Muhammad VI and the Supreme Council of the Armed Forces (SCAF) maintained firm control over the country while reforming the system, facilitating elections, and allowing new political forces to enter the scene. The length of the uprisings and the way in which the power shifts occurred has inevitably had resounding effects on society. These effects will be analyzed at the end of this paper after a country-by-country examination of shifting power dynamics that also includes discussions about the pre-insurgency power holders.

## Tunisia: Towards a Full Power Shift

When Mohammed Bouazizi set himself on fire on December 17, 2010, in protest of the confiscation of his merchandise and the humiliation inflicted on him by the municipal police, no one expected that President Zine el-Abidine Ben Ali's regime would collapse only a few weeks later. However, on January 14, 2011, following days of demonstrations and increasing civilian casualties, Ben Ali fled to Saudi Arabia. The Tunisian people, who protested against massive unemployment, price hikes, and widespread government corruption, suddenly found themselves freed from a long-standing dictatorship.

Ben Ali came to power on November 7, 1987, when he proclaimed himself president and removed the aging President Habib Bourguiba from office in a so-called constitutional coup. It was a *de facto* military takeover by an unelected former military officer who had been nominated prime minister by Bourguiba.[1] The reasons for Ben Ali's intervention included the harsh repression that President Bourguiba was perpetrating against the *Mouvement de la Tendance Islamique* (MTI), an Islamist opposition movement led by Rachid Ghannouchi, as well as the protracted economic crisis that led to widespread popular discontent.[2]

Initially, Ben Ali seemed open towards working with the opposition, but after the first two years of his presidency it became clear that this would not be the case. The regime repressed political opponents and preserved Tunisia's one-party system, ensuring domination by the Constitutional Democratic Rally (CDR) even though a multiparty system had been created by law in 1988.[3] In the early 1990s, security was tightened and the regime further repressed its critics. The CDR remained the dominant political organization, serving a state in which the president's powers and that of his patronage network extended to all sectors of the country's political and economic life.[4] Meanwhile, through a generous welfare system, one of the most effective tools of government during Ben Ali's regime, the autocrat aimed to stem the frustration of the unemployed youth and control growing regional disparities and inflation. The revolutionary events of 2011 clearly proved that Ben Ali had failed in his attempts to placate the masses.

Ben Ali's flight on January 14, 2011 paved the way for political transition. Three interim governments were appointed in the aftermath of the uprisings. The first two were considered too close to the ex-regime and, therefore, were firmly opposed by the people and quickly dismissed to avoid further confrontations on the streets. Only with the appointment of former Foreign Minister Beji Caid Essebsi (who had distanced himself from Ben Ali after he retired from political life in 1994) to the post of prime minister on February 27th, was the transition phase set up in an orderly way. The elected members, in turn, gave a vote of confidence to the new government which was composed of members from the winning parties. The Islamist movement Ennahda won 37% of the popular vote and 89 of the 219 seats. The remaining seats were taken by the two most successful secular parties, the Congress for the Republic (CPR) and Ettakatol, as well as by some independents.

As Carnegie Endowment scholar Marina Ottaway points out, the relatively smooth transition in Tunisia was due to a combination of factors: a professional military that stayed firmly out of politics and maintained order in the country; good management of the transition period between the overthrow of Ben Ali and the installation of an elected government; and - last but not least - good political judgment on the part of the major political parties.[5] Indeed, in order to get to the October 2011 elections, the interim prime minister engineered a solution merging experts and revolutionaries in a High Council for the Realization of the Goals of the Revolution, Political Reforms, and Democratic Transition, which included major political parties and civil-society organizations. Subsequently, the success of free and fair elections was reinforced by the one-year mandate initially given to the Constituent Assembly.[6] Once the constitution is drafted, the Tunisian people will vote for a new parliament, presumably by the end of 2012, and for a new president by August 2013.[7] This schedule forces the current leaders to have a positive and inclusive attitude towards the process of constitution-making if they aspire to consolidate their position in such a short period of time.

In this respect, Ennahda, the party which will be leading the process, has shown willingness to share power with secular parties, bringing the CPR and Ettakatol into a "unity government" and giving them control over almost half the ministerial positions, including the Ministries of Finance, Defense, and Women and Family Affairs, while leaving the Central Bank in the hands of a World Bank technocrat appointed after the overthrow of Ben Ali.[8] Ennahda seems to have an inclusive view of governance. Indeed, according to Rashid al-Gannouchi, leader of the Ennahda movement, "Democracy is when the people rule themselves by themselves, through an authority that represents them. They should be able to constantly oversee it and overthrow it when they want. Democracy is when citizens can enjoy their personal freedom, regardless of their color, wealth, religion and way of thinking. It is when the state is built on basic citizenship, which means that the state does not belong to a certain family, person or party, it belongs to all its citizens."[9]

Ennahda is today the main party of an elected ruling coalition that is in charge of steering Tunisia towards democracy and political stability. The secularist forces that are part of the coalition are not new to the political arena, having been part of the political opposition since Ben Ali's era. By contrast, the leadership of Ennahda returned to Tunisia after years of exile, initiating a significant change of the elites in power. Ennahda brought to the

forefront the values and demands of the middle and lower classes, along with those of a new executive and political personnel coming from rural areas that were neglected under Ben Ali's regime - a time when the urban bourgeoisie of Tunis and the constituencies of the coastal regions possessed the dominant roles in the domestic political scene. In this way, the Tunisian government and the parliament have become more representative of the Tunisian population. It is difficult to foresee whether a Western-style democracy will be the final result of this transition phase or not. Nevertheless, a tangible power shift has occurred and the 2012 elections will reinforce this partial result.

## Libya: From Authoritarianism to Power Vacuum

If the power shift in Tunisia can be considered as being relatively peaceful and smooth, the opposite is true for Libya, where a bloody civil war was fought for eight months before the regime was violently overthrown. When analyzing the power shift in Libya, it is crucial to underline the informal character of the Libyan state prior to the 2011 revolution. In Libya, the legitimacy of the country's key political figures was not constitutionally defined, but was instead based on the "revolutionary" character of the 1969 coup d'état led by Muammar Qadhafi that overthrew the pro-Western Sanusi monarchy. However, the political system created afterwards by Qadhafi soon lost legitimacy among the Libyan people because it did not respond to their demands and aspirations.[10]

The Libyan political system was a dual system composed of a "ruling sector" and a "revolutionary sector." The former was a formal system of ostensibly direct democracy in which the People's Congresses had legislative functions while the People's Committees possessed executive functions, all regulated by law and promulgated by the General People's Conference. However, the ruling sector was not capable of taking any actions without intervention from the revolutionary sector, which consisted of a large number of Revolutionary Committees formed by members of tribes and families loyal to the regime. These committees were appointed by and were directly responsible to the guide of the revolution, Muammar Qadhafi. They were in charge of protecting the revolutionary system under Qadhafi's personal leadership and wielded authority over the whole of Libyan society.

The decision-making apparatus, therefore, was essentially centralized in Qadhafi's hands, whose revolutionary leadership was neither elected nor could be dismissed. Moreover, since 1973, when the Nasserist single party system was abandoned in favor of the People's revolution, which transformed the system to the pseudo-direct democracy described above, party pluralism was rejected and political parties banned. Professional organizations and unions were allowed only if their activities fell within the scope of the revolution.[11] The regular army was kept weak to minimize the possibility of a coup d'état, while an elaborate security system headed by close relatives of Qadhafi, and comprising members of the Qadhadfa tribe, as well as by two allied tribes, the Warfalla and Magarha, was established with security agencies, paramilitary, and special forces watching over each other. In this game, family and tribal ties were utilized or weakened according to the necessities of the moment, always in order to strengthen the regime vis-à-vis any kind of opposition, whether it was based on political or religious grounds.

The iron hand of the regime thus ensured the absence of organized movements and well-functioning state institutions within Libya. At the onset of the 2011 revolution, this absence was striking.[12] Informal networks, bound to the revolutionary sector and the security apparatus, played a dominant role in the Libyan state at the expense of any other kind of institutions. With the collapse of the regime, these centers of political and military power did not prove capable of managing the crisis and leading a transition of power, as was the case in Tunisia or Egypt. On the contrary, they stood by the regime until the very end. Afterwards, the few existent state institutions disintegrated in the face of the multitude of heterogeneous revolutionary forces whose unity and legitimacy have been widely questioned.[13]

At first, the National Transitional Council's (NTC) elitist political leadership established itself at the top of a hitherto uncoordinated popular movement, but in the weeks following the death of the ex-Libyan leader, a power vacuum emerged. The NTC, which was the political organ of the revolution but did not lead the uprising militarily, did not manage to impose its political leadership during the transition period. On the contrary, it was the militias who led local rebellions and formed military groupings to face regime forces that control the territory today. The declaration of a semi-autonomous state by some tribal and militia leaders of Cyrenaica in March 2012 clearly indicates the weakness of the NTC's authority.

This power shift away from an authoritarian system to a *de facto* power vacuum can be explained by looking not only at the traditional structure of Libyan society, but also at the nature and course of the uprising itself. Many different actors played a part in what has been defined as liberation in a "piecemeal fashion."[14] Indeed, on the one hand, the early liberation of Northeastern Libya proceeded expeditiously through the creation of local councils that gave birth to the NTC, which was meant to be the one and only legitimate government of the Libyan people. On the other hand, in the northwest, the isolation of revolutionary strongholds like Misrata and the Western Mountains (mainly due to natural barriers and military actions carried on by regime forces) led to the formation of local councils and militias that fought for their liberation separately and independently from the east. The creation of these local institutions, which are today trying to acquire a role in post-Qadhafi Libya, helps explain the fragmentation of the country.

The NTC is struggling to keep these centrifugal forces under control but its legitimacy is widely questioned. The way in which the representatives were appointed and the Council formed remains as unclear as the decision-making processes within the NTC. The government of Abdurrahim el-Keib, although internationally recognized, does not have legitimacy in many areas of the country where local actors are more respected.

The Islamist forces that fought on the ground are also emerging as key political actors.[15] Members of militias belonging to the Muslim Brotherhood have recently gathered to form the *Justice and Development* political party.[16] This is clearly a first step towards the party's participation in the emerging political system. As Mohamed Gaair, the Brotherhood's spokesman, pointed out, the group has representation in more than 18 cities across the country, and more than 1,400 members attended a meeting in Tripoli to declare the formation of the party.[17] Moreover, the Brotherhood can trust the network of mosques and

imams to spread its political message and penetrate the Libyan social fabric that is characterized by a strong conservatism.

In sum, Libya is now undergoing a phase of disorder and widespread confusion that, if protracted, could undermine the construction of a national identity and the unity of the state. Historically, Libya has never had a centralized and cohesive administrative network in charge of the entire country. On the contrary, it has always been divided into regions which have been controlled by different "patrons" - e.g., the Italians, the French, the British, the Sanusi, or the Karamanli.[18] As Ann Marlowe has explained, "the best way to analyze Libya is not as a collection of tribes—though these exist—but as a collection of city-states or cultural regions."[19] Qadhafi's 42 years in power did not alter this essential feature of the Libyan nation. In fact, Muammar Qadhafi never tried to form a national identity for Libya. He built his regime around pan-Arab and pan-African ideologies;[20] even though regional, tribal, and familial ties always resonated more with Libyans than constructed affiliations pushed by the regime. Qadhafi's projects of an Arab nation and, later, of the so-called United States of Africa, clearly proved detrimental to coalescing the country into one single Libyan nation.

After the overthrow of the regime, a new interim government was appointed. Despite the lack of full recognition at the domestic level, the government is now trying to lead the transition towards the election of a General Assembly, tentatively scheduled for June 2012. Only then will we be able to assess the extent to which a definitive and meaningful power shift has occurred. One thing we can affirm today is that despite the violent overthrow of the regime, the people now in power belong to the same tribes and social groups that were in power under the Qadhafi regime, with the exception of a few individuals, mostly Islamists, who belong to different tribes and social classes. It will be interesting to see who the elections will confirm as the new Libyan "patrons."

## Egypt: a Case of Cohabitation

Since his rise to power in 1981 in the aftermath of Sadat's assassination by a militant Islamist group, Hosni Mubarak had been able to resist political and social change, preserving a strong presidential system with a façade of elections. The government appointed by the president always maintained such a firm control over the legislature and judiciary that, although in theory independent, in practice were hindered in their functions by a government that used military courts or state-of-emergency regulations to ignore judicial decisions it did not favor.[21]

Mubarak's regime was military-based as much as those of the preceding ones of Nasser and Anwar Sadat. The army - the backbone of three regimes since the 1952 revolution - is still the key institution of Egyptian society along with the *mukhabarat* (intelligence services), which played a crucial role in exercising control over society under Mubarak. However, as a political institution, the army lost power during Mubarak's regime as army officers disappeared from ministerial seats when the autocrat focused on strengthening the single party system.[22] Nevertheless, even if the army was no longer seen as a political partner of the regime, it is no wonder that after the overthrow of Mubarak, the Supreme Council of the Armed Forces (SCAF) imposed itself as the leader of the transition phase through 2012.

In this respect, one could argue that a power shift has not occurred in Egypt since an old power rooted in the last sixty years of Egyptian history is still actually controlling the country. However, the fact that the army, facing demonstrations, has allowed for free and fair elections to take place should not be underestimated. Following a referendum in March 2011 on changes to the constitution, parliamentary elections were held from November 2011 to January 2012. From these elections, the Muslim Brotherhood's *Freedom and Justice Party* emerged as the victorious political force, followed by the Salafist party Al-Nour. The new legislature was then tasked with appointing a committee to write a new constitution.

Through the years, Hosni Mubarak allowed the Muslim Brotherhood to play a greater role in Egyptian society, permitting the movement to begin its goal of "Islamizing" society, even though the movement was never legally recognized. At the same time, the regime portrayed the Brotherhood as an abyss of Islamist radicalism and violence into which the country could have fallen if the regime did not monitor and control all of its moves. This helped the regime justify repression and the denial of civic freedoms, the main reasons why people took to the streets in January 2011.[23] The Brotherhood, being rooted in the social fabric of the country through its charitable activities, emerged as the strongest political force in the aftermath of Mubarak's demise, even though it was not the main driving force of the revolution. Offering an "ethical" approach to politics and condemning widespread corruption, the movement is a messenger of Islamic values in Egypt's religious and conservative society.

Mubarak and his dynasty may be gone, but this does not mean that freedom and democracy are guaranteed. As Khairat al-Shatter, Deputy Chairman of the Muslim Brotherhood has put it, "The regime is gone but its culture and regulations still need to be changed."[24] The question remains of how the *Freedom and Justice Party* will proceed. A constitution that embraces an Islamic vision of the state seems to be its goal.

As pointed out by Egyptian intellectuals such as Khaled Fahmi, Ahdaf Soueif, and Ezzedin Choukry,[25] the revolution was led by young Egyptians, yet they are neither the ones in power today, nor do they influence the country's political agenda - despite the fact that they represent more than 60% of the total population. The military and the Islamists are now the two main centers of political power in the country. In the near future they will have to address the pressing demands coming from the youth - a new generation that will not just go away now that Mubarak is gone. This generation will continue to call for real change until a significant power shift occurs.

## Morocco: a Constitutional Power Shift

When discussing the Arab Spring, the mainstream media tends to forget about Morocco. Although this country was not affected by the revolutionary wave as much as the other countries of the region, change has nevertheless occurred. Since February 20th, 2011, protesters have gone to the streets intermittently, demanding limits on King Mohammad VI's power, in addition to less corruption and clientelism. Most of these demonstrations encircled the palace that reigns and governs Morocco with a power structure known as *makhzen* (literally, "warehouse").[26]

The *makhzen* is the fulcrum of Morocco's formal and informal power structures, composed of the King's family and patronage network. Until 2011, the King ruled over Morocco using strong executive powers, dominating its political and economic life. Although a multi-party system existed and regular elections took place that led to alternating governments, in practice these governments did not really govern. As one Moroccan journalist has noted, "Our parties ceased to pursue power. They are only pursuing posts, since only one person has power in this country – the King."[27] However, the King is not a Ben Ali-style dictator and does not lack support amongst his people. As part of a 300-year-old royal dynasty claiming to be descended from the Prophet, the King - *Amir al Muminin* (commander of the faithful) - is genuinely popular. Nevertheless, following the revolutionary wave, the Moroccan people went to the streets in 2011 protesting against a system that many considered antiquated, demanding an end to corruption and autocracy, the dissolution of the government's "elected" institutions, fair elections, and the establishment of a parliamentary monarchy in which the king reigns but does not rule.[28]

Facing these demonstrations, King Mohammed VI, in power since 1999, launched a process of constitutional reform and drafted a new constitution that, although reserving important powers for the king over military and religious affairs, makes him no longer responsible for the appointment of a government.[29] The constitution was approved in a referendum that was held on July 1st, 2011. Parliamentary elections were then held in November and the *Justice and Development Party* (PJD), an Islamist party founded in 1998, won the majority of the vote. The party has always been loyal to the king and has long been the largest opposition party in Morocco. Nevertheless, the PJD stated before elections that it will rule autonomously if it wins the voters' trust, and will not simply follow the orders given by the king's advisors or influential security officials.[30]

Following the new Constitution that requires the king to choose a prime minister from the winning party, which, in turn, has the right to lead a coalition government, a new government was formed by Abdelilah Benkirane, leader of the PJD in January 2012. This is Morocco's first democratically elected government with the power to appoint ministers and dissolve Parliament.[31] Moreover, according to the new constitution, the judiciary will also become an independent branch, with judges no longer requiring the king's approval.

These are all significant steps that make us conclude that Morocco is witnessing a positive change of its political system, thanks to a constitution that may tilt the balance towards a more populist government. The king and his aides are still firmly in power, and a constitutional monarchy like the British one seems far off. At the same time, the monarch is testing how and to what extent he can allow a power shift to occur without losing his grip on the country completely. The new constitution signaled the beginning of a power shift, which the king has accepted as inevitable following the demonstrations in his country and the overthrows of his counterparts in Tunisia, Egypt, and Libya. Nevertheless, because of his special status, it is likely that he will manage to maintain a role for the royal palace in a more pluralist and democratic Morocco.

## Concluding Remarks

We can conclude that Tunisia, Libya, Egypt and Morocco have undergone, or are still undergoing, internal power shifts in which new political actors are emerging. Tunisia, where the shift has been smoother and more peaceful, is characterized by a relatively homogenous social fabric that helped set the country on a new path to democracy. The same is not true for Libya, Egypt, and Morocco, where deep ethnic and socio-economic divisions exist and old actors are holding onto power. Here the path towards democracy remains rocky and uphill.

Although the power shifts differ from country to country, they all have one common factor: the rise to power of Islamist movements. These have proved to be the only forces on the ground capable of organizing themselves to face the challenge of democratic elections. What explains their victory is their appeal to the Islamic religious and cultural identity of people that are no longer afraid to invoke Islamism. In a period of profound social upheavals in societies characterized by deep conservatism, one cannot expect a sudden "liberal turn", at least not in the short run. On the contrary, we are currently witnessing a return to the basic values of Islam that demonstrates the continued relevance of the identity question in these countries in the 21st century.

The Islamist parties that are democratically coming to power today are centrist political forces in which women were and continue to be involved. The parties of the Brotherhood seem capable of collaborating with other political forces, regardless of ideological differences, in order to protect the newborn pluralist systems from those actors that could undermine them. Indeed, even if the political parties in power represent the more conservative layers of society, these parties embrace a moderate vision of Islam, and through their participation in elections they contribute to making the political systems of their countries more open and pluralist.

In this respect, the rise to power of the Islamist movements is a fact with which the West must now reckon. The United States has already changed its stance towards the region, transforming from ardent supporter of the former regimes to firm believer in the democratizing role that the new Islamist parties can have in Arab Spring countries. Nevertheless, the US, along with the rest of the international community, will have to pay close attention to political developments in the region in order to prevent regression to a new kind of authoritarianism. "Spring" appears to have arrived in North Africa, but long-held authoritarian tendencies continue to threaten a region taking its first steps toward democracy.

*Karim Mezran is a Senior Fellow at the Rafik Hariri Centre of the Atlantic Council of the United States and Adjunct Professor at the School of Advanced International Studies (SAIS), Johns Hopkins University. In addition to teaching at SAIS, Karim Mezran was an assistant professor of political science at the John Cabot University and acted as a visiting professor at the Libera Università per gli Studi Sociali (LUISS) in Rome (2002). He received his Ph.D. in international relations at SAIS. He also holds a J.D. in comparative law from the University of Rome "La Sapienza" (Italy), a L.L.M. in Comparative Law from George Washington University (U.S.), a M.A. in Arab Studies from Georgetown University (U.S.), and a B.A. in management, Hiram College (U.S.).*

*Alice Alunni, a former student of SAIS (BC09/DC10), is Junior Associate Fellow at the Bologna Institute for Policy Research, SAIS Bologna Center, and an analyst at the Institute for Global Studies (IGS) in Rome. Her work focuses on Euro-Mediterranean affairs and North African Political Development. She is co-author with Karim Mezran of the case study on Libya as part of the "Negotiation in Transition" project conducted by the Clingendael Institute and directed by SAIS Professor William Zartman. Her most recent publication is "L'Africa di Gheddafi: tra ideologia e pragmatismo" (Qadhafi's Africa: between ideology and pragmatism), in "Libia: fine o rinascita di una nazione?" by Karim Mezran and Arturo Varvelli (eds), Roma: Donzelli Editore, 2012.*

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# Vindicated? Reexamining the Bush Freedom Agenda in the Aftermath of the 2011 Egyptian Uprising

**Geoffrey Levin**

**Abstract**

*This paper evaluates how U.S. President George W. Bush's push for democratization in Egypt may have influenced the 2011 Egyptian uprising. It argues that Bush's "Freedom Agenda" policy towards Egypt had a number of small but significant effects that both heightened and publicized Egyptians' discontent with former Egyptian president Hosni Mubarak – effects which were not necessarily intended or central to the Agenda when it was conceived. Specifically, the Freedom Agenda created a period of limited public dialogue, which further alienated Egyptians from their government, and altered the economic environment – all factors which made the 2011 uprising more likely.*

### Introduction: Looking Beyond Iraq- George W. Bush and the Arab Spring

Throughout the world, the Arab Spring has triggered countless discussions about the region's prospects for democracy, as brave Middle Easterners risked their lives in hope of bringing down brutal authoritarian regimes. In the United States, the Arab revolts initiated a vigorous debate over the role that President George W. Bush's "Freedom Agenda" played in influencing the uprisings. Even before the fall of the Egyptian President Hosni Mubarak on February 11, 2011, neoconservative writers and former Bush administration officials began to argue that the massive, pro-democracy protest movements throughout the Middle East/North Africa (MENA) vindicated President Bush's efforts to transform the region. Former Deputy National Security Advisor Elliott Abrams was among those who launched the media debate, asserting in a January 30th *Washington Post* piece that "the revolt in Tunisia, the gigantic wave of demonstrations in Egypt and the more recent marches in Yemen all make clear that Bush had it right."[1] Citing Bush's landmark 2003 National Endowment for Democracy speech in which the president outlined his so-called Freedom Agenda, Abrams framed Bush as both a prophet and a model, whose vision should be embraced by policymakers today.

At the same time, other commentators were arguing the exact opposite. The day of Mubarak's departure, journalist Jennifer Wiens argued in her *National Public Radio Online* piece "The Messy Failure of the Freedom Agenda" that the Egyptian people alone were to credit for the protests there, faulting Bush for a flawed vision that involved "barging in...to someone else's house."[2] Supporting Abrams's argument, neoconservative thinker Charles Krauthammer claimed that now "everyone is a convert to George W. Bush's Freedom Agenda", further asserting that "the Bush Doctrine set the premise" for the new Arab "reach for dignity and freedom", and that "to the Middle Easterner, Iraq today is the only functional [model for] Arab Democracy."[3] Steven A. Cook of the Council on Foreign Relations dismissed such arguments, accusing neoconservative pundits of "using [the Arab Spring] to retrospectively justify a misbegotten war", citing a number of polls showing that most Arabs "do not see Iraq as a shining example for their societies."[4]

It appears that commentators on both sides of the debate are stuck in old battles about Iraq, ignoring questions of whether or not Bush's other policies helped instigate the Arab Spring. In their attempt to either "vindicate" the entirety of Bush's Freedom Agenda or refute its role fully, they neglected to look beyond Iraq. Rather than debating whether Bush was "right", it is necessary to ask – "did certain Bush policies make the Arab Spring more likely?"   Egypt's association with both the Arab Spring and the Freedom Agenda makes it an ideal case study for answering this question. The 2011 Egyptian Revolution ended the thirty-year reign of Hosni Mubarak, an authoritarian leader who appeared to maintain a strong grip on his country until his last month in power. In those thirty years, the 'static system' in Egypt faced a relatively small number of major public challenges – but one of those challenges came, however meekly, from the Bush administration. In the context of the Freedom Agenda, Bush forced Mubarak to hold multi-candidate elections for the first time in 2005. Although the outcome of the elections was clearly predetermined by the regime, unintended effects of Bush's pressure on Mubarak appear to have contributed to the 2011 uprisings. Due in part to backlash after the unfair elections, socio-psychological effects of the pre-election national debate, the full public unveiling of Mubarak's hypocrisy, and the economic effect of Bush-inspired trade liberalization in a corrupt environment, there is a strong case to be made that George W. Bush's policies toward Egypt played a limited role in fomenting the revolution that occurred two years after he left office.

## The Bush Freedom Agenda: From Roots to Consequences

Evaluating the effects of the Freedom Agenda – a set of Bush administration policies aimed at promoting democracy as a way of combating extremism, particularly in the greater Middle East, requires understanding the context in which it arose.[5] Citing passages from Bush's first inaugural address, University of Chicago Professor Marvin Zonis points out that democracy promotion was part of Bush's foreign policy from his inaugural address onward.[6] September 11th played a pivotal role in determining the way in which Bush envisioned democracy promotion might be carried out. According to Harvard University scholar Jonathan Monten, pre-9/11, Bush had an "exemplarist" vision for democracy promotion, which involved the U.S. serving as an example and inspiration for democracy abroad by embracing liberal values at home. After 9/11, Bush felt that the terrorist threat compelled the U.S. to actively push for democracy abroad.[7] Bush then put forward the notion that promoting democracy was vital for short and long-term U.S. security. Rather than seeing anti-American extremism as a reaction to what some perceived as U.S. imperialism, Bush viewed terrorism as a result of the "democracy deficit" in the Muslim world, arguing, "As long as the Middle East remains a place where freedom does not flourish, it will remain a place of stagnation, resentment and violence ready for export."[8]

In 2002, the Bush administration founded the Middle East Partnership Initiative, a development program that aims to use soft power to spread democratic values. The administration went further, making democracy promotion the centerpiece of a National Security Strategy report that year.[9] The message in the report was deeply ideological, arguing that spreading freedom also meant combating terrorism. Yet despite Bush's rhetorical emphasis on democracy promotion, that argument was secondary when the administration argued for intervention in Iraq. When making the case for war to America

and to the world, Bush focused on the immediate security threat of Iraq's alleged weapons of mass destruction (WMDs). While it had been easy to build a national and international coalition to fight the Taliban and Al-Qaeda in Afghanistan after the horrifying events of September 11, finding allies for Iraq was more difficult. Emphasizing the threat Saddam Hussein's WMDs posed was the core argument Bush used to convince Americans to go to war. In his February 2003 speech at the American Enterprise Institute, Bush talked at length about the value of democracy in a post-Saddam Iraq, but democracy promotion was framed as a path forward for the country, not as a primary justification to go to war with it.[10] The president began that speech by invoking memories of 9/11 before going on to the threat posed in Iraq by "a dictator [who] is building and hiding weapons that could enable him to dominate the Middle East and intimidate the civilized world...[and who] has close ties to terrorist organizations."[11] Iraqi freedom would only be mentioned afterward, posed as a worthy post-war challenge that the U.S. had to undertake because the WMD threat had made regime change necessary.

As time went on, the Bush administration's justification for the Iraq War began to shift. The U.S. invaded Iraq in March of 2003, and toppled the regime within weeks. Months passed, and though the U.S. had gained control of the country, the WMDs that had justified the invasion were not found. Though the Bush administration publicly stuck to its WMD claims, this justification began to erode, as an impatient public waited for some sort of "smoking gun" to be discovered. Though the administration may have once believed that Iraq had WMDs, at this point they likely felt motivated to emphasize a different justification for the war, particularly as an election year was coming up. The November 2003 National Endowment for Democracy speech marked the point at which Bush made democracy promotion the core justification for the Iraq War and his MENA policy as a whole. Throughout the entire speech Bush did not mention WMDs once, signifying the decline of that narrative. Instead, 2003 marked the beginning of what could be termed as the "Golden Era" of the Bush Freedom Agenda, which would last until 2006, the year that saw Hamas prevail in the U.S.-supported Palestinian Authority election.

Though democracy promotion was part of Bush's foreign policy from the start, it became an ideology of political necessity as the WMD threat from Iraq remained unproven. Perhaps hoping to echo Reagan's perceived boldness in confronting communism, the administration took a more comprehensive approach to forwarding the Freedom Agenda. To a limited extent, the Bush administration departed from the traditional realist approach toward authoritarian regimes in the region, flirting with the idea of breaking the conventional U.S. approach to the region – an approach that involved accommodating the Arab world's many authoritarian leaders out of fear that Islamists would win elections. However, despite this flirtation, when vital, short-term interests were at stake, the Bush administration did little to threaten important strategic alliances.

Dr. Stanley Renshon of the City University of New York notes these clear inconsistencies in the application of Bush's Freedom Agenda, calling into question the viability of forcefully promoting democracy in a world where doing so could threaten U.S. economic and security interests. Renshon writes: "Washington has stepped up pressure on repressive regimes in countries such as Belarus, Burma, and Zimbabwe – where the costs of confrontation are minimal – while still dealing gingerly with China, Pakistan, Russia, and other countries with strategic and trade significance."[12]   It was convenient for Bush to

talk about the Freedom Agenda in reference to countries like Iran, North Korea, and Syria, and even politically necessary for him to do so in reference to post-invasion Iraq. But in more difficult or complicated cases, Bush remained silent. Interestingly, there was one case in particular where Bush exerted a certain degree of public pressure on an ally – the Arab Republic of Egypt.

