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From the New International Economic Order to Cancun: An Analysis of Past Challenges and Future Prospects for North-South Relations

Table of Contents

Assessing the Fate of the Developmental State After Crisis: A South Korean Case Study by Jennifer Yum

Using the case study of South Korea, Yum contests the notion that states must surrender their economies to the international marketplace.

The East Asian financial crisis of 1997 to 1998 raised significant questions about the role of the state in the economic sector. This article examines the fate of the developmental state in East Asia in the twenty-first century. It addresses sweeping assertions that all states must surrender their economies to the international marketplace. While the era of globalization emphasizes the link between efficient markets, private enterprise, and national economic growth, a historically-based case study of the South Korean economy suggests the need for continuing state intervention. New circumstances entail adjustments of the developmental state model, but do not portend its end in East Asia. Recent generalizations about the universality of the neo-liberal platform face challenges when regional context is taken seriously.

In the era of globalization, states are said to have little opportunity to pursue an individualized program of economic development. As one journalist has boldly pronounced, states today are left with two options—Pepsi or Coke. States must don the "golden straightjacket," and tailor their domestic policies to meet the universal standards of the Washington Consensus. The unmistakable correlation between a thriving private sector and national economic growth has rendered state intervention irrelevant.

For three decades, the success of the East Asian economies posed significant challenges to such an assertion. The Four Tigers—Singapore, Taiwan, Hong Kong, and South Korea—opted for state guidance in the place of state-retreat, industrial policy in place of free-market capitalism, and showed unprecedented rates of economic success. The "developmental state" came to embody a non-Western, yet effective, alliance of politics and economy. But in 1997, the onset of region-wide financial crisis confirmed the lingering doubts of the skeptics. Alas, the neo-liberals had been vindicated.

Within months, however, the phenomenal recovery of the Tiger economies re-opened the debate on the developmental state. In this paper, I use the South Korean experience to argue that the case for the developmental state remains strong, despite the events of the 1990s. My approach is threefold. 1) I trace the origins of South Korea's rapid industrialization to government initiative, a major facet of the development state model, in the 1960s. 2) I discuss the factors that led to the economic downfall, emphasizing that central components of the developmental state model were compromised by the onset of crisis. 3) I turn to the rapid revival of the South Korean economy to underscore the undeniable role of the state in the process. Indeed, globalization does not herald the end of the developmental state. When formulated in response to the international demands of the twenty-first century, this approach may be the best and only way for South Korea to retain its competitive edge in the global era.

Definition of the Developmental State Model

The theoretical foundations of the developmental state model come from a work by political scientist Chalmers Johnson titled *MITI and the Japanese Miracle*. In his book, Johnson explores the success of the Japanese economy in the pre-WW2 period. Key to his observations is the role of an activist state that implemented its growth policies against an authoritarian backdrop. Johnson notes that the economy of South Korea, a colony of Japan from 1910 to 1945, paralleled the Japanese development trajectories during the colonial era. Even after liberation, the economic strategies of Korea and Japan from the 1960s to the 1980s were nearly identical.[1] Moreover, Johnson develops his developmental state thesis on the following criteria: First, a small and inexpensive state bureaucracy devises the national economic agenda. Inclusion in this elite group is restricted to the best-educated, most competent individuals. This circle outlines the terms of the state's industrial policy: it decides where to allocate resources, which industries to target, and oversees competition in these strategic sectors. Second, the state's policies are rarely contested. Judicial and legislative branches do not interfere with economic development, and they serve "safety-valve" functions at most. Third, a guiding organization, such as the Ministry of International Trade and Industry (MITI) in Japan or the Economic Planning Agency (EPA) in Korea, controls macroeconomic tasks such as planning, international trade, and domestic output and can access government funds directly. Most important, however, economic policies always answer to the market. Petty laws do not limit the creativity of the administration, whose top priority is success in the international marketplace.[2]

Further, the developmental state model adds a third variant to the polarized political economy discourse. Perhaps most familiar in the twenty-first century is the regulatory state model, exemplified by Thatcher's Britain and the United States. The mantra of the regulatory state, "market knows best," advocates a hands-off approach to economic governance. Assuming that the economy can only grow when politics shrinks, the state does not interfere in the private spheres of businesses and consumers. In contrast, the Leninist, or plan-ideological state, sacrifices market performance to accommodate an ideological mission such as communism. In the former Soviet Union and Eastern Europe, class objectives took precedence and economic policies lacked efficiency. The state's policies ultimately hindered economic growth.[3]

The developmental state model lies in between these two extremes. Bureaucrats construct specific projects to maximize the state's competitiveness in the international marketplace. While the government adjusts its policies to the market, an architectonic undertone ensures that the economy will not be left at the mercy of the "invisible hand." Industrial policy is not an alternative to the demands of the marketplace. The state alters market norms by adding incentives that influence the decisions of producers, consumers, and investors. In effect, political power, exercised shrewdly, need not be divorced from the domestic economy.[4] The state does not displace the market, but rather uses it for its own developmental purposes.[5]

The Origins of the South Korean Miracle

In the wake of two disastrous wars, the South Korean economy in the 1950s was in shambles. The Korean War alone had taken one million lives. Total industrial production in 1953 stood at one-third the level of 1940.[6] The military coup that brought Park Jung Hee to power in 1961, however, marked a watershed in South Korea's political and economic trajectory. In the three decades of military dictatorship that followed, the national economy underwent vital transformations as the government immediately laid the groundwork for the developmental state. The administration created a strict economic and legal framework through the First-Five-Year Plan (FFYP) from 1962 to 1966. As the opening excerpt suggests, the government's agenda aimed for economic efficiency through reform: "The social phenomenon which in the past most vividly attested to the corruption and inefficiency of the past regimes was the demoralization of the national economy."[7] The National Civil Service Law of 1963 established a merit-based bureaucracy, replacing seniority with education and competence as the new standard for selection. The FFYP also gave rise to a primary institution of the economic bureaucracy, the Economic Planning Board (EPB), and the government subsequently implemented its growth measures through this organ.[8] Lastly, the Bank of Korea Act placed all banking under government authority in 1962. By 1970, the government controlled ninety-six percent of the nation's financial assets, and this relationship continued during the following decades of rapid industrialization.[9]

Yet another overarching goal of the FFYP was self-reliance. For five years, the state insisted on import-substitution and rejected export-oriented industrialization. The government's platform thus took on a quasi-Marxist character. A policy of "guided capitalism" channeled most of the gross national product to the state to use as its basic means of production. As the economy continued to stagnate, the ambitions of the government proved inadequate. A nearly identical Second Five-Year Economic Development Plan, launched shortly thereafter, showed little improvement. There appeared to be a clear weakness preventing the success of this state-led strategy.[10]

Through the Third Five-Year Economic Development Plan from 1971 to 1975, Korea finally began to realize its long-awaited breakthrough. The tone of the third plan contrasted notably with the prior two. While the earlier plans underscored self-sufficiency, the third aimed for "the dynamic development of the rural economy, a dramatic and sustained increase in exports, and the establishment of heavy and chemical industries."[11] At the same time, the Park regime did not allow the nation to compromise its economic leverage. While increasing exports, the government guarded the state against the growing influence of transnational corporations. State officials carefully studied the dynamics of foreign investment and intervened in every step of the cross-border economic transactions.[12] To address a newer threat posed by foreign (i.e. American) quotas on South Korea's light manufacturing export industry, the government implemented the 1973 Heavy and Chemical Industrial Plan and singled out six strategic industries to be nurtured under state supervision.[13] Thus, when Korea became a common target of foreign investment in the 1970s, the state already had the institutional capacity to regulate its domestic finances. South Korea may have acquired foreign loans, but the government did not allow the national economy to grow dependent on outside institutions.[14]

Throughout the 1970s, the state used its firm hold on domestic capital and credit to engender impressive levels of corporate growth. For the purpose of capital concentration, the state designated several family-owned conglomerates, known as the *chaebol,* to take command of the South Korean economy. The *chaebol* thrived under the government's policy of corporate favoritism. In fact, combined profits of the top ten *chaebol* in 1980 comprised forty-eight percent of the total South Korean GNP. On the other hand, however, the *chaebol* were not independent capitalists; they always answered to the government's demands. The state's control of the financial sector forced this subordinate relationship. This alliance meant that the state had to intercede at times of economic difficulty. For the *chaebol,* losing the favor of the state could entail bankruptcy. This system maximized economic efficiency while minimizing corporate malfeasance. And as American entrepreneur William Overhold remarked, the *chaebol* was "the most efficient economic machine the world [had] ever seen."[15]

While it is difficult to capture the details of four decades of national economic development, the analysis above highlights a key variable behind the success of the South Korean economy: state intervention. By 1980, the major tenets of Chalmers Johnson's developmental state model had been firmly implanted in South Korea. A highly competent state bureaucracy, state agency in promoting industry and controlling trade, and an authoritarian political climate that allowed the state to employ its economic agenda freely fueled Korea's miraculous rise from an impoverished third-world power to a rapidly industrializing country. From 1962 to 1979, exports grew at an average rate of forty percent as real per capita GNP tripled. The annual growth rate stood at a consistent 9.8 percent. Inflation continued to be low into the following decade.[16] In less than thirty years, the state had announced a total of six Five-Year Plans, the last from 1987 to 1991. As macroeconomic functions ensured financial stability, the state applied microeconomic tools that addressed trade, agriculture, and even social infrastructure.[17] Interestingly, South Korea was not alone. Its regional neighbors implemented similar industrial policies under government aegis and showed equally positive growth trajectories.

As if the remarkable rate of economic growth were not enough, the East Asian Tigers proved that social justice could be addressed at the same time as intense industrialization. Korea boasted a falling poverty rate well into the mid-1990s.[18] Further, Korean citizens enjoyed relative levels of equality in this context even without a vocal left or the state institutionalization of welfare policies. In the words of political scientist Meredith Woo Cumings, the nation experienced a "far greater trickle-down effect than any Reaganite ever imagined, yielding an egalitarian payoff at the end of the developmental tunnel."[19] To understand better how a nation could prioritize economic dynamism while improving the welfare of its citizens, it is useful to see the South Korean state as part of a larger unit: a regime. As T.J. Pempel notes, "A regime functions above the day-to-day hubbub of micro level politics." The health of the economy and the citizenry need not be separated when the lines between the state institutions and the socioeconomic order are so blurred that they fall under a single public policy orientation. "Together," as Pempel notes, "this mixture provides a pattern of elements so united as a whole that its properties cannot be fully appreciated without a simple summation of its parts." In South Korea, state and society became mutally beneficial. The state did not recklessly assert its power over civil sector; it wielded its power wisely. In the end, this engendered "miracles of economic development."[20] Unable to ignore this region-wide phenomenon, the World Bank provided an explanation for this growth in its publication, *The East Asian Miracle* (1993). Among other things, *The East Asian Miracle* pointed to a prudent fiscal policy, a stable business environment, progressive liberalization of the financial sector, and an emphasis on human development. These states had achieved long-run results quickly through activist policies that targeted GDP growth.[21] Thus even the World Bank had, albeit indirectly, acknowledged the success of the developmental state model.

The Onset of Financial Crisis in South Korea

The Thai baht crashed suddenly in February 1997, triggering a financial disaster that soon plagued the entire region. Indeed, if the rise of the Tigers had been fast, their spiral downward was even quicker. Yet few can deny the long-accepted fact that capitalism is a risky business. In the era of globalization, the rapid flow of capital and the growing influence of foreign direct investment render national economies even more vulnerable to fluctuations. For many at the time, however, the East Asian crisis was not a mere bump on the capitalist path. The onset of financial crisis signaled the retreat of the East Asian Tigers—a developmental state flop. Journalist Paul Krugman wrote in *Fortune* magazine that "the biggest lesson from Asia's [recent] troubles is not about economics, it is about government. When Asian economies delivered nothing but good news, it was possible to convince yourself that the alleged planners of these knew what they were doing. Now the truth is revealed, they do not have clue."[22] To the relief of the neo-liberals, the market was back on top. But it is only natural to wonder whether such a hasty dismissal of the developmental state model is but knee-jerk rejection of a longstanding developmental trajectory. A more substantive, detailed probe of the factors that brought three decades of economic growth to sudden stagnation in the 1990s yields a wholly different appraisal.

A Defense of the Developmental State Model

The year 1993 marked another turning point for the South Korean political economy. The election of the fist civilian government in Korean history ushered in a period of extensive democratization. President Kim Young-Sam, driven by a progressive vision for modernization and liberalization, made substantial changes to the relationship between state and marketplace. In December of that year, President Kim presented the major points of his new economic agenda to the National Policy Review Conference in a speech titled "Reforms for Stronger Competitiveness." Through the "100-day Plan for the New Economy," and the "Five-year Plan for the New Economy," Kim declared his intentions to create a deregulated atmosphere in the favor of private businesses.[23] The following excerpt captures the general tone of his agenda: "In the era of globalization, national competitiveness should be centered around companies and regions. The central government needs to act as their supporter. Reform cannot be separated from globalization or openness."[24] That same year, the South Korean government, seeking to become the second East Asian country to attain OECD status[25], relented to outside demands and opened its financial markets. The government stripped the Ministry of Finance of its role in allocating credit and overseeing bank management and dismantled the chief organ for financial supervision. In less than a year, the government revamped the Korean political economy to meet the demands of a new era, but observers could not help but question the drastic nature of these changes. In retrospect, Meredith Woo-Cumings notes that the initiatives created a "big lacuna in regulatory oversight. In other words, *the pendulum had swung excessively in the other direction* [emphasis added]."[26]

Almost overnight, the administration celebrated the realization of a nonpartisan, neo-liberal agenda. Politics had finally been separated from the economy. In reality, though, the Korean system took on a peculiar character of political cronyism and institutional neglect. Where the bureaucrats stepped back, the politicians stepped in. The government lifted barriers of entry in the financial sector, but banks continued to answer to the politically powerful. But this time, individuals who were closely aligned with the president and his party imposed the standards. As the state retreated from the private marketplace, it succumbed to the insistence of the *chaebol* to relax its regulatory measures. The non-bank financial intermediaries moved from *outside of the state's supervision* and relocated under the control of the politically leveraged *chaebol*.[27]

The East Asian financial crisis is often cited as evidence of the shortcomings of industrial policy. For decades, the skeptics had warned of its dangers. The government's excessive protection of business interests would make for rampant corruption within the corporate sphere. In the 1990s, these doubts began to materialize as the South Korean government faced a fragile banking system and a corporate sector drowning in debt.[28] This was not the first time the economy had been placed in a dangerous situation, however. Yet, in the past, the tight interconnectedness between state, banking and financial institutions, and the industrial sector had allowed the government to intervene directly. Through bailouts and subsidies in 1972, 1979, and for several years from 1984 to 1988, the government served a vital safety-net function and cushioned the economy against disaster. Economic manipulation through industrial policy had set the precedent for state guidance again in the late 1990s.

Specifically, the crisis cast doubt on the effectiveness of the *chaebol* system. Given the undeniable influence of the *chaebol* in the three decades of development, though, a brief summary of its benefits deserves to preface the more conspicuous errors of the system. The *chaebol* was an offshoot of the Japanese *zaibatsu,* which, revived during the Park Jung Hee years, facilitated state-led industrialization in a wide range of industries ranging from heavy to capital-intensive. This system allowed the independent elements in the domestic economy to come together and form the strong foundation of managerial skills that could be transferred from one manufacturing sector to another. Interestingly, the *chaebol* managed to increase their market shares at home while garnering profits abroad. While they were family-owned, the *chaebol* were extremely diversified. Nearly 600 firms fell under the supervisory umbrella of the nation's top thirty *chaebol* during the early 1990s.[29] Korean policy-makers ignored the warnings of Western liberals, who urged for wholesale liberalization for as long as possible. Fearful that excessive privatization would expose the Korean economy, bureaucrats instead pushed for the growth of the *chaebol* and took discretionary measures to ensure optimal results in the industrial sector.[30]

Nevertheless, the arrangement began to show its first signs of weakness by the 1980s. The close alliance between the state and corporate sector placed on the government the dual burden of regulating the *chaebol* and guaranteeing its viability at the same time. The slightest governmental neglect could entail detrimental economic consequences. In observation of this unhealthy dependence, Meredith Woo Cumings laments that "politics were hostage to economics—and more." It was in this atmosphere that the government significantly eased its command over the banking sector and freed lending practices of existing standards.[31] When the need for state intervention was most critical, when the state should have controlled the corporate sector and closely monitored its banks, the government, for the first time in Korea's post-industrialization history, *stepped back.* In short, the state left a high-leverage economy in the hands of the free-market.[32]

External pressures exacerbated the domestic weaknesses, throwing economic sluggishness into a full-blown crisis in 1997. The greatest controversy surrounding the East Asian crisis has centered on the role of the international financial institutions, especially the IMF and the US Treasury in the period prior to and during the "bailout" process. In fact, so pronounced was the influence of the IMF from 1997 to 1998 that the South Koreans still refer to these years as the "IMF Era."[33] Convinced that full capital account liberalization would spark regional growth, the IMF and its associates urged the East Asian economies to open their markets to outside investment in the early 1990s. The IFIs (International Financial Institutions) persuaded the government that capital market controls hindered economic efficiency.[34] The events that followed proved the errors of their reasoning. Within a seven-year period private capital flows increased sevenfold. In a gripping attack against the IMF, Nobel laureate Joseph Stiglitz concludes that capital account liberalization was the "*single most important factor leading to the crisis*."[35] South Korea, still a neophyte among the industrial giants of the world economy, was not equipped for the drastic openness that the IMF urged. In a contagious cycle of collapse, the fall of the exchange rate and stock markets dovetailed the burst of the real estate bubble. The decline of investment and consumption followed. In the face of a national budget shortage, these variables coalesced to the point of full-blown financial crisis.[36]

On a relevant note, political economist Linda Weiss's term "transformative capacity" offers a compelling explanation of a seemingly helpless state incapable of responding to the earliest signs of economic downturn. The state neglected to exert regulatory control over capital inflows when the national economy faced overexposure to short-term debt.[37] The Korean government denied long-term planning and sought short-term profit through the production apparatus. Collective, national interests unraveled into disjointed, individual pursuits. Private companies began to borrow carelessly from foreign companies in the newly deregulated atmosphere. Foreign currency became the backbone of long-term investment, leaving South Korea dangerously vulnerable to capital flows. Firms bombarded leading export sectors and over-investment, setting off the initial phase of crisis.[38]

In hindsight, one can ask whether the crisis could have been thwarted had the state acted on the earliest signs of trouble as it had in the past.[39] South Korea's transformative capacity had gradually deteriorated in the years leading to 1997. From 1993 onward, *the developmental state model was significantly compromised* for a more free-market, hands-off approach to economic governance. This does not shift blame off the reckless actions of the *chaebol*, nor does it downplay the irresponsibility of the international financial institutions. It does, however, underscore the fact that neither variable challenged the legitimacy of the developmental state model.

On the Path to Recovery: The Case for the Developmental State

In response to the regional phenomenon of falling currencies and market collapses, the IMF offered the East Asian countries a bailout sum of nearly ninety-five million dollars.[40] With the funds, nevertheless, came strict conditions. According to the IMF mandate of "conditionality," all states that receive assistance from the IMF must commit to the reforms and policy changes as advised by the IMF.[41] The South Koreans responded immediately to its recommendations. In February 1998, the government of Korea submitted a Letter of Intent to the IMF, and the following passages characterize the major themes in the letter:

> "The *government* will build on this solid beginning, and resolutely continue to further advance its far-reaching structural reform program.
> Macroeconomic policies will aim to maintain stability of the foreign exchange market, sustain the restoration of confidence, and support recovery. The *government* will also push ahead to achieve further progress with structural reforms in the area of financial sector restructuring, and capital account and trade liberalization.
> The *government* is strongly committed to continue to maintain an open dialogue and the social compact as that would be essential to the successful implementation of reforms, regain investor confidence, and return to a path of the sustained growth that will noted above, is notably benefit all the Korean people [emphasis added]."[42]

In this single document lay the evidence of the revival of state power in South Korea. The letter, submitted by the Governor of the Bank of Korea and the Deputy Prime Minister, exemplifies one of the many initiatives undertaken by state institutions in reaction to the crisis. Moreover, in the attached Memorandum of Economic Policies, the government summarized its main objectives as it accepted the IMF's assessment that reform had long been overdue. The government reevaluated the state's monetary and fiscal policy, enforced new restrictions on commercial banking and corporate borrowing, secured social safety nets, and promoted transparency in the private sector. The nature of the reforms, however, shows that the developmental state approach in the post-crisis period catered to a new set of priorities that addressed the economic imperatives of the global era. In contrast to the agendas of the past, the state emphasized the need for financial liberalization. Stressing market-oriented efficiency, specific sections of the document even proposed privatization, Washington-style.[43]

Remember the Tigers?

Just one year after the onset of what seemed a fundamental meltdown of the East Asian economy, the Tigers were back in full swing. By 1999, the region attained a growth rate of 4.1 percent; the next year had an even more impressive showing, at nearly six percent.[44] In particular, the rise in the South Korean GDP from 1998 to 1999 stood at a record-breaking 10.8 percent. The rate in fact rose consistently by six percent in the following two years. The South Korean government had implemented the right policies and recovered with remarkable speed. The state's reforms may be characterized as neo-liberal, but the government, not the market, facilitated the Korean recovery. Optimism has shifted back to the side of the developmental state.

The neo-liberal model, on the other hand, is still left wanting. Deregulation of the marketplace, or the complete divorce of politics and economy, may not be the best option for developing economies such as South Korea. As the South Korean economy's brief, albeit disastrous, flirtation with the market-approach has shown, the neo-liberal model does not take into account "market failures," where state interference may be a requisite for recovery. Put simply, the market can't fix everything. Economic problems often require institutional solutions that address the source of the conflict. Moreover, careless use of the term "free market" runs the risk of simplifying the debate into a moral argument based on American or British norms. After considering the notion that the same approaches may render different outcomes depending on the society at hand, it becomes clear that Washington Consensus may not be so universal after all.[45] The economic argument for wholesale de-politicization is similarly problematic. Rational market dynamics are said to suffer when self-interested individuals adjust the balance in their favor. Yet even the most deregulated societies have political organizations that modify market outcomes.[46] The government of the United States is a good example of a political institution that continually intervenes in its "market" economy. Recent data has shown that a quarter of all capital loans in the United States involved direct mediation state or state-sponsored agencies.[47]

The developmental state model faces a separate strand of criticism unrelated to the notion of economic efficiency. Its authoritarian foundation is dismissed as anachronistic in this democratic era of globalization. However, a counterargument to this assessment asks whether Korean economic growth could have been realized in any other way. The Tigers embarked on their paths of industrialization much later than their competitors of the West. As Korea historian Bruce Cumings writes, these states cannot "take the world as its oyster and reckon for the whole." Rather, they must "take the world as its octopus and reckon for its parts."[48] No states in the region were ever in the position to impose models on other regions. They took the best from the already industrialized West and formulated standards to best meet their own conditions.[49] Surrounded by the superpower tensions of the Cold War, South Korea learned to balance the pressures of the United States, Japan, China, and the Soviet Union. From the founding of its modern economy, the government of South Korea acted astutely in the interests of its own national economy.[50] The goal for Korea in the era of globalization is not so different in this respect. South Korea must strike an optimal balance between the inefficient aspects of industrial policy and the blanket acceptance of Western neo-liberal policies. The current position of the South Korean economy has shown that the state seems to be moving in the right direction.

Conclusion

In this paper, I assessed the fate of the developmental state in the era of globalization using South Korea as a case study. The Park Jung Hee presidency laid the groundwork for Chalmers Johnson's developmental state model. Korea showed stunning rates of growth by 1970. Key to its success was the state-implemented industrial policy. Interestingly, economic growth and social welfare paralleled each other. South Korea's regional neighbors exhibited similar results. The close relationship between state and society came under close scrutiny by neo-liberals from the outset. The dependence of the *chaebol* on the state, in fact, fostered an inexorable dependence that in later years proved detrimental. In 1993, the election of the first civilian president in Korean history revamped the dynamics of the South Korean market. The state bureaucracy retreated, creating an environment of free-market capitalism that fit the Western economic platforms nicely. These changes could not have been implemented at a more untimely moment. Allied with the *chaebol,* politicians prioritized private pursuits over collective, long-term growth. Furthermore, over-investment in foreign markets left the Korean economy with a huge debt, where the inflow of foreign capital tenuously maintained the nation's economic stability. In sum, two factors predicated the crisis of 1997-1998: the surrender of transformative capacity at the national level and the increasing dependency on outside agents. Most important to the argument of this study, however, is that the developmental state model was wholly compromised by the onset of the crisis.

In some ways, the "East Asian Miracle," could even be seen as a prologue for the period of intense reform that followed.[51] Only after the state regained control of the economic sector did South Korea move toward complete resuscitation. The Korean government carried out the crucial steps of the IMF bailout process. The state admitted its failings and implemented reform policies. Fortunately, South Korea's transformative capacity had only been weakened, not dismantled. By 1998, South Korea's economic growth again elicited the envy of the world's most advanced economies.

As Joseph Stiglitz notes, "All of the countries in the East Asian region will need to reexamine their risk management strategies: as their economies have become increasingly open, they are more exposed to the vagaries of the international markets.[52] In other words, today's developmental state faces the dual challenge of strengthening its markets internationally, while intercepting domestic shocks at the same time. This calls for the modification of state roles. Governments must devise the most efficient regulatory structures for the era of globalization. An open economy with political components boosting national economic interests is likely to be the best option. As the crisis has shown, a progressive, forward-looking vision must underpin state strategies.[53] Given the long history of state guidance in South Korea, complete acceptance of the straitjacket is neither desirable nor feasible. Yet the wholesale rejection of the Washington Consensus is impossible. The East Asian financial crisis proved the need to reconstruct the developmental state. Fortunately, the fate of the developmental state in the era of globalization looks promising.

NOTES

[1] Chalmers Johnson. "The Developmental State: Odyssey of a Concept." *The Developmental State.* Ed. Meredith Woo-Cumings. Ithaca and London: Cornell University Press, 1999. 40..

[2] Ibid., 38-39.
[3] T.J. Pempel. "The Developmental Regime in a Changing World Economy." *The Developmental State.* Ed. Meredith Woo-Cumings. Ithaca and London: Cornell University Press, 1999. 139-140.
[4] Ibid., 140.
[5] Johnson, 48.
[6] Il Sakong. *Korea in the World Economy.* Washington: Institute of International Relations, 1993. 2.
[7] John Lie. *Han Unbound: The Political Economy of South Korea.* Stanford: Stanford University Press, 1998. 52.
[8] Ibid., 71-72. The EPB was later renamed the EPA.
[9] Ibid., 71.
[10] Ibid.,56.
[11] Ibid., 79.
[12] Ibid., 80-82.
[13] Ibid., 79.
[14] Ibid., 82.
[15] Ibid., 91.
[16] Sakong, 3.
[17] Byung-Nak Song. *The Rise of the Korean Economy.* Oxford: Oxford University Press, 1990. 3.
[18] See UNDP site for full context: http://www.undp.or.kr/html/undp-ph-chapter5-345.html#CHAPTER5-5.
[19] Meredith Woo-Cumings. "Miracle as Prologue: The State and the Reform of the Corporate Sector of Korea." *Rethinking the East Asian Miracle.* Eds. Joseph Stiglitz and Shahid Yusuf. Oxford and Washington: Oxford University Press and the World Bank., 2001. 359.
[20] T.J. Pempel, 157-160.
[21] Shahid Yusuf. "The East Asian Miracle at the Millenium." *Rethinking the East Asia Miracle*, Eds. Joseph Stiglitz and Shahid Yusuf. Oxford and Washington: Oxford University Press and the World Bank. 2001. 5-9.
[22] Ibid., 5.
[23] Kim Young Sam. *Korea's Quest for Reform and Globalization: Selected Speeches of President Kim Young Sam.* Korea: The President Secretariat, the Republic of Korea, 1995. 117.
[24] Ibid., 119.
[25] OECD is an acronym for Organization for Economic Cooperation and Development.
[26] Woo-Cumings, 362.
[27] Ibid., 359, 362.
[28] Jeanne Gobat. "Republic of Korea: Selected Issues." Washington: International Monetary Fund, 1998. 5.
[29] Woo-Cumings, 353, 355, 359.
[30] Ibid., 359.
[31] Ibid., 359, 361.
[32] Ibid., 344.
[33] Ibid., 363.
[34] Joseph Stiglitz. *Globalization and its Discontents.* 101.
[35] Ibid., *Globalization and its Discontents,* 99.
[36] Ibid., *Globalization and its Discontents.*105.
[37] Linda Weiss. "State Power and the Asian Crisis." *New Political Economy,* Volume. 4, No. 3, 1999. 320.
[38] Weiss, 321.
[39] Weiss, 321.
[40] Joseph Stiglitz. *Globalization and its Discontents.* 97.
[41] For more information, see http://www.imf.org/external/np/exr/facts/conditio.htm
[42] Korean Letter of Intent and Memorandum of Economic Policies, February 7, 1998. p.1-2. (http://www.imf.org/external/np/loi/02798.HTM)
[43] Korean Letter of Intent and Memorandum of Economic Policies, February 7, 1998.
[44] Yusuf, 4.
[45] Ha-Joon Chang. "The Economic Theory of the Developmental State." *The Developmental State.* Ed. Meredith Woo-Cumings. Ithaca and London: Cornell University Press, 1999. 185-187.
[46] Chang, 191.
[47] Joseph Stiglitz. "From Miracle to Crisis to Recovery: Lessons from Four Decades of East Asian Experience." *Rethinking the East Asian Miracle.* Eds. Joseph Stiglitz and Shahid Yusuf. Oxford and Washington: Oxford University Press and the World Bank., 2001. 519.

[48] Bruce Cumings. "Webs with No Spiders, Spiders with No Webs: The Genealogy of the Developmental State." *The Developmental State.* Ed. Meredith Woo-Cumings. Ithaca and London: Cornell University Press, 1999. 190.
[49] Ibid., 191.
[50] Song, 239.
[51] Woo-Cumings
[52] Stiglitz. "From Miracle to Crisis to Recovery: Lessons from Four Decades of East Asian Experience," 522.
[53] Chang,191.

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San Quintin Valley: Indigenous Inequality in Mexico by Veronica Caso

Analyzing the phenomenon of Indian migration in the San Quintin Valley, Caso argues that the case study will yield strategies applicable to Mexico's economic development.

INTRODUCTION

The current political and economic outlook in Mexico is more promising than it has been in years. Mexico experienced a protracted period of socio-economic conflict that prevented the country from reaching its full political and economic potential. After seventy years of oppressive rule under the Partido Revolutionario Institucional (PRI), July 2000 witnessed the first opposition party victory in decades with Vicente Fox, head of the progressive Partido de Accion Nacional (PAN), winning the presidency with 42.7 percent of the total vote. Though the PAN has traditionally favored less government intervention in the economy, this revitalized political climate presents the Mexican government with the opportunity strategically to address Mexico's socio-economic issues, and facilitate Mexico's transition through political and economic reform.

One important step in realizing Mexico's potential for development is to address the nation's serious internal human rights issues. Socio-economic discrimination against Mexico's indigenous population is the predominant human rights violation in Mexico and is one of the nation's greatest obstacles to prosperity. This discrimination is directly correlated to internal Mexican migration patterns, which have historically been given inadequate attention by the Mexican government. In order effectively to end such discrimination for the purpose of benefiting the indigenous community and enabling the country to grow, it is necessary to understand its origins thoroughly.

The current situation in San Quintin Valley exemplifies the general phenomenon of Indian migration in Mexico and the consequent cycle of discrimination. An examination of San Quintin Valley as a case study will yield strategies that the Fox administration will then be able to apply to minimize Mexico's socio-economic discord and thus further Mexico's overall economic development.

BACKGROUND

During the last ten years there has been an increase in migration to the northern states from different Indian indigenous groups such as the Mixtecas and Zapotecas. The Mixteca culture flourished in southern Mexico from the 9th to the early 16th century and became known as the "People of the Stone." Today, they are the second largest indigenous group in Oaxaca, a southern state of Mexico. The Zapotecas means "people from the clouds." Archaeologists have traced the Zapotec history back to the first Millennium B.C. Currently they are one of the largest indigenous groups with the Mixtecs in Oaxaca.[1] For the past ten years, these groups have been moving into the northern states of Mexico, looking for better living conditions where they will be able to work and earn money. However, as the Indians arrive in these states, they encounter not only poor economic conditions, but also the same inequality and racism they had previously encountered in their home states.

History of Mestisajes and Indigenous Identities

Since the colonial period, which spanned from 1521 to 1821, identity has been a source of contention for indigenous people. As Gledhill points out: "From the biological point of view, races simply do not exist. From the cultural and political point of view, however, the concept of "race" is extremely important."[2] In Mexico, national identity is founded upon the concept that Mexicans are the product of a mixture between Indians and Europeans. Mexican society is hierarchically structured in such a way that where one falls in this racial spectrum has a great impact on one's social and economic opportunities.

The issue of Mexican nationality was expressed in the Mexican Revolution of 1910. It was a fight for Mexican land for the Mexican people, and in this case, the Mexican was the *Mestizo*: a person of mixed European and Indian ancestry. However, the revolution was also supposed to bring progress and social justice to the Indians. The revolutionary leaders promised to return lands that the great estates had once stolen from the Indians, while providing them with schools, clinics, and roads. The Indians were also promised that they would be treated as equal citizens, who would enjoy civil rights and escape the tyranny of the local bosses who exploited them.

In reality, the revolution only brought division within Mexican society. Indians were forced into a minority status and pushed further into the periphery, creating areas of high indigenous concentration in the southern and eastern areas of Mexico. The upper class, comprised of Spanish colonizers, was quickly replaced by the *Creoles*: Europeans born in Mexico. The *Creoles* gained control of the land and gave little heed to the needs of indigenous people. *Mestizos* had an advantage over indigenous people in that their mixed European and Indian heritage was viewed more favorably by the *Creoles.* The consequence of this elitism was a stratification of Mexican society along racial and economic lines. A small percentage of *Creoles* gained complete control of the land, cementing their status as upper class citizens. The *Mestizos* were perceived to be below the *Creoles.* They held lesser-paid jobs, typically working for the upper class. The indigenous people, who had been marginalized, symbolized lower class citizenship to such an extent that the more "Indian" one looked, the more social degradation he faced. As Glendhill stated:

> Mexico's political history after 1856 is the history of the rise of a new Mestizo elite. It is, however an elite which is extremely authoritarian as far as Indians are concerned; it is an elite which has fully internalized the old Creole ideology of whitening as progress and therefore offers social justice to the Indians providing they agree to come on board the same project, that is, they cease to preserve their distinct identities and assimilate into the Mestizo elite's model of what "national culture" should be like."[3]

In order for indigenous people to gain access to a higher class, they need to go through the process of *mestisaje*. *Mestisaje* entails one sacrificing his Indian identity and assimilating into a "European" way of life. Thus, many indigenous people are faced with the dilemma of keeping their Indian identity, and suffering socio-economic discrimination, or going through *mestisaje* and thus being able to climb the social ladder.

Indian Status after the Revolution

Although Mexico is formally a democracy and has been under civilian rule since the revolution, a single party remained in power throughout the last seventy years. The *Partido Nacional Revolucionario* (PRI), the ruling party for more than half a century, did little to help the indigenous people become equal and prosperous citizens. The government did nothing to return Indian land or provide them with better living conditions, education, or health care. The situation only progressively worsened with the government's disastrous neo-liberal economic policies of 1994, creating mass unemployment and further impoverishment of large sections of the country.[4]

The gulf between the urban northern and rural southern populations continues to grow wider. Today, approximately 45 million Mexicans are poor, living on less than $2 per day, and of this group, 10 million members are surviving in extreme poverty on less than $1 per day, without a reliable supply of basic foodstuffs or clean water.[5] Deplorable living conditions mark the southern Mexican states, with forty percent of the population living below the poverty line.[6] In recent years, the income disparities between Mexican states have been larger than the income differences between some countries. For example, the ratio of per capita income in 1998 between the richest states in Mexico, the Federal District, and Oaxaca, the poorest state, was about six. This is greater than the ratio of per capita income between the United States and Mexico, which was about four in 1998.[7] These income gaps between Mexican states do not seem to be narrowing over time: In 1960 their ratio of per capita incomes was also about six. Thus the gap between the poorest and the richest states has remained approximately constant during this period.

CASE STUDY: SAN QUINTIN VALLEY

San Quintin is an agricultural valley along the Pacific coast of Baja California. The valley is 48 kilometers long with 14,000 hectares of arable land, which lies about 120 miles south of the city of Ensenada, and over 200 miles from the border with the U.S.[8] It is the second most important agricultural region in the state of Baja California after the Mexicali Valley, which is an extension of the California Central Valley into Mexico. Agricultural production in the Valley is dominated by about nine major enterprises. These businesses rent all of the best lands from the local *ejido* and have the equipment to extract most of the limited groundwater.[9] The major producers in the valley control all aspects of production, including seed development, crop farming, harvesting, packaging, transportation, and the marketing of the final goods.

The San Quintin Valley in Baja California is particularly well-suited for an analysis of the effects of migration on indigenous peoples and demonstrates where government intervention is needed to improve Mexico's internal socio-economic development. It is an area of significant seasonal migration, attracting up to 30,000 mostly Oaxacan Indian farm workers, including *Mixtecos* and *Zapotecos,* to work in the tomato and strawberry fields that dominate the valley. In San Quintin there are two main types of Indian farm workers as described by Rhet-Mariscall: "The differences between these two main types of Indian workers permits a comparison, clearly indicating the effects of settling on their relationship with the state and on their development of new political identities."[10] These two groups consist of those who live in camps on private land owned by their employers (ranchers), and others who settle permanently in settlements.

Problem

Mixtecas and *Zapotecas* are two of the most important civilized tribes of southern Mexico, occupying an extensive territory in western and northern Oaxaca and extending into Guerrero and Puebla. Oaxaca is divided into eight regions and is composed of at least 16 ethnic groups. Out of these 16, the *Zapotecas* and the *Mixtecos* are the predominant ethnic groups in the state. The second largest group is the *Mixtecos* with 84.6 percent of the *Mixteco*-speaking population in Oaxaca living in a rural setting.[11] According to Dold, "The *Mixtecos* are now industrious farmers, weavers, and potters. They stand high for industry and ingenuity, dignified and reliable disposition, hospitality and love of liberty."[12] The *Zapotecas* are comprised of powerful and numerous Mexican tribes that are located chiefly in Oaxaca and Guerrero. The *Zapotecas* are known to be very intelligent, progressive, and hard working; they have been identified as good soldiers, political leaders, and active citizens.

Even though these two groups share territory, their customs and culture diverge. When members of these groups migrate to the northern Mexico, they face social discrimination and are treated as *Indians,* with no consideration given to their indigenous identity, which tends to fade with the passing of generations.

Migrant Indians must deal with a double-pronged discrimination. When *Mestizos* arrive in the valley, they become permanent settlers of areas in which the housing (provided by the *Ranchero*) is in much better condition than that available to most of the workers on the farm. *Mestizos* do not come from a particular area, as indigenous people do. They are a mixture of the whole country's population, coming from the south, east or west. They usually settle down in these valleys for a brief amount of time, because to them, the north of Mexico is a transition to cross over into the United States.

This constant migration from south to north has an effect on the definition of ethnicity among the indigenous people and the *Mestizos.* In the north of Mexico, the *Mestizo* is considered superior to the Indian because he is a mixture of European, thus his skin is lighter, and as a result, he feels superior, and is treated superior to the Indians, who were never mixed with the Europeans.

There is a constant tug of war between ethnicity and first and second-class citizens. The sense of superiority that *Mestizos* feel in regards to the indigenous community becomes the main cause for discrimination against Indians. When one of the Ranchers in San Quintin was asked why the indigenous workers were paid less than the *Mestizos* he simply replied: "Because they are Indians".[13] This phrase clearly shows one of the major causes for discrimination to take place; these people believe they are superior because of their race. As a result of this sense of superiority, *Rancheros* can further oppress Indians by gaining the support of the *Mestizo* workers who will also treat Indigenous people as second-class citizens. Thus, Indians have to struggle against discrimination from their boss and their fellow workers.

The Indian population in the north of Mexico is also suffering from a prejudice-motivated income inequality. Many of San Quintin's neighbor states, such as Sinaloa or Chihuaha, use southern indigenous people as seasonal laborers. Some of the ranchers in San Quintin originally did business in Sinaloa, and thus they gained experience working with the indigenous workers, most of who came from Oaxaca. When establishing their farms in San Quintin, agriculturists sent recruiters to Oaxaca to bring workers to the valley. These workers were viewed as particularly desirable because of their docility and lack of organized labour.[14] Every year these Indians, attracted by higher pay, migrate from southern states in order to work the land of the northern states. However, as southern Indians arrive at the farms, they settle into migrant camps characterized by very poor living and working conditions.

Unfortunately, Indians in these camps are completely dependent on the *rancheros* for survival. Migrant camps have poor sanitation, contaminated water, and no electricity. Important resources such as adequate tools for work, bathrooms next to the fields, and shaded places to rest, are found in scarce quantity.[15] Furthermore, these people are subject to unacceptable working conditions. They are forced to work long hours under the sun without a cool place to rest. The fields are sprayed with fertilizer, so the workers are also sprayed with it. These conditions give rise to frequent illness, and many pregnant women and children that work the field are especially affected by the fertilizer.

Indian migrants also suffer from abusive treatment in the fields and in the camps. Camp bosses exert strict control over the lives of the Indians who work for them, and it is understood among workers that hardship must be endured lest they be fired or expelled from the camps. In April 2002, leaders of a housing movement in Baja California were fired from the farms they worked for and were then put in jail for rising up against the farm owners. According to Julio Sandoval, one of the movement's representatives, "farm owners threaten us because they want to crack down on organizing, and when they see we are getting strong, than they fire us under any excuse."[16] Many farmers like Julio Sandoval are demanding better living conditions, but are instead facing termination of employment and imprisonment. There is a need for the government to guarantee the rights of these organizations so that Indian workers are fairly represented.

ELEMENTS CONTRIBUTING TO INDIGENOUS INEQUALITY

Recruiters promising a better life

Northern Mexican states have always been wealthier than the southern states. Large areas of uninhabited land comprising northern Mexico have traditionally attracted more U.S. investment than the south, creating more job opportunities in the north. Foreign capital has funded factories such as the Maquiladoras, which are usually installed by American companies. Though the Maquiladors often provide poor conditions for their workers, they create a pool of jobs for people within Mexican borders. With many available workers employed by factories, *rancheros* are in constant need of workers, and rely on recruiters to bring them from the south up to the northern states. Recruiters travel around indigenous villages, promising Indians that they will enjoy better living conditions in the north. Indians are lured to the north under the false pretense that they will live in well-constructed houses, and have access to basic resources such as water, electricity and sewage systems.

Indigenous Organizations in the North

National labor organizations came to the valley in the 1980s and began organizing farm workers.[17] These organizations encouraged Indian migrants to fight for their own land, which prompted small indigenous communities to invade private land in the valley. This sparked the first government intervention, which arranged for the *rancheros* to get their land back and enabled Indians to be free to live outside the camps. However, living conditions were still deplorable and the only advantage was that Indians were no longer under the camps rules. Throughout the years, more organizations began to form with the intent of targeting inequality inside and outside of the camps. In the 1980s, a national organization called Independent Central of Peasants and Agricultural Workers, (CIOAC), affiliated with the Mexican Unified Socialist Party (PSUM), began to organize *Mixtecos* farm workers in the valley. Even though most of the Indians in the organization were *Mixtecos,* their aim was a general one, applicable to all indigenous groups in the valley. They asked for higher wages, better work conditions, transportation, and access to decent housing. As a result of this first organization, many others began to form, each specifying certain needs for the group they represented. However, the demands were not very successful. As sociologist Antonio Barrera noticed when doing his field work in the area: "Labour struggles are hard to win in San Quintin because workers are very poor and desperate for work."[18] Consequently, the ones that have real control are the *rancheros,* because they can threaten to fire the workers, knowing that there will always be poorer workers who will want to work the fields, for any wages.

The development of indigenous organizations in the Valley, though multi-ethnic and comprised of variable political identities, has not gained enough membership to make a significant difference. As Barrera observed when living in San Quintin:

> No organizations of migrants in the Valley have a significant, active following ... this mostly has to do with political leaders' past abuses, migrants are usually scared of going against the ranchers, it also has to do with the fact that few organizations really reach out to the masses.[19]

Therefore, even though many organizations have been founded since the late 1980s, many don't have sufficient power to alleviate discrimination. There is a need for government to acknowledge these organizations and give them support for their cause.

GOVERNMENT'S ROLE

The only contact most indigenous farm workers have with the state concerns health care and education for their children.[20] Barrera confirms this minimal level of contact by saying that: "This was particularly true, when farm workers living in camps where some of the owners resist any government intervention. When I was there, I saw some of the ranchers prohibiting government health care providers to enter the camps."[21]

However, things may change now that Fox's political party the *Partido de Acci6n Nacional* (PAN) has risen to power. The PAN was the first genuine opposition party to develop in Mexico in 1939. Traditionally, it favored a limited role of the government in the economy, which was adopted by the PRI during its last fifteen years under presidents De La Madrid, Salinas, and Zedillo. The PAN also has historically campaigned in favor of a breakup of the communal *ejidos* into individually owned plots of land. Furthermore, PAN stresses issues such as the need for democratization, eradication of government corruption, and additional electoral reforms.

Organizations such as the UN and Amnesty International have a watchful eye over Mexico's treatment of its Indian population in recent years. They recently made contact with President Fox to find solutions Mexico's socio-economic situation. In the AI's report, its representative, Irene Khan, said:

> We appreciated the openness the Fox administration is showing on human rights issues, the progressive stance they have taken in international forums -- including with the ratification of key human rights treaties -- and the dialogue they are seeking to maintain with human rights organizations.[22]

After seventy years of having the same ruling party, Mexico finally has a president that comes from an opposition party. President Fox is trying to focus on the major issues that Mexico faces, such as human rights violation towards the indigenous population. Irene Khan later said:

> As the Fox administration approaches its mid-term mark, the challenge it faces is to ensure that legislative and policy changes are reflected in the practice of officials in every law court, police station and prison anywhere in the country.[23]

President Fox's determination to tackle human rights issues is exemplified by his closer relationship to international organizations such as AI. One of the major obstacles that the PAN faces is a lack of appeal to the peasants, especially the indigenous community. In addressing the indigenous inequality situation with determination, Fox will gain the trust of people who form a large part of the voting pool. It is thus a perfect time for President Fox to take a closer look at indigenous inequality and focus on finding a practical solution that will pave the way for the greater protection of human rights and Mexico's overall development.

RECOMMENDATIONS

The neglect and the repression practiced by the PRI over the past seventy years weighed heavily upon Mexico. The PAN has the opportunity to ensure the protection of the rights of indigenous people. This will set the precedent for alleviating discrimination and facilitating Mexico's prosperity.

Economic Reform

As a problem that is deeply socially and economically engrained, racism must be addressed from both fronts. The migration of indigenous people to the north originates in the extreme poverty that characterizes southern Mexican states. Thus, a solid economic infrastructure must be established in these states. If more work opportunities are created in the south, the migration of southern Mexicans into the north will slow down drastically. Because workers will no longer be in abundance, northern bosses will be forced to offer fairer wages to attract workers. The southern economy would begin to rebound if Indians had an incentive to remain in the south, and the gap between the northern and southern states would begin to close.

Constitutional Reform

The current government of President Fox needs to establish new rights for indigenous people through constitutional reform. The Mexican constitution was drafted with the idea of giving every Mexican equal rights, but its application has not been consistent with this principle. A law guaranteeing equal rights to the indigenous community will be a great symbolic blow against discrimination. But passing such a law is not enough to ensure true social equality and economic opportunity to the indigenous community. The government must also be dedicated to its implementation. To halt the spread of discrimination, educational programs addressing racism and Mexican culture should be created and supported by the government. By creating such programs, children from different social classes will be brought together and taught about equality and mutual respect. These awareness programs should be implemented in rural communities as well as in the cities, since city-dwellers tend to be oblivious to the poor conditions of indigenous people.

Governmental Cooperation

Cooperation between President Fox and Governor Elorduy, governor of Baja California, is needed to empower organizations that represent indigenous migrants. Many efforts made by these organizations have floundered because of local government suppression. The Fox administration could change this situation fairly quickly by guaranteeing the protection of the rights of these organizations.

Once again, it is not enough to formally offer protection; its application must also be ensured. The government should therefore provide the camps with government representatives who will inform indigenous people about their legal rights and responsibilities as Mexican citizens. These representatives should also be charged with making sure that adequate facilities are implemented and maintained for camp workers on a fixed basis. This should be accompanied by an educational program targeting Mexican children, with the aim of raising awareness about indigenous discrimination.

CONCLUSION

The indigenous people of Mexico are currently being treated as second-class citizens. Their rights are not respected or protected, and they are, therefore, subject to the worst economic conditions in the country. Although this situation has persisted for a long time, the Mexican people have voted for the PAN expecting change. They have yet to see concrete results.

To generate advances in economic and political development, Mexico must take the key step of addressing its internal socio-economic discrimination. This step is multi-dimensional and involves the creation of a solid economic infrastructure in southern Mexico, in conjunction with the establishment of laws protecting the legal rights of indigenous Mexican populations and the organizations that represent them. To ensure lasting change, the Fox administration must additionally launch a program designed to uphold these reforms and educate its youth as to the dangers and lasting negative impact of discrimination. Only by initiating and systematically implementing domestic reform can a nation so rich in culture and people hope to flourish.

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Šahovnica or Success? A Theory of Differential Development in Post-Yugoslav Slovenia and Croatia by Emmet Tuohy

Tuohy examines and analyzes the factors contributing to the divergent development of the Balkan countries, Slovenia and Croatia, in the 20th century.