## 2005: The Freedom Agenda Hits Egypt

Though 2005 would be the most important year in the complicated Bush-Mubarak relationship, the preceding three years are vital for understanding the context in which Bush's push for Egyptian democratization arose. No American president asked for as much from Hosni Mubarak as George W. Bush did. During Bush's "War on Terror" Egypt carried out three key tasks at the request of the Bush administration. Firstly, Mubarak actively maintained good relations with Israel throughout the turbulent years of the "War on Terror" and Second Intifada, curbing Egypt's Islamist opposition to both Israel and the West as a whole. Secondly, Egypt's state intelligence services offered the Bush administration valuable information from the Islamic world that the U.S. could not get on its own; as Rutgers University Professor Lloyd Gardner put it in his recent book *The Road to Tahrir Square*, Egypt offered the U.S. a "window into Iran", with Egyptian intelligence chief and Mubarak ally Oman Suleiman serving as the window's gatekeeper.[13] Thirdly and perhaps most importantly was Egypt's key role in what the Bush administration called "extraordinary rendition." Though some in the Bush administration believed that ordinary interrogation techniques were not sufficient in extracting information from terrorists, Congress and the Constitution limited the administration's options. This necessitated an alternative practice, euphemistically referred to as "extraordinary rendition", which involved sending terrorists captured in Iraq or Afghanistan to a third state to be interrogated by the local government. Egypt, long known for domestic human rights abuses, was a primary recipient of these terrorist suspects, torturing as many as one hundred detainees on Bush's implicit orders.[14] Thus, when the U.S. condemnation of Egyptian human rights abuses became more prominent in 2005, Mubarak and his associates found the criticism to be particularly ironic.[15]

Nonetheless, Bush began ramping up the rhetoric pushing for Egyptian liberalization in early 2005. While he may have done so to give more substance to the doctrine that justified the then-failing Iraq War, there was an ideological basis as well – neoconservative thinkers had long hoped that the road to Iraq would eventually lead to Cairo, the cultural capital of the Arab world.[16] So in the midst of the Iraq War's darkest days, the push for Egyptian democratization commenced, beginning with Bush's 2005 State of the Union Address, when he stated, "the great and proud nation of Egypt, which showed the way toward peace in the Middle East, can now show the way toward democracy in the Middle East."[17] That same month, Bush would feel obligated to turn those words into action after Egypt chose to arrest opposition politician Ayman Nour on forgery charges.[18] Though after initial private meetings with U.S. Vice President Dick Cheney and the U.S. National Security Advisor, Egyptian Foreign Minister Ahmed Abul-Gheit said the issue of human rights and political reform were not mentioned by the Americans, the Bush administration soon faced "growing pressure to match its rhetoric on spreading freedom...with concerted action" as the administration "was being grilled by the media about Nour's arrest", according to Egypt's semi-official newspaper, *Al-Ahram Weekly*.[19]

During a joint press conference on February 22nd, then-U.S. Secretary of State Condoleezza Rice finally brought up the Nour issue directly. *Al-Ahram Weekly* reported: "'I did raise our concerns, our very strong concerns, about this case,' Rice told reporters, stopping just short of calling upon Cairo to release the opposition party leader. "...I expressed our very strong hope that there will be a resolution of this very soon,' she said."[20]

After that public statement, the Bush administration advanced with greater force on the issue of Egyptian political reform; Secretary Rice "subsequently decided to bypass Cairo on a planned trip to the region, forcing the regime to cancel abruptly a conference she was to keynote."[21] After weeks of sustained pressure from the Bush administration, in March 2005, Mubarak "not only ordered the parliament to amend the constitution to allow contested elections, but he also freed Nour."[22] Although Mubarak now committed to planning at least some sort of contested election later that year, the Bush administration did not drop the issue quite yet. In a speech at the American University in June 2005, Rice called on Egypt "to guarantee free elections that Fall, as a natural follow up to a national referendum that changed the constitution to permit multiple candidates," further stating that, "when we talk about democracy, though, we are referring to governments that protect certain basic rights for all their citizens -- among these, the right to speak freely...And freedom from the midnight knock of the secret police."[23] She met with Mubarak in Cairo, underlying the importance of free, multiparty elections and stating that "The people of Egypt should be at the forefront of this journey [to regional democracy], just as you have led...this region in the past."[24] During Rice's subsequent joint press conference with Gheit in Cairo, the Egyptian Foreign Minister replied, "Who would object to fair, transparent elections? It will be so, I assure you."[25]

It would not be so. Despite the public assurances from the Mubarak regime and the high-minded rhetoric from the Bush administration, the 2005 Egyptian presidential and parliamentary elections were illegitimate. Very few candidates were permitted to run for president, and the parliamentary elections, once heralded as a real opportunity for reform, were rigged in a variety of conspicuous ways to ensure a Mubarak-friendly result. In the official results, Mubarak beat Ayman Nour – one of the few challengers permitted to run – with 89% of the vote to Nour's 7%. Even so, Mubarak again had Nour arrested on forgery charges and sentenced to five years in prison, where he would remain for the rest of Bush's presidency.[26] At the same time, Mubarak had the election laws altered to make it even more difficult for a viable challenger to emerge in future presidential elections. As Gardner points out, "there were no Mubarak visits to Washington during Bush's second term. Rice canceled a second trip to Cairo, and Bush mentioned Nour in a speech."[27] The Bush administration was not pleased.

Yet despite Mubarak's open disdain for Bush's liberalization demands, the administration responded only with muted disapproval, never again making the same public demands that characterized Bush's Egypt policy in 2005. This had less to do with Egypt and more to do with the Freedom Agenda, which was meeting more obstacles in 2006 than Bush had anticipated. Central to Bush's change in tone toward Egypt was the way democratization was unfolding in Palestine, Iraq, and Lebanon. In Palestine, Secretary Rice had pressed both the Israeli government and Fatah leaders – against their wishes and in violation of certain provisions in the Oslo Accords – to allow the Hamas-aligned Freedom and Justice Party to run in the 2006 Palestinian Authority legislative elections. On January 26th, 2006,

in results that shocked the world, Hamas won 74 seats to Fatah's 45, which, though only a three percent victory in the popular vote, allowed Hamas to form a government and choose the new prime minister. The Palestinian elections seemed to prove the long-held American fear that if democracy was to spread to the Middle East, Islamists would be the winners and the United States and Israel would be the ultimate losers. Meanwhile, chaos in post-Saddam Iraq combined with Hezbollah's provocation of a war with Israel one year after the Cedar Revolution seemed to indicate that even if Arabs elected moderate democrats, such figures would be too weak to handle the harsh realities of the region.

Mubarak seized the narrative, telling the Bush administration that the disasters in Palestine, Iraq, and Lebanon proved his long-held position – that Bush needed him to make sure that Islamists did not take control. Mubarak claimed that Iran and Islamists were the biggest beneficiaries of the chaos in Iraq, and Gheit made public statements alluding to what was at stake in Egypt.[28] The Bush administration got the message. In 2006, the Freedom Agenda was in shambles, and Bush certainly was not going to risk losing the Middle East's most populous state to Islamism– particularly one with a fragile peace agreement with neighboring Israel. Yet despite Mubarak's warning and the political chaos in Iraq, Palestine, and Lebanon, the Bush administration continued to use Freedom Agenda-inspired rhetoric. In the midst of the chaos of 2006, Secretary Rice famously declared, "What we're seeing here...is the growing, the birth pangs of a new Middle East. And whatever we do, we have to be certain that we are pushing forward to the New Middle East, not going back to the old one."[29]

But the rhetoric was empty, at least in regard to Egypt, as the Bush administration privately clung to the Mubarak regime more than ever before. Thus the year 2006 marked the end of the "Golden Era" of the Bush Freedom Agenda, as demonstrated by the Bush administration's markedly different reaction to the second Ayman Nour arrest. Rather than boldly pressuring Mubarak on the issue as they had in 2005, in 2006, U.S. Ambassador to Egypt Frank Ricciardoine went so far as to blur the reasons for Nour's imprisonment, saying that there was no consensus even in Egypt on Nour's guilt of the forgery charges. "I bet if there are a hundred people, I bet I'd get a hundred different answers...you know if Egyptians are not sure what to make of this, then I hope you will forgive Americans for not understanding the complexity of the case", the ambassador stated in a press conference.[30] This bizarre reversal prompted American Enterprise Institute scholar Michael Rubin to allege that Ricciardoine and a rogue State Department were the primary forces behind the administration's abandonment of Egyptian democratization, citing three things – Ricciardoine's assurance to an Egyptian news anchor that the U.S. would cease applying pressure for reform; the way U.S. development funds were channeled primarily to the government rather than Egyptian civil society; and a 2006 speech to Egyptian students where Ricciardoine said Mubarak was so respected that "he would win elections in the United States as a leader who is a giant on the world stage."[31]

But contrary to Rubin's assertion, Bush himself was involved in this shift in tone. It was Bush's call to nominate Ricciardoine, who Rubin paints as a realist known for accommodating authoritarian regimes. All decisions for funding, including those funneled through the somewhat confused and mission-less Middle East Partnership Initiative founded by Bush, ultimately lay with the executive branch. More evidence lies in

the actions of Bush's own office. The original White House draft of Bush's speech for the 2008 World Economic Forum at Sharm el-Sheik included a "Reagan-like 'tear down this wall' demand that Nour be released", but the final speech was instead only a mild lecture with no mention of Nour's name.[32] Saudi King Abdullah would further press Bush to stick with Mubarak against radicals during that meeting, while Mubarak himself responded to Bush's private political reforms push by saying that democracy would only bring chaos and instability, citing the Israeli-Palestinian conflict as the primary cause for Islamic radicalism, not any "democracy deficit."[33]

From 2006 on, Bush's Freedom Agenda for Egypt remained little more than hollow rhetoric. However, Bush knew that he could not abandon his foreign policy narrative entirely, as there were still domestic political concerns to be dealt with. Yet as time went on, it became harder to remain consistent on the issue without further pressuring Mubarak on the political reforms he so vociferously resisted. As a result, the Bush administration began "defining 'freedom' for the region in neoliberal economic terms", meaning that the emphasis on economic liberalization continued even as the issue of political liberalization faded into the background.[34] This was justified in part by the administration's argument that economic freedom ultimately leads to other forms of freedom. Indeed, even in the 2002 National Security Strategy, "Igniting a New Era of Global Economic Growth through Free Markets and Free Trade" was a core component, and remained so in the NSS's 2006 update. Funding for MEFTA (The Middle East Free Trade Agreement found in 2003) continued in Bush's later years. The U.S. would continue to pressure Egypt to 'open up' its economy, but after 2006, stopped pressing Egypt to open its society.

**The Legacy of Bush's Freedom Agenda on Egypt: Roots of a Revolution?**

Looking back, there are three main ways in which Bush's Freedom Agenda-inspired policies toward Egypt appear to have helped set the stage for a future uprising in the country. First, there is the case of Mubarak's backlash against the Egyptian opposition after the 2005 elections. According to Gregory Aftandilian of the Strategic Studies Institute, Egypt adopted a liberal policy toward the Muslim Brotherhood in mid-2005 in an effort to scare the Bush administration away from their push for political reform, "releasing members from prison, allowing the organization to campaign openly using religious slogans...and even affording the Supreme Guide of the Brotherhood an interview in the semi-official newspaper."[35] But after the Brotherhood showed more strength than Mubarak expected in the 2005 parliamentary election, government-sponsored suppression against the Brotherhood and other opposition groups began, and as a consequence the next five years of Mubarak's rule were to be even more authoritarian than ever before. This lesson may have informed the Muslim Brotherhood's behavior in 2011. Then, they kept a low profile in the early protests, aware that conspicuous participation would have encouraged international leaders to embrace Mubarak more closely, scared secular Egyptians away from a movement that appeared Islamist-aligned, and merited an even stronger military crackdown. Indeed, lessons of 2005 may have played a major role in guiding the Muslim Brotherhood's muted response to the protest movement of 2011.

The Bush Freedom Agenda of 2005 had made things worse for Egyptians 2006-2010, only adding to the anger and indignities that helped fuel the protests of 2011. The entire 2005 election process was a humiliating experience for Egyptians – unlike the authoritarian-

yet-straightforward national referendums of the past, the regime now played games in order to appease foreigners, pretending that Egypt had real choices and exposing the depths of Mubarak's hypocrisy.[36] Then after the "election", politicians who did relatively well were punished and those who had dared to express their opinions were oppressed. Because of the results of the Bush-targeted liberalization of 2005, the 2010 Egyptian legislative elections were termed by many to be the "most fraudulent ever."[37] Signs of backlash emerged on many fronts in the months after the "ugly election" of 2005, with denouncements of the government coming on many fronts. In December 2005, *The Washington Post* noted that "Forty-four prominent citizens, including leading journalists and intellectuals, issued a statement declaring that 'the fraud may lead to a collapse in the legitimacy of the state and the current regime.'"[38] The erosion of legitimacy coincided with increased repression in the years, and elections to come. In the elections of 2010, freedom of speech was limited further, as documented by Freedom House's downgrade of Egyptian media openness from "partially free" to "not free", which came as the government cracked down on journalists and bloggers.[39] Backlash from the 2010 elections would set the stage for the historic events to come, as even in early December 2010 some could see the way in which the fraudulent elections served to strengthen and unite Egypt's splintered opposition.[40]

The second way in which Bush's Freedom Agenda may have stimulated the 2011 protests was by encouraging Egyptians to think about their future in a new way, while also fostering space for limited debate, even though it did not last long. An article by Human Rights Watch entitled "Egypt: Elections Offers Public Debate, Not Free Choice", asserted exactly that – although the elections were fraudulent, they did, in fact, initiate a new level of public dialogue.[41] In September 2005, Joe Stork, Deputy Director of Human Rights Watch's Middle East & North Africa division, said it best: "The significance of this election isn't the possibility of unseating Mubarak, but the fact that many Egyptians have boldly challenged his quarter-century of rule. Their willingness to speak out has generated a serious public debate instead of just another presidential plebiscite."[42]

It is hard to discount the effect that those months of public debate may have had on the long-term thought process of Egyptians, who rarely had any opportunities for political dialogue in the past. Viewing the years 1981 to 2011 as a static period of collective Egyptian thought, which ended only when Mohammad Bouazizi awakened an entire region by setting himself on fire, oversimplifies the situation. Events occurred during that thirty-year period, events that cumulatively set the stage for the sparks of Tunisia to ignite the Egyptian tinderbox. The system in Egypt may have been static, but the minds of Egyptians were not. The 2005 debate can be seen as an important benchmark. Just as Mubarak was squashing the public dialogue in the aftermath of the election's outcome, Egyptians were finding new ways to communicate and carry on the debates about their future that 2005 helped facilitated. Internet access in Egypt went from 0.7% in the year 2000 to 7% by 2006, and then increased to 12.9% in 2008, 21.1% in 2009, and then 28% on the eve of the revolution.[43] The discussions about Mubarak's many hypocrisies, crimes, and flaws amongst Egyptians in 2005 probably did not end right after the election. More likely, repression forced criticism of Mubarak to go underground, and during the 2011 uprisings, the internet would play an important role in both planning protests and facilitating dialogue amongst Egyptians and the world at large. While Bush's foreign policy had many

flaws, this seems to be at least one piece of evidence that it helped facilitate the debate that would ultimately lead to Mubarak's downfall.

The third way in which the Freedom Agenda appears to have helped spur the 2011 Revolution was certainly inadvertent, and is also unlikely to be advertised by Bush's conservative supporters. Several unintentional economic effects of the Bush-inspired trade liberalization seem to have helped foment the social discontent that brought so many Egyptians to the streets last year. Many argue that trade liberalization can widen the economic gaps between the rich and poor in general – in Egypt's corrupt system of crony capitalism, this certainly was the case. High-ranking officers in the Egyptian military and those with connections to the regime have long received "sweetheart deals" in government-facilitated private contracts or trade deals in order to strengthen their loyalty to the regime. As Bush, through his METFA and open economy efforts, brought Egypt deeper into the global market capitalist system, the traditional rules of the free-market certainly did not exist internally. This had the effect of exacerbating the negative consequences of trade liberalization on economic equality.

Oz Hassan of the University of Warwick points out that Bush's Freedom Agenda was particularly conservative in its "emphasis on safeguarding the socio-economic privileges and power of the established autocratic allies in the region."[44] Bush policies remained in line with the "Washington Consensus" approach: opening markets based on "the prescriptions of neoliberal economics, and pushing for free trade integration."[45] The combination of neoliberal economics and widespread corruption proved to be a toxic cocktail for the country, exacerbating the economic divisions that served as a major cause of the economic discontent. The growing population of unemployed youth saw the rich getting richer while they felt poorer, which was one of the many reasons why the streets of Cairo were so full of protesters.[46] As Hassan also points out, opening the Egyptian market and making it more interdependent with the West also made it more vulnerable to international economic downturns than a more closed economy would have been.[47] As a result, Egypt and other Arab countries, such as Tunisia, were more exposed to the 2008 global economic crisis than they otherwise would have been, adding to the woes that fomented the 2011 uprisings. The economic component of the Arab Spring protest movements cannot be written off, nor can its connection with the Bush's Freedom Agenda be ignored.

## Conclusion: The Limits, Failures (and Successes?) of Bush's Freedom Agenda

As many scholars and commentators have argued, the War in Iraq appears to have been an unmitigated disaster for U.S. interests in the Middle East. Although not directly assessed in this paper, the case made by Cook and others that the war only served to hinder broader Arab democratic growth seems quite compelling.[48] Even without the Iraq War, Bush's Freedom Agenda model was likely doomed to fail. The idea that global democratization serves U.S. interests in the long run may well be true on paper, but in the real world, the democratic demands of Arabs are bound to contradict and conflict with many of America's short-term interests and security needs, as is demonstrated by the popularity of Islamist parties in the region today.

The Bush administration had no answer to these contradictions, seeming entirely surprised by Hamas's victory in the 2006 Palestinian Authority elections, the chaos in Iraq, and the war Hezbollah caused from within Lebanon's weak democracy. Bush officials somehow believe that their "partnership" model aimed at preserving the socioeconomic powers in the region would yield fruit through a gradual process of democratization, yet as Hassan points out, they had no way to respond when this did not occur.[49] Thus the core assertion of the Bush Freedom Agenda – that the American-led democratization of the Middle East was in America's national interest – appears to have been false; indeed, the Freedom Agenda itself was fatally flawed due to the conflict of interest between Arab democracy and U.S. security and economic needs. As Egypt appears to be embracing Islamism while protests have continued, making the future of U.S. interests in the region less secure, this key tenet of Bush's foreign policy does not look like it will be vindicated any time soon. Rather, Hosni Mubarak, who warned Bush that Islamism or chaos would arise in Egypt without him, might be the one vindicated in the end.

However, there was a second assumption underlying Bush's Freedom Agenda – that Arabs, like any other people, yearn for freedom and self-determination, and will eventually come to appreciate openly such values. On this philosophical assumption, it looks like Bush was right – particularly in contrast with those who doubted Arab society would ever produce mass pro-democracy movements. But the intended effect of America's linear influence on the region was far more limited than Bush had ever imagined, and when confronted with reality, his policy agenda, which never was very consistent, fell apart.

As demonstrated, there are clear lines connecting Bush's Freedom Agenda and the Egyptian Revolution. But rather than going through Mubarak, the lines go through the Egyptian people who risked their lives for liberty. Bush's Egypt policy did help facilitate the Egyptian uprising, but not in ways he expected. It was Bush who forced Mubarak to hold the 2005 elections, leading both to a period of national dialogue and a subsequent crackdown, which made a future uprising all the more likely. Unwittingly, since Egypt's corruption-driven economic inequalities were exacerbated by the economic liberalization that Bush pushed, it was the Freedom Agenda's economic component that helped to produce the many angry unemployed youths who filled Tahrir Square last February.

The sad irony is that a more moderate, less ambitious, and long-term approach to promoting Middle Eastern democracy probably would have been the most appropriate path for America to follow. In her 2004 article for Policy Review, Tamara Cofman Wittes outlined such a plan for a milder form of democracy promotion, pointing to Kuwait as an ideal model.[50] An enlightened policy would not stress "cosmetic" elections as Bush did when he was hoping to build on his post-Iraq narrative, but rather on pressing "Arab regimes to reform their politics, not just their political processes."[51] As Egypt approaches it first post-revolution presidential elections, Obama and other world leaders should pay attention to scholars like Wittes who emphasize looking beyond political processes alone when fostering democratization. As the Arab Spring continues to unfold, the lessons of past attempts at Arab democratization are more important than ever, as the legacy of the Bush Freedom Agenda continues to influence politics in the region.

*Geoffrey Levin, originally from Wheeling, Illinois, is a graduate student studying Conflict Management and Middle East Studies at the The Johns Hopkins University's SAIS Bologna Center. Before graduate school, Geoff worked as a staff writer for a public affairs magazine in Melbourne, Australia, writing primarily about Middle Eastern politics and the Arab Spring. As an undergraduate student at Michigan State University, Geoff was named the top graduating senior by the international relations department. After SAIS, Geoff plans to pursue a PhD in political science or international relations.*

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# Security for Sale:
# The Great Game of the U.S. - Indian Civil Nuclear Cooperation Treaty and its Implications for China and Pakistan

**Patrick Mendis & Leah Green**

## Abstract

*In this analysis of the evolution of the U.S.-India civil nuclear cooperation pact, the authors argue that the bilateral treaty marked the beginning of a new era for global non-proliferation as envisioned by the Bush administration and subsequently endorsed by President Barack Obama. An exploration of the forces at work reveals powerful special interests that scored massive commercial and trade deals to supply India with parts and technology. The unintended consequences of such action included a precedent for Chinese support of Pakistan's nuclear program and the potential detriment to American interests in South Asia and the Indian Ocean region.*

## Introduction: The Bush World

Using key allies appointed to the U.S. Department of State and an aura of secrecy, President George W. Bush struck an unprecedented agreement for civil nuclear cooperation with India in October 2008. Forcefully backed by the Indian Diaspora, K Street lobbyists and powerful corporate interests, industry giants—such as Boeing, Raytheon and General Electric—scored massive contracts to supply the subcontinent with reactor parts, space and defense related components and technologies. The Council on Foreign Relations characterized the deal as a "watershed" moment in U.S.-India relations, introducing "a new aspect to international non-proliferation efforts."[1] In the wake of the agreement, "hotspot" countries like North Korea, Iran and Pakistan continue to pose a serious challenge to the foreign policy aims of the Barack Obama administration as well as the international non-proliferation regime precisely at a time of weakened credibility due to the Bush accord.[2]

As the most powerful and responsible member of the global nuclear regime, the United States permitted an exemption to the rules of access to civilian nuclear development for former outsider India. This allowed New Delhi to achieve its nuclear ambitions within relatively lax global governing conditions, and thus weakened international oversight of the nuclear trade. Within the framework of established global non-proliferation norms, countries like Brazil, Egypt, South Africa and Turkey either give up or abstain from nuclear weapons development programs in order to stabilize regional balances of power. Yet, no such requirements were made of India. Now, the increased profile of aspiring nuclear powers in regional hotspots (i.e., Iran and North Korea) combined with seemingly bendable global rules for nuclear supply may see the U.S.-India pact usher in a new age of nuclear power, whether for civilian purposes or military posture. As the United States introduced the possibility of nuclear favorites—granting access privileges to states outside the global non-proliferation regime—other nuclear weapons states capable of playing the role of benefactor (such as China) are poised to follow in kind with their preferred ally (such as Pakistan). Indeed, it appears that a new wave of nuclear proliferation—the likes

of which has not been witnessed since the years immediately following WWII when the USSR, the United Kingdom, France and China confirmed their nuclear status in relatively rapid succession could most certainly lie ahead.

The Bush administration's decision to negotiate the pact with India concluded nearly three decades of nuclear isolation for the subcontinent following India's 1974 nuclear test. After India joined the nuclear club, relations with the United States remained weak and often antagonistic. Former President Bill Clinton's 2000 trip to New Delhi marked both the first visit by an American president in 22 years and the beginning of friendlier U.S.-Indian relations. Determined to solidify these ties, the Bush administration proposed a nuclear cooperation agreement between the two countries in 2005.

President Bush and Indian Prime Minister Manmohan Singh worked out the terms of this proposal; however, before a formal agreement could be negotiated, U.S. laws had to be adjusted to allow for the possibility of nuclear commerce with India. Congress revised relevant legislation in 2006, but required renegotiation of terms as well as Congressional oversight. The deal was finally approved in 2008, permitting the United States to supply the one-time nuclear outsider with vital technology, parts and fuel. How was a such a change in longstanding policy realized in such a brief period of time?

## Policy Orientation: A New Worldview in the White House

When George W. Bush assumed office, U.S. policy toward India shifted dramatically. While the Clinton administration had attempted to improve relations with New Delhi, its global vision was driven by economics—and in Asia, especially focused on China.[3] At the time, the slow "Hindu" economic growth rate had only just begun to accelerate and Clinton did not view India as a potentially significant ally relative to China. In conjunction with the Clinton team's geopolitical orientation, New Delhi's declared nuclear policies precluded any possibility of extensive bilateral nuclear cooperation.

Such policies were related to the Nuclear Non-proliferation Treaty (NPT), the definitive document that identifies five nuclear states (the United States, the United Kingdom, China, France and the former Soviet Union, all of whom had developed or acquired nuclear weapons before the treaty was opened for signature in 1968) as well as regulates their trade with non-nuclear states.[4] Though India had participated in negotiating the terms of the NPT, Indian diplomats protested the treaty on the grounds that it discriminated against countries that might develop nuclear weapons after 1967. India felt that the NPT created a privileged group of 1960s-era nuclear "haves" against whom all other states were "have-nots," and declined to sign. As U.S. and global regulations were strengthened over the years through tighter export controls and the establishment of international watchdog and trade monitoring groups like the International Atomic Energy Agency (IAEA) and the Nuclear Suppliers Group (NSG), India found itself permanently sidelined from global nuclear commerce. Nearly every country signed on to the NPT, which became a norm for access to nuclear fuel for peaceful purposes. India's marginalization was only further cemented with two nuclear tests, one in 1974 and another in 1998. Given this record of nuclear testing, U.S. domestic law prohibited any nuclear trade with India.

Three months after taking office, President Bush announced that U.S. foreign policy on missile defense, and thus non-proliferation, would be pursued in the context of a new strategic framework that would reshape Washington's relations with Moscow, in particular. The framework would leave behind the era of mutual-minded, formal arms controls treaties that maintained nuclear balance; the United States needed the freedom to rethink its previous non-proliferation, counter-proliferation, and defense postures in order to adapt to a rapidly changing post-Cold War security environment in which Russia was no longer an enemy.[5] The White House quickly furthered their agenda by appointing John Bolton as Undersecretary of State for Arms Control and International Security, a position he would hold from 2001 to 2005. Bolton, who later became the U.S. ambassador to the United Nations, was a widely known critic of arms treaties and international organizations.[6] He soon formally introduced the details of the nascent framework; the United States would remain committed to non-proliferation aims even as the need to rework traditional defenses and resources related to international security was made clear.[7] In the meantime, President Bush declared it was necessary for the U.S. government to "move beyond the constraints" of the 1972 Anti-Ballistic Missile (ABM) treaty signed with the former Soviet Union as the treaty did not allow the United States to defend itself properly against the growing threat of nuclear proliferation.[8]

In fact, leaving the treaty allowed the United States to embark on constructing a national missile defense system that would have abrogated ABM commitments. The majority of the international community including Russia was unreceptive to the news of such a system. Yet, India expressed surprisingly ardent support, praising the move as "seek[ing] to transform the strategic parameters on which the Cold War security architecture was built."[9] Administration officials were similarly accommodating in their statements towards New Delhi. Days before the 9/11 terror attacks, U.S. Ambassador to India Robert Blackwill delivered a speech in Mumbai, saying, "The president has a big idea about U.S.-Indian relations . . . he is seeking to intensify collaboration with India on a whole range of issues that currently confront the international community writ large."[10] The administration moved quickly before the conclusion of its first year in office to "intensify dramatically the level of engagement with the Government of India" by inviting a number of Indian officials to visit Washington.[11] According to aides cited in the *Wall Street Journal*, the president had "taken particular interest in India going back to 1999, viewing India's democracy and its massive yet moderate Muslim minority as a stabilizing force for Asia and the Middle East."[12]

Ambassador Blackwill outlined his role in generating new U.S. policies toward India and the general path of policy direction as follows:

> Knowing that Prime Minister Vajpayee believed that the United States and India were natural allies, we [Blackwill and Vajpayee] developed a roadmap in early January 2001 ... to accomplish the strategic invigoration of the bilateral relationship, which we presented to the president and which he approved. We were on our way, with the two respective bureaucracies to be driven by top-down direction by the two heads of government.[13]

The implications of Blackwill's remarks are significant. Instead of initiating high-level review and evaluation of U.S.-Indian relations and non-proliferation objectives, the ambassador indicates that the Bush administration possessed pre-determined policy intentions.[14] Just as important was what the ambassador did not say during his address: Blackwill was neither critical of India's 1998 tests nor did he mention the Nuclear Test Ban Treaty, two issues highlighted by President Bill Clinton during his visit the previous year. Thus, observers noted that the "tenor and substance of the ambassador's remarks signaled a calm recognition of India's nuclear status."[15] This was a turning point in U.S.-Indian relations.

## Incremental Policy Changes: Expanding U.S.-Indian Ties

The revitalization of significant U.S.-Indian ties was realized through a series of steps that broadened collaboration in a variety of areas once constrained by Washington's geostrategic vision. In the past, the United States and India had cooperated to varying degrees on space research and development. But space technology can be applied as missile technology, as evidenced when India subversively replicated parts of its nuclear-capable Agni missile from 1960s-era American rocket blueprints and information requested from NASA.[16] Subsequent mistrust of Indian intent in Washington meant that prospects for collaboration in these areas had not previously been bright. This changed as high-level dialogue under the auspices of cooperation groups steadily reduced the barriers that prohibited Indian access to high technologies. U.S.-Indian relations in defense and space technology were steered by bilateral groups such as the Defense Policy Group, which saw a major upgrade in U.S.-Indian military ties when a ten-year defense pact was signed in 2005. The deal included unprecedented support in terms of joint weapons production, missile defense, high-tech sharing, and economic and energy cooperation.

Around the same time, U.S. Energy Secretary Samuel Bodeman formed the "U.S.-India Energy Dialogue" to establish five working groups that discussed nuclear technology exchange;[17] matters under consideration included fusion science and related research topics. This mid-2005 dialogue proved particularly relevant because it was preceded by only a few weeks the official White House announcement of its intent to negotiate a formal civil nuclear cooperation agreement with India.

## Policy Push: Taking over the State Department

In fact, 2005 proved a critical year marking the executive branch's ability to advance policy implementation at a pace that would see clearing hefty legal barriers to the agreement before the end of President Bush's term in office. The administration relied on key appointments, especially at the State Department and the White House's National Security Council, who de-prioritized arms control regimes.[18] Prior to these key personnel and organizational shifts, notable interagency conflict and internal State Department disputes existed within the administration.