Introduction: The Origin of Difference

Once upon a time, there was a place called Yugoslavia, a Union of the South Slavs forged by the iron hand of one Josip Broz. In this peaceful land of "brotherhood and unity", there existed among four others two people's republics: Slovenia and Croatia. Represented by similar horizontal tricolor flags featuring the socialist red star, these two lands that gave birth to Tito both_enjoyed relative prosperity. Along with Italy, both stood aside the peninsula of Istria, a historic center for trade and tourism. Both had brief flowerings of independence, manifested in the democratic Carantanian state of medieval Slovenia[1] and in King Tomislav's contemporary Croatia. Thenceforth, these two countries that are "western, Roman Catholic and Austrian and Venetian in origin"[2] were increasingly lumped together as prosperous "confederalists in sympathy" during the struggle against Yugoslav centralism.[3]

However, with the shock of Tito's death and the failure of the default policy of "*I Posle Tita, Tito*,"[4] the fate of the two republics diverged. Ten years after independence, two very different flags flew in two very different countries. While Slovenia traded in the star of communism for a bright, "sharply modern"[5] banner featuring the peak of Triglav, the waves of the Adriatic, and the golden stars of both Celje and united Europe soaring above[6], Croatia retreated into the past by re-adopting the *Šahovnica*, the checkerboard symbol of its only remembered existence as an independent state.[7] Whereas Croatia embraced a reactionary vision of its past and descended into authoritarianism and warfare (with all the attendant economic consequences), Slovenia turned completely toward liberal democracy, thus advancing rapidly to the top of the "Eastern European" heap. By 2000, Slovenia even surpassed such "Western" countries such as Portugal and Greece in measured economic performance.[8]

The starkly divergent trajectories of these two south Slavic countries, which share a deeply-rooted Habsburg Catholic tradition, are often explained by emphasizing the sad determinism of the so-called "Balkan ghosts"[9] of ethnic differences. Since ethnicity is the primary cleavage[10] upon which mobilization occurs in post-communist societies, this argument continues, Slovenia's status as "Yugoslavia's only Serbless [sic] republic"[11] made it an "island of peace and tranquility in an impossible region".[12]

However, while it would be unfair to neglect completely the tole that relative ethnic homogeneity has had on Slovenia's successful emergence from the rubble of Tito's Yugoslav fable, it would be equally unfair to argue that the linguistic or cultural commonalities among its citizens guaranteed the speed and scope of its remarkable transition. While it may have been somewhat easier to forge a broad consensus[13] in support of a multi-party, tolerant, liberal democracy in a state that was not wracked by severe ethnic conflict, many agree that "ethnic homogeneity is no guarantee of such a consensus"; after all, ethnically-homogeneous Serbia had seen significant street violence between the Miloševi regime and its opponents throughout the 1990s.[14]

Indeed, the frequent references to Slovenia as completely homogeneous are simply inaccurate. The true difference between Slovenia and its lagging peers is not its ethnic composition, but rather that "its ethnic heterogeneity was not politically relevant because people of non-Slovene ethnicity were not claiming national rights to self-rule. In principle, in contrast to German [blood-based] ideas of citizenship, individuals could have an identity of ethnic origin separate from their Slovene citizenship."[15] The immigrant community in Slovenia, comprising ten percent of the overall population and twenty-five percent of the labor force, received full political rights from the state. Thus, one potential source of conflict was averted; immigrants "were allowed to apply for citizenship, [so] no minority, no problem," as the Dutch director of cultural policy Theodoor Adams phrased it during a discussion sponsored by the Council of Europe. Furthermore, Slovenian Minister of Culture, Janez Dular, added that the cultural organizations of "these [immigrant] nationalities were not only recognized as important but were also co-financed by the state."[16]

While almost all emerging democracies face some sort of intrinsic demographic challenge, the ways in which they respond often differ dramatically. For example, the Baltic republics all experienced a significant influx of ethnic Russians during the period of Soviet rule. After independence, they made different and consequential choices: Lithuania was the "*only* Baltic country to grant inclusive citizenship to all residents"[17], whereas Estonia extended it only to prewar citizens and their descendants. Consequently, in Estonia, the the Russian-speaking population was virtually prohibited from participating in political life. Thus, Lithuania has a thriving, representative democracy, whereas Estonia has been continually reprimanded by international organizations and the European Union for its failure to achieve inclusiveness. Similarly, as will be demonstrated, the choice of Slovenia to create a state ~~of~~ comprised of all its citizens greatly increased its chances for success, whereas Croatia's corresponding descent into ethnic strife directly resulted from its efforts to resurrect a Croatia for the Croats alone.

Ultimately, it is precisely such *choices* that matter in a state's development. Political institutions, established by rational agents, serve to *structure* the attitudes, identities, and practices of the state's citizens. The pessimistic, determinist view, which essentially holds that historical outcomes are no more than ethnic census-taking, must be disproved. In order to counter this belief, this essay will focus on the choices that Slovenia and Croatia made in the spheres of leadership, institutional characteristics, minorities policy, and international orientation. This analysis will clarify the factors that pushed one state toward a bright future, while the other sought recovery from the brutal warfare that has historically marked the Balkan states.

Leadership: The Choice of Difference

A historical narrative must acknowledge the remarkable ability of individuals to radically alter the politics and fate of a nation. Nowhere is this concept more appropriate than when applied to Balkan history, where the fatalism of ethnic determinism has been readily accepted by most scholars. It is clear that Milan Kuan and Franjo Tudjman did far more to determine the divergent paths of Slovenia and Croatia than any cultural abstraction or ethno-religious census.

As head of the Communist Party of Slovenia since 1986, Kuan recognized that "matters were being decided elsewhere, not in Ljubljana, but in Belgrade";~~,~~ nevertheless, he saw this time period as "the most responsible period" of his career.[18] The "Slovene Spring", as vibrant as its Croatian and Prague predecessors, was in full ~~flower~~flower. All facets of civil society seemed at once to flourish: pacifist, environmentalist, homosexual, and even punk associations actively set out to foster a tolerant liberal culture in Slovenia. The younger generations, in particular, were those most responsible for pushing forward the boundaries circumscribing accepted cultural activity.[19] As part of the tongue-in-cheek *Neue Slowenische Kunst* (New Slovenian Art) movement, a musical group called Laibach (the German name for the Slovenian capital) twitted Yugoslav sensibilities about the German- and Austrian-dominated past, inciting the Ljubljana parliament to forbid it from playing and the local police to move against local punk youth.[20] Slovenia's economic resurgence was also creating problems. Kosovars and Montenegrins felt exploited by Slovenian industry, while Slovenes themselves saw their disproportionate contributions to the federal Yugoslav treasury as abjectly unfair. Despite the inaction shown by other leaders, Kuan knew that something needed to be done: "It was clear to me that there was absolutely no chance for Slovenia without serious reform."[21]

As the pace of internal reform quickened, Kuan would soon have no choice but to engage in such reform. Whether through the efforts of younger intellectuals in *Nova Revija* (New Review), or in the often satirical journal *Mladina* (Youth), Slovenes were airing their increasing discontent with the regime in Belgrade. Responses from the Serbian public and military were swift; the Vojvodina daily *Dnevnik* criticized Kuan for being "slow to realize that 'children had moved into an open and relentless struggle for power"[22] while military authorities began preparations to put the editors of both publications on trial. Yet he resisted: "the Slovene prosecutor, in consultation with Kuan, rejected the federal prosecutor's request to start the legal proceedings against Nova Revija."[23] Furthermore, Kuan took the dangerous step of refusing to deal with the Military Council's prosecution of the *Mladina* dissidents, denouncing the JNA as anti-democratic in a July 1988 speech.[24]

Through his resistance to Belgrade's pressure on the press, ~~by~~ his "enthusiastic support" for the Trepa miners' strike in Kosovo, and ~~by~~ his heroic decision to lead the Slovene bloc out of the federal Communist party congress, Kuan came to enjoy massive popularity in Slovenia. At this point, he could have easily consolidated power behind a wave of national feeling, taking advantage of strong feelings of linguistic and cultural identity and purging those who disagreed. Instead, he "played an initiatory role in the democratic transformation," by beginning national talks with the DEMOS (Democratic Opposition of Slovenia) umbrella group.[25] By doing so, Kuan ensured the prevalence of the ideals of pluralism and democracy throughout Slovenia's first multi-party election campaign in early 1990. Furthermore, he demonstrated the ease with which power could be effectively shared between the center-right winners of that election (led by Christian Democrat Prime Minister Lojze Peterle) and the formerly communist Party for Democratic Renewal. [26] Kuan's decision to opt for pluralism in 1990 was fundamental to the shaping of the liberal democratic Slovene state. Furthermore, as father of his country, he continued to shape Slovenia in a politically inclusive direction in three important ways: reaching out to the international community~~[27]~~; pushing for the adoption of the remarkably consociational upper house (Državni Svet) of parliament[29] and helping to design a new constitutional structure in which minorities would feel comfortable in Slovenia as a civic, not ethnic, nation.[30]

Meanwhile, Croatia experienced a very different national movement, which was shaped by a leader who *chose* to exploit national feeling in order to secure his own ascendancy and ~~thence~~ to "settle personal and rather old scores."[31] During World War II, Franjo Tudjman had fought with Tito's communist Partisan movement, rising to the rank of Major General in the postwar JNA before retiring in 1961 to "pursue academic interests."[32] However, his two decades of historical study led to a radical ideological makeover. Tudjman became an enthusiastic convert to Croatian nationalism, and his works, which questioned the true number of Serbian and Jewish casualties during the bloodthirsty regime of Paveli, ultimately led to his nine-year imprisonment.[33] Yet Tudjman was not the only one who suffered during the aftermath of the

Croatian Spring; the Croatian League of Communists (SKH) was emasculated due to the massive purges ordered by Tito.[34] Consequently, the party could not be effective in opposing the new Croatian Democratic Union (HDŽ), of which Tudjman was quickly able to gain control.

Labeling itself as "the most Croatian of all parties,"[35] the HDŽ from the outset seemed to be making a concerted effort to imitate the country's fascist past. Indeed, as Michael Ignatieff observes, Tudjman did more than imitate it—he glorified it: "…he tried to unite all of Croatia's tortured past into what was called a national synthesis."[36] At its first convention, Tudjman made a speech saying that "the Ustaše state did not constitute so much a Nazi crime as the expression of the historical aspiration of the Croatian people for independence", which earned him a standing ovation. Such rhetoric was backed up with action, for example the renaming of streets and schools for Ustaše fighters, and the deliberate desecration of sites such as Jasenovac.[37]

Unlike Kuan, who made special efforts to accommodate the opposition victors in the April 1990 elections, Tudjman made sure to relegate to the political sidelines all actors who favored gradual, moderate change, thus placing a roadblock on the way to democratization after the electoral victory of the HDŽ.[38] Tudjman helped to ensure his hold on power by constant changes in the electoral law and constitution and by a subtle yet thorough control of the broadcast media. While from all outward signs, the media in Croatia appeared to be open[39], government control of the major newspapers and television stations, newspaper distribution networks, broadcast licensing laws, and constant legal action against editors who transgressed, made it impossible for opposition politicians to have their ideas taken seriously. Consequently, outsiders such as the US State Department would conclude that "The President's extensive powers, the HDŽ's dominance, the government's control over the judiciary, and its control over the media combine to make its nominally democratic system in reality authoritarian."[40]

While such actions and policies deeply disturbed both democratic-minded Croats and the Croatian Serb minority, Tudjman did not need to rely on either group for support, since he was strongly backed by extremist ethnic Croats in Herzegovina[41]~~[42]~~–and by wealthy émigrés[44] Consequently, Tudjman felt much less an obligation than Kuan towards accommodating the interests of opposition groups, former communists, or ethnic minorities. With the leverage granted by his considerable political heft, Tudjman was consequently able to craft an institutional and constitutional order conducive to furthering his agenda. As will be shown in the next section, these differing institutional and constitutional structures also proved essential in determining the differing outcomes experienced in Zagreb and in Ljubljana.

Structures: The Shaping of Difference

With the end of socialist Yugoslavia, each constituent republic was granted an unprecedented opportunity to design its own political system. However, not all options are created equal; certain aspects of governmental or constitutional structure are more likely to foster a successful democracy than others. In particular, the relative powers assigned to the president or to the legislature may play a significant role in determining the success or failure of an emerging multi-party state: "…data have been aggregated from around the world indicating democracies adopting a parliamentary system have been somewhat less prone to collapse than those employing a presidential one."[45] Even if actual collapse does not occur in all cases of presidentialism, positive results still seem more likely to occur in parliamentary systems: as Juan Linz has noted, a considerable majority of consolidated, post-communist democracies are parliamentary. Provided that there are sufficient similarities between the two states in question at the outset, the choice of a parliamentary system might well prove the independent variable of success in democratic consolidation, as parliamentary systems were 1.8 times more likely than presidential systems to be "democratic overachievers."[46] In short, presidential systems are more likely to fail as democracies because the predominant authority of the executive makes it more difficult for real sharing of power to occur.

Indeed, this unilateralism is precisely what can be observed in the Croatian case, where Tudjman built up an enormous reserve of power by which he was able to bully the legislature, the media, the various non-governmental organizations, and the country's ethnic minorities into accepting his vision of Croatia's national interest. Tudjman's control over the leading party only amplified the negative tendencies of presidentialism.[47] The combination of such party-based power ~~and~~ the overbearing powers of his office[48] allowed Tudjman to overcome any technical barriers that might have remained in the country's constitution to his power. While there was a bicameral parliament in place after the establishment of the Croatian state, as well as a local government structure, neither would be able to form an effective opposition to the "triple dominance" (presidential, governmental, and parliamentary) of Tudjman and the HDŽ. The opposition municipal council in Zagreb was dissolved, and its choice for mayor overturned, due to Tudjman's enormous power to choose local officials (modeled after the centralized ways of the French state.)[49] Furthermore, the presidential tendencies were strengthened by constant changes in electoral laws and administrative divisions designed to minimize the effectiveness of the Istrian Democratic Alliance and other "non-Croatian" political forces. In the end, such manipulations made it even more unlikely for democratization and hence success in state-building to occur.

In Slovenia, however, ex-communist leaders were able to play a very constructive role in the transition to a western-style democracy in part because of the strong parliamentary system established by the Slovenian constitution. While the president is head of state and commander in chief, "his powers are limited and mostly of a representative nature. The president may not issue decrees to implement legislation, nor has he the power to appoint and dismiss the prime minister or to dissolve parliament at will."[50] Unlike the original Croatian constitution, the which permitted the president to retain the leadership of a political party, Slovenian constitution requires the president to remain above the fray of party and coalition battles, a particularly stabilizing feature in a country where party blocs have often been precariously (in one case, exactly) balanced within the State Assembly (Državni Zbor).[51] Other contrasts to the Croatian document can be found in the explicit roles given to the prime minister, the government, and the parliamentary votes of confidence. Furthermore, the existence of an upper house, a vibrant, participatory democracy at the local level, and an independent Constitutional Court that is both prohibited from party politics and willing to challenge Parliament on the constitutionality of legislation are all elements that have greatly assisted Slovenia in its transition to a functioning democracy—~~a~~and they are also elements missing from the Croatian experience.

While it is clear enough that the *form* of democratic participation is important, its *extent* is far more relevant to successful development. a successful state must include a basis for the inclusion of all its citizens.[52] In essence, this did not occur in Croatia, in which Tudjman chose to apply his studies in nationalist revisionism to unify a new state and to "give expression to the thousand-year-old national identity and statehood of the Croatian nation [*hrvatskoga naroda*]."[53] However, in an effort to satisfy the Western-proposed Carrington Plan[54], the Sabor passed a new "Constitutional Law of Human Rights and Freedoms,"[55] taken nearly verbatim from the Europeans' recommendations. The law granted, among other guarantees, proportional representation to "all minorities with a share of the population of the Republic of Croatia exceeding eight percent as per the population census of 1981." The Croatian Serbs were the only group that came even close to qualifying under the quota; the year 1981 was chosen in order to account for the increased migration to Serbia proper among Croatian Serbs that had occurred afterwards.

However, there were three principal problems with this clearly contrived "solution" to the increasing friction developing between the two groups, particularly in the Krajina and in Eastern Slavonia. First, the ethnic Serbs correctly saw the new constitution as effecting a reduction in the privileges they had enjoyed under the old constitution of the Socialist Republic of Croatia, which declared that Republic "the national state of the Croat people, [and] the State of the Serbian people in Croatia…"[56] Secondly, these guarantees were correctly perceived as far from permanent[57]; indeed, while they were effective for the 1992 parliamentary elections, by 1995 the guarantee of eight percent was reduced to just three seats in special districts, dwindling to but one by January 2000.[58]

Most importantly, however, the actions of the Croatian government certainly belied its claim in the 1991 Article 1 that "Power in the Republic of Croatia…belongs to the people as free and equal citizens." While it is not in the scope of this essay to detail the various measures by which the Serb population of Croatia was made to feel distinctly unwelcome, the Zagreb government's record of facilitated and/or sponsored aggression, violence, and ultimately "ethnic cleansing" is painfully apparent. Tudjman could well have chosen to move to the moral high ground and expose Miloševi's true nature as a narrow nationalist, but he instead he played directly into the hands of Serbian propaganda. In addition to the choice of Ustaše symbolism (which was either deliberately designed to exacerbate tensions or extraordinarily insensitive to Serbs' concerns, depending on the observer), Tudjman's decision to require the *domovnica*, or citizenship certificate, greatly inflamed the Serbian community on both sides of the border. Without such a certificate, one could not vote, stand for election, attend public schools, leave the country, buy property, or even receive health care.[59] The process of obtaining one, under Article 8 of the Citizenship Law[60] was significantly more difficult for ethnic Serbs than others; even if one were acquired, government harassment might continue unabated: simply put, "there was no guarantee of a safe enough life in Tudjman's state."[61]

The situation in post-independence Slovenia stands in complete contrast. First, as has been demonstrated above, the state was founded on pluralist principles. In this vein, the Constitution states that "Slovenia is a state of all its citizens."[62] Furthermore, solid guarantees were made to the Italian and Hungarian "national communities" [*narodni skupnosti*].[63] Unlike in Croatia, the guaranteed representation of these groups serves to amplify, rather than marginalize, their voice in parliament since each registered member of the national communities can cast a ballot for that community's representative *in addition to* being able to vote in the general election, each effectively receives a double vote.

However, a critique of Slovenia's constitution and policy has been raised by Robert Hayden, who argues first that the country, in the pattern of socialist Yugoslavia, has set up a "three-tiered system," in which there is first the "sovereign Slovene nation," second the national communities, and third the other, larger minorities with no special rights whatsoever.[64] In his view, an ethnically homogeneous Slovenia has been able to afford its "autochthonous" minorities extensive privileges precisely because their small numbers pose no threat to the national destiny of a Slovenia whose *narod* is synonymous with the state.

However, while the numerically inferior (but geographically far more concentrated) Hungarian and Italian minorities enjoy an extensive menu of special privileges, Hayden's conclusion, that Slovenia is a constitutionally nationalist state in the same respect as Croatia, is wholly mistaken. Due to the extensive state support for cultural organizations[65] and the relatively straightforward naturalization procedures, Albanian and Bosnian economic migrants can develop their cultural identities along with a political or regional identification as Slovenian. Furthermore, such allegedly “third-tier” minorities have the full “right to express their affiliation with their nation or national community; to foster and give expression to their culture and to use their language and script”~~;~~ (Article 61), and to be free from “national, racial, religious, or other discrimination…or intolerance” (Article 63), to give but two examples. Ultimately, a state’s true commitment to democracy can be measured ~~in~~ the way in which it treats its most vulnerable citizens; Slovenia’s performance in this regard is but another example of the wise choices made in steering the country towards a stable political system.

Conclusion: The Reinforcement of Difference

In the end, the leadership, character of the national movement, and institutional structure of the two countries in question determined the fate of the countries in question. In addition to the role that such choices play in historical development, it is also important to note the effects of differences in international orientation. Slovenia has made involvement in the irreversible process of Euro-Atlantic integration via NATO and the EU the primary goal of its foreign policy.[66] The country has rapidly become a valued member of the international community, contributing peacekeepers to various missions in Bosnia[67], Cyprus, and Kosovo in addition to its service as a “highly visible” and effective non-permanent member of the UN Security Council[68]. It has established successful relations with its neighbors, with the minor exception of the nagging border disputes (with Croatia!) over Piran Bay and scattered other points. Its success in all such regards, culminating this year with the invitation to join NATO and conclusion of EU accession negotiations, is due in no small part to the state’s ability, as demonstrated, to create a democratic state for all its citizens.

Conversely, Croatia is still recovering from the policies of Franjo Tudjman. Underpinning his approach to the international community was the anachronistic nationalism of Stjepan Radi: “[Always] a Croatian wallet in a Croatian pocket, and a Croatian rifle on a Croatian shoulder.”[69] Now, burdened with the economic consequences and security difficulties of such a stance, there is a push to place euro currency in that Croatian wallet and a NATO badge on that Croatian shoulder. However, a new generation of leaders such as President Stjepan (Stipe) Mesi, who views “Tudjman’s model…as completely wrong”[70] will need time if they are to cultivate trust and confidence in their relations with the international community.

Ultimately, due to choices made during the respective state-building processes, Slovenia and Croatia were consigned to differing fates during the first two decades of independence. While Croatia has made undeniable progress in the areas under consideration, it is still highly likely that, for now, its Šahovnica will continue to fly over a country mired in its past, while Slovenia’s stars of Celje take their place in the golden circlet of united Europe.

NOTES

[1] Existed from the 7th to the 9th centuries in modern Carinthia (Koroška), heavily relied on direct democracy. Fabinc, Ivo, “Slovenia’s Position in the World: A Message from the Past”, in Marian Senjur, ed., *Slovenia: A Small Country in the Global Economy* (Ljubljana: Center for International Cooperation and Development, 1993), p. 58

[2] William Powell MP (Corby) quoted in *The Hansard*, House of Commons Debate, 3 July 1991.

[3] Woodward, Susan, *Balkan Tragedy: Chaos and Dissolution After the Cold War* (Washington: Brookings, 1995), p. 102

[4] "After Tito, Tito!" Quoted in Boarov, Dimitrije, «Tito i njegovo doba» ("Tito and his times"), *Vreme* (Belgrade), 6 May 2000; http://www.vreme.com.arhiva_html/487/12.html, accessed 30 December 2002.

[5] Gow, James, and Cathie Carmichael, *Slovenia and the Slovenes: A Small State and the New Europe* (Bloomington, Indiana: Indiana University Press, 2000), p. 7

[6] Poganik, Marko, "Slovene National Symbols", in *The National Assembly of the Republic of Slovenia* (Ljubljana: Državni Zbor, 1995), pp. 45-46

[7] Under Ante Paveli, Croatia was substantially independent during World War II under Nazi tutelage, under the name *Nezavisna Država Hrvatska*, (NDH), "Independent State of Croatia." Bugajski, Janusz, "Nationalist Majority Parties: The Anatomy of Ethnic Domination in Central and Eastern Europe", in Jonathan P. Stein,, ed., *The Politics of National Minority Participation in Post-Communist Europe* (Armonk, N.Y.: M.E. Sharpe, 2000), p. 85.

[8] Croatia's GDP declined at an average *annual* rate of 0.9% in the decade 1991-2001, whereas Slovenia's increased by 2.0%. Hunya, Gábor, *FDI in South-Eastern Europe in the Early 2000s* (Vienna, Austria: Vienna Institute for International Economic Studies, July 2002), p. 11

[9] Kaplan, Robert, *Balkan Ghosts* (New York: St. Martin's Press, 1993)

[10] Stein, "National Minorities and Political Development in Post-Communist Europe", in Stein, ed., *Politics of National Minority Participation*, p. 1

[11] Zimmermann, Warren, "The Last Ambassador: A Memoir of the Collapse of Yugoslavia", *Foreign Affairs* 74/2, p. 5

[12] Vaknin, Sam, "The Bones of the Grenadier: Endgame in the Balkans", *Central Europe Review* 0/36, http://www,ce-review.org/authorarchives/vaknin_archive/vaknin36old.html, accessed 31 December 2002.

[13] Brinar, Irena, "Slovenia from Yugoslavia to EU" in Karen Henderson, ed., *Back to Europe: Central and Eastern Europe in the European Union* (London: University College London Press, 1999), p. 242

[14] Robbins, John, "Epilogue: The Attainment of Viability", in Danica Fink-Hafner and Robbins, eds, *Making a New Nation: The Formation of Slovenia* (Aldershot, England: Dartmouth, 1997), p. 283

[15] Woodward, *Balkan Tragedy*, p. 207

[16] "Discussion at the Culture Committee" in *Cultural Policy in Slovenia* (Strasbourg, France: Council of Europe, 1998), pp. 397-8

[17] Linz, Juan, and Alfred Stepan, *Problems of Democratic Consolidation* (Baltimore: JHU Press, 1996), p. 450.