The quick pace of non-proliferation policy changes can be traced to the departure of Secretary of State Colin Powell and the arrival of Condoleezza Rice at the Foggy Bottom helm.[19] The State Department under Secretary Powell had been conflicted over changes in non-proliferation policy. During his tenure, the Non-proliferation (NP) and Arms Control

(AC) Bureaus within the department had generally opposed high-technology transfers to India that might damage U.S. non-proliferation objectives.[20] (The NP is responsible for deterring the spread of nuclear weapons and other weapons of mass destruction, while the AC negotiates and implements arms control agreements). Internal resistance from those bureaus necessitated the incremental concessions made from 2002-04. When Rice was appointed as U.S. Secretary of State in 2005, these organizational dynamics changed.

Dynamic shifts coincided with personnel turnover within the State Department. In 2004, the Office of the Inspector General (IG) recommended merging the AC and NP offices. Newly appointed Secretary Rice announced on July 9, 2005 the implementation of a major departmental reorganization that would include the union of both bureaus. The merger was carried out with remarkable speed in the fall of that year and saw around a dozen senior experts and career employees leave the department.[21] Consequently, it eliminated most public evidence of the internal conflict that had characterized Secretary Powell's tenure, often positioning it against other elements of the administration. The resolution of this tension may be explained by the allegations of former employees, who claimed, "Some State Department weapons experts from offices that had clashed with Undersecretary Bolton were denied senior positions in the reorganization, even though they had superior qualifications."[22] *The Philadelphia Inquirer* later reported that one political appointee even looked outside of the department to fill office jobs by circulating an email that listed "loyalty to Bush and Rice's priorities as a qualification."[23] Though later rescinded for reasons of protocol, the letter pointed to the politically-charged atmosphere at Foggy Bottom.

By design or stroke of luck, John Bolton was soon appointed as ambassador to the United Nations, thus removing one potential opponent to the agreement. The *Asia Times* reported that Bolton had been "vehemently opposed to any concessions to India on the nuclear front," and had "blocked a key Indian plan to acquire the Arrow anti-missile system from Israel."[24] Meanwhile, at the Pentagon, Secretary Powell's frequent adversary Donald Rumsfeld "fully backed closer relations with India."[25] Thus, after the appointment of Secretary Rice, the departmental reorganization, and a corresponding reduction in internal department and interagency tension, the stage was set for the Bush administration's preferred policy of nuclear cooperation with India to advance rapidly.

## Policy Breakthrough: Co-opting U.S. Congress

On July 18, 2005, during an Indian state visit to Washington, President Bush and Prime Minister Manmohan Singh jointly announced the formal expansion of bilateral cooperation in areas of civil nuclear energy and dual-use technology. The Bush administration argued that strengthening the United States' ties to India in this manner would advance four key aims:

- Assist India in meeting its energy demands

- Reduce potentially enormous amounts of fossil fuel emissions

- Promote economic growth and development by attracting foreign direct investment

- Integrate India into the non-proliferation regime by bringing its civil nuclear program under an international framework.[26]

In order to accomplish this last objective, President Bush announced that he would, "Work to achieve full civil nuclear energy cooperation with India as it realizes its goals of promoting nuclear power and achieving energy security."[27] The terms under which this cooperation would occur still needed to be clarified through top-level negotiations. By March 2006, the administration was ready to approach Congress with the Bush-Singh proposal, an outline of how civilian nuclear cooperation might be realized. The proposal allowed India to determine which of its nuclear reactors would be placed under international safeguards and inspection, but stipulated no significant changes to India's domestic or foreign policy. Critics noted that this was not a win for American negotiators as India remained responsible for determining which facilities would be classified as civilian and military.[28] This permitted New Delhi to keep its current and future fast-breeder reactors unsafeguarded and beyond the reach of third-party verification of non-military use––an issue viewed by the nation as "a matter of pride and sovereignty."[29]

Lobbying efforts intensified in Washington as onlookers anticipated a congressional vote on the proposal. The Indian-American community was particularly energized by the deal and, along with New Delhi, actively sought support from Congressman Henry Hyde, chairman of the House Committee on Foreign Affairs. The U.S.-India Business Council was also heavily involved, and worked with what New Delhi's Institute of Peace and Conflict Studies analyst Ashok Sharma termed "one of the leading and most expensive lobbying firms in Washington, DC," Patton Boggs. The Indian government reportedly hired the same firm for $1.3 million to spearhead a "concerted lobbying campaign."[30] Former Ambassador Blackwill fronted the effort, which U.S. business interest groups also backed.[31]

However, not everyone in the Republican administration or party, which held a majority in Congress at the time, was amenable to the idea of regular nuclear commerce with India on irregular terms. Concerns arose from incidents of technology transfers between the two countries, as well as reports that India's navy was assisting the Iranian military. In the fall of 2006, American non-proliferation expert Henry Sokolski wrote that State Department officials tried "every which way to deny" the fact that Indian Navy was not only helping Iran construct a base with access to the Indian Ocean, but also conducting joint naval exercises with Tehran. Additionally, "over the last 20 months, the State Department [had] sanctioned no fewer than seven separate Indian entities for transferring strategic weapons-related technology or goods to Iran."[32] In fact, revered Indian nuclear scientists Dr. Y. S. R. Prasad and Dr. C. Surendar had both been censured under the 2000 Iran Non-proliferation Act for transferring sensitive technologies to Tehran.[33]

The Bush-Singh proposal to Congress in March 2006 circumvented ordinary procedure for nuclear cooperation agreements. As per the stipulations of the U.S. Atomic Energy Act (AEA), agreements must meet a list of criteria outlined in Section 123 of the AEA (bilateral cooperation accords are thus dubbed "123 Agreements"). Their terms are negotiated by the secretary of state along with the "technical assistance and concurrence" of the Secretary of Energy, and the language of any agreement is reviewed by the Nuclear Regulatory Commission.[34] Following presidential approval, the proposed accord is submitted to

designated congressional committees. In turn, the committees may hold hearings and request information on the proposed cooperation agreement for a period of sixty days. Then, the committees recommend a course of action to their respective bodies. The agreement will come into force automatically unless Congress acts to prevent it. Occasionally, the president may submit a 123 Agreement that does not fully meet requirements; in those cases, the agreement will not automatically come into force unless Congress approves it. This allows Congress to condition approval of any unordinary accord.

To avoid such legal hurdles, the president instead asked Congress to pass legislation simply exempting India from the AEA provisions that prohibited nuclear trade with India. This would allow the White House to finalize a formal bilateral agreement with India as if it were an ordinary accord that met all the requirements of Section 123, required no Congressional approval, and would automatically go into force following the sixty day review period—as if a nuclear deal with India were no different than with Canada. In testimony before the House Committee on Foreign Affairs, non-proliferation expert Leonard Weiss called this a "prime example of Executive Branch distrust of Congressional judgment and Congressional prerogatives under current law."[35] Congress likewise proved hesitant to acquiesce to the administration's demands.

Congress was firmly divided on the fact that if they approved the Bush-Singh proposal as submitted, a 123 Agreement with India could then be formally drafted and implemented without subsequent Congressional review. Eventually, Congress struck a compromise (later termed the Hyde Act after the late congressman who supported it) by conditioning the administration's initial proposal in requiring that certain measures be met, such as updates on negotiations between the administration and New Delhi on a credible plan for the separation of Indian civilian and military facilities that met IAEA approval and an NSG waiver for India before a final Congressional vote of approval in both houses.[36] For the next seven months, an aura of secrecy surrounded the actual agreement. By the time protracted negotiations were concluded a year later, no one knew the terms that had been reached—not even lawmakers who expected to be privy to the stipulations they had intended to oversee.

While negotiations ended on July 27, 2007, both parties sat on the terms for a week before releasing them publicly. The delay in unveiling the text fueled concerns among American lawmakers who suspected Prime Minister Singh needed time to rally support in New Delhi, where the media viewed nuclear concessions to Washington as ceding sovereignty. By October 2007, the House Committee on Foreign Affairs had submitted a lengthy set of questions on the less specific terms of the agreement to the State Department. The department responded to the inquiry, but asked the committee to keep its answers secret even from other lawmakers. Approval in New Delhi was tenuous and Indian legislators were threatening to withdraw support, forcing a vote of confidence in Parliament over the terms of the deal. Five months later, non-proliferation experts called on the State Department to make the responses public.[37] A revealing *Washington Post* article commented on the well-kept secrecy and concluded that these answers had not been leaked, "in part because only a handful of congressional officials [had] been able to read them."[38] A House Foreign Affairs Committee spokesperson additionally allowed, "Some of the data [revealed by State] might be considered diplomatically sensitive."[39]

Over the course of next year, Prime Minister Singh battled serious opposition to the agreement at home. New Delhi embarked on selling the deal to its own constituents and reaching agreements with the NSG and the IAEA. On September 11, 2008, the White House sent the 123 Agreement to Congress for approval; two days later, the State Department released a fact sheet on the accord. On the more controversial aspects that had been vital in ensuring Indian support, such as guarantees of fuel supply, the White House stated no legal obligation existed. As the burgeoning financial crisis engulfed media attention, the agreement was rather anti-climactically rubber stamped by Congress and signed into law in October 2008. The era in which India was viewed as a nuclear pariah came to a close with finality: India had finally managed to join the global nuclear trade regime on its own terms.

## Policy Rewards: "Selective Proliferation" Yields Lucrative Gains

Despite widespread criticism from non-proliferation experts, lawmakers with solid non-proliferation stances came around to the administration's point of view in record time. The momentum behind this sudden reversal of long-held policy was a broad coalition of merged special interests, not least of which was the India lobby. "Savvier than ever about playing the Washington game," wrote Mira Kamdar at the *Washington Post*, "the Indian American community is just coming into its own, and powerful business interests see India as perhaps the single biggest money-making opportunity of the twenty-first century."[40] The *Wall Street Journal* also reported, "industry executives estimate India's nuclear-energy market will require $100 billion of foreign direct investment in coming years."[41] The broader aim, however, was not to simply pursue profitable deals with India, but to open up a rapidly expanding Indian economy to American businesses by clearing "regulatory obstacles to investment and sales in India."[42]

Pushing hard at the center of the Indian nuclear deal was former Ambassador Robert Blackwill, then at the lobbying firm Barbour, Griffith and Rogers LLC working alongside former State Department Counselor Philip Zelikow. The Indian government hired the firm in 2007 to push the deal; at the same time Lockheed Martin and Northrop Grumann retained the firm to secure multi-billion dollar contracts with the Indian Air Force. Pakistan's *Daily Times* reports that Blackwill used his involvement in the deal and proximity to the Indian government to help several American companies sign contracts for defense and radar equipment, as well as in other sectors such as telecommunications.[43]

The U.S.-India Business Council and the U.S.-Indian Political Action Committee achieved high-profile status pushing the agreement while corporations like Raytheon and Lockheed Martin attempted to keep a lower profile. Top executives at JP Morgan & Chase, Boeing and General Electric (GE) also lobbied lawmakers in the wake of 123 Agreement approval; the United States promptly sent its largest-ever trade mission to India to lure as much of the reported $100 billion New Delhi will need to invest in civilian nuclear energy from 2007-2027 away from French and Russian suppliers.[44] In the meantime, Indian-American Ambassador Karan Bhatia—who served as President Bush's deputy trade representative and also held two senior behind-the-scene political appointments at the Departments of Transportation and Commerce—took a top job at GE in the late 2007. Describing the former trade official as an "avatar," a veteran Washington reporter revealed that Bhatia was "the driving force behind pushing for more transfer of high technology to

countries like India, which set in motion the U.S.-India civilian nuclear agreement."[45] In praise of Bhatia, his supervisor Ambassador Susan Schwab, cited his "great" contribution to "the President's international trade agenda" and "launching the U.S.-India Trade Policy Forum" at the White House Office of the U.S. Trade Representative (USTR).[46]

By January 2009, the Indian Navy had signed a $2.1 billion agreement to purchase maritime surveillance aircraft from Boeing. This agreement was a follow-up to an earlier $962 million Lockheed Martin deal for Indian Army transport planes. Both companies were in the race for a $12 billion contract to sell fighter jets to the Indian Air Force—the largest of such defense contracts in sixteen years.

President Barack Obama's late 2010 visit to India solidified several lucrative defense deals worth a reported $5-6 billion. Eight months later, Boeing signed a contract to supply the Indian Air Force with ten military transport aircraft to the tune of $4.1 billion, making the agreement the largest ever Indo-U.S. defense deal and surpassing the value of the total Indian defense contracts held by the entire trio of Lockheed Martin, GE Aviation and Boeing. For its part, GE will provide over a hundred aircraft engines worth $820 million. In fact, American companies have won over 40 percent of all Indian defense deals struck since 2008. India is expected to spend more than $100 billion upgrading its defense capabilities before 2020, and this undoubtedly suits American interests.[47]

As the defense cooperation envisioned by the Defense Policy Group and other dialogue in 2005 came to fruition, Raytheon casually remarked that it anticipated collaboration with once-blacklisted Indian Space Research Organization (ISRO) to put U.S. satellites on Indian launch vehicles and manned missions. Not to be outdone, Boeing also indicated its willingness to join forces on future space missions with the controversial ISRO, which had played a key role in India's 1998 nuclear test. At the time, the international community had been especially taken off-guard because U.S. satellites failed to detect preparations on the subcontinent. A *Jane's Intelligence Review* report noted that this was because ISRO headquarters in Bangalore "had supplied a vast pool of data about the orbits and timings of various spy satellites," which allowed India's team of nuclear scientists and engineers to avoid detection.[48] The American response to these actions was to add ISRO to the Department of Commerce's Entity List, which "inform[ed] the public of entities whose activities imposed a risk of diverting exported and re-exported items into programs related to weapons of mass destruction."[49] ISRO was somewhat contentiously removed from the list in September 2004, and—hardly a decade after India made global news for detonating a nuclear device—within eight weeks, signed with Raytheon to develop India's GAGAN Global Positioning Satellite system. By the summer of 2009, ISRO extended an additional $82 million for Raytheon to modernize India's air navigation system.[50] Not only had the Bush administration's "new view" of India yielded exceptional nuclear cooperation, but it also provided unprecedented access to the best of American technologies. Yet while India's returns are evident, the United States' newly secured geostrategic advantage is somewhat murky at best.

### Policy Endgame: Less or More Regional Stability?

In March 2010, the United States and India signed an agreement on the reprocessing rights of spent nuclear fuel—an issue that had long preoccupied lawmakers on both sides

in the run up to the 123 Agreement. The two countries consented to Indian reprocessing rights at multiple facilities under IAEA supervision, which grants India status that not even Japan or European countries enjoy. China now finds itself in the rather awkward position of being surrounded—with Japan to the east and India to the west—by countries that have nuclear deals with the United States. In return, India need not even sign definitive global non-proliferation treaties like the Comprehensive Test Ban Treaty (CBTB) or the Nuclear Non-proliferation Treaty (NPT).

After India's 1974 nuclear test, the international community became convinced that non-weapons specific or dual-use items, which can be used for both civilian and military purposes, could lead to weapons development. Such items had been available to India before 1974 due to less strict export controls. To discourage the improper exploitation of dual-use materials, the United States implemented greater restrictions on nuclear trade. In direct response to the Indian nuclear test, Washington formed the NSG, which today is a 45-member, international body. The group formally coordinates individual nuclear-related export policies and strengthens safeguards on existing nuclear materials. In supporting the NSG, the U.S. government and other founding nations—Canada, France, Germany, Japan, Russia, and the United Kingdom—hoped that the body would help bring non-NPT states under the umbrella of an international nuclear export regime.

In order for the U.S.-India nuclear agreement to go forward, the NSG had to unanimously approve an exception to its rules for India. As a member of the NSG, China could have withheld approval and scuttled the agreement but declined to do so. Instead, China followed up its vote for the U.S.-India deal by proposing to supply Pakistan with two nuclear reactors during a June 2010 NSG meeting. China has long occupied the U.S. role of nuclear benefactor within Sino-Pakistan relations to the point where some opine, "Pakistan's nuclear weapons program is essentially an extension of the Chinese one."[51] While Washington opposed the agreement (having vacillated on offering Pakistan a similar version of the U.S.-Indian nuclear deal given Pakistan's history of proliferation via the infamous A. Q. Khan network, which had credited China as an invaluable source of technologies and information), Pakistan formally announced the deal in November 2010. By March 2011, China pressed ahead with plans to sell Pakistan two 1970s-era reactors to complement the two Beijing had already provided—a deal that Washington mutedly observed was "inconsistent" with Beijing's NSG commitments.[52]

Still, in February 2012, China and Pakistan were in the final stages of a deal to set up six nuclear power plant sites.[53] Non-proliferation experts are heavily critical of Sino-Pakistan nuclear cooperation, saying that the United States brought its case before the NSG and publicly asked for a waiver for India while the Chinese deal was secretly concluded and claims a grandfather right under a 1980s-era Sino-Pakistan contract.[54] In other areas of cooperation, Pakistan has not hesitated to play China as a "powerful alternative ally"[55] to the United States following the loss of millions of dollars of American foreign assistance in the wake of the assassination of Osama bin Laden. Completed in 2007, a geo-strategically useful port at Gwadar, Pakistan was signed over to management by Singapore's PSA International under a forty-year contract. Pakistan's defense minister announced following a May 2011 visit from Beijing that China had quietly agreed to assume management operations. Major news outlets picked up the story.[56] China's Foreign Ministry spokesperson quickly responded, saying that the issue had not been discussed.[57]

When it was revealed that Pakistan had invited China to build a naval base at Gwadar to complement the port Chinese investment had funded, Beijing again moved to distance itself from Islamabad and confirmed no plans existed for permanent Chinese military bases abroad.

In the midst of U.S.-Pakistan tensions over military operations and counter-intelligence activities in the volatile Afghanistan-Pakistan border regions, is a subtle but enduring Sino-Pakistan alliance now rising? If so, it would be inherently less stable than a U.S.-India one, considering corresponding levels of economic development, internal security and political stability in Pakistan. Pakistan's developing civilian nuclear program lies in proximity to one of the most dangerous regions of the world, in which the United States has maintained a costly, long-term presence fraught with frustration with Pakistan's government over border-area security and Taliban infringement. Yet, China may now intend to emulate the bar set by the United States—calculating China's own border and terrorism issues with Pakistan—in comprehensive strategic cooperation with India. Washington has stated its intentions to integrate India into the Nuclear Suppliers Group and eventually the UN Security Council; clearly, being picked as a strategic U.S. ally has its own rewards. With a growing web of complex dynamics within these geopolitical and geoeconomic relationships, time will tell if the same can be said of Beijing's preferred partners in the new great game of global nuclear relations in the Indian Ocean region.

*Patrick Mendis served as an American diplomat and a NATO military professor during the Clinton and Bush administrations. He is an affiliate professor of public and international affairs as well as an adjunct professor of geography and geoinformation science at George Mason University in Virginia. At the State Department, he chaired the interagency working group on science and technology for sustainable development, coordinated the intellectual property rights on science and technology agreements with the White House Office of Science and Technology Policy, and authored the Department's Supplementary Handbook on the Circular-175 Process for Routine International Science and Technology Agreements. Professor Mendis later served as a national security consultant at the Center for Global Security Research in the Department of Energy's Lawrence Livermore National Laboratory. He was a visiting foreign policy scholar at Johns Hopkins University's SAIS where he authored two books: "TRADE for PEACE" and "Commercial Providence: The Secret Destiny of the American Empire."*

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# Climate Change and Power Shifts in the Arctic Region

**Chiara Rogate & Marco Ferrara**

## Abstract

*Climate change, while not determining power shifts on its own, often acts as a stress multiplier on existing tensions and instabilities. Using the current political struggle over the Arctic as a case study, this paper evaluates how climate change affects global power relations by altering the existing international status quo. The analysis shows how a nontraditional security phenomenon is leading to the emergence of traditional security dilemmas, such as competition over resources and interstate tensions over boundary demarcations. The status quo reflects an increasingly fragile situation, compounded by the lack of legal mechanisms for resolving and adjudicating actual and potential disputes over the Arctic region.*

"Thus it happens in affairs of state, for when the evils that arise have been foreseen (which it is only given to a wise man to see), they can be quickly redressed, but when, through not having been foreseen, they have been permitted to grow in a way that everyone can see them, there is no longer a remedy."[1]
— *Niccolò Machiavelli, Chapter 3, The Prince*

## Climate Change and the International Agenda

Climate science is old: as early as 1896, Swedish scientist Svante Arrhenius suggested a link between higher concentrations of $CO_2$ in the atmosphere and an increase in temperature. New, however, are concerns about climate change. Although such concerns began to emerge in the 1970s,[2] only in the last two decades did they find a higher place on the international agenda. The post-Cold War era witnessed the emergence of non-conventional security threats, and environmental factors were soon recognized as a fundamental dimension in the new security paradigm, where the focus on security within states was added to the traditional concept of security between and among states.

Environmental security constitutes one of the seven fundamental dimensions of human security, as per the definition given by the 1994 United Nations Human Development Report. Moreover, since publication of the Brundtland Report, "Our Common Future" in 1987, linkages have been created between environmental and security issues. Environmental degradation and security is increasingly receiving attention in literature, individual states, and international and supranational organizations. In 2003, the first European Security Strategy recognized the link between climate change and the competition for natural resources; this was reconfirmed in the 2008 revision to the document. More recently, climate change became part of the United States' "National Security Strategy" and of the North Atlantic Treaty Organization's (NATO) new "Strategic Concept", both of which emphasize that environmental and resource constraints will shape the future security environment, potentially affecting the military alliance's planning and operations.[3]

Since 1992 when the United Nation's Convention on Climate Change was established, climate change negotiations have attempted to achieve global consensus in efforts to reduce emissions and mitigate climate change effects. The issue has been added to the agendas of not only the United Nations (UN), but also of regional forums such as the Asia Pacific Partnership, the Major Economies Forum, and the G-8. Furthermore, climate change is increasingly present in the programs of international agencies, from the World Bank to the United Nations High Commission for Refugees (UNHCR). Although skepticism exists, there is widespread scientific consensus that the changes now under way in the Earth's climate system have no precedent in the history of human civilization.[4] In 2007, the Intergovernmental Panel on Climate Change characterized such trends as "unequivocal".[5] Moreover, there is a growing recognition that slowing or reversing such trends constitutes one of the major challenges and greatest concerns of our time.[6]

**Is Climate Change Leading to Power Shifts?**

There is no evidence that climate change per se will lead to power shifts; however, the consequences of climate change could lead to an increase in state vulnerability, which could in turn constitute a precondition for changes in the international balance of power. As this paper attempts to demonstrate, climate change could alter the conditions in which states operate, or function, and hence act as a catalyst for changes in diplomatic and security relations. Climate change negotiations currently are offering several states the opportunity to consolidate their multilateral commitments. Furthermore, the issue has been debated and negotiated in regional venues as mentioned earlier, confirming a tendency to discuss this global issue at the regional level. At the international level, the definition of climate change as a threat or as a stress multiplier has been widely adopted.[7] In fact, climate change is seen as having a multiplying effect on existing security threats and instabilities – such as resource scarcity – possibly leading to increases in conflict, failed or fragile states, drought, spreading of disease, extreme weather events, and environmental refugees. Between 25 million and one billion people are expected to migrate by 2050 due to climate change.[8]

The Darfur conflict has been described as the first conflict to be driven by climate change;[9] however, further analysis indicates that it was, in fact, the product of several variables and that climate change acted more as a stressor than as a threat multiplier. Although the desert in northern Sudan advanced southward by 60 miles over the past 40 years and rainfall dropped by 16%-30%,[10] the primary cause of the conflict was a regional clash between pastoral and nomadic populations that escalated when Khartoum recruited Arab militias for an ethnic cleansing campaign against African civilians.

Not to marginalize the importance of ethnic violence, this conflict has also been classified as a byproduct of environmental change. A study conducted by agricultural economist Marshall Burke of the University of California Berkeley analyzed the history of conflict in sub-Saharan Africa between 1980 and 2002, finding that, "Civil wars were much more likely to happen in warmer-than average years."[11] Conflicts may arise in an attempt to gain control of scarce resources such as water, but may also occur when resources abound – particularly when they have a marketable value. Furthermore, the deterioration of socioeconomic conditions caused by an increased incidence of drought, such as resource scarcity and pandemic disease in the Southern Hemisphere –particularly in countries

located within the equatorial strip[12] – will strain the ability of governments to provide social services and assistance, increasing the probability for the development of political tensions. New centers of instability could therefore arise, potentially increasing the number of global flashpoints within which the conditions for humanitarian and military intervention are present, thus increasing international commitments. As previously mentioned, this is clearly stated for instance in NATO's "Security Concept."[3]

Climate change is expected to worsen disparities between the North and the South, in no small part because the countries that are expected to suffer the most are also the least responsible for the phenomenon. The change in living conditions is expected to generate an increase in mass migration, which could in turn lead to further conflicts. Such events could strain the ability of Northern countries to accommodate new waves of immigration and lend further urgency to the challenge of integrating peoples of diverse cultures and religions. However, there is no direct empirical connection between environmental degradation and conflict, and thus it is not possible to adopt a deterministic approach. Moreover, environmental factors are rarely, if ever, the sole cause of conflict: ideology, ethnicity, and power politics are all important factors. On the other hand, climate change could exacerbate tensions that are not necessarily present as threats, or increase the severity and the duration of conflicts.[14] Therefore, the definition of climate change as a catalyst for conflict can be defined via the idea of it as a hypervariable,[15] by exerting varying pressure on scarce resources, particularly energy, water, and food with differing outcomes.[16]

While further stressing environmental, economic and political conditions, climate change is also enhancing the diplomatic position of several actors on the international stage. This is particularly true in the case of the European Union (EU). In fact, the topic of climate change presents the EU with an opportunity to lead at both the international and supranational levels. The prevention of climate change has become part of the fabric of an European identity and Brussels has been able to exert structural power by orchestrating regime construction, setting the agenda of international climate change negotiations, and challenging the U.S. position on the issue.[17] In addition, climate change and environmental concerns have strengthened EU integration – and, therefore, the EU itself – through a burden-sharing approach between new and old member states. Presently, EU directives determine 80% of member states' domestic environmental legislation.[18] One may also note that the EU is driven in its efforts by concerns about energy security, i.e. the development of renewable energy is seen as a fundamental means of reducing dependence on particular energy suppliers. The transition to a low carbon society constitutes a method of reducing the Union's external vulnerabilities, as well as the political power of its supplier countries, especially in light of the 2008-2009 gas crisis.

Climate change negotiations are confirming the trend toward regionalism and the weakening of the United Nations. While confidence in the United Nations Framework Convention on Climate Change was partially restored in Cancun (2010) and Durban (2011), negotiations are more often being held at other venues, frequently structured on a regional or sub-global basis, offering an opportunity to discuss bottom-up, non-binding agreements. As noted earlier, the Asia Pacific Partnership, the Major Economies Forum, and the G-8 are examples of bodies within which climate change issues are currently being discussed.

# Climate Change and Power Shifts in the Arctic Region

The effects of climate change can be paradoxical. While contributing stress to world habitats as well as providing an impetus to rework the economic structures of states in order to mitigate negative consequences of inefficient economic growth, climate change is unfreezing economic opportunities, as seen in the case of the Arctic. The North increasingly has gained geopolitical importance, with attention being centered on the Arctic Circle. Recently, ice shelves in the region have receded at an alarming rate while temperatures have risen at twice the average of rest of the world.[19] The magnitude of these effects is apparent when considering that 40 percent of the perennial ice that characterizes this region has melted away in the last quarter century alone.[20] As a fulcrum of global climate change, the consequences of such warming trends in the Arctic are apparent not only in the local environment, but throughout the world due to a series of cascading effects that could engender further large-scale climatic change.[21] The 'great thaw' has shifted the importance of the Arctic within the international arena both politically and economically.

Even before the onset of global warming, the Arctic was already a politically contentious area, principally because it is a weak point within the convoluted web of treaty-based and customary international law. This is mostly due to the fact that unlike the case of Antarctica, there is no overarching treaty governing the 'High North'. The only applicable international regime to this day remains the "Convention on Law of the Sea", which was signed in 1982 in Montego Bay, Jamaica, and took force beginning in 1994. The treaty establishes general rules for governing maritime navigation and resource exploitation, but does not address issues that are particular to the Polar region, such as the need for a common governance framework,[22] nor does it take into account the region's unique and delicate environmental conditions. Additionally, the treaty has yet to be ratified by all of the Arctic powers, undermining its legitimacy. Consequently, the unfreezing of the glaciers is creating a legal "no-man's land" without precedent.[23] The lack of a systematic governance structure has led to the occurrence of many conflicts as well as significant tension among the Arctic powers – namely Canada, Denmark, Norway, Russia, and the U.S.A. – and has, therefore, made involvement in the region sensitive to variations in the international balance.

Traditional and longstanding conflicts in this region are numerous but tend to pivot around certain common themes, such as disputes over contested strips of land, maritime boundary demarcation, and fishing privileges. Such conflicts generally remained 'frozen' during the Cold War due to the balance that existed between NATO and the United Soviet Socialist Republic (USSR) as well as an appreciation for the sensitive nature of the area occasionally dubbed the "New Mediterranean" due to its strategic location between North America and present day Russia.[24] Both sides found it prudent to bury ongoing conflicts in the area lest they risk worsening existing tensions.[25] After the end of the Cold War, conflicts in the area remained crystallized and unresolved for much the opposite reason, namely the region's relative irrelevance within the new international order. However, conflict has remained and the temporary deflation of the Russian threat created the possibility for broader disagreements over the Arctic among NATO partners.[26]

With the onset of the 21st century, the 'grace period' of relative tranquility in the region

ended due to several factors. Primarily, the precarious situation was exacerbated by the onset of global climate change, which added a layer of fresh conflicts to the existing strata of frozen ones. There is no consensus regarding the significance of environmental change on the evolving political situation in the region,[27] but climate change has contributed to making exploration and exploitation of the region commercially appealing. Examples can be found in the opening of new sea-lanes, such as the Northwestern and Northeastern Passages,[28] in addition to making the extraction of resources – specifically hydrocarbons such as oil and natural gas – from the Arctic seabed economically feasible.[29]

The 2008 U.S. Geological Survey estimates that the Arctic holds up to 22% of untapped global reserves of energy resources.[30] The potential wealth of such untapped natural resources is drawing the Arctic from the periphery back into mainstream international politics as nations scramble to strengthen and consolidate their influence over the region. It is therefore fair to state that global climate change, along with significant technological innovations in extraction processes and infrastructure,[31] is contributing to the transformation of the Arctic from a backwater to a key geographical entity, resulting in premonitions of the Arctic as the background for the "Great Game" of the 21st Century.[32] The Arctic thaw has not simply unfrozen the former perennial ice shelves, but has also sparked new conflicts on top of established ones, thus compounding an environmental problem with acrimonious political disputes over resources. The lack of an applicable framework of international law has therefore made the Arctic a region in which it is possible to observe international anarchy in one of its purest and most striking forms, as states with divergent interests rush to establish their claims and plant a foothold in this contested area.

## Extension of the Continental Shelf

Given the paucity of legal mechanisms with which to resolve and adjudicate disputes, the one legal instrument that is applicable to the Arctic, the aforementioned UN Convention on the Law of the Sea has become the generally accepted regulatory framework for the resolution of intraregional conflicts. This treaty is, of course, far from tailor-made for the region, and its effectiveness is thwarted by the U.S.' refusal to ratify the convention. One provision of the convention, specifically Article 76, has proven to be a popular tool amongst the Arctic nations seeking to establish their claims over the natural resources present in the seabed. This article establishes that countries seeking to expand their exclusive maritime economic zones beyond the nominal 200 miles have to demonstrate to a UN technical commission that the underlying seabed constitutes an extension of their continental shelf. This has led several countries to organize scientific expeditions aimed at determining the nature and composition of the Arctic's continental shelves in the hope that results would buttress their claims in the region. The two clear frontrunners in this Arctic scramble are Canada and Russia, but the situation is still difficult to interpret and the outcome is far from certain.

Russia is, without a doubt, the nation that has most aggressively pursued and defended its interests in the Arctic. In 2001 it became the first nation to submit a petition to the UN for the extension of its continental shelf. The request is still undergoing review from the UN Commission on the Limits of the Continental Shelf, which is not an international court, but rather a body of technical experts tasked with arbitrating one of the most politically

contentious issues in the field of modern international law. The commission initially stalled, asking Russia to provide additional evidence to support its claim. This enabled Russia to make headlines in 2007 by planting a steel flag on the seabed below the North Pole as part of a scientific fact-finding expedition, triggering protests from Canadian officials.[33] Though the issue is still pending a final decision, it is evident that if the Russian claims were to be accepted, there would be a profound impact not just on Arctic politics, but also on global energy equilibriums. Expanded Russian energy resources progressively would decrease the influence and power of the OPEC cartel,[34] and thus augment Russia's position in the market. Moscow would then become the key player in the energy industry, thereby enhancing its global status. This is part of Russia's strategy for the Arctic, published in 2008, stressing the paramount importance of the region in the effort to safeguard its long-run national interests.[35]

As one might expect, Russian ambitions are not without contest. Canada also has sent several expeditions – some in collaboration with Denmark and the U.S.A.[36] – to the Arctic Circle over the last five years in the hope of establishing a claim over the underwater polar shelves. Canada is expected to submit its claim for extension of its continental shelf by 2013, as the Convention gives member nations a ten-year window from the moment of ratification to send their claims to the Commission, and Canada's entry into the Convention took effect in 2003. Furthermore, the Harper government has reinforced the military presence in the 'High North' by employing new patrol vessels as well as inaugurating two training and logistics bases in an effort to better protect Canadian interests.[37]

NATO has proposed itself as the natural forum for the resolution of controversies involving the Arctic – four of the Arctic powers are NATO member states and a permanent dialogue with Russia was established in 2002 with the NATO-Russia Council – having defined the region as a political and security priority. The alliance is also increasing its military activities in the region, leading to heightened militarization. For example, NATO military exercises, with the contribution of Great Britain, Denmark, Canada, Netherlands, Norway, France, Sweden and the U.S. took place from the 12th to the 21st of March 2012.[38] According to official reports, the focus is on practicing actions combining diplomatic overtures with military responses in relation to possible scenarios carrying a high risk for potential conflict. Such a flurry of activity being undertaken by NATO is not a coincidence, appearing to be in response to Russia's increasing presence in the region. The Russian government recently authorized the construction of new warships developed for the Arctic theater, constituting the first steps in the overhaul of its aging Northern Fleet.[39]

## What about the U.S.A.?

The United States, through Alaska, has a substantial stake in the region and, theoretically, should join the forefront of the Arctic struggle. However, efforts to establish extended claims on seabed resources have been checked by the United States Senate's continued failure to ratify the *Convention on the Law of the Sea*, rendering it impossible to establish a claim over the extended continental shelf. Skeptical U.S. policymakers tend to assume that customary international law, adequately supported by the most powerful navy in the world, sufficiently safeguard significant U.S. interests in the region.[40] It is evident, however, that such a unilateral approach is no longer tenable, as the Arctic has gone from

being a purely geostrategic region during the Cold War to becoming a zone of ever-increasing commercial interest.

The orderly development of economic activity requires some form of regulatory framework, with the only one available at the moment being the aforementioned UN convention. The refusal to ratify it implies the continued undermining of U.S. interests, with the nation potentially falling behind in what may become the gold rush of the 21st century.[41] Partisan politics as well as fears of a potential loss of sovereignty make it unlikely that the United States Senate will ratify the treaty in the short term, leading to a continued decline of U.S. influence in the Arctic. For this reason, analysts have proposed that the United States reach some sort of *entente* with Canada in the hope that such a duopoly would emerge as the dominant force in the region, facilitating the creation of a clear legal framework for commercial navigation and resource extraction.[42] Regardless of the ultimate strategy, it is evident that the current U.S. course is no longer viable. Inaction has sidelined America in a crucial struggle for influence that will determine the fate and ownership of vast and previously untapped Arctic energy reserves.

## Conflict vs. Cooperation

The political situation in the Arctic is at once nebulous and complex, with international law appearing to be little more than an instrument that nations use to justify their claims rather than a tool to resolve new and longstanding disagreements. Even though all parties agreed in 2008 to abide by and use international law as a regulatory framework through which to resolve their disputes in the Arctic,[43] they simultaneously appear to be hedging against possible adverse scenarios by strengthening their military presence in the area. For example, Canada is building a fleet of armed icebreakers, while Russia has recently resumed strategic bomber patrols over the region.[44] At the moment it is unclear whether issues pending in the Arctic can be settled via international arbitration, or by improving existing legal instruments with a dimension of political cooperation.[45] Such an outcome appears plausible as long as Canadian and Russian claims do not overlap, so that a settlement could be reached through the UN Commission on the Limits of the Continental Shelf.

Conversely, issues in the Arctic may evolve into a reflection of the developing political and military balance in the region, evading mediated resolution and resulting in conflict and unilateral actions. In such a case, the commission would be powerless to intervene as it does not have the authority to adjudicate disputes. Ultimately, one can observe that the situation is fast approaching a critical juncture. Without regard to the conclusions of the UN's technical commission, the Arctic powers soon must decide whether to cooperate in joint administration of the region, or to engage in a struggle for supremacy. Given the approaching submission deadline for Canada, the window for a mediated solution may not remain open past 2013.

## Conclusions

The Arctic has experienced rapid and drastic change as a consequence of rising temperatures. Therefore, international cooperation would be advantageous to achieving a lasting solution to the climatic, social and political issues facing this delicate region.

Unfortunately, the potential for reaching multilateral arrangements is fragile, and the political will for achieving them could easily fall second to the prospect of obtaining access to valuable resource deposits. Climate change in this region has engendered a series of unpredicted spillover effects in the political realm by acting as a conflict catalyst. Specifically, climate change has aided the creation of physical conditions that facilitate international conflict, while simultaneously reducing the incentives for cooperation, thus exacerbating disputes that will determine future power balances, especially those concerning energy markets, which are already enveloped in a tumultuous political situation presently affecting both countries that produce and those that consume natural resources.

The Arctic provides an example of how climate change can shift geopolitical attention as well as amplify the strategic importance of geographic areas, perhaps causing old rivalries to resurface as in the case of Russia and NATO member countries. A non-traditional phenomenon is indeed leading to the emergence of traditional security dilemmas in the form of competition for resources and territory, resulting in the development of tensions among states. Climate change in the Arctic is literally defrosting regional security conundrums that risk extending well beyond the region. Moreover, not only is the physical environment being modified, but legal and institutional environments are changing as well, posing new challenges to inter-state relations and the ability to manage the unclaimed parts of the Arctic, referred to as the commons.[46]

Climate change can only be tackled with long-term emissions mitigation policies, while the emergence of the security dilemma in the region requires short-term solutions to avoid further militarization of the Arctic. The need to act rapidly is particularly urgent since the situation is developing within a precarious institutional, legal, and political framework. Though skepticism concerning the veracity of climate change continues to abound in public opinion and political arenas, recent developments in the Arctic demonstrate how such changes already are adversely affecting international politics. Future developments are no longer limited to scientific discourse, but now extend to conflict prevention. As noted by Machiavelli, once foreseen, such issues must be addressed before they develop to the point that no satisfactory remedy can be found.

*Chiara Rogate is an M.A. candidate at The Johns Hopkins University's SAIS Bologna Center. She graduated from the University of Bologna in 2008. After interning at the United Nations Development Programme (UNDP) in Cairo and at NATO in Brussels she worked as a researcher at Isttituto per gli Studi di Politica Internazionale (ISPI), and at the Fondazione Eni Enrico Mattei (FEEM) in Milan, where she focused on climate change negotiations.*

*Marco Ferrara is an M.A.I.A. candidate at The Johns Hopkins University's SAIS Bologna Center. He graduated from the University of Bologna in 2011. For his undergraduate thesis he studied the evolution of international legal regimes within the Arctic, with a particular focus on the effect of such regimes on the recent warming trends taking place in the region.*

Notes:

1. Nicolò Macchiavelli, The Prince (London: Dent, 1958), translated by W. K. Marriott, p. 19.
2. For instance, the Helsinki Final Act (1975) divided the activities of the OSCE (at that time the CSCE) into three baskets. The second included the Economic and Environmental Dimension, dealing with issues such as economic development, science, technology, and environmental protection in their relation to international security.
3. North Atlantic Treaty Organization, Active Engagement, Modern Defense, Strategic Concept for the Defence and Security of the Members of the North Atlantic Treaty Organization, text adopted by Heads of State and Government in Lisbon, November 19, 2010, accessed March 13, 2012, http://www.nato.int/nato_static/assets/pdf/pdf_publications/20120214_strategic-concept-2010-eng.pdf.
4. Intergovernmental Panel for Climate Change , Contribution of Working Group II to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change (Cambridge University Press, Cambridge, and New York, NY) .
5. Intergovernmental Panel for Climate Change, Contribution of Working Group.
6. For example, at the G8 conference in 2005, British Prime Minister Tony Blair referred to climate change as "Probably long term, the single most important issue we face as a global community."
7. The definition of climate change as a threat multiplier officially has been adopted by the European Union, the United Nations, and the North Atlantic Treaty Organization.
8. International Organization for Migration, "Migration, Climate Change and the Environment. A Complex Nexus," accessed February 9, 2012, http://publications.iom.int/bookstore/free/IOMClimateChange Infosheet_final.pdf.
9. Ban Ki Moon, "A Climate Culprit in Darfur," The Washington Post, June 16, 2007, accessed February 10, 2012.
10. United Nations Environment Programme, Sudan Post-Conflict Environmental Assessment, June 2007, 7 et seq., http://postconflict.unep.ch/publications/UNEP_Sudan_synthesis_E.pdf.
11. Marchall B. Burke et. Al, "Warming increases the risk of civil war in Africa," Proceedings of the National Academy of Science of the United States of America 106, no. 49 (2009): 20670-20674.
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14. Oli Brown, "The Environment and our Security. How our Understanding of the Links has Changed," a contribution to the International Conference on Environment, Peace, and Dialogue among Civilizations held in Tehran, May 9-15, 2005.
15. Paul Smith, "Climate Change, Mass Migration, and the Military Response," Orbis 51, no. 4 (2007): 617-633, and Hugo Graeme, "Environmental Concerns and International Migration," International Migration Review 30, no. 1 (1996): 105.
16. The definition of climate change as a stress multiplier was given by UK Environment Secretary David Miliband in 2009. An earlier version can be found in F. W. Steinmeier and D. Miliband, "Addressing the Emerging Challenges of Climate change," 2008, accessed February 9, 2012, http://www.atlantic–community .org /index/articles/view/Addressing_the_Emerging_Challenges_ of_Climate_Change.
17. Christopher Hill and Michael Smith (Eds.), International Relations and the European Union, 2nd edition, (Oxford University Press, 2011), 350.
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20. Scott Borgerson, "Arctic Meltdown: the Economic and Security Implications of Global Warming," Foreign Affairs 87, no. 2 (2008): 66.
21. Torben Christensen, "Methane emission from Arctic tundra," Biogeochemistry 64, no. 3 (1993): 117-139.
22.  Wei-en Tan and Yu-tai Tsai, "Conflict Resolution and the International Scramble for Natural Resources in the Arctic," Journal of Politics and Law 64, no. 1 (2010): 93-94.
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25. Robert Huebert, "Canada and the Changing International Arctic: At the Crossroads of Cooperation and Conflict," Northern Exposure: Peoples, Powers and Prospects in Canada's North, ed. Frances Abele, et al. (Canada: The Institute for Research on Public Policy, 2009), 77-80.
26. "Canada island visit angers Danes", BBC News, July 25, 2005, accessed December 19, 2011, http://news.bbc.co.uk/2/hi/europe/4715245.stm.

27. Kenneth Yalowitz, James Collins, Virginia Ross, "The Arctic Climate Change and Security Policy Conference: Final Reports and Findings," paper presented at the Carnegie Endowment for Peace conference on Arctic Climate Change and Security Policy, December 1-3, 2008, accessed December 22, 2011, http://carnegieendowment.org/files/arctic_climate_change.pdf.

28. The first complete opening of the Northwest Passage occurred in summer 2008, enabling a shipping connection between the West and Asia to bypass the Suez Canal route.

29. 90 Billion Barrels of Oil and 1,670 Trillion Cubic Feet of Natural Gas Assessed in the Arctic, report prepared by the United States Geological Survey, July 23, 2008, accessed December 4, 2011, http://www.usgs.gov/newsroom/article.asp?ID=1980&from=rss_home.

30. 90 Billion Barrels of Oil and 1,670 Trillion Cubic Feet of Natural Gas Assessed in the Arctic. The 2008 press statement in particular points out that "these resources account for about 22 percent of the undiscovered, technically recoverable resources in the world. The Arctic accounts for about 13 percent of the undiscovered oil, 30 percent of the undiscovered natural gas, and 20 percent of the undiscovered natural gas liquids in the world."

31. Richard Galpin, "The struggle for Arctic riches," BBC News, September 22, 2010, accessed December 17, 2011, http://www.bbc.co.uk/news/world-11381773. Russia in particular is developing a new class of nuclear-powered drilling platforms designed specifically for the Arctic waters, and scheduled to enter service in 2012. A Russian Arctic pipeline is also in development, with completion expected by 2017.

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33. Canadian Minister of Foreign Affairs, Peter MacKay stated, "This isn't the 15th century. You can't go around the world and just plant flags and say 'we're claiming this territory." See "Russia Plants Flag Under N Pole", BBC News, August 2, 2007, accessed December 15, 2011, http://news.bbc.co.uk/2/hi/europe/6927395.stm.

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42. Scott Borgerson, "Arctic Meltdown," 75-76.

43. Richard Sale and Eugene Potapov, The Scramble for the Arctic: Ownership, Exploitation and Conflict in the Far North (London: Frances Lincoln, 2010), 195-196.

44. Scott Borgerson, "Arctic Meltdown," 75-76.

45. Linda Nowlan, "Arctic Legal Regime for Environmental Protection," International Union for Conservation of Nature Environmental and Law Paper, no. 44 (2001): 15-16.

46. The unclaimed parts of the Arctic seabed were declared to be a "common heritage of mankind" by the UNCLOS.

# Tectonic Shifts in the Global Economy:
# The Power of Emerging Markets

**Çiğdem Akın**

## Abstract

*In the last two decades, emerging markets have become important global economic players. This paper evaluates the implications of the structural economic changes and increased participation of emerging markets in the global trade and the financial system for growth dynamics and economic interactions of the world economy. Furthermore, the effects of the current crises and the role of the emerging markets in the global economic recovery are analyzed in conjunction with the areas of multilateral policy coordination that have to be fostered to manage an increasingly multi-polar world economy. The article concludes with a discussion of the reforms necessary to sustain the growth performance of the emerging markets in the future.*

## The Rise of Emerging Markets

The industrialized economies of the North, specifically the United States, Western Europe, and Japan, shaped the economic history of the 20th century. In the new millennium, the emerging market economies (EMEs) in developing parts of the world are starting to make their presence felt on the world stage thanks to the demographic, economic, social, political, and technological changes in their economies.

The EMEs in this study are primarily composed of 23 middle and upper-middle income developing countries, namely Argentina, Brazil, Chile, China, Colombia, Egypt, Hong Kong, India, Indonesia, Israel, Jordan, Korean Republic, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Singapore, South Africa, Thailand, Turkey, and Venezuela. The Eastern and Central European economies such as Hungary, Poland, Romania, Russia, and most recently Latvia and Estonia are also included in the list of emerging markets.[1] Most prominent among these are Brazil, India, Russia and China, collectively referred to as the BRIC, which have been growing at an extraordinarily rapid pace as they become more integrated into the global economy. The remainder of the developing countries in the "South" continues to be characterized by poor economies with low levels of industrialization, commodity export dependence, and limited degrees of integration into the world markets.

The ascent of EMEs is best reflected in the distribution of total world gross domestic product (GDP) using purchasing power parity (PPP) exchange rates. In the Bretton Woods era (1960-1972), advanced economies constituted 80 percent of world production, with the U.S.A. leading at 33 percent. The globalization era started with the 1986 Uruguay Round negotiations on multilateral trade and financial liberalization. During this period from 1986 to 2009, the GDP share of advanced economies dropped to 66 percent in total, with the U.S.A. declining to 26 percent. At the same time, EMEs increased their share from 17 percent to 31 percent. Following the recent financial crisis in 2008-09, advanced economies dipped further, accounting for just 57 percent of the GDP share, while the EMEs augmented their share to 39 percent. Other developing economies did not

experience such dynamism, accounting for only 3-4 percent of world GDP between 1960 and 2009. [2]

This remarkable rise was driven by extremely high growth rates in the EMEs. Their contribution to world growth collectively reached around 40 percent during the period of globalization. This changing growth distribution is due primarily to the rise of China, India, and Brazil. Between 2008 and 2009, their GDP alone made up 23 percent of world GDP, which was slightly less than the United States, and greater than the original 15 European Union countries. In the last two decades, China has grown at a rate of 10 percent annually. According to an IMF Report from April 2011, China's GDP, which was 3.3 trillion USD in 2009, is expected to surpass the GDP of the U.S. by 2016. The projections indicate that, collectively, emerging markets are expected to account for more than 60 percent of the global GDP in PPP exchange rates by 2025.[3]

## Understanding the Growth Dynamics in Emerging Markets

*Structural Change in the Economy*
A large contributor to the rapidly increasing growth of the EMEs has been structural economic change. In the traditional North-South paradigm, developing economies have been characterized by an abundance of inexpensive labor and large agricultural sectors that supply commodities and raw materials to the manufacturing industries of advanced economies. This pattern has undergone a significant transformation. As a result of the export-driven industrialization policies of the EMEs, production has diversified from mostly primary commodities towards industry and services. From 1960 to 1972, agriculture in the EMEs made up 22 percent of GDP. Between 1986 and 2008, this figure dropped to 12 percent, with the share of industry growing from 28 percent to 34 percent and services from 50 percent to 54 percent.[4] EMEs are now producing a range of higher value-added and human capital-intensive products such as petro-chemicals, machinery, automobiles, electronics, and information technologies. Diversification of production also had the added benefit of minimizing trade shocks coming from the outside world across different sectors, thus making their economies more resilient.

*Global Trade Linkages*
The success of EMEs is often attributed to their rapid and extensive trade liberalization and integration into the world economy. During the 1986-2009 period, the trade openness ratio increased from 28 percent to 78 percent of their GDP due to aggressive industrialization policies based on export driven growth strategies. In fact, during this time EMEs provided the lion's share of growth for global exports. These changes have subsequently affected global trade flows. Although the dominant share of world trade continues to be destined towards the advanced economies, the EMEs have seen an increase in world trade flows during globalization, from 14 percent in 1985 to 27 percent in 2008.[5]

The development of transnational production networks by multinational companies has further helped expand intra-industry trade between the EMEs and advanced economies. Furthermore, the share of intra-group trade as the total trade of EMEs has increased from 9 percent in 1960 to 35 percent in 2005. Free trade agreements among EMEs have played a role in these trends. Concomitantly, the share of trade between the EMEs and other developing countries increased from 6 percent in 1960 to 25 percent in 2005. Envisioning

the future, the "South-South" trade interdependency is expected to increase. For example, Brazil, rich in natural resources, raw materials, and agricultural products such as petroleum, iron ore, and soy, exports precisely the materials China demands for its own manufacturing exports.[6]

*Global Financial Integration*
Although advanced economies have been the major source of financial integration since 1986, EMEs have developed greater financial linkages with both the North and other EMEs. Before globalization, the South in general had a unidirectional dependence on Northern capital markets because of the dominance of debt flows to the developing countries. The globalization period has marked a multifaceted interdependence between the EMEs and advanced economies because of the rising prominence of foreign direct investment (FDI) and portfolio equity flows. FDI flows have contributed to the productive capacity, technology, and skill spillovers in host countries while portfolio equity flows have helped deepen financial markets. Reduction in debt liabilities contributed to macroeconomic stability in EMEs. Pro-cyclical debt flows and interest payments indexed to business cycles provided fewer opportunities for risk sharing and were prone to sudden stops when external financial conditions changed in earlier decades.

South-South financial linkages have also intensified during the globalization period. For example, China's outward FDI reached 72 billion USD in 2009. Chinese investments in Africa are particularly notable and have been concentrated in areas such as manufacturing, resource extraction, construction, and services.[7] Multinational companies from EMEs like TATA group from India, or the Brazilian aircraft manufacturer EMBRAER, have successfully increased their international investments by gaining competitiveness vis-à-vis advanced economies. In addition, official international reserves also make up a substantial amount of the foreign assets of the EMEs, a trend that is particularly evident in Asia. Many of these reserves have been invested worldwide as sovereign wealth funds in foreign equity and bond markets, companies, and infrastructure projects. In addition, sovereign wealth funds have been used strategically by governments to increase the political and economic ties between countries, promoting technology transfer and FDI to accelerate industrialization in the EMEs.[8]

*The Changing Nature of Economic Interdependency*
The aforementioned changes in the world economy have drastically altered the trends of interdependency and synchronization between advanced economies and the EMEs. The business cycles of the North have historically determined the business cycles of developing economies through demand for exports and the flow of capital. Changes during the globalization period, however, have brought the asymmetric nature of that relationship into question. Akın and Kose (2008) showed that during the globalization period, Northern economies have continued to define global economic conditions. However, there has been a decrease in the association between the economic cycles of advanced countries and the EMEs, while the strength of spillovers of GDP growth rates within the group of advanced countries and the EMEs has increased. For other developing countries, the growth spillover effects of the North have not changed significantly. [9]

These stylized facts in growth spillovers can be explained by the following reasons:

First, there have been few large common shocks since the oil crisis of the 1970s and the hikes in world interest rates following the disinflationary monetary policies of advanced countries in the early 1980s. Subsequently, the importance of global shocks in explaining the international business cycles started to decline.

Second, since the mid-1980s, economic integration through financial and trade linkages within advanced countries and EMEs has increased. Combined with rising sectoral similarity, the business cycles within groups have converged, while inter-group ties have weakened as economies have begun to resemble those within their own group and have thus been affected less by common shocks. Researchers have also found that intra-group correlations of aggregate and sectoral output have been rising among EMEs and among advanced economies, whereas cross-group correlations between the two have been dropping. This has led many economists to conclude that the EMEs are in fact decoupling from the North, meaning their business cycles are no longer as linked to, and thus dependent on those of the advanced economies.[10]

## The Performance of Emerging Markets during the Global Financial Crisis

The increasing interdependency between EMEs and decoupling from the advanced economies have undermined the old paradigm that when the advanced economies "sneeze", the EMEs "catch a cold." This new reality can best be seen in the performance of the EMEs during the recent global financial crisis of 2008-09. The economic activity in the EMEs was hit by the global recession because of the spillover effects from trade and financial integration. However, consistent with the decoupling hypothesis, as a group they have weathered the crisis better than the advanced economies and experienced the quickest and strongest recovery in growth rates. Although this resilience suggests that they were capable of revitalizing their economies better than the advanced countries, there was still substantial heterogeneity in the degree to which EMEs were affected.

Emerging markets in Asia performed the best during the crisis, with China and India leading the way. Excluding India, China, and Hong Kong, the rest performed less impressively due to their heavy dependence on export demand from advanced economies. Latin America also did relatively well in recovering from the crisis, although Mexico was heavily hit by the export collapse to the United States. The rest of the region, despite an initial contraction in economic growth, rebounded strongly, thanks to the Brazilian economy that led the recovery. Regions such as Africa and the Middle East also weathered the recession with minimal growth declines, probably due to their relatively modest exposure to trade and financial flows from advanced economies, which thus limited the extent of spillovers from the global shock. On the other hand, Eastern European economies experienced the harshest downturns in total output as a consequence of their tight financial and trade linkages with the Eurozone.[11]

The overall resilience of the EMEs can be attributed to several factors: First, greater trade linkages and increasing interdependence among EMEs enhanced their ability to withstand the recent financial crisis and were key factors that explained their quick rebound.[12] The speedy recovery in EMEs was greatly encouraged by increased

industrialization, diversification in production, and the rising demand from the middle class, which increased the size and absorptive capacity of domestic markets. These factors have made the EMEs less reliant upon the advanced economies.

Second, the EMEs finally reaped the fruits of prudent macroeconomic policies that were implemented following the sovereign debt defaults, balance of payments crises, and currency devaluations of the 1990s. In particular, the central banks of the EMEs used their current account surpluses and high savings rates to accumulate foreign exchange reserves as a form of precautionary savings.[13] As a ratio of GDP, such accumulation has been particularly rapid in China, Korea, India, Malaysia, Russia, Taiwan, and oil-exporting Middle Eastern economies. Thanks to the achievements in the macroeconomic discipline, EMEs like China, India, and Brazil could use aggressive countercyclical fiscal policy responses to withstand the shocks and downturns in the recent crisis, without the fear of deteriorating their fiscal positions or jeopardizing their debt service obligations. Similarly, they were able to relax their monetary policy and expand credit with lower interest rates to stimulate investment without the risk of inflation.

Third, policies that were designed to deepen capital markets, tighten financial sector regulation, and place limits on foreign bank financing relatively insulated domestic financial systems and prepared EMEs to better endure the shocks from the global capital markets. For example, EMEs in Asia continued to enjoy FDI and portfolio inflows because they were less exposed to the troubled segments of financial markets such as foreign currency denominated external debt and credit derivatives. Additionally, governments across Latin America previously undertook fiscal and monetary reforms to reduce the hyperinflation problem. Their debt management capabilities improved when they used windfall export revenues to improve their fiscal positions, repaid foreign currency denominated and short-term international debt, increased issuance of domestic currency debt, and reduced their exposure to interest rate fluctuations by issuing fixed-rate, longer maturity GDP or inflation indexed bonds.[14] EMEs like Brazil have implemented capital controls that prevented capital flight. Many have also adopted flexible exchange rates that functioned better as shock absorbers.

In contrast, the European EMEs suffered a much harder blow after the sub-prime mortgage crisis in 2008 and the sovereign debt crisis in the Eurozone compared to their counterparts in Asia and Latin America. These economies were highly dependent on foreign finance and have had current account deficits with inadequate reserves. For example, Hungary avoided bankruptcy in 2008 with a bailout from the IMF and the European Union. In particular, countries with fixed exchange rate regimes exhibited higher vulnerability when their currencies depreciated and domestic currency payment obligations on Euro denominated loans rose. Their exposure to foreign banks and rapid credit expansion in the years preceding the crisis led to an economic contraction once foreign bank financing dried up in the European EMEs.

## The Role of Emerging Markets in the Global Recovery

If one takes a look at the state of the world economy through the lens of economic history, it is an incredible departure from the era of financial crises of the 1990s. The EMEs today remain relatively unscathed and sit in a position of economic strength as the dynamic

engine of the world economy. On the other hand, the North is devastated by the meltdown of the financial markets in the United States and the risks of sovereign debt defaults in the Eurozone.

The recent economic crisis has left advanced economies with greater fiscal deficits than previously anticipated.[15] While the United States is in no immediate danger of bankruptcy, sovereign governments in Greece and other European economies like Portugal, Ireland, Italy, and Spain have already reached the point that their debts are no longer sustainable. Consequently, the European Union authorities have created massive rescue packages with taxpayers' money under the European Financial Stability Mechanism. This debt overhang will have to be paid down through increased taxation and spending cuts, which will cause sluggish economic growth and stubbornly high unemployment rates in advanced economies of Europe for the next decade.

In this environment, there are two critical roles that EMEs could play in rebalancing the world economy: First, the EMEs could help the readjustment of world financial markets if they pursue a gradual and coordinated approach in the investment portfolio allocation of their reserves. Reserves of EMEs have been invested primarily in U.S. Treasury bonds to help the U.S. economy finance its current account deficits and government debt. As of November 2011, China holds 1,132.6 billion USD of U.S. Treasury debt.

Chinese officials have recently expressed their interest in diversifying their holdings of U.S. government debt amid the weaknesses in the U.S. economy and the potential losses in the value of dollar-denominated assets. China has adjusted its foreign-exchange investment portfolio after the downgrade of the U.S.' credit rating in August of 2011. China also supports expanding the use of renminbi as a means of payment in cross-border trade to start reducing the country's dependence on the U.S. dollar. Nevertheless, it continues to be the largest foreign owner of U.S. debt given the fact that dollar denominated assets still remain a safe and liquid investment option in the absence of alternatives in world markets.

In this context, the diversification of huge foreign exchange reserves, owned by China and other EMEs, without creating major disturbances in the international monetary system remains a challenge. In September 2011, Beijing held talks with Rome over a possible purchase of Italian debt. Likewise, Spain, Portugal, and Greece have all turned to China as a potential creditor. China has expressed interest in supporting the Euro as an alternative reserve currency against the dollar and has continued to buy euro-denominated bonds to support the efforts to contain a potential debt crisis in the Eurozone.[16] These actions will clearly have stabilizing effects on the strength of the current international reserve currencies, as well as the public borrowing costs and sustainability of debt in advanced economies.