[18] "President Kuan views political situation", interview, *Delo* (Ljubljana), 28 September 1996, p. 31, translated in Eastern Europe Daily Report, FBIS-EEU-96-113.

[19] In critical contrast to the WWII-era émigré dominance of Croatian politics, post-independence Slovenia would continue to be shaped by the younger generations; *Mladina* editor Janez Jansa would eventually become Defense Minister, while in the late 1990s the Slovenian Party of Youth (*Slovenski mladih stranka*, SMS) would occupy critical seats in a closely-divided Parliament.

[20] Tomc, Gregor, *The Politics of Punk*, in Jill Benderly and Evan Kraft, eds., *Independent Slovenia: Origins, Movements, Prospects* (New York: St. Martin's Press, 1994), 122.

[21] Silber, Laura, and Allan Little, *Yugoslavia: Death of a Nation* (revised edition) (London: Penguin, 1997), p. 48

[22] Silber and Little, *Yugoslavia: Death of a Nation*, p. 51

[23] Harris, Erika, *Nationalism and Democratization in Slovakia and Slovenia* (Aldershot, England: Ashgate, 2002), p. 157

[24] Rupel, Dimitrij, "Slovenia's Shift from the Balkans to Central Europe", in *Independent Slovenia*, p. 188

[25] Ágh, Attila, *The Politics of Central Europe* (London: Sage, 1998), p. 174

[26] Müller-Rommel, Ferdinand, and Slavko Gaber, "Slovenia", in Jean Blondet and Müller-Rommel, eds., *Cabinets in Eastern Europe* (New York: Palgrave, 2000), p. 95

[27] Throughout the negotiations on the breakup of Yugoslavia, Kuan was seen as even-handed; "Kuan, to his credit, realized early on that…negotiations on questions of principle have to be started to resolve violations on *both sides* [of the Yugoslav-Slovene agreement]." Smith, James D.D., *Stopping Wars* (Boulder, Colo.: Westview, 1995), p. 168
[28] Throughout the negotiations on the breakup of Yugoslavia, Kuan was seen as even-handed; "Kuan, to his credit, realized early on that…negotiations on questions of principle have to be started to resolve violations on *both sides* [of the Yugoslav-Slovene agreement]." Smith, James D.D., *Stopping Wars* (Boulder, Colo.: Westview, 1995), p. 168
[29] Representing various economic and local interest groupings, it has a consultative role akin to the British House of Lords. From "State & Political System", pamphlet (Ljubljana: Government Public Relations and Media Office, 2001), p. 3
[30] See below.
[31] Eyal, Jonathan, *Europe and Yugoslavia: Lessons From a Failure* (London: Royal United Services Institute for Defence Studies, 1993), p. 10
[32] Weber, Mark, "Croatia's Leader Denounced as Holocaust Revisionist", in *Journal of Historical Review* 13/4, p. 19
[33] Cohen, Roger, "Balkan Leaders Face an Hour for Painful Choices", *New York Times*, October 31, 1995, p. A1
[34] Ágh, *The Politics of Central Europe*, p. 175
[35] Bugajski, "Nationalist Majority Parties", p. 83
[36] Ignatieff, Michael, *Blood and Belonging: Journeys into the New Nationalism* (New York: Farrar, Strauss, and Giroux, 1993), p. 33
[37] Jasenovac was the most infamous concentration camp run by the Paveli regime during the Second World War; between 300,000 and 700,000 Serbs, Jews, and Romany were executed there between 1941 and 1945. Preserved as an important historical site during the Tito period, it now lies in a severe state of disrepair after being repeatedly vandalized since 1991.
[38] Due to the British-style 'first past the post" electoral system in place, the mandate of the HDŽ was not nearly as large as its 205 to 146-seat margin would attest; it only won 42 percent of the popular vote. Blondel, Jean, and S. Selo-Sabi, "Croatia", in Blondel and Muller-Rommel, *Cabinets in Eastern Europe*, p. 162
[39] Malovi, Stjepan, and Gary Selnow, *The People, Press, and Politics of Croatia* (Westport, Conn.: Praeger, 2001), p. 4,
[40] US Department of State, *Croatia Country Report on Human Rights Practices for 1998*, http://www.state.gov/www/global.human_rights/1998_hrp_report/croatia.html accessed 2 January 2003. This judgment is confirmed throughout the literature, for but one example: "Tudjman…[had] obvious authoritarian tendencies." Djilas, Aleksa, "The Breakup of Yugoslavia", in Kupchan, Charles, ed., *Nationalism and Nationalities in the New Europe* (Ithaca, NY: Cornell UP, 1995), p. 97
[41] They were allowed to participate in elections for the Zagreb parliament, despite the fact that they did not live within the borders of internationally-recognized Croatia and thus lacked Croatian citizenship. Ágh, *The Politics of Central Europe*, p. 176
[42] Ágh, *The Politics of Central Europe*, p. 176
[43] Ignatieff, *Blood and Belonging*, p. 34
[44] Such donors "invariably tended to be old Ustaše." Ignatieff, *Blood and Belonging*, p. 34
[45] Taras, Ray, "Separating power", in Taras, ed., *Postcommunist Presidents* (Cambridge, England: CU Press, 1997), p. 19
[46] Stepan, Alfred, and Cindy Skach, "Constitutional Frameworks and Democratic Consolidation: Parliamentarism versus Presidentialism", *World Politics* 46/1, p. 7
[47] Stein, "National Minorities and Political Development", p. 13. This is the reason for the new Croatian Constitution's inclusion of Article 95, which states that "the [newly-elected] President must resign from his political party and notify the Croatian Sabor immediately." *Ustava Republike Hrvatske* (2001), Art. 95

[48] Commander-in-chief of the armed forces (which, since the state was at war for most of Tudjman's tenure, was a great power easily abused for domestic purposes); also, until Tudjman's death, the prime minister (whose role was not mentioned in the constitution) was responsible to the president, not vice versa. Blondel and Selo-Sabi, "Croatia", p. 191

[49] Steering Committee on Local and Regional Democracy, *Structure and Operation of Local and Regional Democracy*: *Croatia* (Strasbourg: Council of Europe, 1998), p. 12

[50] Müller-Rommel, and Gaber, "Slovenia", p. 100. The role of the president was one of the areas most "clearly defined and delimited" in the Constitution. Buar, Bojko, and Irena Brinar, "Slovenian Foreign Policy", in Adolf Bibi and Gigi Graziano, eds, *Civil Society, Political Society, Democracy* (Ljubljana: Slovenian Political Science Association, 1994), p. 429. See particularly *Ustava Republike Slovenije* (Constitution of the Republic of Slovenia), Art. 107

[51] Lorenci, Janko, "Drnovšek Interviewed on Political, Economic Issues", *Delo*, 30 December 1995, p. 31, translated in Eastern Europe Daily Report, FBIS-EEU-96-004.

[52] "The reconstruction of citizenship has been the most fundamental point of departure for political institutional change, and also its most problematic aspect." Juberias, Carlos Flores, "Post-Communist Electoral Systems and National Minorities: A Dilemma in Five Paradigms", in Stein, ed., p. 31

[53] "I. Historical Foundations", *Ustava Republike Hrvatske* (1991).

[54] A proposal made in December 1991, attempting to make European Community recognition of the former Yugoslav republics contingent on certain guarantees for human rights and civil liberties regardless of ethnicity. Despite Croatia's changes, however, only Slovenia and Macedonia had qualified when the EC Arbitration Commission led by Robert Badinter made its determination in December 1992. Krasner, Stephen, and Daniel Froats, "Minority Rights and the Westphalian Model", in David Lake and Donald Rothchild, eds., *The International Spread of Ethnic Conflict* (Princeton, NJ: Princeton UP, 1998), p. 247

[55] "Constitutional law of Human Rights and Freedoms and the Rights of National and Ethnic Communities or Minorities in the Republic of Croatia", passed 4 December 1991

[56] *Ustava Socialistike Republike Hrvatske*, 1974, article 1.

[57] "Ethnic minorities, such as the Serbs in Croatia, anticipate that regardless of what the ethnic majority's leaders agree to now, there is no solid guarantee that the leaders will not renege in the future, due to the play of majority politics in the new state to come." Fearon, James, "Commitment Problems and the Spread of Ethnic Conflict", in Lake and Rothchild, *The International Spread of Ethnic Conflict*, p. 109

[58] Juberias, "Post-Communist Electoral Systems", p. 47

[59] Trifunovska, "Political and Security Aspects of Minorities in Croatia", p. 34

[60] See Appendix 3.

[61] Simic, Jovanka, "A Psychological Pressure", *Veerni Novosti* (Belgrade), 21 March 1997, p. 2, translated in Eastern Europe Daily Report, FBIS-EEU-97-083.

[62] *Ustava Republike Slovenije*, Article 3. It is also important to note that Slovenia qualified immediately for recognition according to the Badinter Commission (see note 67).

[63] E.g.: in the respective areas, Italian and Hungarian are official languages (Article 11). Article 64 provides a whole host of ancillary rights in education, local government, "material and moral support" for relations with "nations of origin and their respective countries." See Appendix 4.

[64] Hayden, Robert M., "Constitutional Nationalism in the Former Yugoslav Republics", *Slavic Review* 51/4, p. 659

[65] See above, note 17.

[66] Kuan, Milan, "Integration is Irreversible", in *NATO's Nations and Partners for Peace* (periodical), 1/2002, p. 3

[67] Osolnik, Marko, "NATO values our contribution to SFOR participation", *Delo*, 12 February 1997, p. 2; translated in Eastern Europe Daily Report, FBIS-EEU-97-033

[68] Jazbec, Milan, *The Diplomacies of New Small States: The Case of Slovenia* (Aldershot, England: Ashgate, 2001), p. 68
[69] Anci, Milan, "Historical Dimensions of the Croatian National Feeling in Bosnia-Herzegovina", at http://www.hercegbosna.org/enleski/feeling.html, accessed 5 January 2003.
[70] "Croatian President Addresses Slovene Relations", Zagreb HINA (transcribed text), 20 March 2000; in Eastern Europe Daily Report, FBIS-EEU-2000-0320.

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Kenyan Women's Access to the Economy by Rachel Tulchin

In examining the role of micro-credit loans for women in Kenya, Tulchin argues that they are an instrumental source of development important for attaining a higher standard of living.

African women are increasingly engaged in the cash economy. Small-scale income-generating projects have become a necessary means of survival as families increasingly depend on off-farm earnings. Recently, a growing number of microcredit institutions offer poor women small loans to sustain businesses. With extra capital at hand, women are better able to provide for their children. This paper develops the relationships between women, the economy and development. I will first focus on the broad constraints facing women, and later examine a case study of a women's group in Eastern Kenya. How have rural Kenyan women dealt with their burdens of labor? Do their roles change as they earn money? What do these women do with their income? How does access to formal credit affect their economic and social position? These questions resonate on a global level and are of critical importance.

Women throughout the developing world carry a disproportionate workload. They have a triple role in that they are responsible for reproductive work, productive work, and community management. Until very recently, economic statistics – both national and international – failed to take women's work into account. Instead, employment data focused solely on wage-earning workers, placing the self-employed and those who work within the 'informal economy'[1] in an invisible sphere.

Just thirty years ago, Ester Boserup's pioneering work, Woman's Role in Economic Development (1970), opened the space for the recognition of women's essential contributions. Boserup highlighted women's roles in agriculture, an economic sphere where women's participation in production, as well as social status, was high.[2] From the mid-70s onward, the international community finally began to address women's economic contributions, and was thus forced to consider their constraints. Since then, much effort has been made to "mainstream" women and address the issues of gender inequality (such as excess mortality rates, higher malnutrition, lower school enrollment rates, etc). Within the past fifteen years, many international programs have prioritized women. Much work remains ahead however, as women continue to shoulder extraordinary burdens.

Early images of the African woman south of the Sahara depict her with a heavy load on her back, a baby straddled on top and hands left free to weave a kiondo or shell maize as she walks. Her back is bent over; she is fulfilling three roles at once: worker-provider, manager, mother.[3]

These images can still be seen today throughout Sub-Saharan Africa. While the division of labor has shifted slightly, it is still women who largely feed the African continent – both hoeing the land and cooking for their families. In most rural areas, women provide at least 70 percent of subsistence needs by growing or gathering food.[4] Increasingly, women work as traders or small-business owners, though they still haul the water and fetch the firewood. African women of the 21st century face further constraints in the context of HIV/AIDS, structural adjustment policies, corruption, and weak national economies.

How then do women deal with their disadvantages? Women's groups in many countries serve as effective coping mechanisms.[5] These groups are historically rooted – for decades women have organized collectively as a means of support, using their own methods to deal with their "triple-role" of responsibility and limited access to resources. Cooperation is a method of self-help for these women.

Within Kenya, women's organization historically centered on age-sets and common initiation rituals. Groups participated in communal labor and continue to do so today. As the exploitative burden of colonialism fell heavily on women, collective organization became more economically rooted. Today, rotating savings groups, called "merry-go-rounds," are the most common form of women's organization. Members of such groups, often farmers or traders, meet on a weekly or monthly basis and collectively pool a sum of money. Those funds are allocated to an individual group member who can then use the money as she likes. Labor rotating groups are also popular, as women take turns helping on each other's farms to increase productivity.[6]

In many cases, agricultural production cannot adequately sustain a rural family. Kenyan women use solidarity groups to address growing socioeconomic needs that they cannot meet through formal waged labor or bank access. Increasingly, women are engaged in projects to generate extra income for their families. These projects are especially important for rural women whose husbands have gone to urban centers in search of jobs. Meanwhile, Kenya's national economy continues to weaken – waged jobs are scarce, even for university graduates. Many Kenyans have thus turned to informal, small-scale entrepreneurial businesses to make a living.[7] In 2001 employment in the formal sector stood at about 1.7 million, compared with 4.6 million in the informal sector.[8] Women make up a large proportion of this informal economy, engaging in small-scale trade and industry – craftwork, food selling, beer brewing, hawking, and prostitution.

While entry and exit costs into the informal economy are low, other constraints limit the economic potential of informal activities. Most small entrepreneurs, especially Kenyan women, have no property rights or titles to their homestead-workshops. They own few assets of value, have no legal recourse, and find it hard to gain access to credit. Access to credit may be the largest obstacle for Kenyan workers; I will develop the idea of small, formalized loans – known as microcredit – further in this paper.

Women's involvement in the cash economy is of vital import to larger development issues within Kenya (and throughout the world). Evidence from a World Bank study in Kenya suggests that if women had the same human capital endowments and used the same production factors and inputs as men, the value of their output would increase by some 22 percent.[9] This figure indicates promise. While in the past women's contributions were largely ignored, today they are acknowledged. Yet complexities clearly surround this statistic. Even if women could increase productivity by 22 percent who would take care of their children? Who would cook the food if women did not have time? Further, in a weak, developing economy, extra output may not even be consumed.

More and more women are turning towards income-generating activities within the formal and informal sectors. How do these earnings affect rural Kenyan women? What do women do with this income? Does it affect their roles within the family or community? These questions are relevant on both the micro and macro level.

Barbara Thomas-Slater and Dianne Rocheleau, in their article, Gender, Resources, Local Institutions: New Identities for Kenya's Rural Women, argue, Activities that provide access to cash and to extra-household labor and that enable women to participate in collective labor and in decisions about support for community infrastructure inevitably affect a woman's position in terms of decision making and resource allocation vis-à-vis other members of her household. Over time, such activities lead to slow but profound changes in the social status and economic position of women. Such changes generated by involvement in women's associations, as well as the emergence of new roles for those associations, constitute part of a far-reaching reassertion and transformation of women's roles in rural Kenya and perhaps in other parts of Africa as well."[10]

Much literature focuses on the complicated relationship between economic income and autonomy/decision-making/empowerment for women.[11] The rhetoric of "empowerment" is widespread throughout the development world, though it is all too often empty of meaning and lacks consensus in its definition. The Platform for Action at the Beijing Women's Conference in 1995 was even subtitled "An Agenda for Women's Empowerment."[12] Over time the development goals of empowerment evolved from a concentration on the relative well-being of women vis-à-vis men (Thomas-Slater and Rocheleau's approach) to the notion of women's agency in the attainment of greater well-being for all (women, men, and children).[13] This shift emphasizes the active participation of women, and its positive impacts.

In many cases, women allocate their resources differently than men. When women can develop their own earning power, children's enrollment in school rises (especially that of girls who are often denied formal education), families begin to save, and men's attitudes towards their wives and daughters usually improve.[14] A recent study focusing on the Rendille of northern Kenya hypothesized that as the level of a woman's autonomy increases, so does the nutrition and (consequently) the health of her children.[15] This study defines autonomy as the ability to control household and societal resources. Autonomy is not necessarily correlated with empowerment however; a widow could be completely autonomous but not feel empowered. Nevertheless, this study is significant – women's ability to allocate resources has broad consequences.

The Yatta South Women Group

While living in Kenya in the fall of 2002, I undertook an independent study project in an effort to better understand the relationships between women's groups, economic advancement, social roles, and empowerment.[16] For three weeks, I conducted field research with the Yatta South Women Group (YSWG), an umbrella organization of 31 smaller groups whose members weave sisal baskets, or kiondos, for export.[17] The YSWG is an effort by rural women to improve the quality of their lives through viable economic activities. Established in 1986, its membership was capped in 1999 at 2,030 members.[18]

The Yatta South Women Group is located in the Katangi division of Machakos District, within the Eastern Province of Kenya. This area, southeast of Nairobi, is commonly called Ukambani – the home or area of origin for most of the Akamba, Kenya's third largest ethnic group. Farmland occupies the majority of the semi-arid/arid area in Machakos District. Droughts and famine are a familiar reality. Cash crops are not grown in the area and livestock provides the primary source of income. Due to these harsh environmental conditions, many men in Ukambani seek employment in larger cities like Nairobi. Women left at home have increased responsibilities; they organize collectively as a means of dealing with their burdens, work in groups to repair cropland terraces, build roofs or houses, construct roads, repair schools, or organize community harambees[19] raise money for an individual. Generating extra income is of increasing importance.

Kamba women are famous for their sisal kiondos and have controlled their trade for years. As far back as the 1920s, Gerhard Lindblom noted the importance of the kiondo.

> During the pauses between their different tasks one can see the women sitting in groups outside the village, talking and working at their bags at the same time. One may say that a kiondo is an inevitable appendage to a Kamba woman during her work. When a wife is mentioned in the people's numerous tales, it is almost always added in passing that she was plaiting a bag.[20]

These baskets are usually sold to middlemen who transport them from Ukambani to Nairobi. There, market men or women buy the baskets and in turn sell them to tourists. While basket-weaving cooperatives for Kamba women have existed for decades, the Yatta South Women Group offers a new, globalized approach. YSWG is a formal organization that sells these baskets abroad. The export of local handicraft, to countries such as England and Japan, is relatively rare for a local, community-based organization.[21] Direct export eliminates the role of the middleman, allowing for greater earnings potential. Rose, who in the fall of 2002 had been a member of Yatta South for only a year, noted the difference. She earned 100 ksh for a 12x12 basket when she sold it to a middleman. Yet as a member of YSWG, Rose now earned 270 ksh for the same basket.[22] The women of Yatta South receive a higher, steady price for their work.[23]

"Making baskets is our Nairobi."[24]

Today, the threads of a kiondo still constantly hang from a Kamba woman's hand, just as they did eighty years ago. Both members and non-members of the Yatta South Women Group weave wherever they are – while they gossip, sell goods in the market, carry a baby, or tend a pot of cooking food. Sisal kiondos, to the Kamba women of Katangi, are a means of income, however small. Just as their husbands turn to Nairobi for final hope, these women rely on kiondos to generate the little extra to pay for school fees or food in times of hardship. "Making baskets is our Nairobi," a woman commented to me, laughing amongst her peers.[25]

The individual income generated every month for women of Yatta South is realistically very small. Does this small income, generated through the framework of a larger organization, help the women gain decision-making powers, control, social mobility, or increased self-esteem? What do rural Kamba women do with this money? How do the women themselves define their changing roles (if they change at all)? I found that extra income and a channel to certain resources provided certain benefits to the women of Yatta South. Income is certainly not the sole determinant of empowerment however. Women largely invest in their families and communities, measuring their successes (and struggles) in terms of what they are able to do for others. Above all, increased income for women seems to benefit the family, with a high priority given to children's education. The few hundred shillings a month, earned through basket-weaving, are used to pay school fees, buy clothes, purchase small goods, and contribute to "merry-go-round" collections or community harambees. Often, money is invested collectively in additional income-generating projects. One group was constructing a small kiosk to sell local supplies; another was farming on a collective plot and distributing the crops between members. While such projects are initiated everyday throughout rural Kenya, this case illustrates that formal and informal groups can be complementary. This relationship has relevance for microcredit projects.

In the case of the YSWG, women are gaining respect in the household, perhaps because Yatta South has been so successful; it is a source of pride for the community. The women control their own earnings – no member reported relinquishing her income over to her husband, though many acknowledged buying him beer or cigarettes. In fact, one woman noted that a husband was more likely to hand over his earnings to his wife, as wives usually budget the household expenditures.[26]

The structural organization of Yatta South provides a channel to resources of collective power and prospects of community involvement. The management tiers of Yatta South are extremely important – though there are over 2,000 members, individuals are highly involved. The grassroots, participatory nature of the organization functions on a democratic level. Individual group members vote for their chairladies and committee staff every three years.[27] Moreover, most members feel personal ownership, investment and pride in YSWG. A staff member noted that "this place is ours,"[28] echoing a sentiment shared by many other Yatta South women.

Yatta South has also enabled an exchange of information among rural women who may live far from each other – the women must travel to the office at least once a month to bring in their baskets. As Naila Kabeer notes, "travel plays an important role in breaking down the sense of isolation and powerlessness that women are often trapped in."[29] Mobility increases awareness and participation in a larger community; members often discuss politics, personal family crises, lack of rainfall, or local gossip with one another.

My questions concerning individual "empowerment" had little resonance with these women. They often stated that their husbands were the "owners"[30] of the family, while at the same time they noted their own importance and responsibilities. The women of Yatta South rarely identified their personal problems – instead, they commented on broader obstacles, such as drought, famine or the struggle of paying school fees.

Some scholars would claim that the failure of African women to identify their own needs is a product of subordination. I would argue however, that this is largely a Western perspective that obstructs the viewpoint and context of African women themselves. Gwendolyn Mikell notes that "African women may continue to resist external pressures to redefine their roles along Western lines and to subscribe to Western notions of feminism, because for the present, culture and national identity take precedence over individual autonomy."[31] The power landscape within the household and community in Kenya may not fall in line with Western expectations. Further, some African intellectuals even consider the idea of empowerment as simply another imprint of Western imperialism.[32] The women of Yatta South felt most proud when they noted the achievements of their children. Extra income, especially in the hands of women, can further these successes.

Participation in the Yatta South Women Group, with its focus on income-generation, has indeed brought about change. The organ through which income is generated holds as much importance as the income itself – its organization and outreach to a larger community is essential. Nevertheless, while members have gained increased respect and decision-making abilities, they remain restricted from access to education, jobs, and land. Akamba women spend much of the time on the shamba (farm), fetching firewood, searching for water, and taking care of their children, while, in many cases, their husbands are either searching for jobs or socializing at the local bar.[33] This leaves little time for other activities. Women cannot weave enough baskets to generate a significant income. Furthermore, the demand abroad for these sisal kiondos far exceeds the supply. Attendance at YSWG meetings is often low, especially during the harvest season. It is clearly difficult to engage in these issues of autonomy, power, and self-esteem when a woman's priority is to feed her family – a goal of sheer survival.

Microcredit

While women throughout the developing world have long relied upon informal lending through merry-go-rounds or collectives, formalized microcredit schemes are becoming more popular. The global explosion of microcredit institutions has sparked debate concerning their implicit strengths and weaknesses, especially in terms of women's empowerment.[34]

Microcredit programs extend small loans – ranging from a few to a couple of hundred dollars – to the very poor for investment in income-generating activities. Many practitioners have championed these programs as 'win-win' situations. Financial institutions knowledgeable about microfinance can become profitable and self-sustaining while achieving wide client outreach. Numerous cases prove that even some of the poorest people can put credit to productive use. It is not unusual for microfinance programs to have consistent repayment rates near 98 percent, much higher than in most commercial banks.[35] The poor have more reasons not to default; they have more at risk. Moreover, continued access to further credit, and group pressure, are strong incentives to repay on time. When small programs cannot assure sustained access to credit, members have less motivation to keep a good repayment record and defaults are shown to rise.[36]

Throughout the developing world, women receive a majority of microcredit loans. They often outnumber men in the poorest segments of society, are highly involved in the informal sector, and lack access to credit.[37] Women tend to run the day-to-day household budget and are largely responsible for the well-being of their children, and are thus important agents of social change. Furthermore, past experience demonstrates that female clients are extremely creditworthy and demonstrate high repayment and savings rates.[38]

Microcredit programs are growing in number across Sub-Saharan Africa. According to The Women & Environments International Magazine, Kenya has had more exposure to micro-finance than any other country in Sub-Saharan Africa, with programs dating back to the early 1980s.[39] The effects of economic liberalization, and subsequent reform programs of the early 90s, led to an explosion of these micro-enterprises within the country.[40] Many of the country's small businesses operate within the informal economy – accessing credit from banks is largely impossible. Those who are illiterate, hold no assets or land-titles, and ask only for a small loan, find it even more difficult to gain access to formal loans. Demand for microcredit is thus high.

The first microcredit scheme within Kenya, the Kenyan Women Finance Trust (KWFT), established in 1981, aims "to provide women with access to credit and technical assistance as a means of facilitating their integration into the economic development of Kenya."[41] A KWFT survey showed that about 90 per cent of loans supported the sale of second-hand clothes and unprocessed food stuff such as grains; the rest was spread almost equally between manufacturing (e.g. tailoring, wood workshop) and services (e.g. hairdressing, food kiosks). As of March 31, 2002, KWFT had a total of 48,299 active clients, and a portfolio outstanding of Ksh. 464,772,670 (US $5,920,671).[42]

Microcredit institutions are so prevalent within Kenya because they build upon the already established system of women's groups and similarly focus on collective accountability. As noted earlier, informal rotating savings groups have been active for years within Kenya and remain strong. Local women's groups and formal credit institutions are certainly not mutually exclusive and may in fact be complementary. Large-scale microenterprise financing is made possible due to joint-liability lending to groups – people are responsible for each other's loan repayments. Just like the informal savings groups where family and friends hold each other accountable, or the merry-go-rounds where women rely on each other, microfinance schemes use group models to provide credit. Peer-group pressure creates moral collateral.

While microcredit institutions are increasing globally, there remains much debate surrounding their effectiveness. Assessments of the impact of program participation on women's empowerment have yielded contrary results, even when two different people evaluate the same program. It seems somewhat easy to assume that access to small loans creates positive results for women – many studies suggest that women gain greater autonomy and power at the family, community, and even state level. Conflicting evidence, on the other hand, will argue that participation leads to greater subordination of women. The issues surrounding microcredit warrant further examination.

A clear strength of microcredit is that it fosters enterprise among the poor and provides a channel to gain access to the larger economy. It is often argued that increased income under women's control will lead to poverty reduction and improved well-being for women and their children. As noted earlier, women tend to use income more efficiently than their husbands, encouraging positive change (in terms of consumption, health, literacy, housing, etc). In the case of Yatta South, most women stated that they used their extra income for school fees, to help a sick community member, or put an extra meal on the table. Moreover, services that allow women to generate their own income increase their confidence and decision-making abilities and thus reduce gender inequality. Along related lines, it seems that women can use their newly gained access to credit as a form of leverage within the household.

These assumptions regarding microcredit seem easy to accept, as the international community looks for tangible ways to reduce global poverty and gender inequality. Nevertheless, criticism towards microfinance institutions cannot be ignored. Scholars such as Janet Townsend argue most development policies today focus solely on *measurable* results, and thus skirt around the deeper issues. She states that,

> The fashion is to escape out of issues of power, of land ownership and rights, into *microcredit.* The latter, which gives poor people access to very small amounts of credit, both answers this demand for quantifiable indicators of success and tackles one issue of power, which has always been the denial of credit to the poor. But this elixir ignores other problems of power and therefore cannot lift many out of poverty and often does not even improve standards of living…. on closer examination it proves that the very poorest cannot use credit, and that although the less poor do welcome credit and often achieve a small but stable rise in income, credit does not place them on a ladder out of poverty which they can then proceed to climb but just helps them to take one step up.[43]

Townsend touches upon the "other problems of power." It can be argued that microfinance organizations themselves maintain control, as credit imposes a burden upon women as debt-collectors. Female borrowers may use new loans to pay off old loans, risking a potential "debt trap" and creating a façade of high repayment rates. Further, with the pressure to pay back loans, women may face increasing subordination to a market system, and take on a larger labor burden. Does pressure to repay loans increase tensions within the family? Do women take on more responsibilities with access to microcredit? Do they face backlash from their husbands?

Josephine Lairap-Fonderson, who conducted research on women and microcredit in both Kenya and Cameroon, found that the provision of small loans to women in general, and to sub-Saharan women in particular, acts as a disciplinary power. She argues that credit acts as a means to create 'efficient economic actors' who are inserted in the market economy, rather than providing a tool for empowerment. Lairap-Fonderson states that,

> While most African women know all too well how to work hard, women borrowers are still subjected to disciplinary practices. Potential African women borrowers must form groups. Group formation, the initial stage of market selection, constitutes another disciplinary mechanism as membership is based on the ability to repay loans.[44]

While loans may be constraining, I would argue against Lairap-Fonderson's last point. African women undoubtedly know how to work hard – but that does not mean that disciplinary practices are inherently harmful. Moreover, organizing women into groups seems far from constraining. As we have seen in Kenya, group formation is of second nature to women. The foundations of these groups have proved successful for years; collective organizing is not a burden, but rather a support.

Varying definitions of empowerment and success clearly affect measurement indicators as well. For example, critics will argue that women's loans may actually be co-opted by male relatives, to be used for their own personal benefits. Others have noted that this money is not taken, but rather that women willingly hand over loans to their husbands. If this is the case, do women thus gain a *better* bargaining position within marriage? Or does it further promote unequal gender relationships? Do women truly lose control of direct loans, thereby weakening any sense of empowerment? Graham Wright states that,

> Western feminist commentators have accused Microfinance programs of making women even more vulnerable to gender-based conflict since they often pass their loans to their husbands. This practice of giving loans to the husband to use is usually economically rational, but careful examination of the evidence suggests that it also typically strengthens the position of the woman in her family. Women attend the MFI's time-consuming meetings in order to conduct the family's banking, thus reinforcing and enhancing their traditional role of the family's budget manager and giving her additional status.[45]

Does a woman's attendance at weekly meetings increase her status? Or do these meetings actually consume a woman's valuable time and perpetuate her burdens of responsibility? Does loan use by male relatives actually make greater economic sense? Evidence is surely needed to support either side of this argument. It cannot simply be assumed that male loan use is equivalent to women's loss of control.[46]

When looking at the changes in women's roles as they gain access to credit, other factors must be considered. Effects of participation in microcredit schemes can be mediated by the position of a woman in her life cycle. Is she caring for young children? Or is she older and attempting to generate off-farm income? Another factor is the *initial* condition of the women selected for microcredit programs – some will contend that the positive effects of development programs are over-estimated because women who join these programs reside in a relatively more favorable initial condition.

Within the development world, empirical evidence in regards to the various indicators of empowerment is often unfounded and nebulous. Naila Kabeer rightly points out that all too often the perspectives of the local women themselves are not taken into account.[47] Western scholars are often quick to assume that an independent role in household decision making processes directly translates to a high level of empowerment. In reality, however, co-operation and joint decision-making with husbands may be more important, providing women with access to public domains (markets, legal and financial agencies, etc.). As noted earlier, the value of

Western ideals and feminist prerogatives cannot be unquestionably transferred onto the African continent.

Regardless of the "women's empowerment" debate, I would argue that microfinance is a positive factor and does far more good than harm. Approaches to microcredit programs are constantly being improved upon; criticism and past experience have allowed practitioners to reevaluate strategies. Marguerite Robinson, a policy advisor on microfinance, has worked around the world and talked to many microcredit clients. She found that low-income people clearly understand the uses of finance and how to maximize their resources. With microfinance, opportunities emerge – enterprises can be diversified, income increased and quality of life improved. Robinson notes that,

> Among the economically active poor, the quality of life is typically improved in small increments, matching the small, gradual income increases that generally characterize the successful use of microfinance. The family begins to eat more and to have more nutritious food, a room is added to the house, a child is sent to school, medicine is provided for an elderly parent. Eventually the children are 'launched', a new house is constructed, grandchildren are sent to school, and the quality of life has improved.[48]

Moreover, credit can be used as a social safety valve in times of disaster or crisis.

In my observations in the community of Yatta South, I (like Robinson) found that women are extremely efficient in managing their money. The husbands of Yatta South members do appreciate the extra income earned from basket weaving – backlash was not apparent. If anything, men felt that the money relieved them of responsibility. Thus, women do not face alienation, though they may take on increasing burdens. Overall, providing credit to women to start or sustain her own small business, and thus generate small income, can be life changing. Berida Ndambuki, a Kamba trader, states, "this work has removed me from a lot of slavery" – even small earnings have made a difference and enabled two of her daughters to attend school. Access to resources, especially capital, is of utmost importance for women. Ndambuki, who echoes the sentiments of Yatta South women, definitively notes that,

> What I want is to buy some land for my sons, but how to get the money is a problem. . . . When I look at my life, with all the problems I have had I could have committed suicide. I did not; I persevered. When I reached the point in my life where I could clothe and feed my children and they could look and dress like other people's children, then I was very happy. . . Are there lessons to be learned from my life? If there is a lesson from my life, it is that wives and husbands should live together in harmony, sit and eat together and build a home together.[49]

Women's triple role will certainly not change overnight. Providing credit to women (though not without its drawbacks) proves beneficial. Microcredit alone cannot fully alleviate poverty – many other issues need to be nationally addressed. Nevertheless, providing credit to the poor can allow women to "step up" and at the very least, put a little money in their pocket.

The debate over microcredit has forced multilateral agencies consistently to reassess their policies. In February of 1997, a Microfinance Summit was held in Washington, D.C.; more than 2,500 people from 137 countries gathered to celebrate the achievements of microcredit programs. The summit launched a global campaign, with the goal of reaching 100 million of the world's poorest, especially the women of those families, with credit for self-employment or business services by the year 2005, named the International Year of Microcredit.[50] Just recently, the Results Educational Fund (the US-based NGO which organized the summit) reported that it was on track to meet this goal. As of the end of 2002, more than 2,500 institutions offering microcredit have reached 41.6 million poor families worldwide.[51] This is a story of success.

In November of 2003, a bill proposing the establishment of a national commission on gender and development was published in Kenya. While this is a significant step in the recognition of women's roles, the government must also take action to back up its rhetoric. Acknowledgement and support of women's groups, the informal sector, and microcredit institutions are part of this multi-faceted effort to enhance women's positions. As Minister Balala stated, "women in Kenya form the biggest fraction of the marginalised and poor population and without gender equity, the full potential of every Kenyan cannot be harnessed for national development."[52]

The issues surrounding women, income-generating activities and social advancement are complex and entangled. At the core of this intersection one central reality emerges: women's work ensures survival. No longer can it go unaccounted for; instead, structural changes must offer support to these women until equality is achieved. Until then, African women will continue to persevere in an effort to provide for their families, and "live in harmony."

NOTES

[1] The informal economy is characterized by small competitive individual or family firms, petty retail trade and services, labor-intensive methods, free entry, and market-determined factor and product prices. It often provides a major source of urban employment and economic activity.

[2] As cited by Shirin M. Rai, *Gender and the Political Economy of Development* (Cambridge, UK: Polity Press, 2002), 60.

[3] Rose Waruhiu, "What Do African Women Want?," in *A Diplomacy of the Oppressed: New Directions in International Feminism* (London: Zed Books, 1995), 136.

[4] Claire Robertson, "Women in the urban economy," in *African Women South of the Sahara,* eds. Margaret Jean Hay and Sharon Stichter (New York: Longman Publishing, 1995), 45.

[5] Much of the information regarding women's groups draws from the following sources:
The Women's Movement in Kenya (Nairobi: Association of African Women for Research and Development, 1993).
Claire C. Robertson, *Trouble Showed the Way: Women, Men and Trade in the Nairobi Area, 1890-1990* (Bloomington: Indiana University Press, 1997).

[6] It should be noted that men also engage in communal work groups and merry-go-rounds, though women's groups are more prevalent.

[7] These activities are largely on the periphery of the formal wage-labor sector and thus are often unaccounted for. In regards to the informal sector, I have drawn largely from these two sources:
Eugene Versluysen, *Defying the Odds: Banking for the Poor.* (West Hartford: Kumarian Press, 1999).
Margaret Jean Hay and Sharon Stichter, eds. *African Women South of the Sahara.* (New York: Longman Publishing, 1995).

[8] "Country Profile Kenya: Human Resources Overview," *Economist Intelligence Unit,* March 2003.

[9] *Women in Africa's Development: Overcoming obstacles, pushing for Progress.* Africa Recovery Briefing Paper, April 1998. (Accessed October 28, 2003); available from http://www.un.org/ecosocdev/geninfo/afrec/bpaper/maineng.htm

[10] Barbara Thomas-Slater and Dianne Rocheleau, "Gender, Resources, Local Institutions: New Identities for Kenya's Rural Women," in *Gender, Environment and Development in Kenya* (Boulder: Lynne Rienner, 1995), 58.

[11] I have looked at the following literature concerning this relationship:

- Rae Lesser Blumberg, "Income Under Female Versus Male Control: Hypotheses from a Theory of Gender Stratification and Data from the Third World," in *Gender, Family, and Economy,* ed. Rae Lesser Blumberg (Newbury Park: Sage Publications, 1991).
- S. Charushella, "Empowering Work? Bargaining models reconsidered," in *Toward a Feminist Philosophy of Economics,* eds. Drucilla K. Barker and Edith Kuiper. (London: Routledge, 2003).
- Janet Townsend and others, *Women & Power* (London: Zed Books, 1999).

[12] United Nations, *Fourth World Conference on Women: Platform for Action* (accessed November 14, 2003); available from http://www.un.org/womenwatch/daw/beijing/platform/plat1.htm.
[13] Simeen Mahmud, "Actually how Empowering is Microcredit," *Journal of Developing Areas* 34, no. 4 (2003): 578.
[14] Eugene Versluysen, *Defying the Odds:* 229.
[15] E.K. Brunson and B. Shell-Duncan, "The effect of women's autonomy on child nutritional status in northern Kenya," *American Journal of Physical Anthropology*, 2003 (accessed November, 2003); available from Expanded Academic ASAP.
This hypothesis was tested using data collected from 915 Rendille women and their children, representative of both nomadic and settled households. Measurement of women's autonomy was based on the cumulative score from an eleven-item questionnaire that ranked how much decision-making power women have in things such as birth control, children's health care and purchasing food. Children's nutritional status was based on anthropometrics, particularly height for weight scores.
[16] For the purposes of this paper, I will define "empowerment" as power generated from within – ensuring increased agency, high self-confidence and improved well-being for women. Scholars engage in a continuous dialogue to define empowerment. It is generally agreed upon that power cannot be *given* to someone, but rather that it comes from the self, and is interactive in nature. Some consider empowerment to be the conquest of fear and the recognition of one's 'power to', of oneself as an agent in one's own life. These varying definitions are discussed in: Janet Townsend and others, *Women & Power* (London: Zed Books, 1999), 33.
Feminist research also raises many questions regarding power/empowerment. Some researchers claim that oral narratives can empower women while others maintain that this assumption "may mask unequal power relations in and beyond the research process and the appropriation that is taking place." Diane Wolf further notes, "who are we to change or raise the consciousness of others?" These issues became relevant to me as I worked at Yatta South and pursued research.
Diane Wolf, "Situating Feminist Dilemmas in Fieldwork," in *Feminist Dilemmas in Fieldwork*, ed. Diane Wolf (Boulder: Westview Press, 1996), 25.
[17] In conducting field research, my principal methodology was informal interviews with the women of Yatta South. Aided by a female interpreter, I sat in on committee meetings, went to rural areas to observe group elections, and attended various group meetings. Interviews with community leaders, men, and local chiefs also proved important. I talked to over thirty individual women (extensively with the Yatta South staff of seven), several spouses, community leaders, and local chiefs.
[18] The 2,030 members come from a large geographical area made up of four locations: Katangi, Ikombe, Kinyaata, and Kyua. Kenyan geographic areas break down into: State – province – district – division – town/location. Interview: Patrick Vutu, Chief of Kyua Location. November 20, 2002.
[19] *Harambee,* kiswahili for "let us pull together" signifies mutual-aid. *Harambees* have long been organized within Kenyan communities to provide support or raise money for an individual who needs help. *Harambees,* usually large get-togethers organized as a party, are often associated with women's groups.
[20] Gerhard Lindblom, *Akamba in British East Africa* (Uppsala: Appelbergs Boktrycheri Aktiebolag, 1920), 541. As cited in Berida Ndambuki and Claire Robertson, *We Only come Here to Struggle*: 8.
[21] It should be noted that the Yatta South Women Group was initiated with the help of Danish development workers. In 1988, an informal partnership was established with MS-Kenya, a Danish NGO that is run from Nairobi and supports a variety of projects. MS-Kenya helped support the basket-export business until 1992, when it was left in the hands of Yatta staff. Today, the business section of Yatta South continues to be autonomous and self-sustainable, though MS-Kenya is involved with a community development sector of Yatta South.
Interview: Nancy Thuo, MS-Kenya Program Officer. Nairobi, November 25, 2002.
The complexities of an outside partnership will not be addressed in this paper, but may potentially exert influence on the group.
[22] Interview: Rose, member of Kikeneani women group. November 17, 2002.
Ksh = Kenyan Shilling. At the time, the exchange rate was approximately 78 Ksh to one U.S. dollar.
[23] While in one sense the women are better off, YSWG still relies on the demand of a few international buyers. These buyers maintain very high quality standards for the baskets – much higher than local markets do. Dependency remains an issue.
[24] Interview: Township women group member. November 19, 2002.
[25] Ibid.
[26] Interview: Kasiva Kimuli. November 13, 2002.

[27] I was able to witness these elections during my time at Yatta South; transparency was highly valued. It should be noted however that Yatta South's organization is not perfect or completely based "from below." For example, many of the women do not know to where their baskets are exported. This could be an indication that those at the top hold a certain knowledge that is not filtered down. It could also suggest that local women don't care to know where their baskets go, or lack the knowledge to conceptualize a larger "beyond."

[28] Interview: Beatrice Muema. November 8, 2002.

[29] Naila Kabeer, *Reversed Realities: Gender Hierarchies in Development Thought* (London: Verso, 1994), 251.

[30] Interview: Beatrice Muema. November 8, 2002. Many of her sentiments were echoed by other women of Yatta South.

[31] Gwendolyn Mikell, conclusion to *African Feminism: The Politics of Survival in Sub-Saharan Africa*, ed. Gwendolyn Mikell (Philadelphia: University of Pennsylvania Press, 1997), 341.

[32] Josephine Lairap-Fonderson, "The disciplinary power of micro credit: examples from Kenya and Cameroon," in *Rethinking Empowerment: Gender and development in a global/local world*, eds. Jane L. Parpart, Shirin M. Rai and Kathleen Staudt (London: Routledge, 2002), 184.

[33] While men's socializing can be considered a waste of time, in many cases men use their social networks as a basis of support in times of crisis, just as women rely on their own groups.

[34] My fundamental understanding of microcredit draws upon the following main sources:

- Simeen Mahmud, "Actually how Empowering is Microcredit," *Journal of Developing Areas* 34, no. 4 (2003).
- Linda Mayoux. *The Magic Ingredient? Microfinance and Women's Empowerment.* February 1997. Accessed November 3, 2003. Available from http://www.grdc.org/icm/wind/magic/html
- Marguerite Robinson, *The Microfinance Revolution: Sustainable Finance for the Poor.* (Washington D.C, The World Bank, 2001)
- Eugene Versluysen, *Defying the Odds: Banking for the Poor.* (West Hartford: Kumarian Press, 1999).

[35] Eugene Versluysen, *Defying the Odds:* 42.

[36] Ibid.

[37] United Nations Development Programme Evaluation Office, *Essentials: A Synthesis of Lessons Learned. Microfinance,* December, 1999 (accessed November 1, 2003); available from http://www.undp.org/eo/publication/essentials.html

[38] Ibid.

[39]Emily Kithinji, "Development and the nature of microfinance in Kenya," Women & Environments International Magazine, March 2002 (accessed October 20, 2003); available from Lexis-Nexis Universe.

[40] Micro-enterprises are defined by USAID as businesses with fewer than ten employees that are owned and operated by poor people.

[41]As cited in Josephine Lairap-Fonderson, "Micro credit in Kenya and Cameroon," in Rethinking Empowerment: Gender and development in a global/local world, eds. Jane L. Parpart, Shirin M. Rai and Kathleen Staudt (London: Routledge, 2002).

[42] Women's World Banking: Changing the way the Way the World Works (accessed November 14, 2003); available from http://www.swwb.org/English/1000/addresses/affiliates/add_affKENYA.htm

[43] Janet Gabriel Townsend and others, Women & Power. (London: Zed Books, 1999), 24-5.

[44] Josephine Lairap-Fonderson, "The disciplinary power of micro credit: examples from Kenya and Cameroon," in *Rethinking Empowerment: Gender and development in a global/local world*, eds. Jane L. Parpart, Shirin M. Rai and Kathleen Staudt (London: Routledge, 2002), 191.

[45] Graham A N Wright. *Microfinance Systems: Designing Quality Financial Services for the Poor.* (London: Zed Books, 2000), 4.

[46] Simeen Mahmud, "Actually how Empowering is Microcredit," 583.

[47] As cited in Simeen Mahmud, "Actually how Empowering is Microcredit."

[48] Marguerite S. Robinson, *The Microfinance Revolution:* 117.

[49] Berida Ndambuki, *We Only Come Here to Struggle*: 106.

[50] *The Microcredit Summit Campaign* (accessed November 14, 2003); available from http://www.microcreditsummit.org

[51] Semple, Kirk. "Tiniest of Loans Bring Big Payoff, Aid Group Says," *The New York Times,* November 3, 2003.

[52] William Faria, "Government Reaffirms Commitment to Gender Equality," *The East African Standard,* November 7, 2003.

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Hay, Margaret Jean, and Sharon Stichter, eds. African Women South of the Sahara. New York: Longman Publishing, 1995.

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A Study of Economic Sanctions: Factors that Influence Success and Failure by Boryana Damyanova

Damyanova formulates a theory that evaluates the factors and objectives that have a significant influence on the success of economic sanctions in developing policy recommendations.

Recent challenges and conflicts in the international community suggest that it has to work toward a better collaboration to achieve satisfactory ends. The purpose of this paper is to shed light on a specific issue that has caused much debate in the post 9/11 world: economic sanctions. Economic sanctions have been major policy tools in US foreign policy for a long time. For the three years between 1993 and 1996, the US targeted and imposed sanctions on 35 countries.[1] Merely realizing that they have become increasingly pertinent to American policy is not enough. This paper articulates a theory to evaluate the factors and objectives that have a significant influence on the success of economic sanctions in order to develop policy recommendations. It also analyzes the underlying reasons behind the use of sanctions and tries to extrapolate a conclusion as to why they are an important policy tool, taking into account the unique role of the US in the post 9/11 setting.

After providing my own definition of success, I argue that sanctions are often considered more successful than they actually are and that a better understanding of the factors and circumstances of these trade restrictions can make them work better. There are four major reasons for my argument. First, the goals are too ambitious, too ambiguous, and often do not correlate with the means used to reach those goals. Second, the decision-making process behind the implementation of sanctions is often too swift, and important considerations about impact and side effects on both sender and target countries are not made. Also, there is a lack of communication between the legislative and executive branch and the private companies, which have to follow the restrictions. Nor is there is enough private sector involvement. Third, the diversity of interests within the international community leads to a difficulty to reach multilateral agreements. Finally, the costs incurred on the US economy and private sector, together with the impact of sanctions on lower class people in the target countries, are the source of substantial damage that is not necessarily worth the cause. As a whole, in order for sanctions to work better, each one of these areas has to be scrutinized and taken into account. This paper proves why these points are relevant and evaluates a number of studies according to this theory.

America applies sanctions because they are easy to use and they seem to incur almost zero costs on the imposing country. However, do they achieve the ends for which they were meant? The methodology of this paper is structured around a comprehensive study by Gary Hufbauer, Kimberly Elliot and Jeffrey Schott. First, I provide some operational definitions and answer the question, "Why are sanctions useful in the current international environment?" Then, I critically evaluate scholars' arguments on the success of economic sanctions and use their approach to assess the role of sanctions, focusing on the previously outlined five issues. Subsequently, I discuss in detail the costs of economic sanctions on both the sender and the target country, closing with a number of policy suggestions and recommendations that might increase the success of sanctions and improve the US as a political and economic power in the world today.

What are sanctions and why are they used?

Economic sanctions are restrictions on normal commercial relations, such as trade, investment, and other cross-border economic activities, with a targeted country. Their aim is usually to "alter unacceptable political or military behavior."[2] Economic sanctions can be limited or comprehensive. Limited sanctions, also referred to as "selective" as opposed to comprehensive, operate in more narrowly defined trade or financial spheres. Two examples are suspension of foreign aid and restriction on exports of narrow categories of goods and technologies[3]. Sanctions are also differentiated by category: trade or financial. The difference between the two is that trade sanctions are restrictions on imports and exports, while financial sanctions focus on investment of companies in countries and providing aid. Targeted sanctions or "smart sanctions" form their own category and are important to this paper because of their specific policy objective. They "are meant to focus the impact on leaders, political elites and segments of society believed responsible for objectionable behavior, while reducing collateral damage to the general population." [4] In building the arguments for my theory for the factors of success for sanctions I will employ the broad definition of economic sanctions. However, when addressing specific case studies and issue areas, I will focus on specific types of sanctions, especially targeted ones.