Second, in order to address the global imbalances in the distribution of savings and investment, economies with current account surpluses like China can shift their growth strategy towards the development of domestic markets. With rising standards of living, demand for goods and services, housing, urban infrastructure for energy, transportation, communication, food, education, health care, and social safety nets will increase.[17] Until recently, China's tightly managed and undervalued currency has created substantial

distortions in the resource allocation towards export-led industrialization. Accompanied by real exchange rate appreciation, catering the economic growth towards the needs of the rising middle class could help reduce the dependence of EMEs on foreign export markets and generate employment. This could be accompanied by deficit economies like the U.S. increasing their private and public savings while closing their current account deficits through a real depreciation of their domestic currency and exporting their products to fast-growing EMEs.[18]

## New Areas for Multilateral Policy Coordination

The ascent of EMEs has brought them more power, influence, and thus more complex interdependence with the advanced economies, in contrast to their previous dependence. Unless there are new arrangements for international policy coordination or accommodations for the rising powers in existing global institutions such as the WTO, the IMF and the United Nations, disputes over territory, resources, access to international trade and financial systems, and climate change management could potentially challenge the hegemony of advanced economies. As a consequence, the Indian Prime Minister Manmohan Singh has made a vigorous case for a "multi-polar, equitable, democratic and just world order" at the recent 2010 BRIC Summit in Brasilia, Brazil.

An important area that requires multilateral cooperation is the continuation of WTO reforms in the direction of trade and FDI liberalization. Prevention of protectionist measures in both advanced economies and EMEs is necessary to guarantee equitable access to global markets. In WTO negotiations, the EMEs and developing countries have been insisting on the elimination of agricultural subsidies in advanced economies because of their distortionary effects on world prices. Similarly, reductions in textile quotas and tariff rates on manufacturing imports from developing countries are other areas of reform that EMEs have been pushing for. In return, advanced economies are seeking cooperation in order to liberalize trade in the services sectors. This could also benefit EMEs like India through the expansion of outsourcing activities. Another area of cooperation could be on the immigration of high-skilled workers in professional service sectors, which could help alleviate the problems of aging in advanced economies. Following China's WTO accession, further market economy oriented reforms in the role of state economic enterprises and liberalization of product and financial markets are necessary. Russia's WTO membership is also conditional upon compliance with WTO rules regarding the elimination of trade and FDI barriers.[19]

The structure of international financial institutions should also reflect the changes in the world economy by increasing the voice and representation of EMEs. The recent push for candidates from the emerging and developing world to replace Dominique Strauss-Kahn as the director of the IMF, and Robert Zoellick as the president of the World Bank, have reflected the willingness of the EMEs to take leadership positions in the global economy and break the monopoly of Europe and the U.S. over the management of international organizations. Recognizing this change in the locus of power, the IMF Board of Governors has already adopted a large-scale quota and voice reform in favor of fast-growing EMEs.

Another main argument behind giving EMEs greater influence in the international monetary system is that advanced economies today often ignore the effects of their

domestic policy decisions on the rest of the world economy. For example, in response to the crisis in the United States, the Federal Reserve has pursued unconventional monetary policies, such as Quantitative Easing (QE). The QE works by increasing the size of the central bank's balance sheet through purchases of toxic private-sector debt, through capital injections in the financial system, and purchases of longer-term securities. The underlying premise behind this policy is to prevent debt deflation and create inflationary expectations to prevent a liquidity trap in the United States. These anti-deflationary monetary policies in the U.S., however, have had serious harmful effects on the EMEs. The prospect of low returns in the United States and the depreciation of the dollar have pushed investors into higher-yield emerging markets. The recent resurgence in capital inflows has intensified several concerns: First, significant appreciations in EMEs' currencies could hurt export competitiveness. Second, increases in commodity prices and asset price bubbles could aggravate the risk of inflation. Third, the possibility of a sudden stop of capital flows could increase the risk of default and threaten financial sector stability. Several EMEs have preemptively adopted a variety of domestic measures such as capital controls and macro-prudential regulations to address these potential risks.[20]

In this context, there is a greater need for multilateral policy coordination so that the domestic policy decisions of advanced economies take account of the risks their policies pose for global financial stability. With further representation in the IMF's decision making, EMEs could actively enhance the role of the IMF as an international lender of last resort in times of crisis and voice their priorities, which include the strengthening of institutional capabilities of the EMEs to withstand global economic shocks.

Following the financial crisis, a consensus has emerged that a comprehensive framework is needed to better coordinate the oversight of large international banking organizations, to close regulatory and supervisory gaps, and to promote the implementation and enforcement of international standards of quality, quantity, and international consistency of capital, liquidity, and leverage positions. In this respect, collaboration of national authorities with the Bank for International Settlements and the IMF to assess financial vulnerabilities, monitor market developments, conduct early warning exercises, and enhance the prospects for cross-border crisis management are of paramount importance.[21]

## Conclusion

The rising prominence of the EMEs has blurred long-standing distinctions between the North and South. One should view this transition as a "win-win" situation. A larger world economic pie, combined with billions of people escaping poverty, is mutually advantageous for everyone. Increased diffusion of global economic power raises the importance of collective management and shared leadership as the most viable mechanism for addressing the challenges in a globalized, interdependent and multi-polar world.

While the EMEs have a promising future, there are several prevailing structural and institutional impediments that must be addressed in order to ensure their sustained economic growth.[22] Domestically, many EMEs still lack the liberal democratic institutions and efficient legal systems required for the protection of property rights, rule of law, and the prevention of corruption. There still exist excessive bureaucratic red tape and a lack of

access to credit in the financial markets. These conditions have been identified as major hurdles for entrepreneurial activity. Additionally, there will have to be continued reforms in the areas of taxation, price controls, entry barriers, and labor market flexibility. A vital component of ensuring productivity growth is the improvement of education systems with a strong emphasis on the implementation of gender-neutral policies. Higher education combined with research and development infrastructure needs to be strengthened to foster innovation within the EMEs, more so than adoption or transfer of existing technologies from abroad. There is also a great need for privatization of state-owned enterprises and banks, which tend to slow growth by creating market distortions and inefficiencies in capital allocation. In addition, countries like Brazil are greatly weakened by their large informal economies, which hinder the productive allocation of resources and harm government fiscal health through tax evasion.[23]

The slower economic growth and aging population in advanced economies will likely lead to a decline in global savings in the future. Current inflows of FDI and capital from advanced economies may not be sufficient to meet the appetite for investment in the EMEs. The combination of higher demand for capital and lower global savings will likely raise the price for capital, and make investment more costly in the future. Therefore, the EMEs should continue to work towards promoting domestic savings and efficiency of capital allocation while improving the supervision and regulation of their capital markets.[24] In tandem, social cohesion needs to be strengthened in the EMEs through more accessible and higher quality public services, and through safety nets, which address the poverty, income inequality, health care and pension needs of an aging population.

*Çiğdem Akın is an assistant professor of economics at The Johns Hopkins University's SAIS Bologna Center in Italy. She completed her Ph.D. in economics at the George Washington University in Washington D.C., after which she worked as a research assistant at the Financial Studies Division of the International Monetary Fund. She obtained her M.A. degree in international development from the International University of Japan as a Monbusho scholar, while simultaneously working as an intern at the Toyota Motor Corporation, and as a research associate at the Asian Development Bank Institute in Tokyo. She holds a B.A. degree in political science, international relations and sociology from the Boğaziçi University in Istanbul, Turkey.*

Notes:
1. The list of the EMEs is based on the Morgan Stanley Capital International (MSCI) index.
2. M. Ayhan Kose and Eswar Prasad, Emerging Markets Resilience and Growth Amid Global Turmoil (Washington, D.C.: Brookings Institution Press, 2010), 30.
3. "The New Titans," The Economist, 14 Sept. 2006. http://www.economist.com/node /7877959.
4. Kose and Prasad, 2010, op. cit.: 37.
5. M. Ayhan Kose and Eswar Prasad, "Emerging Markets Come of Age," Finance & Development 47.4 (2010): 7-10. http://www.imf.org/external/pubs/ft/fandd/ 2010/12/pdf/kose.pdf.
6. Brazilian exports to China as a share of Brazil's total exports surged from 2.7 percent in 1994 to 7.5 percent in 2007. China was the origin of only 1.8 percent of Brazilian imports in 1994, but in 2007 this figure had expanded to 11 percent. See: Enestor Dos Santos and Soledad Zignago, "The impact of the emergence of China on Brazilian international trade," BBVA Research Working Paper 10.22. http://www.bbvaresearch. com/KETD/fbin/mult/WP_1022_tcm348-231940.pdf?ts=192010.
7. In 2008, Africa accounted for 9.8 percent of China's aggregate overseas investments, up from 3.2 percent in 2004. See: "Dancing on the Stage of a Multi-Polar World: The Path to Globalization for Chinese Enterprises." http://www.accenture.com/cn-zh/Documents/PDF/Accenture-Globalization-Report-2010.pdf.

8. Raymond J. Ahearn, "Rising Economic Powers and the Global Economy: Trends and Issues for Congress," Congressional Research Service R41969 (2011): 21-23. http://www.fas.org/sgp/crs/misc/R41969.pdf.

9. Çiğdem Akın and M. Ayhan Kose, "Changing Nature of North-South Linkages: Stylized Facts and Explanations," Journal of Asian Economics 19.1 (2008), 1-28.

10. M. Ayhan Kose, Christopher Otrok and Eswar Prasad, "How Much Decoupling? How Much Converging?" Finance & Development 45.2 (2008): 36-40. http://www.imf.org/external/pubs/ft/fandd/2008/06/kose.htm.

11. "Country and Regional Perspectives" in the IMF World Economic Outlook October 2010 Recovery, Risk and Rebalancing, Chapter 2. http://www.imf.org/external/pubs/ft/weo/2010/02/ pdf/c2.pdf

12. During the crisis, commodity exporting countries, particularly in Latin America, were partly shielded from the global recession due to the continuing demand from China. Without a doubt, China and other EMEs have the potential to become large engines of growth for the rest of the world. Because of China's size and level of integration, shocks to its economy now affect the rest of the globe, which has been the case for the United States for many decades. In fact, IMF estimates indicate that a one percentage point increase in GDP growth in China results in a 0.4 percentage point increase in growth of other countries within four years. See: Vivek Arora and Athanasios Vamvakidis, "Gauging China's Influence," Finance & Development 47.4 (2010):11-13. http://www.imf.org/external/pubs/ft/fandd/2010/12/pdf/Arora.pdf

13. In 1999, developed countries' foreign exchange reserves represented approximately 1.1 trillion USD (62 percent) of the 1.8 trillion USD of global foreign exchange reserves and developing countries' reserves the remaining 38 percent. One decade later, developing and emerging economies held approximately 5.4 trillion USD (66 percent) of the total global reserve stock of 8.1 trillion USD as of end-2010. See: "Multipolarity in International Finance" in World Bank Global Development Horizons Report 2011, Multipolarity: The New Global Economy: 143.http://siteresources.worldbank.org/INTGDH/Resources/GDH_CompleteReport2011.pdf.

14. International Monetary Fund, "Structural Changes in Emerging Sovereign Debt and Implications for Financial Stability," Global Financial Stability Report (2006). http://www.imf.org/external/pubs/ft/gfsr/2006/01/pdf/chp3.pdf.

15. According to IMF estimates, the debt-to-GDP ratio for 2014 is projected to be 36 percentage points above the 2007 level (78 percent vs. 114 percent) as a result of massive government stimulus packages and financial sector bailout programs. See: "Fiscal Implications of the Global Economic and Financial Crisis," IMF Staff Positions Note, 9 June 2009. http://www.imf.org/ external/pubs/ft/spn/2009/spn0913.pdf.

16. Li Wei, "How China Can Save the Eurozone," The Guardian, 30 October 2011. http://www.guardian.co.uk/commentisfree/2011/oct/30/china-global-financial-crisis-g20-cannes.

17. If trends in GDP and population growth continue, EMEs will become large consumer markets. The size of the rich and the middle class in the developing G-20 countries (BRIC, Mexico, Argentina, Indonesia Turkey, and South Africa) is projected to increase from 739 million in 2009 to 1.3 billion in 2030. See: Uri Dadush and Shimelse Ali, "The Transformation of World Trade," Carnegie Endowment for International Peace Policy Outlook, February 2010. http://carnegieendowment.org/files/Transformation_of_World_Trade.pdf.

18. "OECD Economic Surveys, China," 2010.6 (2010): 65. http://browse.oecdbookshop.org/oecd/pdfs/product/1010061e.pdf

19. "Globalization and Emerging Economies: Brazil, Russia, India, Indonesia, China and South Africa," March 2009, OECD. http://browse.oecdbookshop.org/oecd/pdfs/product/5108061e.pdf

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21. Douglas Warner and Ross P. Buckley, "Redesigning the Architecture of the Global Financial System," Melbourne Journal of International Law 11 (2010): 1-55.

22. "Changing Growth Poles and Financial Positions" in World Bank Global Development Horizons Report 2011, Multipolarity: The New Global Economy: 13-65. http://siteresources.worldbank.org/INTGDH/Resources/GDH_CompleteReport2011.pdf.

23. Rodrigo Couto, et. al., "How Brazil Can Grow," McKinsey Global Institute (2006). http://www.mckinsey.com /Insights /MGI/Research/Productivity_Competitiveness_and_Growth/How_Brazil_can_grow.

24. Richard Dobbs et. al., "Farewell to Cheap Capital? The Implications of Long-term Shift in Global Investment and Savings," McKinsey Global Institute (December 2010). http://www.mckinsey.com/locations/swiss/news_publications/pdf/Farewell_to_cheap_capital_report.pdf

# A Beginner's Guide to Brazilian Economic Idiosyncracies: How to Understand the Superpower-to-be

**Carlos A.B. Góes**

## Abstract

*In the last quarter century, Brazil has undergone structural economic changes. This article aims to help the reader understand how Brazil overcame the discouraging scenario of the mid-1980s and early 1990s to become a major global economic power. A unique story of a lively economic policy laboratory is told by laying out eight economic idiosyncrasies that need to be examined in order to grasp the country's past and future challenges and analyze whether or when it will emerge as an economic superpower.*

## Introduction[1]

A famous Brazilian national joke has become somewhat out of date lately: it says Brazil is the country of the future – and it always will be. If one reads the most recent reports, the impression is that Brazil is one of the rising powers of the post-unipolar world order. In late 2011, the country became the world's 6th largest economy. Brazil distinguishes itself from the other BRIC (Brazil, Russia, India, and China) countries in that it has no civil wars, ethnic conflicts, or unfriendly relations with its neighbours. Unlike the Chinese or Russians, Brazilians have managed to consolidate a free-market democracy with regular free and fair elections, with different parties and politicians alternating in power.

However, at the beginning of Brazilian political and economic stabilization in the mid-1980s, the country's situation seemed completely hopeless. In 1984, a moribund military regime frustrated a popular uprising that demanded direct presidential elections by saying nay to a constitutional amendment. In 1985, the first civilian elected president since 1964 died before being sworn in, painting the national mood with despair and mourning. In 1987, Brazil was unable to pay its public debt and defaulted. In 1990, monthly inflation peaked at 83.4%.[2] In 1992, the first president elected by popular vote since 1961 was impeached due to charges of corruption and embezzlement.

How did a hopeless country become a rising superpower with outstanding political and macroeconomic stability? The goal of this article is twofold: firstly, it seeks to help the reader understand how Brazil overcame the discouraging scenario of the mid-1980s and early 1990s; secondly, it presents the challenges to come, which might limit growth and development in Brazil. In order to do so, there is a brief review of the literature regarding Brazilian economic history from 1985 to the present, which interested students can use for further reference.

Examined are eight idiosyncrasies that set Brazil apart from other emerging economies and are important dots one should connect in order to understand the past and future developments of the Brazilian economy. Four of these idiosyncrasies have been overcome in the recent past, while the remaining four represent barriers still to be overcome in the future. In spite of being an introductory piece, this work's value lies in telling the unique story of a lively economic policy laboratory in an innovative way, and straightforwardly presenting a successful case of economic stabilization.[3]

# 1. Idiosyncrasies Overcome: How Brazil Achieved Economic Stability

*1.1. Idiosyncrasy #1: The Big Money Machine*

As Brazil has possessed a large public sector since the early 1930s, financing government spending became cumbersome.[4] To some extent, this was done by economic growth and debt, but a considerable part of that was financed through monetary expansions. The first idiosyncrasy addressed in this paper is the big money machine of the Brazilian public sector. In 1964, the Brazilian Central Bank was created by the military regime. However, the money reserves of state banks, the largest retail banks, remained in the government-owned Bank of Brazil, a publicly listed retail bank, which acted as the lender of last resort to the Brazilian financial system.

In order to deal with the accounting problems of such a division of labor, regulators created a "transfer account," the *conta-movimento*, between the Bank of Brazil and the Central Bank. The transfer account would balance the Bank of Brazil's assets and liabilities at the end of each day. For instance, if the Bank lent a billion dollars during the day and had no extra deposits, it would have a positive balance in the transfer account, and the excess reserves would be transferred to the Central Bank. Conversely, if the Bank had excessive withdrawals, it would be indebted in the transfer account and the Central Bank would have to inject freshly printed money into the transfer account.[5]

In reality, what occurred was the de facto creation of multiple money authorities in the country. At the federal level, any Ministry was able to order discretionary withdrawals from the federal government account at the Bank of Brazil. At the state level, all governors could do the same with their own state banks, which would then eventually ask for extra reserves from the Bank of Brazil. In both cases, negative balances in reserves were compensated by the injection of money through the transfer account. Therefore, politicians had, both at the state and federal levels, virtually unlimited budgets. There was no effective central money authority in Brazil, but rather multiple authorities carrying out monetary policy.
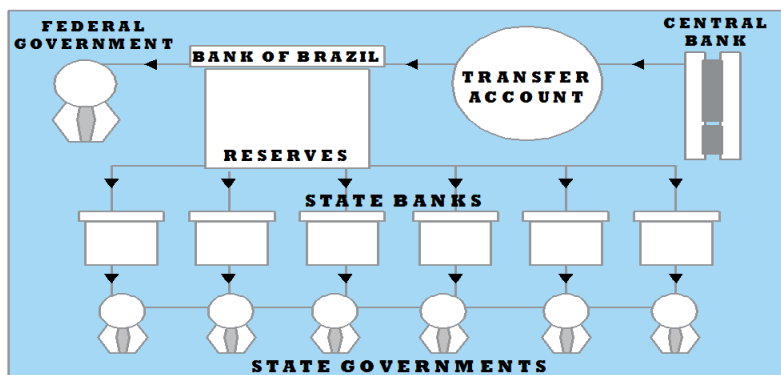


*Graph 1 - The Big Money Machine Cash Flows (designed by the author)*

With the big money machine fully operational, the conditions for scaling inflation were set by the mid-1960s.[6] It should be no surprise, then, that average annual inflation rates between 1964 and 1969 were 37.3%.[7] In spite of this period of high inflation, there was an overall declining rate of inflation during this period.
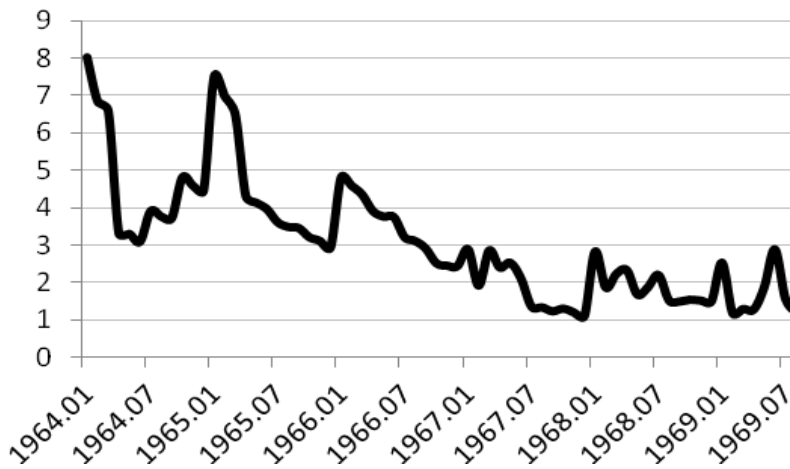


*Graph 2 – Monthly inflation, 1964-1969, in percentage points*

## 1.2. Idiosyncrasy #2: The Indexed Economy

In the early 1960s, as inflation became naturalized, the federal government created the so-called monetary correction, or a mechanism that incorporated past inflation into present prices in order to account for losses in real terms and correct prices to previous levels, regardless of nominal changes. Nonetheless, as individuals knew wages and utilities would be increased automatically on a monthly basis due to past inflation, they rationally incorporated future inflation into present prices. Once the economy was indexed with past inflation, the general level of prices increased rapidly and losses occured at a faster rate, resulting in the decreasing average value of real wages. This led to the second Brazilian economic idiosyncrasy: an indexed economy.
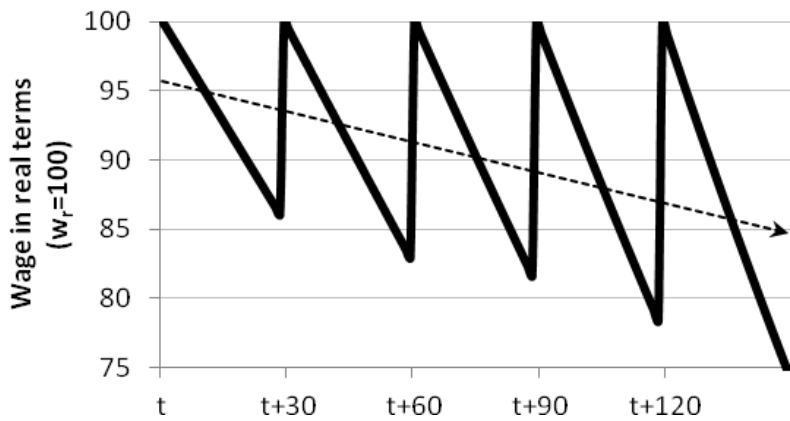


*Graph 3 - Effects of an indexed economy on real wages.*[8]

In the short-run, the government had some room to try unpopular policies to control inflation. There was limited interest to control public spending, which was a major source of inflationary expectations. But after indexing the economy, the federal government had another way to push price levels down: it did so by using indexes that did not represent the entire wage losses for the past period and by subsidising the price of utilities. The government coordinated a nationwide squeeze on salaries. Lower real wages and reduced production costs made real prices drop. In fact, the combination of constant expansions of money supply and smaller real wages meant that the government controlled a higher proportion of national wealth, with inflation being an additional tax on all consumers.
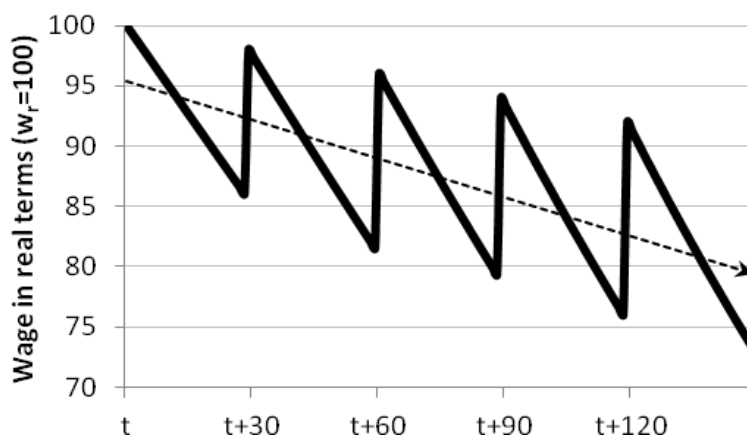


*Graph 4 - Government-sanctioned squeeze on real wages.*[9]
*Note that the peak value of real wage does not reach its original value (100).*

The indexed economy had consequences in the aftermath of the military regime. By the mid-1980s, the Brazilian economy was already used to high inflation: the average annual rate for the 1964-1984 period was 77.3%. Once democracy was reinstated in 1985, public pressure for not squeezing wages was significant. Leitão[10] adds that the one thing the new civilian government wanted to signal to the public was that the squeeze on salaries was something not to be repeated; any whisper of policies resembling it was banned from the Planalto.[11] This scenario was the trigger for hyperinflation.

*1.3. Idiosyncrasy #3: Inertial Inflation*
Even though the federal government did try to adjust its accounts, it was unable to print money[12] to pay its foreign debt and eventually defaulted in 1987. No simple spending cuts and monetary discipline would have been enough to reverse the inflationary trends in the country, which leads to the third economic idiosyncrasy: inertial inflation. Traditional economic reasoning did not capture the driving elements of Brazilian inflation. Rather than a result of changes in aggregate supply and demand, inflation derived mainly from the fact that economic agents expected prices to rise in the future.[13] During the late 1980s, inflation became completely detached from fiscal and monetary policies, driven by inflationary expectations.

A large endeavour was necessary to reverse the trend of inflationary expectations and to avert a total collapse of the monetary system. The first step to disassemble the inflationary machine was taken in 1984, when the transfer account between the Central Bank and the Bank of Brazil was disbanded and the Central Bank became the sole monetary authority

in the country, decoupling the big money machine, the first idiosyncrasy. After that, there were many additional attempts to tackle inflation.[14]

In 1985, annual inflation reached 242% and the usual recipe of lower spending and monetary constraint was hardly having any effect[15]. Meanwhile, a group of young Brazilian economists based chiefly at the Catholic University of Rio de Janeiro and trained at American universities, were designing out-of-the-box solutions to Brazil's inflationary problems.[16] The aforementioned idea of inertial inflation was an organic solution brought to the public debate by these economists, especially by the works of Arida and Lara-Resende[17], Lopes[18], and Bresser-Pereira and Nakano.[19]

Lopes argued for the need of an "unorthodox shock" to the economy. Such an approach was the basis for the Cruzado Plan (1986). Aside from a new currency, this plan embraced a complete freeze on prices. President José Sarney (1985-89) attempted to tackle inflation by decree: price increases were forbidden and those who failed to comply could have their stores shut down. The plan also froze all wages and the exchange rate, pegging the currency to the U.S. dollar. For a few months inflation dropped close to zero. Average monthly inflation was 2.14% between March and October of 1985, compared to 12.53% in the eight months prior to March.[20]

Nevertheless, price controls had damaging side effects, as they made supply and demand irrelevant. Prices ceased to be a signal for consumers and producers and interactions simply became a number in the government-approved tables. Three years before the Berlin Wall collapsed, Brazil was undertaking a one-of-a-kind socialist experiment. Price controls resulted in shortages of all kinds of products. Producers chose not to produce as they faced losses by selling at the established prices. Several black markets appeared.[21] Four months later, inflation kicked back in at an even faster pace than before.

When Fernando Collor was sworn in as president in March 1990, hyperinflation was no longer the fear, but the reality, as prices were increasing by 82.39% each month. Collor, a young politician from a tiny state in Northeast Brazil, was the first president elected by popular vote after 29 years of indirect elections. He came into office with two promises: politically, he claimed to be a "maharaja hunter," portraying himself as an outsider anti-establishment politician; economically, he claimed to have a silver bullet to tackle inflation once and for all. Politically, Collor became the first president to be impeached in Brazil, charged with corruption and embezzlement. Economically, his silver bullet was to freeze any deposits that surpassed 50,000 Cruzeiros ($\cong$ 2,203 present-value dollars),[22] which shrank money supply to stop hyperinflation. However, real life impacts were devastating. Leitão[23] recounts heart-breaking stories about retirees who killed themselves after being stripped of their life savings and couples unable to marry because of the Collor Plan.

The last attempt to control inflation, termed the Real Plan, was based on proposals by Arida and Lara-Resende, and was headed by Fernando Henrique Cardoso[24], then Minister of Finance. The Real Plan introduced a unit-of-account pegged to the dollar ("URV," standing for *Real Value Unit*), which existed alongside the old inflation prone currency. Prices still increased with the inflationary currency, but not with the pegged URV, so economic agents realized that the real value of goods did not change. After some time,

firms and individuals voluntarily opted out of the inflationary currency, bank deposits were allowed in URVs, and price tags began to be shown in URVs, which were converted to a national currency by cashiers through a daily exchange rate between URVs and the actual currency. Eventually, the government abandoned the old currency altogether and started printing a new one, the *Real* in par with URVs.

Concomitantly, the government ended most kinds of legally enforced monetary correction mechanisms, eliminating economic indexation, the second idiosyncrasy. With a new currency and a non-indexed economy, inflationary expectations were controlled and ordinary monetary policy once again was possible. With that, inertial inflation, the third idiosyncrasy, was also gone. The Real Plan was successful, it reduced inflation to single digit annual rates as shown in Graph 5 below, and assured Mr. Cardoso two consecutive landslide presidential victories
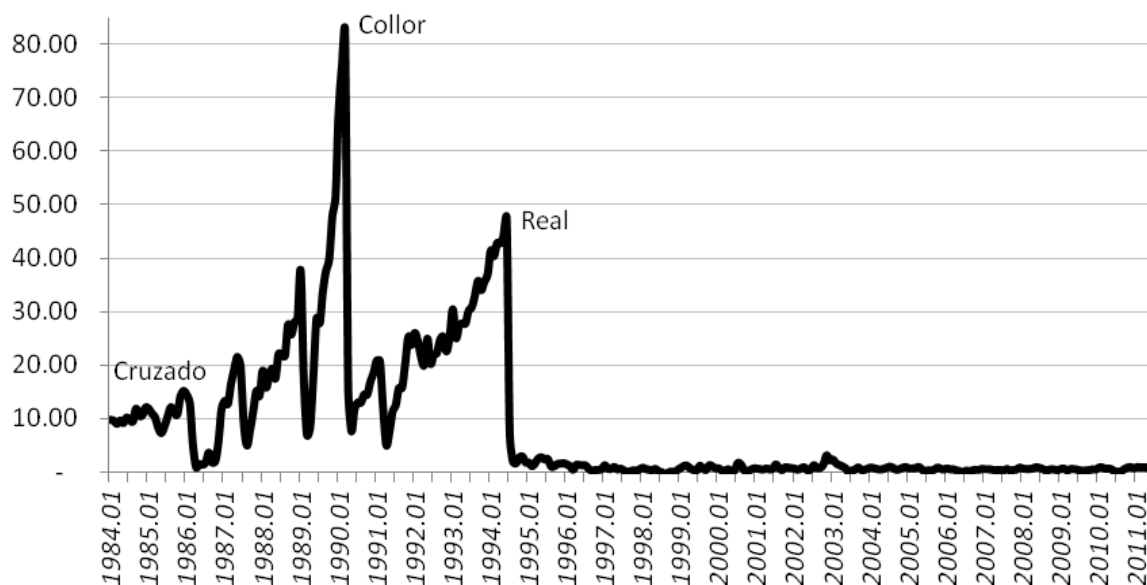


*Graph 5 - Monthly inflation, in percentage points (1984-2012)*

*1.4. Idiosyncrasy #4: The Poverty Gap*

After 1999, when the *real* ceased to be a pegged currency,[25] the guidelines that became known as the Brazilian "macroeconomic tripod" were established: floating exchange rates, inflation targeting, and budget surpluses. The results of this set of policies were twofold: a stable economy and floating exchange rates, along with high international commodity prices, allowed for large trade and budget surpluses that led to fiscal consolidation (present net publicly held debt-to-GDP ratio stands at 36%). The country subsequently underwent the first period of economic growth in a century coupled with macroeconomic stability between 2003 and 2008.

Brazil could only overcome its poverty gap once it had stabilized its economy. In 16 years, Brazil increased its GDP per capita by 35% and reduced its poor population by 22%, lifting nearly 40 million people out of poverty. The Real Plan, coupled with in-cash-transfer poverty alleviation programs created by President Cardoso (1994-2002) and massively expanded by President Lula (2003-2009), led Brazil to close the poverty gap, the fourth economic idiosyncrasy overcome.

By the early 1990s, even though Brazil was clearly a middle-high income country,[26] its poor population share was unacceptably large (43%). Disinflation alone reduced poverty by 8% in one single year, whereas sustainable growth since 2003 has resulted in a 15% decrease in poverty. Even though this process is still history in the making, Brazil undeniably reached a new development level, symbolically represented by achieving the high human development status in the United Nations' Human Development Index in 2007.
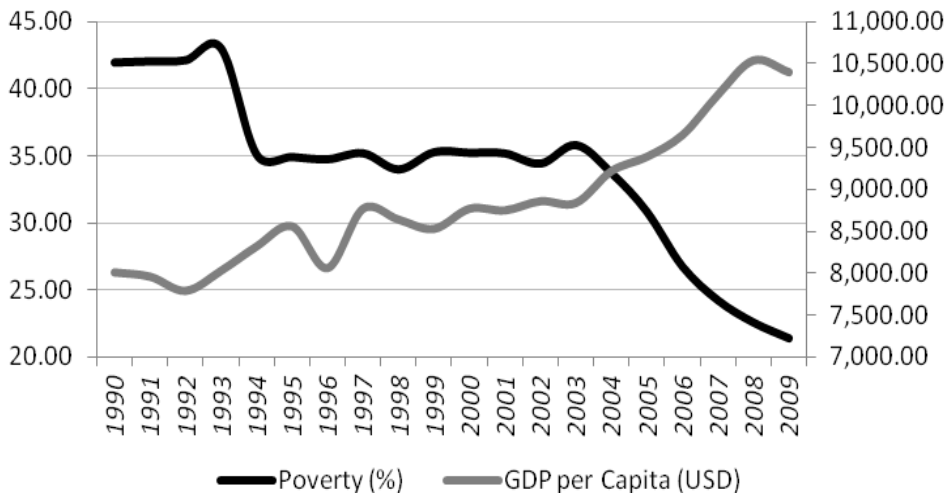


*Graph 6 - Population under poverty line (left axis); and GDP per capita (right axis)*

## 2. Persistent Idiosyncrasies: Just Not Quite There Yet

### 2.1. Idiosyncrasy #5: Excessive Bureaucracy

From 1985 to the present day, Brazilian society has surmounted four idiosyncrasies. Alas, life is not a bed of roses, and Brasilia's bureaucrats' desks certainly are not either. Some important challenges lie ahead.

Firstly, there is a persistent institutional culture that assumes there is no such thing as too much bureaucracy.[27] One institutional characteristic of Brazil's political system that helps to explain the increasing trend in the number of ministries, wages, maintenance, and operational expenditures (WM&O) of the federal government is Brazil's party system, as illustrated in Graph 7 below. Brazil's highly fragmented party system leads to a perennial absence of effective coalitions in Congress. Every single administration is constrained by alliances forged to assure a satisfactory majority in Congress, which allows it to pass the bills deemed necessary for advancing its political agenda.

A traditional way to seal alliances is to split ministries between the different parties that support the administration. Usually, parties in charge of ministries appoint the Minister and many aides in lower positions. This is an opportunity to reward people with party connections and augment the parties' resources through high donations from the newly appointed aides. Such a backdrop creates perverse incentives, which are behind the constant increase in the number of ministries in the last 20 years. By the same token, they contribute to the ever-increasing federal government's WM&O expenses, having reached its apex during President Lula's administration (2003-2010).
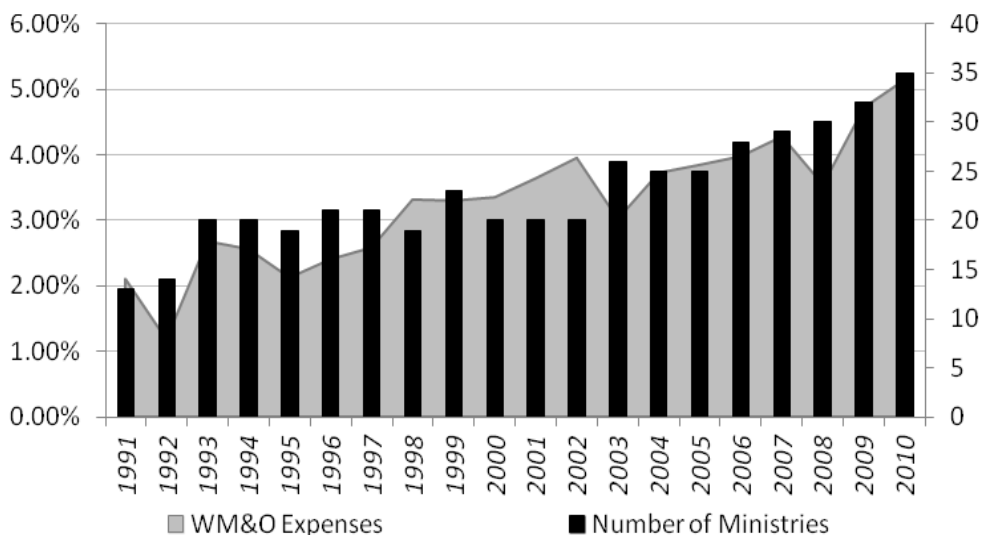
*Graph 7 – WM&O Expenses, left axis; and Number of Ministries, right axis.*[28]

Some attempts to change this scenario have been made in the last couple of decades. Key economic actors, such as the Minister of Finance and the President of the Central Bank,[29] along with their respective aides, now tend to follow more technical and meritocratic guidelines, breaking with the split-the-spoil logic of other government appointees. Another important move came with the privatizations of public entities in the early 1990s, when the federal government sold nearly one hundred government-owned enterprises, the majority of which possessed large operational deficits.

However, as Lazzarini[30] points out, Brazilian privatizations represented only a timid reduction of government interference in the marketplace. Actually, government is still intrinsically intertwined with several industries through large investments and subsidised loans granted by public banks, and especially equity claims by federal employees' pension funds. A close relationship between government officials and corporations, coupled with bureaucrats and politician possessing significant room for discretionary spending and decision making, is nothing but an invitation to crony capitalism.[31]

A tacit consensus for big government prevails amongst Brazilian political leaders. Although the ruling Workers Party (PT) polarizes the debate with the Party of Brazilian Social Democracy (PSDB), the actual differences are minimal.[32] President Lula summarized such consensus in a memorable televised address: "Brazil believes in free markets but also in the government's role as development promoter [and] will always seek for the balance that assures the best for its people."[33]

### 2.2. Idiosyncrasy #6: The Autarkic Dream

Acknowledging the general belief that an active government is essential helps to understand the second idiosyncrasy addressed in this section: Brazil's autarkic dream. From the early 1930s to the 1990s, Imports Substitution Industrialization (ISI), a doctrine developed by the economists of the United Nations Economic Commission for Latin America, guided economic policy seeking "self-sufficiency." ISI is grounded on high protectionism and an active government creating and subsidizing firms in "strategic

industries" like energy, steel, petrochemical, banking, telecommunications, and auto industries. The rationale behind such policies is that infant industries would not be able to fairly compete in international markets and government had to stimulate such industries so as to avoid "deterioration in the country's terms of trade."[34] Although the country underwent significant trade liberalization, 60 years of severe protectionism left deep scars on the Brazilian political fabric.[35]

It is true that general tariff levels were reduced in the early 1990s under the rule of President Collor, one of the few campaign promises he managed to fulfill during his faulty and short-lived term. Collor said Brazilians should not be bound to have out-dated cars and technology for the sake of big corporations and strong unions.[36] From 1987 to 1998, average tariffs were reduced from 77.1% to 20.2%, although top tariffs still reached as much as 129.2%.[37]

Such changes ought to be interpreted whilst remembering two relevant points. Initially, the average tariffs charged before this liberalization were so high that even after a substantial reduction they were still much higher than countries more open to free trade.[38] More importantly, the autarkic mind-set is still persistent. Even though "exports promotion" replaced "imports substitution" as the Ministry of Industry's unofficial motto, imports are still deemed as a negative consequence of trade engagement. For instance, government officials, Ministers included, will not hesitate to pressure the Central Bank to manipulate the foreign exchange market if exporters have any kind of demands regarding competitiveness.[39]

*2.3. Idiosyncrasy #7: The Educational Gap*
Another persistent Brazilian idiosyncrasy is the educational gap. Whereas the country is quickly overcoming the poverty gap, its distorted educational system is problematic and is bound to plague present and future generations. There is a high likelihood that a shortage in skilled human resources will constrain income growth in Brazil, which is expected to receive growing volumes of capital inflows.

The Brazilian Government spends too much on higher education and too little on primary and secondary education. Hence, there is a clear gap between primary/secondary and tertiary education. The former group is deemed as lacking quality by any kind of standardized indicator, such as the OECD's Program for International Student Assessment (PISA). Conversely, when compared to similar income level countries, Brazilian tertiary education is characterized by a relative overflow of investments.

According to the Brazilian Federal Government's own National High School Standardised Exams (ENEM), public school pupils hold much lower average marks than their counterparts in private schools. Indeed, unlike many developed countries, private primary/secondary education in Brazil is not a privilege of the higher classes, but rather an investment that most middle class families make in their children's education. This holds true for two reasons: the discrepancies between public and private education and, more specifically, the poor quality of Brazilian public schools. Moreover, admission to the free high-quality Brazilian universities is so competitive that the odds of public school pupils getting into public universities are very low.

In a sense, the Brazilian educational system is upside down when compared to the Anglo-Saxon ones: instead of profiting from a decent basic public education and saving for a more costly higher education, pupils and parents have to invest during the early years in order to not pay in the future. The perverse side effect of such a system is that it bars public school pupils from entering top universities, thereby diminishing the possibility for meritocracy, increasing the importance of parental income in determining a child's education, and damaging social mobility.

It should be highlighted that the federal government's policies actually incentivize the persistency of such educational gaps. Even though in the 1990s public primary education had been universalized to reach all children of school age, quality still lags far behind. Government per capita spending on primary, secondary, and tertiary education is $2,155; $2,058; and $10,991 USD,[40] respectively; that is, the expenses with tertiary expenses are 553% its expenses in the other levels, whereas the average in OECD is 130% as shown in Graph 8 below.
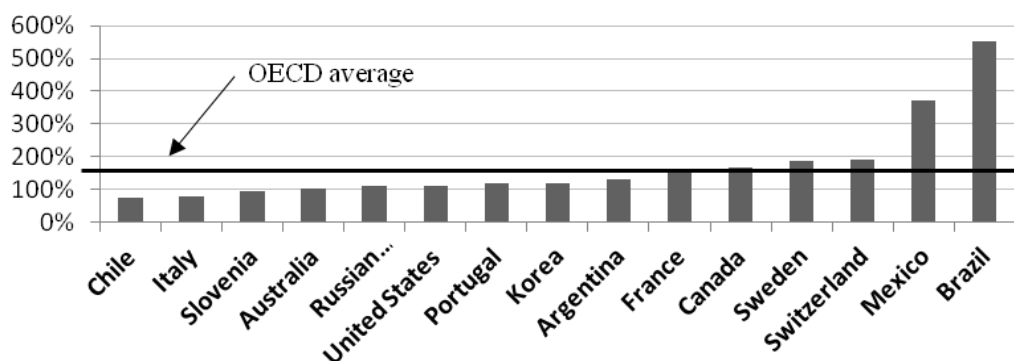


*Graph 8 – Tertiary–Primary/Secondary Education Per Capita Expenditures ratio. The higher the ratio, the more tertiary education is privileged in relation to the other levels. OECD average ratio is 129%.[41]*

There is an ideational multi-partisan consensus that helps to maintain the status quo. On the one hand, the Workers' Party (PT) is strongly tied to the administrative and professorial staff and the federal universities unions which keep demanding higher investment towards such institutions, especially in the form of salary increases. On the other hand, the urban middle class, which benefits from free-of-charge high quality higher education and does not support structural changes in the distorted educational system, supports the Party of Brazilian Social Democracy (PSDB). Lastly, several legal provisions in the Brazilian Constitution make any shift from prioritizing higher education to primary and secondary levels highly unlikely.

### 2.4. Idiosyncrasy #8: The Logistical Shortfall

The last idiosyncrasy Brazil is facing is a logistical shortfall. It consists of a spread between average transportation costs faced by Brazilian producers, retailers, and their counterparts in countries with similar geographical dimensions, which drives marginal costs up, diminishes profits, and damages competitiveness. There are countless reasons why Brazil lags behind in logistical performance. Three of them will be analysed here, for they have special importance in negatively contributing to the country's performance.
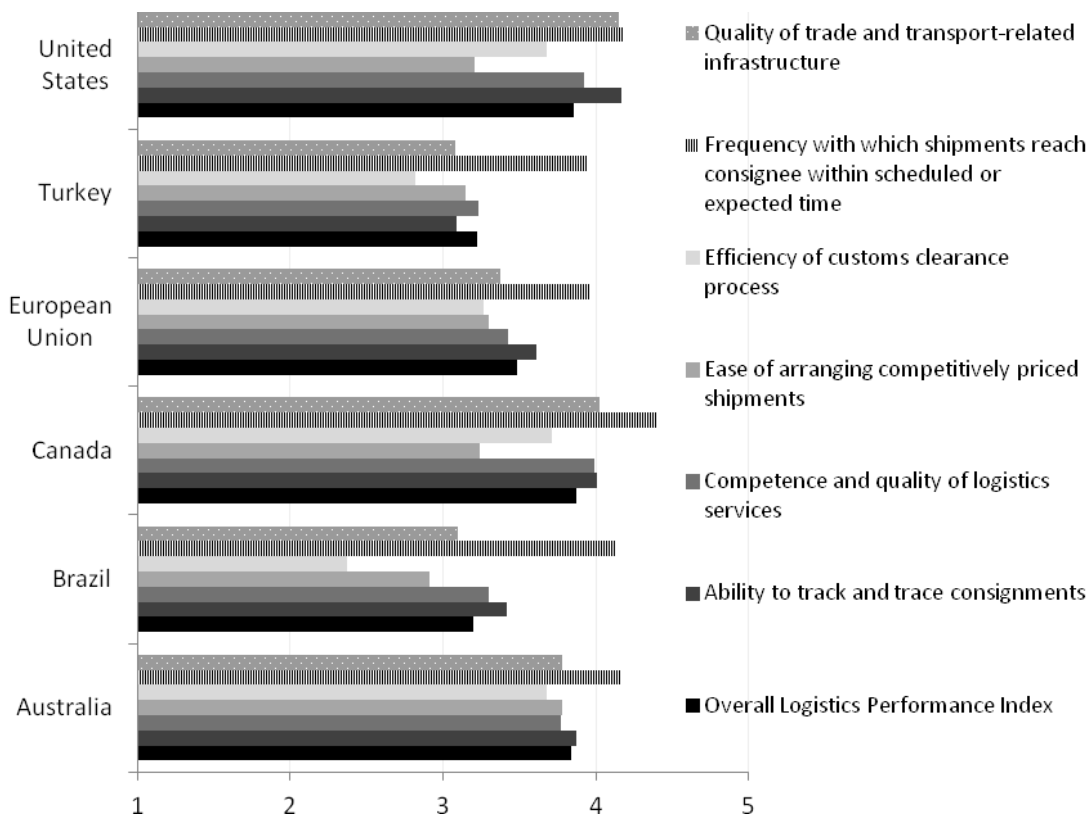
*Graph 9 - Logistics Performance Index.[42] The higher the value, the better the logistic performance.*

Firstly, historically, Brazilian regulators have prioritized roadways over railways and waterways for freight. This situation has diminished gains from scale. Furthermore, a general aversion towards the privatization of highways has left federally managed roads with persistent maintenance problems, increasing shipping times, and raising costs further. Additionally, Brazilian ports have not kept pace with the technological advances of the last 20 years. Poor mechanization of terminals, lack of integration with the few existent railways, and the impossibility of docking large-scale ships limit the speed and volume of trade in Brazil. Federal and state governments lack the resources to invest in port modernization and there has been little movement to free room for private investors, which helps explain why the Port of Santos, the busiest in Brazil, cannot dock large cargo-ships or super-tankers due to its limited draught depth.[43] Lastly, customs clearance is inefficient. Minor paperwork mistakes and out-dated payment systems mean that cargo is held for several days at the ports or at the Brazilian border. All of these combined places Brazilian firms in a bad position to compete internationally and has negatively impacted the country's comparative advantages.

## 3. Conclusions: a Roadmap for the Future

This article has sought to help the reader better understand Brazil's future. However, one cannot do so without connecting the dots, or first understanding how Brazil stabilized its

economy and overcame its odd idiosyncrasies: a big money machine, an indexed economy, inertial inflation, and a poverty gap.  Moreover, as most economic forecasts and analysis point to the fact that the "B" in BRICs is bound to become an economic superpower in the near future, it is important to shed some light onto the challenges that lie ahead.

A historiography of economic idiosyncrasies is an innovative way of understanding economic development. It highlights elements that cannot be grasped through economic statistics, nor through traditional political history. Rather, it reads between the lines to stress how politics and the economy are intertwined. The inventiveness, boldness, limits, and ignorance of bureaucrats and politicians are variables that one can hardly foresee or derive from statistics. However, a glance towards the past helps to understand the challenges that lie ahead.

There is a need for comprehensive reforms that address the remaining idiosyncrasies: Congress and the current Administration need to compromise on long-term solutions, as it previously has done to overcome past idiosyncrasies. If politicians do not come together, the limits imposed by human resource shortages, logistical shortfalls, lack of integration with international markets, and excessive bureaucracy will limit Brazil's future growth and development.

All of the yet-to-be-overcome idiosyncrasies addressed in this article are significant barriers that Brazil, as a society, must face in order to achieve its goal of long-lasting development and progress. For the economic and political observer, then, the resolution of these remaining idiosyncrasies are the key to predicting when the country will emerge as an economic superpower. All the remaining barriers stand tall. Nevertheless, a look towards the not so distant past shows that even taller barriers have been overcome and Brazil shines as a consolidated market democracy, with fiscal soundness, a population that is being enriched at a reasonable pace, and no military problems whatsoever.  Perhaps Brazil is the country of the future, after all. Maybe, the future will not be eternally postponed and Brazil will emerge as an economic superpower. Whether the future is around the corner or can only be achieved after a drawn out marathon is to be determined by how Brazilians deal with their remaining idiosyncrasies.

*Carlos A. B. Góes is a M.A. candidate for International Economics at The Johns Hopkins University's SAIS Bologna Center. He earned a B.A. ('10) in International Relations and a minor in International Political Economy from the University of Brasilia. He co-authored "Repensando uma Cultura de Paz e Liberdade," published by the University of Brasilia Press (2010).*

Notes:
1. I wholeheartedly thank Carlos Pio, Saulo Said, Tom Roundell, Nick Borroz, Nate Hojnacki, and Cat Ramsey for their extensive review, criticisms, and suggestions, emphasising, though, that the responsibility for any mistake or inaccuracy in the these pages is solely mine.
2. During the text I refer several times to monthly inflation, as opposed to annual inflation. This data can be annualized using the following formula: $\pi_a = (1 + \pi_m)^{12} - 1$ , where $\pi_a$ stands for annualized inflation and $\pi_m$ stands for monthly inflation
3. Unfortunately, the greatest part of literature regarding the Brazilian economy is available in Portuguese only. A comprehensive economic history of Brazil is available in English, by Werner Baer (2007), although the book

is excessively discriptive and hardly analytical at all. See Baer, Werner. The Brazilian Economy: Growth and Development. Boulder, Colorado: Lynne Rienner Publishers, 2007.

4. Since 1930, when Getúlio Vargas first came into power through a coup d'état, Brazil has been characterized by state-led capitalism, with power disproportionately concentrated in with the federal government. Two different dictatorial periods (1930-1945 and 1964-1985) would further centralize power. In the second half of the 20th century, Brazil was characterized by a huge public sector and highly oligopolistic industries in an attempt to foster competitiveness. For a history of ideas in political economy during the 20th century, see the first section of Góes, Carlos, and Dimas Fazio. Seeking the Common Denominator: Confronting Clashing Interpretations of the Global Financial Crisis. Vol. 1, in Pondering the 2000s, Tracing Their Legacy, by A. R, Silva, H. F. S. Torres and P. B. Timo, 57-120. Brasilia: Universidade de Brasilia, 2010.

5. Nobrega, Maílson da. "Correspondência com Maílson da Nobrega sobre a Conta Movimento." Site de Gustavo Franco. 21 May 2004. http://www.econ.puc-rio.br/gfranco/Mailson-corespondencia.htm (accessed January 25, 2012).

6. Leitão, Miriam. Saga Brasileira: A Longa Luta de Um Povo por Sua Moeda. Rio de Janeiro: Record, 2011.

7. Such assumption would eventually be known as the Cagan Model, formally defined as

$$p_t = \frac{1}{(1+\eta)} \sum_{s=0}^{\infty} \left(\frac{\eta}{1+\eta}\right)^s m_{t+s}$$

, which states that present prices $p_t$ will be the sum of expected increases in money supply $m_{t+s}$ .

8. All macroeconomic statistics cited in this work, unless explicitly referenced otherwise, should be attributed to Ipeadata, an online database related to Ipea, the Brazilian Government economic research think-tank. See Ipeadata. Instituto de Pesquisa Econômica Aplicada (IPEA) – http://www.ipeadata.gov.br/

9. See Lopes, Francisco. "Inflação inercial, hiperinflação e desinflação: notas e conjecturas." Revista de Economia Política 5.2 (abril-junho 1985): 13-30. Lopes defines average real wages $\overline{w}_r$ in an indexed economy as a function of inflation $\pi$ , the time interval between wage corrections $\varnothing$ , and the peak value of the real wage after the correction $w_r^*$ : $\overline{w}_r = w(\pi, \varnothing, w_r^*)$. In my first example, $\varnothing$ and $w_r^*$ are held constant whereas $\pi$ increases geometrically, decreasing average $\overline{w}_r$ over time.

10. Leitão, 40-55.

11. Planalto is the Brazilian House of Government, its use as a substantive is similar to "White House" or "Downing Street."

12. In the economic jargon: to "monetize" its debt.

13. See Arida, Persio, and André Lara-Resende. "Inertial Inflation and Monetary Reform in Brazil." Inflation and Indexation. Washington, DC: Institute of International Economics, 1984. 1-30.

14. During a ten-year period, Brazil had six different currencies and several major economic plans: Cruzeiro (until 1986); Cruzado (1986-1989); Cruzado Novo (1989-1990); Cruzeiro [same name as before 1986, new currency] (1990-1993); and Real (since 1994). For the sake of parsimony, I focus briefly only on the three main ones: Cruzado (1986), Collor (1990), and Real (1994).

15. See Bacha, Edimar. "Observações preliminares sobre a estratégia econômica do novo governo brasileiro." Revista de Economia Política 1.6 (Jan-Abr 1986).

16. For a thorough analysis, see Pio, Carlos. "A Estabilização Heterodoxa no Brasil: ideias e redes políticas." Revista Brasileira de Ciências Sociais 16. 47 (2001): 29-54.

17. Arida, Persio, and André Lara-Resende. "Inertial Inflation and Monetary Reform in Brazil." Inflation and Indexation. Washington, DC: Institute of International Economics, 1984. 1-30.

18. Bresser-Pereira, L.C., and Y. Nakano. Inflação e Recessão. São Paulo: Brasiliense, 1984.

19. Lopes, Francisco. "Inflação inercial, hiperinflação e desinflação: notas e conjecturas." Revista de Economia Política

20. (abril-junho 1985): 13-30. Such a change deeply impacted people's lives. Under high inflation, due to the fact that one's wage devalues over time, everyone had to rush to the supermarket on the day they got their pay check and buy as much as they could, stockpiling food and other goods. Whereas a can of corn by the beginning of the month was still a can of corn in 15-days' time, the price one paid for the same corn can after 15 days was much higher, so stockpiling was a way to protect oneself against inflation. Such need for speed severely diminished consumer power in the marketplace. Individuals were not able to compare prices in different stores, because they could not afford the risk of wasting time and facing further price increases. In the mid-1980s in Brazil, time literally was money! This helps to explain why the population embraced the Cruzado Plan and Sarney keeps to this date the record of being the most popular president in Brazilian history, with approval rates over 90% - albeit only for few months. In one remarkable story, a man spotted

price increases in a local supermarket in Curitiba, a state capital in Southern Brazil, and led his fellow citizens to shutting the business down "in the name of the People!" See Leitão.

21. It is remarkably interesting to hear the stories of those who had to go to "sketchy" places and buy milk and beef from "dealers."

22. In 20 March 1990, the exchange rate was 1 US\$ = 38.963 Cr\$. Hence, in 1990, 50,000 Cr\$ = 1283.26 US\$. Adjusting dollars by US inflation for the 1990-2011 period, which was 72.1%, the result is 2,203 dollars. Data from the Time Series Management System – Banco Central do Brasil (Brazilian Central Bank): https://www3.bcb.gov.br/sgspub/consultarvalores/telaCvsSelecionarSeries.paint. (Accessed February 5, 2012)

23. See Leitão.

24. A close view on the subject (albeit biased by definition) is Mr Cardoso's autobiography, published in English: Cardoso, Fernando Henrique. The Accidental President of Brazil. New York: Public Affairs, 2007.

25. The real was never technically pegged to the dollar. In its early years, there was a floor and a ceiling for daily prices of the currency – which granted some stability in foreign exchange market. As long as the price remained within the limits, the market worked as if rates were floating. However, if it crossed the limits, market operations were halted by the Central Bank and the market was closed – holding rates fixed. That is what has come to be known as the "floating bands" exchange rate regime in Brazil.

26. In the early 1990s, Brazil's GDP per capita was about 7,700 USD.

27. The driving forces that cause this culture are manifold and their explanations, which delve into cultural and historical elements, go way beyond the scope of this article. For a more cultural based analysis, see Holanda, Sérgio Buarque. Raízes do Brasil. São Paulo: Cia das Letras, 1995.

28. WM&O Expenses data are provided by Ipeadata, whereas an analysis of the number of ministries was summarised by Maciel, Vladimir, and Paulo Arvate. "Tamanho do Governo Brasileiro: Conceitos e Medidas." RAC 14.1 (jan-fev 2010): 1-19.

29. For instance, Henrique Meirelles, who chaired the Brazilian Central Bank during the whole Lula Administration (2003-2009), had just been elected as an MP for the Party of Brazilian Social Democracy (PSDB), which rivals Lula's Workers' Party (PT). Meirelles, a former CEO of BankBoston, was appointed to signal to markets that Lula would not harm the path of economic stability, in spite of his past closeness to far-left ideas and proposals.

30. Lazzarini, Sérgio. Capitalismo de Laços: os Donos do Brasil e Suas Conexões. São Paulo: Campus, 2010.

31. In a late chapter of this government-corporations relationship, in February 2012 the federal government privatised management of three of the most important airports in Brazil, aiming to modernization by the 2014 World Cup and 2016 Olympic Games. But, yet again, the winning consortium was an association between private corporations and quasi-government federal pension funds, in another example of privatizations alla Brazilian. For a theoretical reference, see Krueger, Anne O. "Government Failures in Development." Working Paper n. 3340. Cambridge, MA: NBER, April 1990.

32. Between 1998 and 2008, the number of public employees of São Paulo State, continuously governed by PSDB since 1995, rose 12.04%. See Moraes, Marcelo Viana Estevão de, Tiago Falcão Silva, and Patricia Vieira da Costa. "O mito do inchaço da força de trabalho do Executivo Federal." Ministry of Planning. 2008. http://www.planejamento.gov.br/secretarias/upload/Arquivos/seges/forum_nacional_gp/Mito_Inchaco.pdf (accessed February 5, 2012).

33. Da Silva, Luiz Inacio Lula. "Statement by H. E. Luiz Inácio Lula da Silva, President of the Federative Republic of Brazil, at the General Debate of the 63rd Session of the United Nations General Assembly." New York, NY: Ministry of External Relations, Federative Republic of Brazil, 23 September 2008.

34. Prebisch, Raúl. Capitalismo periférico: crisis y transformación. Ciudad de Mexico: UBC, 1981.

35. See Haddad, Cláudio L. S. "Em favor de uma maior abertura." In Brasil Globalizado, by Octávio Barros and Fábio Giambiagi, 125-157. São Paulo: Campus, 2008. Apart from some lonely voices, there's a general lack of recognition of the benefits of free trade and politicians are highly sympathetic towards corporate lobbyists arguing the case for protection. Not even benchmark case studies in Brazilian foreign trade helped to change this trend. During the 1980s, the federal government heavily subsidized the electronics industry in a late reflex of the ISI's autarkic mind-set. The so-called "Law of Informatics" made it virtually impossible to import any electronic devices, ranging from sound systems to corporate servers, in an attempt to foster the development of such industry domestically. The backlash was twofold: firstly, subsidizing the industry by up to 80% of its exporting prices and closing up the domestic market to imports competition, rather than helping the industry develop, incentivized firms not to innovate as they had a somewhat guaranteed income regardless of efficiency and quality; secondly, it penalized all other industries which could profit from automatisation that were kept lagging behind from its international competitors.

36. If the reader recalls the previous session, Collor was elected as being the outsider "maharaja hunter."

37. Data from Bonelli, Regis, and Armando Castelar Pinheiro. "Abertura e Crescimento Econômico no Brasil." In Brasil Globalizado, by Octávio de Barros and Fábio Giambiagi, 89-124. São Paulo: Campus, 2008.

38. Bhagwati makes a general comparison between the tariff pattern of developed and developing countries during the GATT period. See Bhagwati, Jagdish. Protectionism. Cambridge: MIT Press, 1988.