In assessing whether sanctions worked or not, I will look at whether the initial objective was met in the end with minimal costs incurred. For example, the goals of the sanctions imposed on South Africa both by the US and UN were to "end apartheid, possibly leading to black majority rule and terminate the South African presence in Namibia."[5] The final outcome was that South Africa withdrew from Namibia, and apartheid was ended.[6] However, in evaluating whether sanctions were successful in a particular case, one must also take into account the costs involved both for the US and for South Africa.

Economic sanctions have been used for a number of decades for different reasons. What makes them a unique foreign policy tool is the fact that they are easy to implement. They can be used multilaterally by having a coalition of countries stop imports and ban exports of a respective country. They can be also unilateral. The US Congress passed a bill in 1990 "denying benefits of agricultural promotion programs to countries that violate human rights, acquire weapons of mass destruction, support international terrorism, or refuse to abide by the 1925 gas warfare treaty." [7]

Economic sanctions are a useful tool to demonstrate resolve or "express outrage, change the behavior of the target country, and deter other countries from resorting to similar action in the future."[8] They are a good way to coerce countries and show disapproval of their policies without immediate costs to the sender country. Joseph Gavin III states that economic sanctions have "some properties of a public good."[9] The main difference is that unlike public goods where government expenditure covers their costs, sanctions appear not to have a direct short-term cost to the government. Thus, one can argue that governments are likely to use economic sanctions since they do not themselves bear many costs. However, one has to recognize that there are significant costs often paid by the private sector.

Economic sanctions are useful to governments that face increasing political pressures from constituencies. In the post-Cold War world, non-governmental organizations have an increasing impact and often exert significant pressure on governments. If there is a sign of discontent among the public regarding a human rights issue or terrorist concerns with a specific country, the government will usually place economic sanctions as a response. As Gavin III summarizes "the cost of inaction - in lost confidence at home and abroad in the ability or willingness of the US to act – is seen as greater than the cost of the sanctions."[10] In these cases, sanctions are a good tool because of two factors. First, when they are comprehensive, they have a very large negative impact on the target country. Second, the government relieves the pressure of interest groups and rallies support at the same time. As a result, governments might be inclined to use economic sanctions more often than usual, especially if they are willing to respond to special interest groups' preferences.

The changing international scene and the US role in the international community are also contributing factors to the escalating use of economic sanctions to achieve change in political behavior in other countries (Table 1). Humanitarian intervention, nation building, proliferation of weapons of mass destruction, and terrorism are issues that recent and current administrations have confronted and will continue to confront. Currently, concerns over human rights,–ethnic discrimination, and extremist nationalism provide and impetus for devising an efficient grand strategy to adapt the US to a new world order. The US is involved in two wars – the war in Iraq and the war on terror – which together are already exhausting more than enough of the country's economic, military, and political resources. Thus, in order to keep its interests and address issues in other areas of the world it has to use "economical" means like economic sanctions.

Economic sanctions can be used as a "liberal alternative to war"[11] in the post Cold war world. Pape refers to Hufbauer's point that they are a "credible alternative to military force" and the argument that not only can they be as effective as military force but also are more humane than war. Gavin III offers a controversial point of view by stating that economic sanctions are not levers but rather symbols. With this analogy, he makes the point that even though economic sanctions are considered very useful tools in foreign policy because they are an alternative to war, they have a minor impact and incur minuscule success. They are only symbols of discontent. According to him, the very fact that they have a broad impact and do not target specific economic policy is treacherous because they do not focus on one objective and do not have the same impact as a military action. Moreover, the regimes in target countries are often strong authoritarian governments, which tend to produce a backlash and a "counter-productive result of strengthening the resolve."[12] Thus, according to Gavin, economic sanctions cannot serve as an alternative to war because they often cause even greater conflict and resistance from strong authoritarian governments.

Before moving on to evaluate the success of economic sanctions, one must mention the utility of economic sanctions against terrorism, especially after the events of 9/11. President Bush declared in his speech on September 20th 2001 that the war on terror would be fought on many fronts, with economic sanctions being an important one. Thus, he emphasized the importance and the utility of economic sanctions to stop state sponsored terrorism and to freeze the assets of well-known terrorist groups around the world. However, empirical evidence suggests that economic sanctions have not had a great impact on state sponsored terrorism (Table 3): "Despite several decades of economic sanctions, the majority of designated state sponsors have continued to shelter and harbor international terrorists and terrorist groups in their territories."[13] The new policy of the US after September 11th has been to use economic sanctions as both *carrots* (the lifting of select or all existing economic sanctions as an incentive for countries to join the war on terrorism) and *sticks* (to punish countries who are sponsoring terrorism or not actively involved in the war against terror). By doing this, the US has increased the use of economic sanctions as a policy tool. However, has the initial goal been accomplished, and if it has been accomplished, were economic sanctions the factor that brought about change?

The Hufbauer, Schott, and Elliot Study of Economic Sanctions

The Hufbauer, Schott and Elliot (referred to as HSE) case is one of the most comprehensive studies of US sanctions and their success. It was initially published in 1985 and later updated in 1990 to include a number of newly imposed economic sanctions. Most of the information I have used for this paper has been taken from their later study. By studying sanction impositions and their success from 1914 until 1990, HSE conclude that 40 cases out of 115 were successful, which yields a 34% success rate.[14] According to HSE 34% is a large number of successes. Here are some of the most important points of their argument.

HSE argue that there are five major factors, which influence success of sanctions.

1. **Goal of sanctions**. A more modest goal will yield higher results. It will lessen the importance of multilateral cooperation and reduce the chance of a rival power to step in with offsetting assistance. In this category, they recognize five separate objectives that a sender country might have:

   a) Destabilize the target government and change the target's country policies
   b) Disrupt a minor military adventure.
   c) Impair the military potential of the target country
   d) Change target country policies in a major way (surrender territory for example)

2. **The power of the target country**. A target country that is generally much smaller, weaker and politically unstable than the country imposing sanctions will lead to a higher success rate of economic sanctions.
3. **Relations between the two countries**. The stronger the relations between the two countries, the larger the success rate is going to be.
4. **Time factor**. Quick sanctions are usually more successful than sanctions that are prolonged over a large period of time.
5. **Costs**. The sanctions tend to be more effective if the sender country avoids costs to itself.

Additional Factors and HSE Theory Evaluation in a Post 9/11 World

The study of Hufbauer, Schott and Elliot in 1990 turns an abstract and intangible issue into an empirical analysis that provides clear answers and policy recommendations. However, in a post-September 11th world, where tensions against US hegemony are rising, there are additional factors that have to be considered when evaluating the success of economic sanctions. Here I lay out my theory as outlined in the beginning of this paper by discussing four major factors – goals, the implementation process, the international scene, and costs – that have a significant influence on economic sanctions in the current international arena.

1. <u>Policy objectives when imposing economic sanctions</u>

I agree with HSE's argument that a minor policy change through economic sanctions tends to be more successful than a major alteration of a country's behavior. However, there are other considerations that have to be made when assessing the success of economic sanctions in regards to goals. First, the changing nature of economic sanctions and their use as levers or signals has to be taken into account. Their use as levers suggests that a change in policy is sought through alternative tools to circumvent the use of military force. This means that the target country will sooner or later discover that the sender is not willing to employ its military resources to engage in serious coercion. On the other hand, when economic sanctions are used as signals, the possibility of using force is not ruled out. Their use as a signal merely gives an opportunity for the target country to reconsider and change its polices peacefully, bearing in mind that use of force will be the next policy step if the target country does not comply. Thus, I argue that success is more likely to occur if economic sanctions are used as a signal because the sender country suggests the prospect of a harsher punishment through the use of force. Overall, "if policymakers know that 95 percent of the time they are just sending signals, then the Hufbauer and Schott recommendations for policymakers, all of which assume that the purpose of sanctions is the traditional one of forcing policy changes, are less relevant."[15]

Another important issue that influences the goals of the sender government and their successful achievement is whether the signals are consistent. If a government keeps on sending conflicting signals, it is very hard for the target country to respond in a desirable fashion. Moreover, conflicting signals undermine the credibility of the sender country by proving that the objectives of the economic sanctions are not clear. This point leads to a criticism of US sanctions policy by Jesse Helms, who argues that President Clinton signed the Iran-Libya Sanctions Act and made sure economic sanctions were not harshly imposed on Cuba and China since he considered them a "public relations tool rather than a foreign policy weapon"[16] Clinton signed the Iran-Libya Act live on CNN and gave a "bold speech for the cameras" before signing the Helms-Burton law; however, since then "he has done everything in his power to avoid enforcing it."[17] Lack of clarity in the executive's actions might cause the target country to doubt our resolve to keep economic sanctions imposed. As a conclusion, the US has to be clear in its objectives, because it will witness more responsiveness and create urgency to the situation rather than show indecisiveness.

2. The Implementation Process and its Impact on Success

The implementation of economic sanctions is as important a factor as their initial objective. It takes not only a desire to reach a change in behavior of another country, but also a careful calculation whether that would be possible at all. There are three main subdivisions of factors that have to be taken into account when conducting analysis, setting goals and deadlines of sanctions policy:

a) The specific characteristics of the target country
b) The time span for which sanctions will be imposed.
c) The response of the private businesses in the sender country and the utility of their collaboration with the government.

Characteristics of Target

First, the nature of the target country and its government are crucial to the success of a sanctions plan. Hufbauer recognizes this point as a valid; however, he doesn't stress enough the importance of the type of government that rules the target. Moreover, he makes a questionable argument that political instability and undersized economic wealth will cause sanctions to work better.

The size of the target country and its power, be it military, political, and cultural, matter. In North Korea, for example, the US and its allies imposed a number of economic and trade sanctions in order to help the conflict between the North and the South, and also to stop the proliferation of weapons. Not only does the US outsize Korea in terms of both population and land, but also the Korean economy faces desperate economic conditions, with a GDP per capita only $1000 compared to $37,600 in the US.[18] Yet economic sanctions have not been successful and have not caused it to change its political behavior. There are other specific characteristics of North Korea that account for its resistance to economic sanctions, for example, its authoritarian regime and its extremely closed and isolated economy. (Figure 3)

Political stability and the form of government instituted in the target country are factors that have to be carefully evaluated before placing economic sanctions. I would argue that liberal democratic governments are more vulnerable to economic sanctions and pressures from other countries because of their open trade policies and responsiveness to citizens. On the other hand, illiberal democracies, autocracies, or dictatorships are harder to coerce with economic sanctions because these restrictions usually produce a strong backlash against the sender's policy: "Because of the hierarchy of policy values, governments that wish to remain in power must be able to demonstrate that they are not vulnerable to externally imposed economic pressures."[19] Even though the Panamanian economy uses the dollar as its currency and is thus closely related to the US economy, Manuel Noriega (Commander of the Panamanian Defense Forces), supported by the Panama military, remained in control and did not concede to economic sanctions. Moreover, undemocratic governments are usually very elite-centered, which allows for economic sanctions to hurt the poor citizens most. Poor citizens do not have a say in such types of government, however, and thus governments have no incentive for a behavioral change. Most of the countries that are under US sanctions have a form of government that is different from a liberal democracy leading to the conclusion that they will be much harder to coerce following the above argument. (Table 3)

Another relevant phenomenon, discussed by Richard Haass in his article "Sanctioning Madness" is that authoritarian governments and statist societies are able to weather the effects of sanctions. He points out to three reasons why that might be the case. First, sanctions can trigger a "rally around the flag" nationalist movement. Second, they create scarcity and provide the opportunity for governments to take control over the equal distribution of goods. Third, economic sanctions create a "sense of siege" that makes people vulnerable to government exploitations.[20] These three points serve as examples of ways in which effects of economic sanctions can be avoided and outside pressure for change can be met with resistance by authoritarian governments, even in a politically stable regime.

As a corollary, before the imposition of economic sanctions on a country, there has to be extensive research on the specifics of the target in terms of type of government, military power, cultural influences and so on. One has to keep in mind that the target country performs a cost-benefit analysis when making the decision whether to change its behavior or not. If there are factors that are more costly than the impetus to change, sanctions will be unsuccessful.

Time Span

There exist two opposing arguments for the time span factor and its influence on success of economic sanctions. The first one, introduced by Jesse Helms, is that sanctions must be swift and show US determination. They must demonstrate credibility in front of the target country and thus change its behavior. Jesse Helms criticizes the Sanctions Reform Act, which "prohibits the president from implementing any sanctions for a mandatory 45-day "cooling off" period."[21] The reasons for his argument are that while the US "cools off" for six weeks, terrorists, proliferators and dictators take evasive measures to divest assets, hide evidence and find safe haven for fugitives. The Libyan terrorists who blew up Pan Am flight 103 did exactly that while the United Nations were debating the appropriate sanctions. They divested all their assets and avoided the sanctions impact.

However, there is a drawback to the opposite situation, too. If the US government or the sender acts immediately, it will not be able to take into consideration different aspects of the target country, calculate positive response and estimate success, and make a good cost-benefit judgment on the domestic impact of economic sanctions. The argument follows that if the sender does not make the preliminary considerations before imposing sanctions, they will not be successful anyway. Therefore, it is better for sanctions to be well devised and clear in their objectives, rather than to be swiftly imposed without further analysis of their future impact and successful results.

Private Businesses and their role

Private businesses and financial institutions have a large impact on the success of economic sanctions. If they withdraw their investment and stop giving loans to the respective target country, the shock of restrictions will be much higher. The possibility of the country to change its behavior will increase. A prominent example illustrating this point is the success of economic sanctions in South Africa. Following the institution of new constitution under which Prime Minister P.W. Botha moved into an even more powerful presidency in September 1984, 119 US companies agreed to commit themselves "to press for broad changes in South African society, including repeal of all apartheid laws and policies."[22] Soon after, Chase Manhattan bank stopped lending to South Africa and refused to renew maturing loans with a total value of $400 million. American banks withdrew $1 billion during the first half of 1985. A Washington Post article on September 1, 1985 states that the American bank's "refusal to extend new credit" and the British bank's unwillingness to make new loans had a large impact on the short-term debt crisis in South Africa. In corollary, the economic sanction that had most impact on South Africa was the withdrawal of short-tem capital, which began with Chase Manhattan's decision. In this case, the government interests of economic sanctions coincided with the banks reaction to political instability and increased risk of the South African market to produce successful results.

3. The International Scene as a factor of Economic Sanctions' Success

September 11th made what was a complicated state of affairs in the international community even a more complex issue. Relative to US foreign policy, there were two major camps that were formed – the camp of the supporters of the war on terror versus the countries that continued to foster certain types of terrorism and provide safe heaven for terrorists. Economic sanctions play a decisive role in this controversy and are often used to coerce countries of the second type to join the camp fighting against terror. These sanctions are referred to as "carrots," essentially giving the target country a reward for their compliance.

The camp discussion leads to a relevant issue that has to be addressed – unilateral vs. multilateral imposition of sanctions. Generally, the HSE study reaches the conclusion that multilateral economic sanctions are more successful than unilateral economic sanctions. That is logical for a number of reasons. First, a large international coalition imposing economic sanctions on a target country shows commitment to the cause. By creating a sense of urgency, they emphasize the importance of a change of behavior in the target country. Second, restrictions imposed multilaterally are credible threats that strict measures are taken. Third, multilateral economic sanctions have a larger impact on the target country because they engage the whole coalition to stop trading and conducting financial transactions with the respective country. Especially if a coalition of neighboring, "closely-related-to-the-target" countries is formed, the probability that economic sanctions will work is very high. The target will be isolated from all its previous partners. Last but not least, multilaterally imposed sanctions are useful and successful because they lower the costs on the sender countries and take individual responsibility off their shoulders. In case the sanctions turn out to be unsuccessful, or in case of a backlash against the senders, responsibility and costs are shared among all countries in the multilateral agreement.

A study by Ernest Preeg on Unilateral Economic Sanctions and the US National Interest finds that "unilateral sanctions have almost no impact on the economy of the target country as long as there are other nations willing to trade."[23] Actions by one government to deny economic goods or services to another generally do not succeed because of the availability of goods or substitute goods from other source countries.[24] The Soviet Union received its grain despite the embargo placed by President Carter. What happens in the end is that the global marketplace protects the target country from being significantly impacted, but does not protect US businesses and financial institutions that are impacted by the loss of financial relations with the target.

On the other hand, some unilateral economic sanctions have worked. The final report of the CSIS Project on Unilateral Economic Sanctions found instances when unilateral sanctions have been successful in meeting their goal. Examples are the US blocking the Russian transfer of sophisticated cryogenic engines to India after trade sanctions were threatened in July 1993, halting the South African arms shipments to Syria after US threat to stop aid in 1997, and imposing targeted sanctions against China to cease exports of sensitive military equipment. It is noteworthy that these three cases of success economic sanctions represent narrowly defined targeted sanctions and not comprehensive economic restrictions.[25] As a conclusion, the cases when unilaterally imposed sanctions work show that in order for unilateral sanctions to be successful, the sender and target must either be very closely economically related or sanctions must be very clearly defined and not comprehensive in nature.

Unilateral and multilateral sanction arguments also bring another important issue that relates to the US role in the world, namely US legitimacy. Bush's "revolution in foreign policy, " as James Lindsay, vice president and director of studies of the Council of Foreign Relations and author of the book *America Unbound*, argues, is raising international controversy. US legitimacy has been questioned.[26] There is a lot of doubt and significant "blowback"[27] against US unilateralism, which erodes the utility of unilateral economic sanctions. In the current atmosphere, it would be better for the US to try to employ a more multilateral foreign policy in relation to sanctions in order to avoid unnecessary costs and retain its legitimacy in the international community.

There has also been a lot of debate on the extraterritorial reach of the U.S law "to control exports or actions of companies outside the United States"[28] Nations do not tolerate such an action, which challenges their sovereignty of their laws and foreign policies. An illustration of this conflict is the extraterritorial reach of the 1982 gas pipeline sanctions that sparked rising tensions between the US and NATO allies. This resulted in the replacement of sanctions within five months because no tangible results were accomplished. The moral is that US' initiative to act on its own can not only cause its actions to be viewed as illegitimate, but also to induce international collaboration and even opposition to US policy, and thus erode the success of the sanctions imposed.

4. Costs of Economic Sanctions at Home and Abroad

The cost of economic sanctions to both the home and the target country is one of the most important factors that has to be considered when evaluating success–and must be carefully estimated before economic sanctions are imposed.

The sender country's costs can be two types – direct and indirect. Direct costs result from loss of jobs and exports caused by a decrease in financial transactions and investment with the target country. Indirect costs are harder to examine because their impact is subtler. Examples of indirect costs to the sender country can be loss of confidence in domestic businesses, decrease in legitimacy and often a backlash by the target country. In the case of US economic sanctions, there have been a number of both direct and indirect costs that caused the diminishing success of economic sanctions.

Economic sanctions in place during 1998 cost the United States around $20 billion in lost exports annually, depriving American workers of approximately 200,000 well-paid jobs.[29] US companies are often harder hit by economic sanctions than are foreign governments, says Gavin in his study on economic sanctions (Table 2). Moreover, the success of economic sanctions is never definite. However, by deciding to place economic restrictions on a target country, the home government binds itself to limit its financial operations, which can be very punishing or even destructive to specific domestic sectors or businesses. For example, the impact of 1986 Presidential Order ending US commerce with Libya was estimated to have cost five US oil companies between $2 million and $25 million per company in annual revenues plus loss of equity in hundreds of millions of barrels of oil reserves. [30] Competitiveness requires maintaining global market shares and access to foreign resources, which is obviously limited when economic sanctions are imposed.

Another direct cost of sanctions is the tension caused between the United States, its allies, and other trading partners around the world. The conflict over extraterritoriality discussed earlier is an illustration of US relations with allies suffering from US imposition of economic sanctions. IIE research has proved that economic sanctions cost the US $15 billion to $19 billion in forgone merchandise exports to 26 target countries in 1995. (Table 2 in Appendix) This analysis is unique in its nature because it suggests that even targeted sanctions such as restrictions on foreign aid or narrowly defined export sanctions have large effects on bilateral trade flows.[31]

There are two main long-term indirect costs that are incurred from overuse of economic sanctions. First, the "liberal application of sanctions to every cause and country badly erodes US leadership"[32] A reaction against American hegemony and a backlash against American leadership are likely to be caused by the United States' application of sanctions to half of the world's people and imposition of secondary sanctions on allies and friends. Also, the credibility of economic sanctions as strong policy tools wanes when they are overused, shows US "over-involvement" in world affairs and misses the point of urgency that should be created by the sender country. Having in mind that many thinkers and intellectuals consider the US in its decline, leaders should take more time when considering the costs of economic sanctions and make sure they do not erode American soft power.

The second long term cost, which is more focused on the business and financial sectors of the American economy, is the fact that each sanctions episode stamps a larger "unreliable supplier" label on US companies.[33] High-tech goods production takes a large portion of the US business sector and it requires a long-term relationship with a customer. George Shultz puts it well by saying that "major commercial relationships cannot be turned on and off like a light switch; they have to be built up and sustained over a period of time."[34] Sanctioned countries may avoid buying from the US exporters even after sanctions have been removed. An example of a similar situation is the Panama sanctions when the president used the authority of the International Emergency Economic Powers Act to direct American-owned companies incorporated in a foreign country to disobey local tax law by paying their taxes into an account in the FED. Such actions, according to Gavin, sent the message around the world that American subsidiaries are potential violators of local law and thus unreliable suppliers. Too often the business community has viewed economic sanctions not as foreign policy levers but rather as weapons against US businesses. Thus, if the government wants economic sanctions to work and to incur minimal costs, it has to limit their use and at the same time always try to estimate the costs – both direct and indirect to the home economy, especially looking at specific industries that will be hurt most by the restrictions of trade and investment.

The costs of economic sanctions to the host country seem obvious. Their very purpose is to harm the target economy, cease investment, withdraw aid, limit or stop trade, isolate the target, and as a result cause a change in behavior. What is an important cost of economic sanctions in the target country that is often overlooked however is the fact that most sanctions do not discriminate within the target country (unless they are targeted sanctions). This means that sanctions affect the general population, "while those in the government and the military are able to skirt the sanctions, especially in authoritarian governments as discussed above.[35] Economic sanctions often hurt the poorest or lower class population, which often is the populace that sanctions are supposed to help in the first place. Governments overlook this unintended consequence; nevertheless it is significant because it carries important assumptions for the success of the sanctions according to their objective and proves that often sanctions themselves can undermine their own success.

Conclusion

In a post September 11 world where terrorism is one of the greatest national security threats, where sovereignty as we know it is eroding, threats like rogue states fostering terrorism are a priority and proliferation of WMD is increasing, economic sanctions should and will continue to play a significant role as foreign policy tools. Sanctions will continue to be popular because they provide a cheap and credible way to express disapproval and at the same time punish with a goal to coerce target governments "The presidential decision pattern for sanctions is also likely to remain similar, dominated by high-policy concerns and driven by the special demands of American's role as a free world leader"[36]. However, as this paper lays out, there are a lot of improvements and considerations that have to be made in order for sanctions to be more successful.

My evaluation of HSE research and comprehensive study on the success of sanctions focuses on a number of additional issues that should be addressed when considering whether economic sanctions "worked" or not. The issues that I have discussed are highlighted here:

- ✓ The goals of the economic sanctions should be clear, consistent and enforce credibility;
- ✓ The implementation process should take into account specific characteristics of the target country, especially its form of government, timing as a factor and the overlap between business and government interests;
- ✓ The international scene should be evaluated with respect to multilateral and unilateral imposition of sanctions, sources of legitimacy and international cooperation with sender's restrictions;
- ✓ Both direct and indirect costs for the sender country as well as unintended consequences of costs in the target country should be carefully measured before imposing sanctions.

From analyzing the quantitative data that HSE collected, we can conclude that in 66 percemt of the cases economic sanctions have not worked. Chances are that considering the US position in the world today, and the increasing negativity with which US policy is viewed, sanctions are even less likely to succeed. What happens if economic sanctions continue to consistently fail? Will other ways (military action) of dealing with problematic regimes and government policies be utilized? Can these alternative and detrimental methods be avoided? A step in the right direction and a possible cure may be obtained if the use and implementation of economic sanctions is reconsidered.

Appendix

***Table 1.* Types of Government in Target Countries**

Recent challenges and conflicts in the international community suggest that it has to work toward a better collaboration to achieve satisfactory ends. The purpose of this paper is to shed light on a specific issue that has caused much debate in the post 9/11 world: economic sanctions. Economic sanctions have been major policy tools in US foreign policy for a long time. For the three years between 1993 and 1996, the US targeted and imposed sanctions on 35 countries.[1] Merely realizing that they have become increasingly pertinent to American policy is not enough. This paper articulates a theory to evaluate the factors and objectives that have a significant influence on the success of economic sanctions in order to develop policy recommendations. It also analyzes the underlying reasons behind the use of sanctions and tries to extrapolate a conclusion as to why they are an important policy tool, taking into account the unique role of the US in the post 9/11 setting.