39. In a recent example of the persistency of the autarkic dream, President Rousseff announced in early 2012 that due to a two-year deficit, her government would, in spite of seven years of surpluses in the immediate past, denounce the bilateral agreement with Mexico which allowed for lower tariffs in imports and exports for the auto industry.

40. OECD. Education at a Glance 2011. OECD Indicators, Paris: OECD Publishing, 2011.

41. Ibid.

42. DataBank: World Development Indicators & Global Development Finance. World Bank – http://databank.worldbank.org/

43. Technical note: ship's draught is "the depth of water needed to float a ship," according to Oxford's English Dictionary.

# Las Presidentas para las Mujeres?
# Why the rise of Female Executives in Latin America Has Not Guaranteed the Advancement of Women's Issues in the Region

**Shelley Ranii**

## Abstract

*With four female presidents elected in the past decade, Latin America has seen a spike in female executive leadership unprecedented in any other region thus far in the 21st century. However, having female heads of state is no guarantee that women's interests will take priority under these female-headed administrations. This paper explores the conceptual distinction between women's short-term 'practical' interests and their long-term 'strategic' interests. Whilst all 'presidentas' more or less advance the former, commitment to structural change aimed at furthering women's strategic interests in the long-run has been less clear. This article explores and interprets this mixed record.*

"I am certain, ladies and gentlemen, that this will be the women's century."
–Dilma Rousseff, September 21, 2011[1]

## Introduction

The elections of four female presidents, Michelle Bachelet in Chile, Cristina Kirchner in Argentina, Laura Chinchilla in Costa Rica, and Dilma Rousseff in Brazil, in the first decade of the 21st century have marked a new trend of female executive leadership in Latin America. While these are not the first female leaders in the region – in fact, the first Latin American female president was Argentina's Isabel Peron in 1974 – the sheer number of democratically elected female leaders in such a short time span is unprecedented. Today, Bachelet, Kirchner, Chinchilla, and Rousseff are all women who have had political careers either somewhat or fully independent of political husbands.

When considered together with the relatively high numbers of women in legislatures and judiciaries in the region, the rise of female heads of government mark an important step forward in political inclusion for Latin America's women. However, it is still far from clear whether this increase in "descriptive" representation for women, or having political officeholders who are women, will translate into "substantive" representation for women by way of greater prominence of women's issues on the political agenda in Latin America. In sum, have women's issues been advanced as women occupy a greater number of important political offices? The answer is not black and white. The rise of *presidentas* in Latin America has generally led to increased policy action on women's short-term practical interests. However, some female *presidentas* have gone further in pushing for women's long-term strategic interests and structural changes aimed at increasing gender equality in society. Given this situation, the question then becomes what distinguishes women who advance long-term strategic gender issues from those who do not?

In the case of these four Latin American *presidentas*, three major factors come to the forefront as potential enablers or detractors for strategic gender interests: their emphasis, or lack thereof, on women's issues during their respective presidential campaigns; the

presence of other exigent political, economic, or social problems that may relegate women's issues to the "backburner"; and prior national progress on women's issues. First, women who campaigned by actively stressing their status as a woman and promising to make progress on gender issues would be in a relatively stronger position to enact gender policies if elected into office. Second, the presence of other urgent issues on the national policy agenda that compete for the *presidentas'* political capital and/or the public's attention may undermine efforts to act on women's strategic interests. Finally, there is relatively more pressure for female politicians to act on gender issues in nations with little historical progress on these issues, as compared to nations with significant progress on advancing women's rights and concerns. When viewed along these three enabling or detracting lines, the *presidentas* fall along a spectrum of support for strategic and practical women's issues, with Michelle Bachelet as the most active proponent of strategic interests; Rousseff, a likely strategic interest advocate in coming years; Kirchner, a possible candidate for strategic interest implementation; and Chinchilla at the other extreme, unlikely to implement policies on women's strategic interests.

## Examining the Literature on Women's Issues and Women in Politics

When it comes to an actual, substantive advancement of women's issues, it is important to distinguish between practical and strategic interests under the umbrella of women's issues, as first outlined by the feminist scholar Maxine Molyneaux. Practical interests focus on day-to-day issues affecting women, typically based on "practical" necessity, and seek improvement in women's condition without challenging the socially accepted role of women in society. These practical interests can include social and economic issues, including access to healthcare, education and other basic social services. On the other hand, strategic interests challenge existing gender gaps in society with the long-term aim of equality between women and men. As strategic interests seek to fundamentally challenge the status quo, advancing these interests is typically more contentious than advancing practical interests.[2]

Scholars researching such practical issues have found that the majority of female legislators put forward legislation covering practical interests, even those interests that fall on the more conservative side of the political spectrum, in order to "help women fulfill their gender obligations."[3] However, there is also a consensus in academic literature that increasing the number of female legislators does not necessarily result in a corresponding increase in legislation promoting women's strategic interests.[4] Due partly to the vacuum of case studies on the executive branch, similar studies have not been conducted that evaluate the impact of female heads of government on the advancement of women's issues, let alone on the impact of female presidents in Latin America. This is the focus of this article. What distinguishes *presidentas* who advanced strategic gender issues from those that did not? To understand the extent to which each *presidenta* implemented, or did not implement, strategic women's interests, we will examine each case briefly.

## Michelle Bachelet

Michelle Bachelet, the first woman elected out of this cohort, and the only *presidenta* not currently in office, made the most progress in advancing strategic women's issues. Bachelet's interest and ability in advancing strategic and practical gender issues emerged

for a multitude of reasons, but most importantly, she campaigned highlighting her position as a woman in a politically calm period of time, which allowed her to focus energies on women's issues. Bachelet's Chile was also a nation that had room to update its policies on women's issues relative to other countries in the region.

In general, persistent gender inequality is a continuing problem in Chile.[5] Although Chile had been ruled by the Concertacion center-left coalition for more than a decade, the Christian Democrats, which were the strongest party in Concertacion for many years, overruled progress on many women's' issues due to their close association with the conservative Catholic Church. In this setting, Bachelet had ample room to make up for previous inaction on women's issues after her election as a strong, women's rights advocate.

Bachelet started her term in a period of relative calm, by regional standards. However, she would soon face crises throughout her administration, including a large student protest in 2006, and the Transantiago public transportation scandal, in which there were various cabinet reshufflings and public funds were mismanaged. However, no single issue overwhelmed her total political agenda. In this political landscape with a relatively strong economy, Bachelet was able to bring women's issues to the forefront of Chilean political consciousness.

In the 2005 Chilean context, Bachelet's position as a female candidate was a strength, as it showed her as a "new" candidate, separate from the traditional political powerbrokers. As a result, Bachelet gained support from two groups that had not voted for the Concertacion in the past: women[6] and voters from the 'traditional' left who had not joined the coalition.

With these three factors all enabling strategic action, Bachelet, who was in favor of women's issues personally, proved very active in pursuing strategic women's interests while in office. Bachelet used the principle of "gender parity" in selecting her cabinet, selecting 10 women and 10 men.[7] She also extended this effort to lower levels of government by directly appointing more gender equal numbers of undersecretaries, regional governors, and high-ranking state officials.[8] Outside of political representation on the economic front, under Bachelet's guidance, the Chilean women's ministry, SERNAM, pushed for private sector firms to counter gender discrimination in the workplace. SERNAM advanced legislation for equal pay standards between the genders, and also created a program to publicize "lessons learned" on gender equality efforts. In the social arena, which was the most difficult to face in conservative Chile, Bachelet promoted reproductive rights by broadening access to free emergency contraception and sex education.[9]

In the practical realm, Bachelet, as a socialist, addressed Chile's high level of inequality through increasing redistributional social programs that target women. She led reforms in the pension system, improved public education, and augmented the quality of and access to health coverage. Bachelet's administration also enacted programs, specifically for women, which support parents and children from conception to age four, a universal day-care program for the poorest two-fifths of women, and shelters in each regional capital for female victims of abuse.[10] Considering all of the above policy reforms, Bachelet was hugely successful in making reforms during her four-year term in office. Due in large part to

supporters from her campaign, Chile's political climate, and past actions on women's issues, Bachelet was able to initiate both practical and strategic reforms.

**Cristina Kirchner**

Though Chile and Argentina are alike on many societal and cultural measures, Cristina Fernández de Kirchner (CFK) has taken a different presidential course from Bachelet. CFK was elected to the presidency for the first time in 2007 following her husband Nestor's popular presidency. She ran a very short campaign on a platform of continuing her husband's policies while not emphasizing her position as an independent female candidate. Argentina is a nation that has already made relatively more progress on women's representation in politics following the crises of the early 2000's, and it has not been in the collective national desire to experiment with revolutionary gender policies. In this context, CFK has pursued some women's issues that addressed practical interests, but has avoided working towards more difficult and controversial strategic interests.

Argentina's women, though still facing discrimination and disadvantages, have achieved great advancements politically and culturally, even before CFK took office. Argentina adopted its national electoral quotas for women in 1991, before any other democratic nation, with the enactment of the Ley de Cupos. This resulted in a record 36% of women in the national assembly and 43% in the senate by 2006, a great deal more relative to Chile's 15% of women in their national assembly. [11] In addition, the Argentine Constitution provides for equality between the genders and outlaws gender discrimination.[12] Overall, Argentina has been fairly progressive on political inclusion of women, both before and since CFK assumed office.

CFK has run two successful, though not overly substantive campaigns, neither of which prominently featured her status as a female candidate under her husband's populist Front for Victory party. In her first campaign in 2007, CFK ran on a policy platform that consisted of "Profundización del proyecto", or deepening the national project, by extending her husband's economic policies and increasing engagement on the international stage. Her husband was immensely popular after leading Argentina out of crisis into stabile and positive economic growth.[13] CFK's second campaign in 2011, after her husband's passing in 2010, focused more on her own achievements. However, she still did not stress her position as a female candidate, instead banking on the success of the economy and a divided opposition in the latter half of her term.

For CFK, the downturn in the economy was the single biggest issue her administration faced in her first term. In 2008-2009, she faced the global recession, falling commodity prices, a severe drought, high inflation, and low economic growth as the Argentinean stock exchange hit a five-year low. Less than a year in office, CFK was also greeted by massive protests against her proposed policy to increase taxes on grain exports.[14] As the Argentinean people found their footing following the crisis, fixing the economy and addressing these controversies moved to the forefront of the national agenda, pushing other social issues to the backburner.

Though CFK has not pursued substantial strategic interests supporting women, she has made policies that assist women at the practical level. During her tenure, she invested in

conditional cash transfers programs and provided social security for the poor, which have improved the livelihoods of many in lower economic classes. She has also subsidized cash payments specifically to poor mothers with children.[15]

As a woman who has not emphasized women's issues as a key part of her administration, it is difficult to predict if CFK will enact changes that promote women's strategic interests in her second term. Though never featured as a central part of her politics, CFK has in the past stated that she considers herself as having a "double responsibility" as a female politician towards both women and her nation as a whole.[16] It remains to be seen what will happen in the coming four years as CFK now has more political freedom to pursue female empowering policies.

## Laura Chinchilla

Laura Chinchilla is the only Central American *presidenta* [17] that is examined in this study. This socially conservative former minister of justice and vice-president was tapped by her predecessor in the center-left Partido Liberación Nacional party, Óscar Arias, to take up the reins of the party. Facing increasing security threats and budgetary constraints, Chinchilla focused on continuing the liberal economic policies of her predecessor while maintaining official state ties with the Catholic Church. Chinchilla sits in a position that does not enable her to make great progress on strategic women's interests. Like all the *presidentas*, Chinchilla has enacted some policies benefiting women's practical interests. However, based on her own political stance she does not seem willing to make policy choices in that direction within the next two years of her term.

Before Chinchilla took office, Costa Rica was ahead of the Latin American region and most of the world, in terms of women's rights and political participation. The Costa Rican constitution allows for equal rights, freedoms, and opportunities for all, and proscribes discrimination along any lines. Women occupy 40% of party seats in the Costa Rican Legislative Assembly, and this percentage will increase to 50% by 2014.[18] Facing this backdrop, Costa Rica had already made great progress on women's issues and did not need to 'catch-up' to its neighbors, putting less pressure on Chinchilla to make additional progress along these lines.

In her campaign, she advanced a policy platform that, to a large extent, continued Arias' economic and social policies, which include promoting free trade and enhancing public security.[19] During her campaign in 2010, Chinchilla did not campaign in favor of extending women's rights. In fact, she actively distanced herself from the feminist and women's movements in Costa Rica.[20] During the campaign, she forthrightly stated that her social views were in line with the Catholic Church and their stances on gay marriage, abortion, and other reproductive rights. [21]

Chinchilla took office in the aftermath of corruption allegations against the past administration and increases in violence resulting from increased drug trafficking in the region, which together led to a heightened degree of domestic panic. To complicate matters, Costa Rica was also facing budget deficits, as the government had been collecting just 14.8% of national income in taxes, and faced a deficit of 4% of GDP.[22] On the security front, Chinchilla also needed to handle a contentious border dispute with Nicaragua.[23] In

this policy environment, Chinchilla is constrained in her ability to advocate for women's issues, even if she wanted to.

Given the factors listed above, as well as Chinchilla's socially conservative ideology, it comes as no surprise that she has only implemented policies related to women's practical interests in her two years in office. Chinchilla has worked to create a national daycare system and has pursued other educational and healthcare reforms.[24] However, she continues to support her country's restrictions on abortion and the morning-after pill on the strategic front.[25]

Though Chinchilla is only two years into her presidency, it seems unlikely that she will pursue reforms in strategic gender interests, particularly those related to reproductive rights. Nevertheless, during the latter two years of her administration, she may be inclined to pursue stronger equal rights legislation on the economic front.

**Dilma Rousseff**

As the most recently elected *presidenta*, or more accurately, *primeira presidente mulher*, Dilma Rousseff has only been in office for one year. In some ways, she presents the most interesting case study. As a candidate, Rousseff did not express much interest in women's issues, as she wanted to maintain solidarity with her predecessor, President da Silva, better known as Lula. Nevertheless, since being elected, amidst an economic boom for Brazil and a history of limited progress on women's issues, she has shown herself to be staunchly in favor of action on both women's practical and strategic interests.

Brazil has much progress to make on women's issues. Though the 1988 Brazilian Constitution defends gender equality, the government only recently amended the 1916 Civil Code and the 1940 Penal Code, which contained discriminatory sections against women.[26] On the political front, there is a requirement that 30% of election candidates are women, as mandated by a 1997 federal law. According to Almira Rodrigues, director of the Center for Feminist Research and Consulting, "political parties have not shown the willingness to meet the quota," reflecting weak enforcement mechanisms. Amongst the 27 parties, the current range of women usually elected is between 10% and 15%.[27] Consequently, Brazil is one of the countries with the lowest proportion of women in public office.[28] In this regard, Rousseff has a good amount of ground to cover in order to bring Brazilian women to parity.

As his previous chief of staff, Rousseff was hand-picked by Lula as the presidential candidate for the leftist PT or Worker's Party. With Lula's popularity and exit approval ratings of 80%, his strategy was successful. Rousseff scarcely deviated from the "Lula"-line, even having her predecessor out on the campaign trail speaking for her. Rousseff may also have been discouraged from pursuing gender issues after a small campaign gaffe on abortion.[29]

When Rousseff took the reins of power at the beginning of 2011, Brazil was doing very well economically. Brazil's biggest issues include maintaining economic growth rates fueled by the free market, while addressing the staggering, though decreasing, levels of economic inequality. Rousseff has also garnered positive reviews in dealing with corrupt officials,

many of whom are holdovers from Lula's administration. With high approval ratings of around 71%, positive economic performance, and pressure to continue to reduce income inequality; Rousseff has shown she can handle the presidential role. She now has more flexibility, independent of Lula, to pursue policies as she chooses, including women's issues, which has become a more personal political priority. [30]

Though Rousseff, who prefers to be referred to as the "female president" instead of simply "president", has been in office for just one year, she has already committed herself to pursuing practical and strategic women's interests.[31] As she stated during her victory speech, her priority was to ensure that an equality of opportunity exists, irrespective of gender. As a step in this direction, Rousseff appointed nine female ministers out of 37, which is the highest proportion of female cabinet ministers ever seen in Brazil.[32] In addition to continuing with Lula's redistributional programs that serve women's practical interests by supporting children and families, Rousseff seems primed to make further changes that promote women's strategic interests during the rest of her term.

Thus, although Rousseff gave little indication of her gender views while campaigning, she has the political will and institutional enablers in the form of a strong economy and lack of previous progress, to pursue policies that advance both practical and strategic interests in the future.

## Moving Forward

In sum, based on their respective personal ideologies, as well as the three enabling or detracting factors listed above, each of the *presidentas* appear to be on their own path with regards to implementing policies that advance women's practical interests. While Bachelet, and most likely Rousseff, have a personal interest in advancing women's issues and were relatively "enabled", they advanced or will advance women's strategic interests. On the other side, Kirchner and Chinchilla seem to lack personal interest in advancing women's issues and they have also faced detracting influences on their potential ability to implement policies that would enhance women's strategic interests. Though only time will tell for sure, for the three women still in office, reasonable predictions can be made based on their campaign strategies, the presence of other exigent issues on the political agenda, and each nation's evolving stance on women's rights – in conjunction with their own personal interests – on whether or not the *presidentas* will enact policies advancing women's strategic interests.  As more women come into political office, it will prove interesting to evaluate them along these same lines to see if the same results hold in 10, 20, and even 50 years from now. If Rousseff is right that the 21st century is the century of women, there will be more literature in the coming years to test and refine this hypothesis on the impact of female executives in Latin America.

Looking towards the future, though not all *presidentas* may be actively working to advance women's structural interests, their mere election is a landmark, in and of itself, of changing political norms in the region and indicating higher levels of political inclusion along gender lines. With more political power shifting towards females, consequent policy outcomes may not be foregone; however, it is unlikely that this 'female wave' in leadership positions will be reversed. As this paper opened, it will conclude with remarks from the most recently elected *presidenta*, Dilma Rousseff, who stated during her inaugural address

in Brasilia in January of 2011, "I am here to open doors so that in the future many other women can also be president." [33] *Presidentas* open doors for other women, both in actively helping other women rise through the ranks themselves, but also, perhaps more powerfully, by sending a message to younger generations that seeing a female in the president's office is the new political norm. With this new powerful precedent, female political leadership in Latin America is here to stay.

*Shelley Ranii is a first-year master's student at The Johns Hopkins University's SAIS Bologna Center, where she concentrates in Latin American Studies. At SAIS, she was awarded the Philip Merrill Fellowship for the Best Essay on the Practice of American Diplomacy from the American Academy of Diplomacy and currently serves as a graduate teaching assistant in Microeconomics and Macroeconomics. Prior to graduate school, she worked for three years at the U.S. Department of Defense as a Social Science Analyst covering Iraq and Afghanistan, including a 5 month deployment to Kabul, Afghanistan during which she was awarded the U.S. Department of the Army Superior Civilian Award and the Global War on Terrorism Medal for conducting innovative analysis in a combat zone. She holds a Bachelor's Degree in Government from Harvard University and is a native of Pittsburgh, Pennsylvania in the United States.*

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# Somalia: Failed State Expired?

**Maximilian M. Meduna**

## Abstract

*For the past two decades, the 'failed state' of Somalia has been ravaged by protracted violence and famine, armed clashes between warlords, and their unpredictably shifting alliances. As the extended mandate of the corrupt and dysfunctional Transitional Federal Government nears its expiration date in August 2012, increasing international attention has created an impetus for a renewed consolidation process leading to the recent London Conference on Somalia. This paper assesses the realistic options for a shift towards peaceful governance, and examines what lessons can be learned from the hitherto existing international approach that has fuelled rather than averted violent conflict.*

## I. Introduction

In 1960, the Somali Republic inherited administratively distinct territories upon its independence from the British and Italian colonial powers. Ethnically and religiously a homogeneous entity, it subsequently struggled for nine years in a process of political consolidation that ended with a military coup d'état. Highly reliant on the bipolar theatre of the Cold War, President Siad Barre ruled the country in an increasingly autocratic fashion until 1991, when he was ousted by clan-based opposition groups. Two decades of "socialist" dictatorship established the concept of central governance in a society that had traditionally always been highly decentralized, where power was dispersed among clans and regional alliances. The Somali Civil War that followed the collapse of statehood in 1991 resulted in half a million casualties, not counting the victims of famines exacerbated by the conflict or the millions of refugees and internally displaced persons that resulted from the conflict. The subsequent civil war politicized and militarized clan structures, while empowering a multitude of warlords to compete for political dominance.[1]

From 1992 to 1995, international intervention mandated by the United Nations failed to achieve any success due to inadequate preparation and structure, a lack of understanding over local dynamics, and failures to adequately consider domestic politics and interests on the side of intervening states, most notably those of the United States.[2] The world decided to look away for another decade while the northwestern province of Somaliland, which had unilaterally declared independence in 1991, gradually developed structures of functional governance and stability.[3] In 2004 the Transitional Federal Government (TFG) was appointed as a result of prolonged negotiations in Djibouti between warlord factions, militias, and international mediators. Five years later, Sheikh Sharif Sheikh Ahmed, former Commander in Chief of the Islamic Courts Union (ICU) and Chairman of the Alliance for the Re-Liberation of Somalia (ARS) – previously an opposition group fighting the TFG – became the current President until his government's mandate expires in August 2012.[4]

Externally constructed policies aimed at shifting power to central authorities and restoring functional government and statehood are being challenged by the high degree of corruption and inefficiency within the existing structures. By promoting top-down state-

building, international actors are fuelling violent conflict and creating incentives for faction and clan leaders to fight for territorial dominance and political influence in order to monopolize profits from the existing war economy. This has also facilitated the rise of Islamist groups seeking to implement ideological foundations at the core of the institutional setup of government. State-building, as realized by the TFG and endorsed by the international community, remains a structural factor of instability in Somalia. Ironically, it is both the cause of, and the main response to, the country's dire situation.

## II. The Status Quo: A Glimpse beneath the Surface

Despite numerous efforts to create stability and security, reflected by more than a dozen failed peace conferences and attempts to establish an inclusive government of national unity, Somalia remains in a state of insecurity and violence. International aid certainly dampens the mutually reinforcing impacts of environmental disaster and violent conflict, but at the same time it also sustains a persistent war economy that allows individual leaders to capitalize on the aid and divert power and money to their advantage at the expense of the public. The war economy is also sustained by other capital inflows from external actors and states – notably Ethiopia[5] and Kenya – to favored factions, and through the proliferation of small arms and light weapons (SALW).[6] Finally, the practice of conducting internationally supported, large-scale, top-level peace conferences outside of the territory has hitherto been the ultimate incentive for illegitimate and self-appointed leaders to co-opt the process. Costly attempts to sustain the TFG "on life support"[7] have produced very few significant political results. The successful ousting of the radical Islamist al-Shabaab[8] from Mogadishu in January by pro-TFG forces is certainly a positive step, but such erratic successes build the illusion that the status-quo policies are working.

Beneath the surface of complex power dynamics, personal interests and strategies is a completely different reality of Somali society. At the core of current power-sharing agreements is the so-called "4.5-formula," which allocates seats in the governmental bodies proportionally to the four major clans – Darod, Dir, Hawiye and Rahanweyn – along with a fraction for minority clans and stakeholders from civil society.[9] Decades of political engineering, however, have significantly decreased popular legitimacy for clan leadership. In fact, all major Somali clans fighting for political supremacy are deeply divided, sometimes even within nuclear families.[10] Clan leaders and the whole "system" of clan politics in Somalia is facing increasing commitment problems and continuously diminishing legitimacy. This exacerbates the challenges of forming a representative government of national unity and raises the question of whether building governmental bodies based on the clan system is the best path forward.

Somalia's functioning institutions are largely to be found at the level of local self-administration. In the absence of functioning state-level governance and facing continuous threats from factions competing for state authority, local experience in administration has been nurtured since 1991. Indeed, a closer look at traditional Somali governance reveals the fundamentals of social life, widely disregarded by most international approaches to the peace process.

Somali society is traditionally based on a complicated system of horizontal and collective loyalties on a *jilib*,[11] sub-clan and clan level. A compensatory, discursive and polycentric

legal system of collective responsibilities has been the foundation of governance, relying on the legitimacy of *guurti* – respected clan elders, elected at the community level and acting as personal legal advisers to clan leaders. This customary law, called *xeer* in Somali, is a truly indigenous and highly regarded element of Somali society, which offered a unifying foundation even prior to the establishment of a common language. Despite the continuity of *xeer* from pre-colonial times into the 21st century, it is worth noting that the clan system is anything but a rigid form of collective categorization. Boundaries are fluid, with individual ties and allegiances crosscutting and often blurry. Clearly, the reductionist cliché that everything in the country is based solely on clan dynamics does not account for the existence of power configurations such as Islamist movements and organized criminal gangs, which cut across clan groups .[12]

Community-based governance in Somalia has always been a form of *kritarchy* – judicial and political decision-making by judges who are directly nominated and thus legitimized by local constituencies.[13] While the chaos of civil war has dominated the broad political landscape in Somalia, initiatives to secure stability and order have been continued by the *xeer* (especially in northern Somaliland), and by the rise of Islamic Courts in the South. Islam plays an integral role in society and politics. It survived a bizarre marriage with Siad Barre's proclaimed "scientific socialism" and now endures during the schism between moderate forces and Salafists as well as internal disputes within jihadist groups. Islamic Courts and their *shura* councils consisting of clan leaders are at the core of existing regional and perhaps future state-level jurisdiction and administration. In April 2009, the transitional parliament passed a *shari'a* bill, yet in practice *xeer* continues to be the prime source of law, implemented by local authorities and elders.[14]

### III. From "Transitional" to "Provisional" to Federal: Assessing the New Roadmap

The essential power shifts required to create stability in Somalia are twofold: on the one hand, current TFG officials and political leaders have to accept a transition of power from the current dysfunctional and illegitimate structures to a more representative, inclusive, and effective framework. On the other hand, the vertical approach aimed at establishing the state's monopoly of violence has to give way to a horizontal dispensation of governance. Local stability – achievable though traditional means of jurisdiction and administration – is the precondition for a broader framework of integrated statehood. It is obvious that one cannot disregard the leverage and significance of top-level elites for any kind of progress, irrespective of their conflicting dispositions towards basic standards of transparency, legitimacy, or human rights. Yet, the empowerment of bottom-up initiatives and the inclusion of the public in the political process are obvious missing elements that have been disregarded for too long. How does this analysis reflect actual developments?

On September 6th, 2011, senior TFG officials under the auspices of the United Nations (UN) and East Africa's Intergovernmental Authority on Development (IGAD) signed a statement on the adoption of a roadmap, ending the transition in Somalia.[15] The consultative meeting outlined four priority tasks – Security, Constitution, Reconciliation and Good Governance – and drafted principles of implementation with rather ambitious benchmarks and timelines, such as the adoption of a draft constitution by July 1st, 2012. It is encouraging that the initial design for the constitutional process takes note of the

importance of regional administrations and accommodates consultation with stakeholders on the issues of federalism and decentralization.[16]

Two-and-a-half months later, the first Somali National Consultative Conference convened. It consisted of six individuals: the President, the Prime Minister, the Presidents of Puntland and Galmudug – two autonomous regions to be officially recognized later as founding federal states, a representative of Ahlu Sunnah wal Jamaa'ah (ASWJ) – a moderate yet militarily significant Sufi group allied with the TFG, and the Speaker of the Transitional Federal Parliament (TFP), who was removed from his post by a vote of no-confidence prior to the conference. This UN-backed meeting (together with its follow-up session in February 2012)[17] built on the September roadmap, outlining the so-called "Garowe Principles". A temporary National Constituent Assembly (NCA) was conceived, consisting of 1000 delegates, 30% of who are women and all of which are to be nominated in accordance with the 4.5-formula by the Roadmap signatories. The conference mandated the provisional adoption of a draft constitution, with a bicameral parliament encompassing representatives of federal states and regional administrations in the Upper House, while the Lower House would consist of MPs elected based on the principle of proportionality (but selected on the basis of the 4.5-formula for only the first term). The new parliament would be significantly downsized with an Upper House of 225 members and a Lower House (the only democratically elected chamber) capped at 54 - a significant reduction from the 550 seats currently within the TFP. Its projected mandate would include both the preparation of a referendum as well as general elections (realistically not occurring before 2016). Its members are to be nominated by "recognized traditional elders" assisted by prominent civil society members or existing state administrations. Also agreed on was the adoption of a parliamentary rather than a presidential system.[18]

In other words, only a handful of non-elected TFG and regional decision-makers (including the TFP speaker Sheikh Aden, who was removed from office by legislation despite the president's and the UN's refusal to accept the vote of no-confidence) nominates over 1000 delegates for the NCA, which then adopts a constitution drafted by a committee of experts consisting of up to nine individuals appointed by the very same decision-makers. A fifteen-member Electoral Commission, again chosen by the same group of individuals, has the power to verify (and hence dismiss) the NCA and Parliament nominees. Traditional elders, in turn, nominate the latter based on certain criteria, one of which is "relevant experience". Throughout the entire process, the roles of civil society and the Somali people are limited to a consultative status at best. Concerns have also been raised over the presence of non-elected entities such as that of Galmudug and of the ASWJ, both of which are allegedly receiving financial support from neighboring states. Following the Garowe communiqué, an open letter signed by 85 individuals (including the former Somali president and prime minister) was published.[19] It points out the lack of fair political representation as remaining the most serious problem of the Garowe Principles.

With international attention now back on Somalia,[20] UK Prime Minister David Cameron hosted a ceremonial 6-hour conference in London on the 23rd of February with representation from over 40 governments and high-level participants such as that of U.S. Secretary of State Hilary Clinton and UN Secretary General Ban Ki-Moon. The draft of the final communiqué, however, was leaked on the 13th of February – ten days before the conference.[21] Alongside a number of rhetorical commitments to the peace process in the

areas of politics, security and justice, piracy, terrorism, stability and recovery, humanitarian, and international coordination, the communiqué also welcomed a UN Security Council Resolution expanding the mandate of the African Union's Mission in Somalia (AMISOM) and raising the troop ceiling from 12,000 to a maximum of 17,731.[22] Annex B and C of the London communiqué outline key principles for support of the Somali Security and Justice sectors in order to promote "local areas of stability", emphasizing important core issues such as the role of local communities, ownership, representation, legitimacy, transparency, and accountability.[23] The document remains very vague with few specific commitments and no legally binding provisions. Regardless, the spotlight is back on Somalia, and changes in the existing setup of governmental arrangements are to be expected.[24] It seems clear that the "transitional" structures will give way to new "provisional" structures in the course of the year, yet it remains doubtful that substantial power shifts to a more decentralized federal form of government or measures to resolve the crisis will be implemented. In June, a follow-up to the London Conference on Somalia will take place in Istanbul.

## IV. A Window of Opportunity? Projecting Chances and Challenges

Life seems to be returning to the "failed state" in the Horn of Africa, whose Government's mandate is about to expire. Turkey has completed major improvements to Mogadishu's airport and continues to invest in infrastructure and social services in Somalia.[25] New embassies have opened in the capital for the first time in sixteen years. US development assistance to Somalia is increasing, and there are two new oil exploration wells in Puntland. This month, the de-facto independent Somaliland will be holding council elections followed by parliamentary elections in May 2013, though without any articulated intention to be a part of a new Somalia after the transition. Further south, al-Shabaab is on the retreat but will likely remain a factor of instability due to its channels of external financing and support. The long-term impact of the recent famine is hard to assess. Somalia remains vulnerable to famine and drought, particularly since the Somali economy is heavily dependent on agricultural production and livestock. With national elections projected for 2016, the delimitation of electoral boundaries into new federal entities and voter registration will pose major challenges to the political process once the "Transitional" Federal Institutions have morphed into "Provisional" Federal Institutions. The increase in AMISOM troops, which will include the Kenyan contingents that have been in Somalia since the *Linda Nchi* ("save the nation") military operation in October 2011,[26] cannot preclude the necessary Security Sector Reform of the Somali National Army (SNA) and police force.

The above analysis indicates that the current process is unlikely to result in an actual power shift towards new legitimate and democratic structures. As long as the power to shape the constitutional framework remains in the hands of the very actors responsible for the stagnating implementation of the Djibouti peace process, no substantial improvement will take place.

However, two aspects may bring about a new window of opportunity. Firstly, rhetorical commitments and the embedded elements of the roadmap could, if nothing else, generate expectations of a more inclusive, representative, and legitimate polity. This, in turn, could trigger change through public pressure. The danger is that this can also lead to intensified

conflict, particularly if decision-makers in the provisional institutions do not meet public demands. Secondly, the international attention that came with the London Conference on Somalia could create the necessary awareness for the development of a highly decentralized federal framework, in which decision-making power shifts towards the local and regional levels. Such a framework would be fundamental to any form of effective and sustainable institutional setup in Somalia. Essentially, the rather ambiguous rhetoric of "local ownership" by the international community needs to be followed through with actions. Spoilers to the process must also be sanctioned. Internally, the selection process of decision makers will have to be driven entirely by community-based constituencies and be guided by traditional elders who enjoy real legitimacy.

In order for this to happen, external involvement in the conflict must be efficiently contained, as the current faction leaders' capacity to generate power is highly dependent on arms proliferation and financial flows from neighboring states. Effective containment has the potential to make warlords re-evaluate their cost-benefit calculations and could eventually instigate a transition from the existing war economy to a more open market-based system. There is hardly any need to persuade the population that a continuation of current dynamics would make them worse off. However, whilst a long-lasting conflict may be to the detriment of all groups concerned, nevertheless it remains profitable for individual leaders in power.

While all major Somali peace conferences have led to normative agreements and reforms, no substantial and sustainable constitutional and democratic consolidation has ever taken place prior to the establishment of the new interim governments. Power-sharing agreements such as the 4.5 clan quota have proven inefficient; reforms have been drafted only on paper. We are facing the need for substantial alternatives that go beyond only paying lip service to the Somali people in some distant future, once security permits it. As soon as the new Federal Institutions are in place later this year, robust measures to provide fundamental security and the rule of law will have to follow, opening a space for a broader constitutional discourse and ultimately leading to successful local, regional, and national elections.

In terms of security, a clear and robust mandate has to be drafted for the extended AMISOM mission after the transitional institutions expire in August 2012. Such a mandate will have to be met with appropriate capacities, including logistical capabilities for a decisive campaign against al-Shabaab, and a military capable of securing absorbed territories – especially of the port city Kismayo, an essential stronghold of the Islamist militia. Structured and coordinated training of the Somali National Army and police forces will have to be conducted and concluded with a gradual transition to complete autonomy. In the medium-term, the crucial tasks of the security forces will be, first, to safeguard borders and secure ports from direct foreign intervention, piracy threats, and arms proliferation. Second, they will need to monitor the Ogaden region in Ethiopia, as it is home to many Somalis and competing political factions and thus decisive for stability and security within Somalia. Third, logistical and operative support for local and regional administrations within the constitutional framework will be essential to contain spoilers aspiring to capitalize on the new governmental institutions. Finally, listed war criminals will have to be extradited to an appropriate tribunal, with no exceptions for former TFG members and faction leaders such as al-Shabaab commanders.

The establishment of an International Criminal Tribunal for Somalia (ICTS) would be an appropriate response to public concerns about the atrocities committed by individual politicians and warlords during the course of the civil war. The larger the timeframe and regional scope, the stronger the perceived credibility and impartiality of the jurisdiction of the tribunal will be, though pragmatic compromises will have to be anticipated.

In the long run, the possibility of a power shift towards peaceful, decentralized governance and the stability of the new constitutional order will depend on the successful empowerment of community-level initiatives for infrastructure buildup; with an effective Disarmament, Demobilization and Reintegration (DDR) process (including incentives for militia deserters), economic development, and broadly accepted local governance based on *xeer* institutions and Islamic Courts where appropriate.

Based on the innovative idea of the so-called "Freeport clans" coined by Samaroon clansmen and conceptualized by Michael van Notten,[27] new inclusive functional and socioeconomic clans – "a community governed as kritarchy"[28] – could provide an organizational structure exercising the shared administration of ports, local markets, and natural resources. Such business clans, fused by contract rather than kinship, would operate economic hubs purely on free-market principles while still being rooted in Somali customary law, thus coupling local economic development with the global business community.

As indicated above, rich traditions of consensual decision-making and peace building exist in Somali society. Once acknowledged and shielded from destructive foreign interference, such feasible practices could significantly enrich the political process. Legal foundations for the rule of law have to take into account the effective and legitimate local traditions of jurisprudence, ultimately fusing *xeer, shari'a,* and internationally recognized principles of human rights into a comprehensive, polycentric, and decentralized yet coordinated body of customary law. The establishment of a *xeer*-based Truth and Reconciliation Commission (TRC) could foster the reconciliation process through its compensatory rather than punitive nature. Economically, emphasis must be placed on stabilizing regional and national free trade and subsequently extending the development of areas for international business around free ports and market hubs. This will serve to gradually integrate Somalia into the world economy – facilitating venture capital, foreign direct investment, and streamlining legal export provisions.

## V. Conclusion

The realization of a genuine power shift towards peaceful governance after the imminent transition to a new constitutional arrangement in Somalia is unlikely. The existing political roadmap is primarily a rhetorical concession to urgently required changes. In its current design, it ultimately leaves power in the hands of the same people who have failed to implement previous peace plans. Recent political developments have attracted increased international attention, yet within Somalia substantial commitment to required reforms seems to be lacking. Nevertheless, the roadmap provides a window of opportunity in that it could trigger new expectations on the part of the Somali people, and raise international awareness about Somali political life.[29]

After two decades of civil war, Somalia is at a crossroads. The current roadmap recognizes that a highly decentralized form of governance is required for the country to stabilize. This recognition has the potential to open up a path to gradual pacification, economic development, and a legitimate (decentralized) form of governance. However, the challenge of implementing the roadmap and orchestrating this transition also poses dangers, since warlords and potential spoilers will undoubtedly seek to derail the peace process. There are indications that current TFG officials will try to retain power beyond August 2012, thus endangering the transition.[30] If the current roadmap is to succeed, robust peace-enforcement operations will have to secure the terrain, effective incentives for decision-makers and potential spoilers will have to be conceived, and innovative approaches to attaining economic growth and ensuring the rule of law will need to be assessed and applied. The window of opportunity that this paper has identified will not remain open for long. The next few months will show if the failed state Somalia has finally expired.

*Maximilian M. Meduna holds masters degrees in Political Science and Social Anthropology. His studies abroad include Spain, Russia and Italy. Having completed a program in International Relations at the Diplomatic Academy in Vienna, he is now due to graduate from The Johns Hopkins University's SAIS Bologna Center in May 2012. His academic and professional focus lies in the fields of peacebuilding and conflict management.*

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things,” when he should have been concentrating on the more important issue of expelling Austria from the Italian peninsula.[3]

After 1861 the Piedmontese Establishment pretended that unification had been planned and desired, that it was the natural and inevitable consequence of the Risorgimento. Yet the speed of the process, especially the annexation of the south, had taken it by surprise. Sicily and Naples were not conquered by Victor Emmanuel's army but by an irregular force of volunteers led by Garibaldi in the name of the Piedmontese king. The prospect so alarmed the prime minister, Cavour, that he tried to forestall the invasion of the mainland by instigating an insurrection in Naples in the hope that a new liberal government would make the annexation unnecessary. Cavour did not direct the unification of Italy. For much of 1860 he was reacting to the initiatives of his nominal subordinate, Garibaldi, and trying to control them.

The speed of unification - and the way it happened - determined the way the country was run for the next few decades, but it also created problems, psychological as well as administrative, that have lasted until today. The new Italy was run by the Piedmontese and run moreover according to the institutions and bureaucratic methods of Piedmont. Piedmont doubled its size and did pretty well out of unification, but its methods were not appropriate for the rest of Italy and especially not for the south. Piedmont was a relatively modern European state with a parliamentary system; Naples and Sicily were quasi-feudal societies without a bourgeoisie and with a vast and wretched peasantry. They needed very different treatment, yet the politicians in Turin did not appreciate the fact. They applied Piedmontese laws to the whole of Italy, and in Naples and Sicily they sent officials, prefects and policemen from the north to administer them.

The new Italy was built on an idealistic view of the nation, but it ignored the reality of Italian conditions. Its constitution provided for a highly centralized system with no devolution of power. A number of politicians and thinkers, the so-called federalists, had in fact argued for a decentralized state, a more sensible arrangement in view of the great diversity of the country and its regions. Yet their arguments were defeated, partly by circumstance, partly by the conviction of Piedmontese politicians that only a strongly centralized administration could hold the new state together.

The federalists were a varied group who did not share a single programme. The most famous of them, the Lombard priest and philosopher Carlo Cattaneo, believed in a very loose

nonsense."[3] Two years later he indicated his version of the future Italy to France's Napoleon III, when they met secretly at the spa town of Plombières in Lorraine. The two men agreed to fight Austria, which then ruled Lombardy-Venetia and indirectly controlled much of central Italy, and after their victory they envisaged an Italy consisting of three sizeable states: Piedmont, expanded to include Parma, Modena, Lombardy-Venetia, and Romagna; Tuscany, enlarged by the addition of Umbria and the Papal Marches; and the Two Sicilies, whose boundaries would remain much the same as before.

Garibaldi's conquest of the south, which gave Cavour the chance to unite almost the entire peninsula around Piedmont, made this scheme redundant. Cavour was a brilliant politician - astute, intuitive, opportunistic, and unscrupulous – and he seized the unexpected opportunity to create the Kingdom of Italy. Unlike Azeglio, however, he was ignorant of much of the territory he had come to rule: he never went south of Siena and thought Sicilians still spoke Arabic. Almost unaware of Italian diversity and thus heedless of its implications, Cavour insisted on making a unitary state, what was in effect not a new Italy but a Greater Piedmont with the same monarch, the same capital (in the early years) and the same constitution; the first legislature of the new state was labelled the eighth because it followed Piedmont's seven previous ones. It was understandable that many of the kingdom's new subjects, who resented the "Piedmontization" of their laws and customs, should regard the process less as voluntary unification than as conquest and annexation.

The writer Alessandro Manzoni hated the word "diversity" because for him it summed up Italy's "long history of misfortune and humiliation."[4] Yet for most scholars and observant travellers, it is a word that epitomizes the Italian experience. At the end of the nineteenth century, Giustino Fortunato, one of the wisest Italian politicians, quoted his father's view that "the unification of Italy was a sin against history and geography."[5] The old man was arguing that the peninsula's history and geography had produced a land too diverse to be satisfactorily welded into a single nation.

Italy's position in the centre of the Mediterranean has ensured that it has been one of the most easily and frequently invaded places in the world. Centuries of aggression from across the sea or over the Alps have made it a divided place of profound ethnic diversity. The Anglo-Saxons of England might coalesce to resist the Danish invasions of the ninth century, but how could the peoples of Italy coalesce when at that time they consisted of Arabs in Sicily, Byzantine Greeks in Apulia, and a mixture of Franks, Goths, Lombards and Romans in the rest of the peninsula?

The diversity of peoples and societies naturally produced diversities of culture and language. The philologist Tullio De Mauro has estimated that in 1861 only one in forty Italians actually spoke Italian – that is the Florentine Tuscan that had evolved from the writing of Dante and Boccaccio.[6] Even if that is an exaggeration, and we can allow that perhaps ten per cent of the population at least read and understood the language, that still means that ninety per cent of the new nation spoke in regional dialects or different languages that people in other places could not understand. The King of the Two Sicilies spoke in Neapolitan, and so did his court. The King of Piedmont - the future King Victor Emmanuel II of Italy - spoke in Piedmontese when he wasn't speaking his first language, which was French.

Three bearded Giuseppes - Mazzini, Garibaldi and Verdi - all hoped for a united Italy, and they remain the three great romantic heroes of unification, commemorated in statues and street names all over Italy. Their near legendary status, coupled with Cavour's, has helped obscure the fact that a unitary state was the ambition of only a small minority of Italians as late as 1860. Leaving aside the millions of people in Tuscany, Naples and elsewhere who had no wish to change the regimes they lived under, there were many northern patriots who believed that Italy's future should be as a confederation of states. One of them was Carlo Cattaneo, the brilliant Milanese intellectual who considered liberty to be more important for Italy than unity. Another was Vincenzo Gioberti, a theologian who briefly served as Piedmont's prime minister, who proposed a confederation under the presidency of a pope. A third was another prime minster in Turin, Cesare Balbo, who thought the confederation should be led by the Piedmontese monarch. Like Cattaneo, he considered political unity to be unimportant: indeed it was a "childish" idea because a confederation was clearly the system "most suited to Italy's nature and history."[7]

After Garibaldi's conquest of the south, Cavour promised autonomy to the people of Naples and Sicily if they voted to become "an integral part of Italy" under Victor Emmanuel. However, as Cattaneo foresaw, this was simply a way of attracting public opinion. Cavour was not, in fact, prepared to grant autonomy to any region, nor were any of his successors, until defeat in the Second World War forced them to make a new constitution. In defiance if its history and its diversity, Italy was forced to become a centralized state.

After unification, Azeglio supposedly said, "Now we have made Italy, we must learn to make Italians." Alas, the primary means chosen to do this was to try to turn Italy into a Great Power, one that would compete militarily with France, Germany, and Austria-Hungary, an aspiration certain to fail because the new nation was much poorer than its rivals. To become a Great Power, argued the future Prime Minister Francesco Crispi, Italy needed a "baptism of fire", a war it could win by itself against one of its rivals. After the "baptism" had led to embarrassing defeats on land and at sea with Austria in 1866, Italy turned to Africa with the objective, according to Crispi, of showing its "barbarian inhabitants" that Italians were a strong and virile race.[8] This led to further defeats, first in Ethiopia, where an Italian army was wiped out in 1896, and later in Libya. Yet the obsession to "make Italians" by turning them into conquerors and colonialists continued. Italy had no enemies and no need to fight in either of the World Wars, but in each conflict it joined in the fighting nine months after the start of hostilities when it thought it had identified the winner and had extracted promises of territorial rewards. Mussolini's continuation of his predecessors' policies - albeit in an even more aggressive manner - led to disaster and the death of nationalist Italy in 1943. For the next half-century, the dominant ideologies in Italian politics were no longer nationalism, imperialism, or even liberalism, but rather the international creeds of communism and Christian Democracy.

After the Second World War, Italy abandoned its pretensions to become a Great Power and concentrated, with far greater success, on achieving prosperity for its citizens. Yet the defeat of militant nationalism did not lead to the creation of a stable and satisfactory political system. In 1948, a revival of Cattaneo's idea of federalism prompted the creation of the autonomous regions of Sicily, Sardinia, Val d'Aosta, and Trentino-Alto Adige, to be followed in 1963 by Friuli-Venezia Giulia. But this tardy recognition of peninsular diversity

was, however, not extended to the rest of Italy until 1970, when the 'ordinary' regions with their own elected assemblies came into existence. Their 'autonomy' was so limited, however, that many people came to regard them as simply an unnecessary and expensive extra tier of government. Federalism was moreover discredited by the extravagance of the new regional administrations: in 2006 for example it has been calculated that the entertainment expenses of the president of Campania were twelve times higher than those of the president of Germany.[9]

Demands for a truly devolved government increased in the 1990s, emanating largely from Lombardy and Veneto. One does not have to be a supporter of the Northern League to see that its policy of "fiscal federalism" - a system that allows regions to spend their own revenues on their own projects - is appropriate for Italy because it recognizes the importance of regionalism and diversity. In countries such as Britain and France, where the process of unification lasted for centuries, it is taken for granted that richer provinces subsidize poorer ones. Yet in Italy, most of which was hastily and artificially united between the summer of 1859 and the spring of 1861, this is not the case. Italian businessmen of the north - people trying to compete with rivals in Austria and Slovenia - resent losing so much of their revenue to a south with which they feel little affinity. Not only have their taxes been allowing Sicily and Calabria to spend fifty per cent more than what they earn; they know that a lot of their money is ending up in the pockets of the southern mafias.

Last year Italy celebrated its 150th anniversary as a united country in a distinctly under-stated manner. The Northern League, the second party of the government, even criticized the decision to make the day a holiday, claiming it should have been a day of mourning instead. Whether Italy is able to celebrate a 200th anniversary may depend not on how it deals with an economic crisis common to us all but on whether it manages to create a political system that functions, something it has failed to achieve ever since 1861. Corrupt and inefficient government from the centre in Rome has alienated so many people for so many decades that it must surely be replaced by a system that respects the history and embraces the diversity of the country. Only if Italy becomes what it should have been all along - a federation of sorts - might it become a nation contented and reconciled with itself.

*David Gilmour is a British historian and author of prize-winning biographies of George Curzon (Curzon), Rudyard Kipling (The Long Recessional) and Giuseppe Tomasi di Lampedusa (The Last Leopard). His most recent book, The Pursuit of Italy: A History of a Land, its Regions and their Peoples, was published on the 150th anniversary of the proclamation of united Italy. A fellow of the Royal Society of Literature and a former research fellow of Oxford University, he has written on Italy for numerous publications including the Sunday Times, the Spectator, the Corriere della Sera and the Times Literary Supplement.*

Notes :

1. In 1859 - the decisive year that united most of the north - just 20,000 Italians out of a population of nearly 25 million volunteered to fight for the nationalist cause.

2. Ronald Marshall, Massimo d'Azeglio (Oxford: Oxford University Press, 1966), 275; Massimo d'Azeglio, Things I Remember (Oxford: Oxford University Press,1966), 180.

3. Denis Mack Smith, Cavour (London, Virginia: Knopf Publishing, 1985), 112.

4. Christopher Duggan, The Force of Destiny: A History of Italy Since 1796 (Great Britain: Allen Lane, 2007), 100.

5. Girolamo Arnaldi, Italy and its Invaders (Massachusetts: Harvard University Press, 2005), 251.

6. Tullio De Mauro, Storia linguistica dell' Italia Unita (Bari: Laterza, 2001), 43; Claudio Marazzini, Breve storia della lingua italiana (Bologna: Il Mulino, 2004), 185-186.

7. Stuart Woolf, The Italian Risorgimento (London: Longmans, 1969), 45.

8. Christopher Duggan, Francesco Crispi (Oxford: Oxford University Press, 2002), 281, 500, 528-530.

9. Sergio Rizzo and Gian Antonio Stella, La Casta (Milan: Rizzoli, 2007), 192.

# The Price of Civilization: Reawakening American Virtue and Prosperity by Jeffrey D. Sachs'

**Graham Norwood**

In the wake of a difficult decade that witnessed costly foreign policy blunders, increasing gridlock in the halls of government, and an historic economic collapse, books about the decline of America have become a veritable cottage industry. *The Price of Civilization: Reawakening American Virtue and Prosperity* is noted macroeconomist Jeffrey D. Sachs' recently-published attempt at tackling the subject; and like all his books, it is a compassionate and heartfelt effort, brimming with the clarity of both thought and prose that has made Sachs such a respected voice over the past three decades.[1] However, while Sachs' sincerity and obvious personal investment in the issues at hand makes for compelling reading, the book ultimately fails to reach the lofty aims of its subtitle. This is due in part to questionable use of data, and also in part to the author's insistence on justifying his policy prescriptions in moral terms, rather than simply letting their efficacy speak for itself. Moreover, *The Price of Civilization* struggles because Sachs chronically underestimates the role of the people in the American political system, mostly absolving the electorate of its complicity in creating the current crisis, and ignoring the demographic divisions that continue to threaten the situation moving forward. In the end, the book succeeds at tracing the reasons for America's decline into its current economic and political quagmire; but it falls short of providing the actionable roadmap to renewed success that its author seeks to offer.

"At the root of America's economic crisis," writes Sachs, "lies a moral crisis: the decline of civic virtue among America's political and economic elite."[2] Very well: but how does one solve a "moral crisis?" Who determines which morals are correct, and which are corrupt? What constitutes "virtue?" Although Sachs himself is a paragon of classic liberalism, arguing strenuously and continuously throughout his career for a more activist government, it is no exaggeration to say that the above quotation could just as easily have come from a staunch conservative, on the other side of the aisle, with an entirely different moral calculus. The point is that a book that situates a moral crisis at the heart of what is troubling America is inherently on shaky rhetorical ground: the resolution of such a crisis is an elusive goal because it presumes the presence of universal moral standards. The much-ballyhooed culture wars raging in America today in the form of heated disputes over contraception, gay marriage and other sensitive issues, offer ample evidence that arguing on moral grounds is a recipe for discord, not conciliation.

The author seeks to sidestep the issue of objective morality by insisting that Americans are actually far more united in their views than they appear. "I think [the] view of a nation in a fundamental and irreconcilable divide is wrong," he writes, insisting that "there is much more consensus than meets the eyem."[3] To demonstrate this consensus, Sachs marshals a battalion of recent polling data throughout his book. More than two and a half times as many people have a negative view of such entities as Congress, the Federal government, corporations, and banks as have a positive view, he notes.[4] Moreover, a similar proportion (62%) feels that "the free market does need some regulation to best serve public interest."[5]

These and numerous other statistics are intended to corroborate Sachs' thesis of American consensus; but the evidence is at best circumstantial. Instead of grounding the author's arguments in the bedrock of objective facts, the use of such data gives at least a faint impression of what several previous reviewers of *The Price of Civilization* have somewhat disparagingly called "a veneer of science." Worse, Sachs' frequent reliance on polling data comes without any sort of interrogation of the source material. The author at one point cites a survey claiming that 95% of Americans agree with the statement that "one should always find ways to help those less fortunate than oneself:" but is this really a meaningful statistic, indicative of a broad-based consensus amongst the American people?[6] Or is it merely a self-fulfilling prophecy – a question asked in such a way that the answer was preordained and thus irrelevant?

Dubious as the use of polling data may be, however, it is the author's inability or unwillingness to properly interrogate the role of the people in American politics that is the greatest weakness of *The Price of Civilization*. A major theme of the book is that the expressed preferences of "the people" are constantly and consistently shunted aside by a government enslaved to big money special interest groups ("the corporatocracy" is Sachs' chosen epithet). But while the author does a fine job of exposing the many ties that bind the government's actions – Big Oil, Wall Street, a corporately controlled media, a well-heeled and deeply entrenched lobbying culture – he offers only an occasional and halfhearted acknowledgement of the people's complicity as architects of the current crisis. Indeed, in one troubling phrase, he notes that the people get to play their part in American democracy "on one day every two years," as though American voters are merely there for politicians to check in with from time to time while they go about the business of running the country.[7] Given that any truly substantive change in contemporary American political culture must necessarily come from the people, it is unfortunate that the author more or less avoids discussing the power of the electorate until his book's final chapter. Worse, his eventual treatment of the issue mostly amounts to kicking the proverbial can down the road by heaping the hopes for true political change on "the millenials," by which he means voters aged 18-29 in the year 2010.

Of course, *The Price of Civilization* is more than just an analysis of the present and troubling state of American politics. Sachs rightly realizes that the roots of today's crisis extend back into the nation's past, and he offers a largely fascinating tour through eight decades of American history. He examines the activist spirit that undergirded the New Deal, and explores the "golden age" of American prosperity that held sway for two decades following the close of World War II. The turbulent 1970s are seen in hindsight as a transitional period, culminating with the ascendancy of the conservative movement and its figurehead, Ronald Reagan, in the 1980 presidential election.

Reagan's rise to the highest office in the land is a watershed moment for Sachs. The author repeatedly returns to Reagan's election as the dividing line between what he calls "the Paul Samuelson Era" (a reference to the author's economic mentor, who was a leading advocate for the kind of mixed economy policies Sachs himself espouses) and the policies that have governed America since. With his famous campaign statement that "Government is not the solution to our problems: government is the problem," Reagan ushered in a new era of deregulation in the American economy, and more or less created

an anti-tax narrative that has persisted and intensified over the past thirty years, robbing American government of the revenue base once used to underwrite the proactive social policies of Sachs' golden era. Reagan even played a decisive role in halting the nascent environmental movement championed by Jimmy Carter in the 1970s, rolling back Carter's energy legislation and symbolically removing the solar panels that Carter had installed on the roof of the White House.

All these actions, Sachs asserts, follow from a fundamental misdiagnosis made by Reagan and his staff. The author argues that the upheavals of the 1970s were not, in actuality, indicative of a failure of the mixed economy system favored by Paul Samuelson and other leading economists of the day. Rather, they were the unhappy consequences of a number of extraordinary and often exogenous macroeconomic phenomena. In particular, the breakdown of the Bretton-Woods financial system and the dual oil crises of 1973 and 1979 were international, and not domestic, events. Sachs argues that Reagan and his advisers blundered by attributing these and other troubles to American government policies, and implies that the mixed economic system that had been in place since the New Deal was still the best option in spite of the shocks.

But while he may be right about the economics, this is just another example of Sachs' consistent underestimation of the role of the people in America's political system. Preserving the status quo while the U.S. economy gasped and wheezed into a new decade was simply not acceptable to voters in 1980. To borrow a bit of economic terminology, there has always been a level of "structural" political division in America, dating back to the country's founding as a Hamiltonian federation tempered by Jeffersonian republicanism. It was practically inevitable that voters would look for a new solution in light of the nation's dire predicament in 1980; and thus it was all but certain that the country would turn away from the mixed economy system that had presided over its decades of great progress after the Second World War.

Given Sachs' slight treatment of the mood of American voters in 1980, it is perhaps not surprising that he mostly skirts the issue in discussions of the present as well. But this is a major problem, for while his various policy recommendations throughout *The Price of Civilization* may indeed be well-reasoned, he fails to answer what is perhaps the most important question of all: where will the political will to enact such changes come from? It is here that his failure to properly account for voters in the American political system is most problematic; because it is difficult to imagine the kinds of significant changes the author favors occurring without equally significant changes in the way voters view and interact with politics. The discussion of millennial voters in the book's final chapter opens the possibility for such change, but does not offer any sort of timeframe for when it may occur; and in any case, it's far too speculative a foundation on which to build a plan for American renewal.

Sachs' failings in situating his arguments on moral (rather than more pragmatic) foundations, in misreading and misrepresenting his data, and above all, in fundamentally misapprehending the role of the people in American politics are deeply disappointing, because they undermine a lot of otherwise valuable contributions his book makes. When he is focused purely on economics, he writes with contagious conviction. He lays out a compelling case for a renewed sense of social activism in government, arguing that the

unregulated market system in vogue since Reagan fails in several key ways; such a system not only under-provides public goods like infrastructure and basic scientific research, but also fails to take into account externalities like the societal costs of pollution. Through a meticulous examination of the Federal budget, the author provides ample evidence to support his statement that "the notion of closing the deficit through budget cuts alone is a fantasy, though a popular one."[8] He then proceeds to offer a number of sound, specific solutions for ways to generate revenue through taxes targeted at those companies and individuals who can most afford to pay them.

This focus on skimming a little off the top from the haves in order to help the have-nots has long been a common thread in Sachs' writings, running through previous best-sellers like *The End of Poverty* (2005) and *Common Wealth* (2008). It is especially prevalent in *The Price of Civilization*, where the titular "price" seems, as much as anything, to refer to the higher taxes the wealthy (people and firms alike) must pay to restore America to its former glories. And it is especially timely: the book was published in October, 2011 – the same month that the now ubiquitous Occupy Wall Street protests first began to receive major media attention. This timeliness is unquestionably a point in the favor of *The Price of Civilization*. In demonstrating his farsighted grasp of America's socio-political zeitgeist, and in particular focusing on America's ever-widening wealth gap, Sachs earns an extra boost of credibility.

Even here, however, there is a fundamental problem: *The Price of Civilization* is much better at identifying problems than it is at solving them. The book does a marvelous job of tracing the roots of today's crisis, and Sachs is to be commended for providing such a thorough and wide-ranging analysis. But the author's persistence in basing his arguments on moral as well as factual grounds, coupled with his occasionally questionable use of data, undermines his analysis throughout. Moreover, while he offers a number of well-conceived suggestions for helping America to reverse its recent decline, his proposals largely fall flat because he fails to properly assess the role of the people in determining the course of American politics. It is thus often impossible to distinguish which of his prescriptions for American renewal are achievable, and which are merely illusory. In the end, *The Price of Civilization* is a useful contribution to scholarship on American decline, but a failure in its attempts to reverse the trend and put America back on the road to prosperity.

*Graham Norwood is a first year M.A. candidate at The Johns Hopkins University's SAIS Bologna Center concentrating in Global Theory & History and Energy, Resources, & Environment (ERE). Prior to beginning graduate school, Graham lived with his wife in New York City, where he was a full-time musician. Graham graduated from Brown University with a bachelor's degree in modern U.S. history, and also attended the Columbia Publishing Course at Columbia University's School of Journalism. Graham is originally from San Mateo, California.*

Notes:

1. Sachs, Jeffrey D. "The Price of Civilization: Reawakening American Virtue and Prosperity", (New York: Random House, 2011): 3

2. Ibid., 3

3. Ibid., 79

4. Ibid., 12

5. Ibid., 39

6. Ibid., 80

7. Ibid., 106

8. Ibid., 214