After providing my own definition of success, I argue that sanctions are often considered more successful than they actually are and that a better understanding of the factors and circumstances of these trade restrictions can make them work better. There are four major reasons for my argument. First, the goals are too ambitious, too ambiguous, and often do not correlate with the means used to reach those goals. Second, the decision-making process behind the implementation of sanctions is often too swift, and important considerations about impact and side effects on both sender and target countries are not made. Also, there is a lack of communication between the legislative and executive branch and the private companies, which have to follow the restrictions. Nor is there is enough private sector involvement. Third, the diversity of interests within the international community leads to a difficulty to reach multilateral agreements. Finally, the costs incurred on the US economy and private sector, together with the impact of sanctions on lower class people in the target countries, are the source of substantial damage that is not necessarily worth the cause. As a whole, in order for sanctions to work better, each one of these areas has to be scrutinized and taken into account. This paper proves why these points are relevant and evaluates a number of studies according to this theory.

America applies sanctions because they are easy to use and they seem to incur almost zero costs on the imposing country. However, do they achieve the ends for which they were meant? The methodology of this paper is structured around a comprehensive study by Gary Hufbauer, Kimberly Elliot and Jeffrey Schott. First, I provide some operational definitions and answer the question, "Why are sanctions useful in the current international environment?" Then, I critically evaluate scholars' arguments on the success of economic sanctions and use their approach to assess the role of sanctions, focusing on the previously outlined five issues. Subsequently, I discuss in detail the costs of economic sanctions on both the sender and the target country, closing with a number of policy suggestions and recommendations that might increase the success of sanctions and improve the US as a political and economic power in the world today.

What are sanctions and why are they used?

Economic sanctions are restrictions on normal commercial relations, such as trade, investment, and other cross-border economic activities, with a targeted country. Their aim is usually to "alter unacceptable political or military behavior."[2] Economic sanctions can be limited or comprehensive. Limited sanctions, also referred to as "selective" as opposed to comprehensive, operate in more narrowly defined trade or financial spheres. Two examples are suspension of foreign aid and restriction on exports of narrow categories of goods and technologies[3]. Sanctions are also differentiated by category: trade or financial. The difference between the two is that trade sanctions are restrictions on imports and exports, while financial sanctions focus on investment of companies in countries and providing aid. Targeted sanctions or "smart sanctions" form their own category and are important to this paper because of their specific policy objective. They "are meant to focus the impact on leaders, political elites and segments of society believed responsible for objectionable behavior, while reducing collateral damage to the general population." [4] In building the arguments for my theory for the factors of success for sanctions I will employ the broad definition of economic sanctions. However, when addressing specific case studies and issue areas, I will focus on specific types of sanctions, especially targeted ones.

In assessing whether sanctions worked or not, I will look at whether the initial objective was met in the end with minimal costs incurred. For example, the goals of the sanctions imposed on South Africa both by the US and UN were to "end apartheid, possibly leading to black majority rule and terminate the South African presence in Namibia."[5] The final outcome was that South Africa withdrew from Namibia, and apartheid was ended.[6] However, in evaluating whether sanctions were successful in a particular case, one must also take into account the costs involved both for the US and for South Africa.

Economic sanctions have been used for a number of decades for different reasons. What makes them a unique foreign policy tool is the fact that they are easy to implement. They can be used multilaterally by having a coalition of countries stop imports and ban exports of a respective country. They can be also unilateral. The US Congress passed a bill in 1990 "denying benefits of agricultural promotion programs to countries that violate human rights, acquire weapons of mass destruction, support international terrorism, or refuse to abide by the 1925 gas warfare treaty." [7]

Economic sanctions are a useful tool to demonstrate resolve or "express outrage, change the behavior of the target country, and deter other countries from resorting to similar action in the future."[8] They are a good way to coerce countries and show disapproval of their policies without immediate costs to the sender country. Joseph Gavin III states that economic sanctions have "some properties of a public good."[9] The main difference is that unlike public goods where government expenditure covers their costs, sanctions appear not to have a direct short-term cost to the government. Thus, one can argue that governments are likely to use economic sanctions since they do not themselves bear many costs. However, one has to recognize that there are significant costs often paid by the private sector.

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The changing international scene and the US role in the international community are also contributing factors to the escalating use of economic sanctions to achieve change in political behavior in other countries (Table 1). Humanitarian intervention, nation building, proliferation of weapons of mass destruction, and terrorism are issues that recent and current administrations have confronted and will continue to confront. Currently, concerns over human rights,–ethnic discrimination, and extremist nationalism provide and impetus for devising an efficient grand strategy to adapt the US to a new world order. The US is involved in two wars – the war in Iraq and the war on terror – which together are already exhausting more than enough of the country's economic, military, and political resources. Thus, in order to keep its interests and address issues in other areas of the world it has to use "economical" means like economic sanctions.

Economic sanctions can be used as a "liberal alternative to war"[11] in the post Cold war world. Pape refers to Hufbauer's point that they are a "credible alternative to military force" and the argument that not only can they be as effective as military force but also are more humane than war. Gavin III offers a controversial point of view by stating that economic sanctions are not levers but rather symbols. With this analogy, he makes the point that even though economic sanctions are considered very useful tools in foreign policy because they are an alternative to war, they have a minor impact and incur minuscule success. They are only symbols of discontent. According to him, the very fact that they have a broad impact and do not target specific economic policy is treacherous because they do not focus on one objective and do not have the same impact as a military action. Moreover, the regimes in target countries are often strong authoritarian governments, which tend to produce a backlash and a "counter-productive result of strengthening the resolve."[12] Thus, according to Gavin, economic sanctions cannot serve as an alternative to war because they often cause even greater conflict and resistance from strong authoritarian governments.

Before moving on to evaluate the success of economic sanctions, one must mention the utility of economic sanctions against terrorism, especially after the events of 9/11. President Bush declared in his speech on September 20th 2001 that the war on terror would be fought on many fronts, with economic sanctions being an important one. Thus, he emphasized the importance and the utility of economic sanctions to stop state sponsored terrorism and to freeze the assets of well-known terrorist groups around the world. However, empirical evidence suggests that economic sanctions have not had a great impact on state sponsored terrorism (Table 3): "Despite several decades of economic sanctions, the majority of designated state sponsors have continued to shelter and harbor international terrorists and terrorist groups in their territories."[13] The new policy of the US after September 11th has been to use economic sanctions as both *carrots* (the lifting of select or all existing economic sanctions as an incentive for countries to join the war on terrorism) and *sticks* (to punish countries who are sponsoring terrorism or not actively involved in the war against terror). By doing this, the US has increased the use of economic sanctions as a policy tool. However, has the initial goal been accomplished, and if it has been accomplished, were economic sanctions the factor that brought about change?

The Hufbauer, Schott, and Elliot Study of Economic Sanctions

The Hufbauer, Schott and Elliot (referred to as HSE) case is one of the most comprehensive studies of US sanctions and their success. It was initially published in 1985 and later updated in 1990 to include a number of newly imposed economic sanctions. Most of the information I have used for this paper has been taken from their later study. By studying sanction impositions and their success from 1914 until 1990, HSE conclude that 40 cases out of 115 were successful, which yields a 34% success rate.[14] According to HSE 34% is a large number of successes. Here are some of the most important points of their argument.

HSE argue that there are five major factors, which influence success of sanctions.

1. **Goal of sanctions**. A more modest goal will yield higher results. It will lessen the importance of multilateral cooperation and reduce the chance of a rival power to step in with offsetting assistance. In this category, they recognize five separate objectives that a sender country might have:

a) Destabilize the target government and change the target's country policies
b) Disrupt a minor military adventure.
c) Impair the military potential of the target country
d) Change target country policies in a major way (surrender territory for example)

2. **The power of the target country**. A target country that is generally much smaller, weaker and politically unstable than the country imposing sanctions will lead to a higher success rate of economic sanctions.

3. **Relations between the two countries**. The stronger the relations between the two countries, the larger the success rate is going to be.

4. **Time factor**. Quick sanctions are usually more successful than sanctions that are prolonged over a large period of time.

5. **Costs**. The sanctions tend to be more effective if the sender country avoids costs to itself.

Additional Factors and HSE Theory Evaluation in a Post 9/11 World

The study of Hufbauer, Schott and Elliot in 1990 turns an abstract and intangible issue into an empirical analysis that provides clear answers and policy recommendations. However, in a post-September 11th world, where tensions against US hegemony are rising, there are additional factors that have to be considered when evaluating the success of economic sanctions. Here I lay out my theory as outlined in the beginning of this paper by discussing four major factors – goals, the implementation process, the international scene, and costs – that have a significant influence on economic sanctions in the current international arena.

1. <u>Policy objectives when imposing economic sanctions</u>

I agree with HSE's argument that a minor policy change through economic sanctions tends to be more successful than a major alteration of a country's behavior. However, there are other considerations that have to be made when assessing the success of economic sanctions in regards to goals. First, the changing nature of economic sanctions and their use as levers or signals has to be taken into account. Their use as levers suggests that a change in policy is sought through alternative tools to circumvent the use of military force. This means that the target country will sooner or later discover that the sender is not willing to employ its military resources to engage in serious coercion. On the other hand, when economic sanctions are used as signals, the possibility of using force is not ruled out. Their use as a signal merely gives an opportunity for the target country to reconsider and change its polices peacefully, bearing in mind that use of force will be the next policy step if the target country does not comply. Thus, I argue that success is more likely to occur if economic sanctions are used as a signal because the sender country suggests the prospect of a harsher punishment through the use of force. Overall, "if policymakers know that 95 percent of the time they are just sending signals, then the Hufbauer and Schott recommendations for policymakers, all of which assume that the purpose of sanctions is the traditional one of forcing policy changes, are less relevant."[15]

Another important issue that influences the goals of the sender government and their successful achievement is whether the signals are consistent. If a government keeps on sending conflicting signals, it is very hard for the target country to respond in a desirable fashion. Moreover, conflicting signals undermine the credibility of the sender country by proving that the objectives of the economic sanctions are not clear. This point leads to a criticism of US sanctions policy by Jesse Helms, who argues that President Clinton signed the Iran-Libya Sanctions Act and made sure economic sanctions were not harshly imposed on Cuba and China since he considered them a "public relations tool rather than a foreign policy weapon"[16] Clinton signed the Iran-Libya Act live on CNN and gave a "bold speech for the cameras" before signing the Helms-Burton law; however, since then "he has done everything in his power to avoid enforcing it."[17] Lack of clarity in the executive's actions might cause the target country to doubt our resolve to keep economic sanctions imposed. As a conclusion, the US has to be clear in its objectives, because it will witness more responsiveness and create urgency to the situation rather than show indecisiveness.

2. The Implementation Process and its Impact on Success

The implementation of economic sanctions is as important a factor as their initial objective. It takes not only a desire to reach a change in behavior of another country, but also a careful calculation whether that would be possible at all. There are three main subdivisions of factors that have to be taken into account when conducting analysis, setting goals and deadlines of sanctions policy:

a) The specific characteristics of the target country
b) The time span for which sanctions will be imposed.
c) The response of the private businesses in the sender country and the utility of their collaboration with the government.

Characteristics of Target

First, the nature of the target country and its government are crucial to the success of a sanctions plan. Hufbauer recognizes this point as a valid; however, he doesn't stress enough the importance of the type of government that rules the target. Moreover, he makes a questionable argument that political instability and undersized economic wealth will cause sanctions to work better.

The size of the target country and its power, be it military, political, and cultural, matter. In North Korea, for example, the US and its allies imposed a number of economic and trade sanctions in order to help the conflict between the North and the South, and also to stop the proliferation of weapons. Not only does the US outsize Korea in terms of both population and land, but also the Korean economy faces desperate economic conditions, with a GDP per capita only $1000 compared to $37,600 in the US.[18] Yet economic sanctions have not been successful and have not caused it to change its political behavior. There are other specific characteristics of North Korea that account for its resistance to economic sanctions, for example, its authoritarian regime and its extremely closed and isolated economy. (Figure 3)

Political stability and the form of government instituted in the target country are factors that have to be carefully evaluated before placing economic sanctions. I would argue that liberal democratic governments are more vulnerable to economic sanctions and pressures from other countries because of their open trade policies and responsiveness to citizens. On the other hand, illiberal democracies, autocracies, or dictatorships are harder to coerce with economic sanctions because these restrictions usually produce a strong backlash against the sender's policy:

“Because of the hierarchy of policy values, governments that wish to remain in power must be able to demonstrate that they are not vulnerable to externally imposed economic pressures.”[19] Even though the Panamanian economy uses the dollar as its currency and is thus closely related to the US economy, Manuel Noriega (Commander of the Panamanian Defense Forces), supported by the Panama military, remained in control and did not concede to economic sanctions. Moreover, undemocratic governments are usually very elite-centered, which allows for economic sanctions to hurt the poor citizens most. Poor citizens do not have a say in such types of government, however, and thus governments have no incentive for a behavioral change. Most of the countries that are under US sanctions have a form of government that is different from a liberal democracy leading to the conclusion that they will be much harder to coerce following the above argument. (Table 3)

Another relevant phenomenon, discussed by Richard Haass in his article “Sanctioning Madness” is that authoritarian governments and statist societies are able to weather the effects of sanctions. He points out to three reasons why that might be the case. First, sanctions can trigger a “rally around the flag” nationalist movement. Second, they create scarcity and provide the opportunity for governments to take control over the equal distribution of goods. Third, economic sanctions create a “sense of siege” that makes people vulnerable to government exploitations.[20] These three points serve as examples of ways in which effects of economic sanctions can be avoided and outside pressure for change can be met with resistance by authoritarian governments, even in a politically stable regime.

As a corollary, before the imposition of economic sanctions on a country, there has to be extensive research on the specifics of the target in terms of type of government, military power, cultural influences and so on. One has to keep in mind that the target country performs a cost-benefit analysis when making the decision whether to change its behavior or not. If there are factors that are more costly than the impetus to change, sanctions will be unsuccessful.

Time Span

There exist two opposing arguments for the time span factor and its influence on success of economic sanctions. The first one, introduced by Jesse Helms, is that sanctions must be swift and show US determination. They must demonstrate credibility in front of the target country and thus change its behavior. Jesse Helms criticizes the Sanctions Reform Act, which “prohibits the president from implementing any sanctions for a mandatory 45-day “cooling off” period.”[21] The reasons for his argument are that while the US “cools off” for six weeks, terrorists, proliferators and dictators take evasive measures to divest assets, hide evidence and find safe haven for fugitives. The Libyan terrorists who blew up Pan Am flight 103 did exactly that while the United Nations were debating the appropriate sanctions. They divested all their assets and avoided the sanctions impact.

However, there is a drawback to the opposite situation, too. If the US government or the sender acts immediately, it will not be able to take into consideration different aspects of the target country, calculate positive response and estimate success, and make a good cost-benefit judgment on the domestic impact of economic sanctions. The argument follows that if the sender does not make the preliminary considerations before imposing sanctions, they will not be successful anyway. Therefore, it is better for sanctions to be well devised and clear in their objectives, rather than to be swiftly imposed without further analysis of their future impact and successful results.

Private Businesses and their role

Private businesses and financial institutions have a large impact on the success of economic sanctions. If they withdraw their investment and stop giving loans to the respective target country, the shock of restrictions will be much higher. The possibility of the country to change its behavior will increase. A prominent example illustrating this point is the success of economic sanctions in South Africa. Following the institution of new constitution under which Prime Minister P.W. Botha moved into an even more powerful presidency in September 1984, 119 US companies agreed to commit themselves "to press for broad changes in South African society, including repeal of all apartheid laws and policies."[22] Soon after, Chase Manhattan bank stopped lending to South Africa and refused to renew maturing loans with a total value of $400 million. American banks withdrew $1 billion during the first half of 1985. A Washington Post article on September 1, 1985 states that the American bank's "refusal to extend new credit" and the British bank's unwillingness to make new loans had a large impact on the short-term debt crisis in South Africa. In corollary, the economic sanction that had most impact on South Africa was the withdrawal of short-tem capital, which began with Chase Manhattan's decision. In this case, the government interests of economic sanctions coincided with the banks reaction to political instability and increased risk of the South African market to produce successful results.

<u>3. The International Scene as a factor of Economic Sanctions' Success</u>

September 11th made what was a complicated state of affairs in the international community even a more complex issue. Relative to US foreign policy, there were two major camps that were formed – the camp of the supporters of the war on terror versus the countries that continued to foster certain types of terrorism and provide safe heaven for terrorists. Economic sanctions play a decisive role in this controversy and are often used to coerce countries of the second type to join the camp fighting against terror. These sanctions are referred to as "carrots," essentially giving the target country a reward for their compliance.

The camp discussion leads to a relevant issue that has to be addressed – unilateral vs. multilateral imposition of sanctions. Generally, the HSE study reaches the conclusion that multilateral economic sanctions are more successful than unilateral economic sanctions. That is logical for a number of reasons. First, a large international coalition imposing economic sanctions on a target country shows commitment to the cause. By creating a sense of urgency, they emphasize the importance of a change of behavior in the target country. Second, restrictions imposed multilaterally are credible threats that strict measures are taken. Third, multilateral economic sanctions have a larger impact on the target country because they engage the whole coalition to stop trading and conducting financial transactions with the respective country. Especially if a coalition of neighboring, "closely-related-to-the-target" countries is formed, the probability that economic sanctions will work is very high. The target will be isolated from all its previous partners. Last but not least, multilaterally imposed sanctions are useful and successful because they lower the costs on the sender countries and take individual responsibility off their shoulders. In case the sanctions turn out to be unsuccessful, or in case of a backlash against the senders, responsibility and costs are shared among all countries in the multilateral agreement.

A study by Ernest Preeg on Unilateral Economic Sanctions and the US National Interest finds that "unilateral sanctions have almost no impact on the economy of the target country as long as there are other nations willing to trade."[23] Actions by one government to deny economic goods or services to another generally do not succeed because of the availability of goods or substitute goods from other source countries.[24] The Soviet Union received its grain despite the embargo placed by President Carter. What happens in the end is that the global marketplace protects the target country from being significantly impacted, but does not protect US businesses and financial institutions that are impacted by the loss of financial relations with the target.

On the other hand, some unilateral economic sanctions have worked. The final report of the CSIS Project on Unilateral Economic Sanctions found instances when unilateral sanctions have been successful in meeting their goal. Examples are the US blocking the Russian transfer of sophisticated cryogenic engines to India after trade sanctions were threatened in July 1993, halting the South African arms shipments to Syria after US threat to stop aid in 1997, and imposing targeted sanctions against China to cease exports of sensitive military equipment. It is noteworthy that these three cases of success economic sanctions represent narrowly defined targeted sanctions and not comprehensive economic restrictions.[25] As a conclusion, the cases when unilaterally imposed sanctions work show that in order for unilateral sanctions to be successful, the sender and target must either be very closely economically related or sanctions must be very clearly defined and not comprehensive in nature.

Unilateral and multilateral sanction arguments also bring another important issue that relates to the US role in the world, namely US legitimacy. Bush's "revolution in foreign policy, " as James Lindsay, vice president and director of studies of the Council of Foreign Relations and author of the book *America Unbound*, argues, is raising international controversy. US legitimacy has been questioned.[26] There is a lot of doubt and significant "blowback"[27] against US unilateralism, which erodes the utility of unilateral economic sanctions. In the current atmosphere, it would be better for the US to try to employ a more multilateral foreign policy in relation to sanctions in order to avoid unnecessary costs and retain its legitimacy in the international community.

There has also been a lot of debate on the extraterritorial reach of the U.S law "to control exports or actions of companies outside the United States"[28] Nations do not tolerate such an action, which challenges their sovereignty of their laws and foreign policies. An illustration of this conflict is the extraterritorial reach of the 1982 gas pipeline sanctions that sparked rising tensions between the US and NATO allies. This resulted in the replacement of sanctions within five months because no tangible results were accomplished. The moral is that US' initiative to act on its own can not only cause its actions to be viewed as illegitimate, but also to induce international collaboration and even opposition to US policy, and thus erode the success of the sanctions imposed.

4. Costs of Economic Sanctions at Home and Abroad

The cost of economic sanctions to both the home and the target country is one of the most important factors that has to be considered when evaluating success–and must be carefully estimated before economic sanctions are imposed.

The sender country's costs can be two types – direct and indirect. Direct costs result from loss of jobs and exports caused by a decrease in financial transactions and investment with the target country. Indirect costs are harder to examine because their impact is subtler. Examples of indirect costs to the sender country can be loss of confidence in domestic businesses, decrease in legitimacy and often a backlash by the target country. In the case of US economic sanctions, there have been a number of both direct and indirect costs that caused the diminishing success of economic sanctions.

Economic sanctions in place during 1998 cost the United States around $20 billion in lost exports annually, depriving American workers of approximately 200,000 well-paid jobs.[29] US companies are often harder hit by economic sanctions than are foreign governments, says Gavin in his study on economic sanctions (Table 2). Moreover, the success of economic sanctions is never definite. However, by deciding to place economic restrictions on a target country, the home government binds itself to limit its financial operations, which can be very punishing or even destructive to specific domestic sectors or businesses. For example, the impact of 1986 Presidential Order ending US commerce with Libya was estimated to have cost five US oil companies between $2 million and $25 million per company in annual revenues plus loss of equity in hundreds of millions of barrels of oil reserves. [30] Competitiveness requires maintaining global market shares and access to foreign resources, which is obviously limited when economic sanctions are imposed.

Another direct cost of sanctions is the tension caused between the United States, its allies, and other trading partners around the world. The conflict over extraterritoriality discussed earlier is an illustration of US relations with allies suffering from US imposition of economic sanctions. IIE research has proved that economic sanctions cost the US $15 billion to $19 billion in forgone merchandise exports to 26 target countries in 1995. (Table 2 in Appendix) This analysis is unique in its nature because it suggests that even targeted sanctions such as restrictions on foreign aid or narrowly defined export sanctions have large effects on bilateral trade flows.[31]

There are two main long-term indirect costs that are incurred from overuse of economic sanctions. First, the "liberal application of sanctions to every cause and country badly erodes US leadership"[32] A reaction against American hegemony and a backlash against American leadership are likely to be caused by the United States' application of sanctions to half of the world's people and imposition of secondary sanctions on allies and friends. Also, the credibility of economic sanctions as strong policy tools wanes when they are overused, shows US "over-involvement" in world affairs and misses the point of urgency that should be created by the sender country. Having in mind that many thinkers and intellectuals consider the US in its decline, leaders should take more time when considering the costs of economic sanctions and make sure they do not erode American soft power.

The second long term cost, which is more focused on the business and financial sectors of the American economy, is the fact that each sanctions episode stamps a larger "unreliable supplier" label on US companies.[33] High-tech goods production takes a large portion of the US business sector and it requires a long-term relationship with a customer. George Shultz puts it well by saying that "major commercial relationships cannot be turned on and off like a light switch; they have to be built up and sustained over a period of time."[34] Sanctioned countries may avoid buying from the US exporters even after sanctions have been removed. An example of a similar situation is the Panama sanctions when the president used the authority of the International Emergency Economic Powers Act to direct American-owned companies incorporated in a foreign country to disobey local tax law by paying their taxes into an account in the FED. Such actions, according to Gavin, sent the message around the world that American subsidiaries are potential violators of local law and thus unreliable suppliers. Too often the business community has viewed economic sanctions not as foreign policy levers but rather as weapons against US businesses. Thus, if the government wants economic sanctions to work and to incur minimal costs, it has to limit their use and at the same time always try to estimate the costs – both direct and indirect to the home economy, especially looking at specific industries that will be hurt most by the restrictions of trade and investment.

The costs of economic sanctions to the host country seem obvious. Their very purpose is to harm the target economy, cease investment, withdraw aid, limit or stop trade, isolate the target, and as a result cause a change in behavior. What is an important cost of economic sanctions in the target country that is often overlooked however is the fact that most sanctions do not discriminate within the target country (unless they are targeted sanctions). This means that sanctions affect the general population, "while those in the government and the military are able to skirt the sanctions, especially in authoritarian governments as discussed above.[35] Economic sanctions often hurt the poorest or lower class population, which often is the populace that sanctions are supposed to help in the first place. Governments overlook this unintended consequence; nevertheless it is significant because it carries important assumptions for the success of the sanctions according to their objective and proves that often sanctions themselves can undermine their own success.

Conclusion

In a post September 11 world where terrorism is one of the greatest national security threats, where sovereignty as we know it is eroding, threats like rogue states fostering terrorism are a priority and proliferation of WMD is increasing, economic sanctions should and will continue to play a significant role as foreign policy tools. Sanctions will continue to be popular because they provide a cheap and credible way to express disapproval and at the same time punish with a goal to coerce target governments "The presidential decision pattern for sanctions is also likely to remain similar, dominated by high-policy concerns and driven by the special demands of American's role as a free world leader"[36]. However, as this paper lays out, there are a lot of improvements and considerations that have to be made in order for sanctions to be more successful.

My evaluation of HSE research and comprehensive study on the success of sanctions focuses on a number of additional issues that should be addressed when considering whether economic sanctions "worked" or not. The issues that I have discussed are highlighted here:

- ✓ The goals of the economic sanctions should be clear, consistent and enforce credibility;
- ✓ The implementation process should take into account specific characteristics of the target country, especially its form of government, timing as a factor and the overlap between business and government interests;
- ✓ The international scene should be evaluated with respect to multilateral and unilateral imposition of sanctions, sources of legitimacy and international cooperation with sender's restrictions;
- ✓ Both direct and indirect costs for the sender country as well as unintended consequences of costs in the target country should be carefully measured before imposing sanctions.

From analyzing the quantitative data that HSE collected, we can conclude that in 66 percemt of the cases economic sanctions have not worked. Chances are that considering the US position in the world today, and the increasing negativity with which US policy is viewed, sanctions are even less likely to succeed. What happens if economic sanctions continue to consistently fail? Will other ways (military action) of dealing with problematic regimes and government policies be utilized? Can these alternative and detrimental methods be avoided? A step in the right direction and a possible cure may be obtained if the use and implementation of economic sanctions is reconsidered.

Appendix

Table 1. Types of Government in Target Countries

#	Country	Government Regime	Close to

			democracy
1	Afghanistan	Transitional	
2	Angola	Republic, nominally a multipolarity democracy with a strong presidential system	Yes
3	Burma	Military regime	
4	China	Communist state	
5	Cuba	Communist state	
6	Iran	Theocratic republic	
7	Iraq	Transitional	
8	Laos	Communist state	
9	Liberia	Republic	Yes
10	Libya	State of the masses in theory, in fact – military dictatorship	
11	Nigeria	Republic in transition from military to civilian rule	
12	North Korea	Autocratic socialist, one-man dictatorship	
13	India	Federal republic	Yes
14	Indonesia	Republic	Yes
15	Pakistan	Federal republic	Yes
16	Sierra Leone	Constitutional democracy	Yes
17	Sudan	Authoritarian regime	
18	Syria	Republic under military regime	
19	Vietnam	Communist state	

Table 2. **Change in trade due to sanctions 1995**

Scope of Sanctions (a)	All countries, export plus import (X+M)	OECD countries, export only	United States, export only
Limited	(C)	-21.5%	(C)
Moderate	-31.2%	-33.1%	-68.0%
Extensive	-91.9%	-78.0%	-96.0%

Notes:

(a) Limited sanctions – narrowly defined trade and financial sanctions such as suspension of aid, restrictions on narrow categories of goods. Moderate sanctions – more broadly defined categories of goods. Extensive sanctions – comprehensive.

(c) Coefficients suggest that limited sanctions depress trade by 15-20%, but in these particular tests regression coefficients were not statistically significant at normal confidence levels. Data used from Eliott, p 5.

***Table 3.* Sanctions Imposed on State Sponsors of Terrorism and their Outcome**[37]

Country	*Year Sanctions imposed*	*Reason for imposition*
Iran	Joined the list of terrorist state sponsors in 1984	Iranian involvement of US Marine base in Lebanon
Iraq	Placed on the list of terrorist state sponsors in 1979, removed in 1982, and then renewed in 1990.	Iraq's invasion of Kuwait.
Libya	Placed on the list 1979.	Libyan involvement in a number of terrorist attacks, for example airports in Rome and Vienna
Syria	Placed on the list in 1979	Syrian involvement in a number of terrorist groups.
Sudan	On the list since 1993.	Persecution of Christians in southern Sudan.
Cuba	On the terrorist state sponsorship list since 1982.	Support for the M-19 guerrilla organization in Colombia.
North Korea	On the list since the Korean War.	Implication of bombing of South Korean airline in 1987.
Afghanistan	Never on the terrorist state sponsored list. (US doesn't want to recognize the Taliban as a legitimate government in the	Primary safe heaven for terrorists. Taliban harbor Osama Bin Laden

	country)	

Type of Sanction	*Outcome*
1987 – ban of all imports from Iran and prohibits exports of potentially military useful goods 1995 – ban of trade and investment with Iran	Failed.
Most comprehensive UN and US trade and financial sanctions.	Failed.
Financial controls, barring of most exports and imports of goods services and technology, all loans and credits prohibited, all Libyan government assets in US banks frozen. Later all travel prohibited to and from Libya and petroleum sale ban.	Successful.
Limited sanctions, strict export controls, and other restrictions.	Failed.
Comprehensive sanctions, all property of Sudanese government in the US blocked, trade embargo, all financial transactions prohibited.	Partial success. Still has to comply with 3UN Security Council resolutions.
Comprehensive US sanctions	Partial success. No longer active in supporting armed struggles but continues to provide safe heaven to

	individual terrorists.
Comprehensive US sanctions.	Partial success. On several occasions has condemned terrorism, but provides refuge to international terrorists.
Sale of arms prohibited. Comprehensive sanctions imposed in 1999. Ban of trade with areas under Taliban control, freezing of Taliban assets in the US and prohibition of contributions to the Taliban by US citizens. UN imposes flight ban, freezes assets of Osama and associates, imposes arms embargo.	Failed.

NOTES

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Latin America in the New World Order: From Democratization to Radicalization by Georgina Calderon

By examining the relationship between economic and political power in U.S.-Latin America relations, Calderon contends that MERCOSUR and neo-populist movements are becoming important actors in the global economy

Introduction

The 1990s saw the creation and revival of subregional integration projects such the Central American Common Market, the Group of Three, the Association of Caribbean States, and, most significantly, the Common Market of the South (MERCOSUR). These projects were created with the goal of economic development and to allow free trade of goods, services and production factors. Subregional integration became a defensive response by Latin American states to the economic marginalization they suffered during the 1980s. As political economist Jean Grugel writes, "[Subregional integration] acts as a vehicle for increasing the connections between Latin America and the global economy; even without the enticement of US markets, Latin American states are now constrained to pursue open development by the very weight of the liberal economic model now in place."[1] However, an important aspect of these associations is beyond an economic response; they also serve as a vehicle for political change domestically and in the broad context of the international political arena.

The strengthening of these internationalist associations in Latin America has been advanced by the recent phenomenon in Latin American domestic politics whereby reformist governments have emerged from the traditional military regimes. The most recent examples of such governments include Argentina's Kirchner, Chile's Lagos, Venezuela's Chavez, and Brazil's Lula. These leaders have fought alongside the country's workers for decades. In addition to their socio-democratic orientation, these governments appear to have come to a consensus about the superiority of neo-liberal economic regimes that are sustained by socio-democratic politics. This consensus means that governments are implementing Third Way policies to maintain national sovereignty and social development, while at the same time maintaining cooperative internationalism and economic development as main tenets of foreign policy. This is apparent in the conventions established by MERCOSUR, which locked each of the four member countries - Brazil, Argentina, Uruguay and Paraguay - into requisite forms of social and economic discipline that assert their own interests rather than having their policies dictated by the interests of the superpowers, such as the United States. These associations maintain neo-liberal economic policies as a way to gain economic power that has provided traditionally subordinated Latin American countries with more negotiating power in political spheres and the global economy.

The relationship between economic power and political power in the context of Latin American-US relations and MERCOSUR will be the primary focus of study in this paper. This relationship is important because, as Robert Cox argues, international capitalism defines the actors within an international system. Globalization creates an interdependence that provides the framework for states to act in; therefore US-Latin American relations are dictated by their respective economic interests and, more importantly, by the economic power that each has. This paper will argue that MERCOSUR has emerged as a response to the economic and political marginalization that Latin America has experienced. Furthermore, neo-populist movements within domestic politics and economies are becoming important actors in the global economy through the leadership of Brazil's President Lula.

This essay will examine Latin America's most powerful subregional association, MERCOSUR, and reveal how the policies implemented by member states reflect changes in Latin America's domestic politics as well as in its foreign relations with non-member states. The analysis will focus on the relationship between economic interests and domestic politics and how those relationships are echoed by subregional projects like MERCOSUR. Part I will examine the democratization and liberalization that took place in Latin America during the late 1980s and 1990s and how they were prompted by the economic and political pressure from the United States to make Latin American economies more open and productive for American investments.

Part II of the study will focus on the regional role that MERCOSUR has taken as member states develop stronger economic ties and a more cohesive political position. Since subregionalism in Latin America has affected the political influence that the United States has in the area, this essay will look at the role that Brazil will take as MERCOSUR's leader and as Latin America s new superpower. MERCOSUR's regional leadership has been aided by closer relationships with the EU; however, a new Latin American political front has the potential to create tensions with the US that will be problematic for the creation of the Free Trade Area of the Americas (FTAA).

The last part of this study is more speculative, as it will explore the impact of domestic populist movements in Brazil in creating an opposition to conventional neo-liberal policies in the context of MERCOSUR. The role of President Lula will be the central focus. However, his relationship to more radical Latin American governments and other developing nations will also be important due to the potential that these relationships have to tip the balance of power in the global economy. Reshaping the global economy means contesting the power that the US has historically exercised over Latin America.

Shifting U.S. policy towards Latin America: from Dictatorships to Democratization

The last two decades witnessed a dynamic relationship between the US and Latin America that was largely affected by US economic and political interests in the context of a bipolar international sphere. Since the Second World War, US foreign policy towards Latin America was filled with language regarding the threat of the Soviet Union and its infiltration into what the Monroe Doctrine established as the United States' sphere of influence. Washington's policies towards Latin America were characterized by unilateralism and dominance, which were justified as a defense from the Soviet threat. Whether or not Washington felt a real threat in the region or whether the threat simply provided a rationale for its intervention in the area is unclear. Nevertheless, it is apparent that Washington's policies did support conservative military regimes that suppressed liberal political movements and acquiesced to US economic interests in the area.

There were between twelve and sixteen authoritarian regimes in Latin America during the 1970s.[2] The military nature of these regimes clearly reflected their origin: coups led by high ranking military officials. In some of these cases, the coups were a product of unstable semi-democratic or previous military regimes. Others, such as that of President Jacobo Arbenz in Guatemala, were staged or at least supported by the United States through military coups. In Argentina, Peru, Chile, Uruguay, Brazil, and Venezuela, the US sought to recast a conservative socioeconomic and institutional order in response to potential threats from the leftist movements, since Latin America had already been witness to the triumph of the communist Revolution in neighboring Cuba.

The justification given for such intervention was due to the increase of influence of Soviet Union in the region. However, the extent to which that fear was legitimate is questionable, since there is little evidence that the Soviet Union had much influence in the region other than in Cuba and perhaps Nicaragua. Nonetheless, examples of such rhetoric appear throughout the Cold War: The Kennedy Administration first proposed that Latin America was central to US interests and the battleground that the US could not lose to the Soviets. Although Kennedy and subsequent administrations preferred democratization as a means for containment, he complied with military governments due to the lack of stable democratic regimes.[3] An alternate explanation for US support of military regimes is economic; the Soviet threat merely provided a good justification for intervention in the region. Intervention in the area was largely due to the economic interests of US investors. The Soviet threat was an existential threat to the US because it provided an alternative economic model for Latin American states. As long as the Soviet Union existed, there was always the possibility that if Latin American governments were too liberal and their economies were on the verge of collapsing, American investments could be nationalized and these states would align with the Soviet Union for support.

In order to avoid such risk, Washington supported conservative military regimes that protected US investments in Latin American countries. Although many investments were private, there is a clear and close connection between those government officials making policy and investors and banks. Early examples of such connections include the Boston banks behind United Fruit Company that were determined to replace Guatemala's social-democratic President Arbenz. Pressure from banks led to a CIA-staged invasion that toppled the elected Guatemalan government and replaced it with an authoritative regime.

In addition to political backing, the US fueled these dictators with millions in military aid and loans that would be used to subdue leftist movements and to develop their economies. These funds were funneled through a series of economic aid programs that, by the middle of the 1980s, had left many of these countries unable to repay their foreign debt and in debt-induced depressions. [4] By 1989, the region's per capita product was 8% below what it had been in 1980, and its total external debt exceeded $400 billion, of which US banks had the largest share[5]. The inability of these dictators to repay their national debts and, more notably, their inability to create open and free markets for US trade was important in fueling international pressure to start a process of democratization that took place during the 1980s and 1990s.

By the mid and late 1980s there were several changes in the international system as well as in the internal political and economic policies of the major Latin American states. Domestically, the fall of the Soviet Union diminished the potentiality of political movements in the region because there was no ideological support for them. However, even prior to the collapse of the Soviet Union, there was a shift within the radical left of Latin America to abandon a Marxist-Leninist approach and instead to adopt a discourse of social renewal that highlighted the value of democratic institutions. [6]

Pressure from international financial institutions and the government's inability to enact internal policies that would uphold their legitimacy, at least within elite sectors of society, also caused a weakening of the authoritarian regimes. The loss of legitimacy from within came largely because the financial classes were losing out on economic opportunities due to tight government controls over the economy that prevented these economies from adjusting to globalization.

In addition to the development of transitional capital that took place during the 1970s, the expansion of global markets in countries like Chile, Brazil and Venezuela defined a new set of actors that would exercise their power in the early 1990s. As Robert Cox discusses, class formation within a society and in the context of hyperliberalism generates the emergence of transnational groups that become key players in the transformation of international systems.[7] This trend is evident in Latin America by the emergence of an elite class during the period of economic expansion that was instrumental to the transition that occurred during the late 1980s and the 1990s.

At the international level, the fall of the Soviet Union meant that the United States could redefine its interests in the region. Taking a more pragmatic approach towards its neighbors, the first Bush administration began talks with Mexico in 1990 about a free-trade area that would, theoretically, dramatically change the nature of the US-Mexico relations. This new partnership would redefine America's relation to Mexico from one of political domination to one of economic bilateralism. Though the North American Free Trade Area Agreement (NAFTA) did not include other Latin American countries, it did have great psychological impact not only due to the bilateral nature of the accord, but also because Mexico had historically been Latin America's most defensive country. Until this time, the US had done little more than lecture these governments about democracy and neo-liberal economics.

The economic approach that Bush started was adopted and ratified by the Clinton administration, with the ratification of NAFTA in 1993. NAFTA was the first step in developing a position towards Latin America that would prevail during the 1990s. Without the psychological and ideological opposition of the Soviet bloc, President Clinton was free to develop his own doctrine, not only in relation to Latin America, but also in relation to the international system as a whole.

Clinton's approach to Latin America was based on the promotion of democracy. However, he was convinced that democratization would happen as a direct result of the development of neo-liberal economies. For that reason, the administration did not see democracy as a requisite for trade and economic relationships with countries like China. Instead, US foreign policy would aim to promote the US as an economic superpower and make trade a priority element of American security. [8] Following this pragmatic doctrine, Clinton's main goal in Latin America was institutionalizing free-market practices that would open markets to US banks and business leaders. The concerns about accessibility to potential markets in Latin America led the Clinton Administration to adopt international policies that would assure that domestic political frameworks allowed for such economic reforms.

However, despite American economic interests in Latin America, the dictatorships in Latin America were unable to develop their economies or even keep them afloat for several reasons. First, there was a misallocation of national capital to personal spending, embezzlement at all levels of government, as well as military spending (either fighting insurgent groups or to appeasing potential threats within the military) rather than spending on developing the infrastructure necessary to attract foreign investors. The misallocation of national funds is also evident in the lack of investment in industry and in social welfare programs such as education and health care, which are services necessary to create a skilled work force. Second, these countries were not attractive for foreign capital due to the violent nature of the regimes. In order for a free market to work, it has to be within a system that protects property rights and contracts and facilitates competition through the prevention, rather than the promotion, of unfair and violent competition. Furthermore, many of these regimes suppressed an emerging entrepreneurial middle class as well as worker movements in their attempt to maintain political control. They also maintained political control and social order by manipulating the market to reduce unemployment. Although such practices did decrease unemployment levels in Argentina and Brazil these controls were detrimental to American investors.

During the late 1980s and early 1990s, all domestic and international factors seemed in place for reform in the political leadership of Latin America. Such reform was led by Clinton's need to secure capital markets in Latin America through the adoption of policies of enlargement and engagement toward market democracies. US policies of engagement in regional affairs called for penalties for those regimes that came to power by unconstitutional means. The Organization of American States (OAS) institutionalized these policies with initiatives like Resolution 1080, the Washington Protocol and the creation of the Unity for the Promotion of Democracy.[9] According to Resolution 1080, unconstitutional regime changes and interruption of order would lead to a convention of hemispheric foreign ministers to take appropriate action. The Washington Protocol provided that any constitutional violation by a member state could lead to the expulsion of the state from the OAS. These US-led initiatives coincided with new hemispheric and regional agreements for collective action against the threat of anti-democratic regime changes, such as the Esquipulas Accord in Central America.

These initiatives had an important significance since they sparked a hemispheric response in several cases in which there was the threat of a reversal of the constitutional order. Such was the case in Peru, where President Fujimori received enough international pressure from the OAS that he was forced to call elections for a new Congress after dissolving the old one. In addition, the OAS supported President Wasmosy of Paraguay during the military insurrection. Currently, the OAS is in the process of assessing the situation of President Hugo Chavez in Venezuela by monitoring the legitimacy of the recall referendum through the National Electorial Council of Venezuela. Through the duration of Chavez's government, the OAS has made several declarations that call upon the Venezuelan government to respect the essential elements of representative democracy and the rule of law while redoubling its efforts toward national dialogue and national reconciliation. [10]

The policies adopted by the OAS and the US played a key role, not necessarily in the collapse of authoritarian governments, but in maintaining semi-democratic regimes that fostered economic growth throughout the early 1990s. The early part of the decade was marked by great economic growth in most countries, which opened new markets to US investors and increased the gap between the poor and the elite. The economic transformation that allowed such growth was led by the transitional governments of Fernando Collor de Mello, who concentrated his efforts on reducing inflation in Brazil; Carlos Menem, who introduced a series of reforms and linked the peso to the US dollar in order to deal with Argentina's hyperinflation and recession; and Azocar, who continued the economic deregulation and privatization tradition of Pinochet in Chile.[11] The transformation of Latin America's pro-market centre-party politics created precisely the commitment to the new rules of the economic game that were so fiercely promoted by international financial and political institutions. The economic and political changes in Latin America created the necessity for new governments to have economic and political cohesiveness in the region, which was the purpose of the creation of MERCOSUR.

MERCOSUR: a subregional response

The transformation of domestic economies and democratic governments led to the creation of subregional associations between several Latin American states. The most prominent of these is the one formed between Brazil and Argentina in the late 1980s, at a time when both countries launched programs of economic liberalization that included renewed currency reform with tariff reduction and privatization.[12] In the context of their economic transformation and democratization, the commitment to develop a subregional project was needed in order to create and sustain domestic order and to establish state positions in an emerging world order defined along economic lines.

The initial strengthening of bilateral ties between Argentina and Brazil in the mid-1980s took place for two reasons: 1) as a way to provide support for democratic transitions in each country; and 2) as a defensive reaction to the creation of NAFTA, from which they were excluded. However, as the process of liberalization and democratization expanded in each country, the subregional initiative also expanded in scope and became increasingly shaped by priorities and policies concerning domestic political economies that must survive in the context of global economic interests of multinational corporations, international banks and financial institutions. What sets MEROCSUR apart from its predecessor is that it uses economic language to pursue national interest in the context of an international framework. Until the creation of MERCOSUR, all regional commitments were failed attempts at promoting strategic alliances rather than free-trade and economic development. This shift in orientation can be understood in terms of a changed global and regional context, which emphasizes growing commitment to economic principles and liberal democracies.

The bilateral discussions between Brazil and Argentina that gave way to the creation of MERCOSUR began in 1986. However, it was not until March 26, 1991 that Presidents Menem of Argentina, Collor de Mello of Brazil, Rodriguez of Paraguay and Lacalle of Uruguay signed the Treaty of Asuncion. The agreement on a customs union and a common external tariff came into effect in January 1995. The successive entry of Chile and Bolivia into MERCOSUR as associate members in 1996, in conjunction with the breakdown of negotiations between NAFTA and Chile over Chilean entry, suggests that MERCOSUR offers Latin American nations an alternative to NAFTA, which is largely structured around US interests. According to the MERCOSUR website, the primary objective of the Asuncion Treaty is the integration of the four Member states through the free circulation of capital, factors of production, services, a common tariff, and a common external economic policy as well as the coordination of macroeconomic policies. [13]

The establishment of MERCOSUR has expanded regional trade not only between the four permanent members and two associate members, but throughout Latin America. In 1990, the total intra-region trade was 11.49 percent of total trade; however, by 1996 this figure had grown to 25.12 percent. During those same years, there was also a shift in the markets with which MERCOSUR members traded. The total exports to the rest of Latin America increased from 16.9 percent to 30.9 percent; however, this increase in market share was due to a decrease in the exports to the United States and the European Union, from 20.3 percent and 33.3 percent to 15.7 percent and 24.4 percent of total exports, respectively.[14] MERCOSUR-member imports had a similar effect, while there was a 4.5 percent increase in intra-member share of imports and a 6 percent and 2.2 percent increase with all of Latin America and the EU, respectively. The integration of the member states into MERCOSUR strengthened regional economic ties while at the same time diversifying its markets so as to eliminate dependency upon any one country or region.

The role of MERCOSUR in the region extends beyond its economic role; the integration of the six strongest economies in South America has strong political implications for the region in relation to the US and the EU. By establishing a strong political consensus between the member states and stable bilateral trade relationships with members of the Andean Community and EU, MERCOSUR will emerge as Latin America's leader. In particular, MERCOSUR's regional leadership will be headed by Brazil, and its macroeconomic agenda will be aimed at balancing American hegemony in the region. Furthermore, the political and economic agenda that MERCOSUR will pursue is likely to be influenced by domestic social movements that have led to election of progressive governments of Nestor Kirchner and Luiz Inacio Lula.

The political solidarity of MERCOSUR was demonstrated recently at the 5th Ministerial Meeting of the WTO, at which Brazil's and Argentina's representatives voiced the stance of all member states on agricultural issues. Days before the meeting in Cancun, Brazilian Agriculture Minister Roberto Rodrigues indicated that agriculture officials from the four permanent members, plus those of Bolivia and Chile, had decided with absolute, specific determination that unless there is progress on agriculture, there is no progress in Cancun. [15] This decisive position by MERCOSUR not only voiced their own stance on the issue, but was supported by the Group of 22. The Group of 22, led by Argentina and Brazil, consists of developing countries in Latin America, which were recently joined by India, China and South Africa. The leadership of MERCOSUR is important because, as the Argentine Foreign Ministry Martin Redrado said, for the first time the developing countries have taken a very firm stance on coordination to keep the issue of agriculture at the center of this round. [16]

The collapse of the global trade talks in Cancun may or may not lead to the elimination of agricultural subsidies by the US and EU, but it has sent a message to developed nations that they will face opposition from the developing world in the negotiations of trade agreements. In fact, some negotiators believe the Cancun failure highlights a deeper emerging fault line in the WTO because, as a WTO ambassador from an anonymous rich country said, “we encouraged the third world to participate actively, but now it is doing so there is an increasingly sharp north-south divide is opening, and it is not just over trade, but over rhetoric, dogma and geopolitics. [17] Facing such opposition, the G7 must rework their negotiating strategies with developing nations to include more multilateral accords and regulations, such as those described by European Commission's reflection paper developed by Officials on the EU's Committee on Trade.[18]

Within the Western hemisphere, members of NAFTA, especially the US, will face similar issues during the talks about the Free Trade Area of the Americas (FTAA). The negotiations to unite the economies of the Americas into a single free trade area began at the Summit of the Americas, which was held in December 1994 in Miami. At the summit, the heads of state of all 34 democracies in the Americas set out to negotiate the FTAA, in which barriers to trade and investment will be progressively eliminated.[19]

However, a careful study of the trade patterns shows that MERCOSUR members may not have such strong interests in the formation of FTAA as might initially be thought, which may lead to more negotiating power if any agreements are made. As Bulmer-Thomas and Page indicate, at first glance the Americas appear to be a promising candidate for economic integration due to the bulk of trade: In 1996, total exports amounted to over $1 trillion, of which $594 billion were hemispheric exports. However, though over half of all exports are intraregional, these figures are dominated by NAFTA countries. If NAFTA countries are excluded, total exports within the hemisphere only reach $164 billion, of which bilateral trade between Brazil and Argentina accounts for about 50%.[20] What these figures indicate is that MERCOSUR countries have only a modest dependence on trade with NAFTA members. Therefore, the proposed FTAA is a very asymmetric affair because it would allow NAFTA to form a largely self-contained bloc, while non-NAFTA members would still need to find other markets outside the hemisphere.

NAFTA and MERCOSUR members have different objectives behind their interest in creating the FTAA. For the US, the expansion of its trade agenda throughout the hemisphere would allow it more negotiating power within the WTO. From a geopolitical perspective, FTAA would be an instrument for not only restricting European influence in the area, but also for strengthening economic and political ties between L.A. and the US in an asymmetrical relationship that would allow the US to be a dominating power over the region.

In response, Brazil is leading MERCOSUR members into negotiations with caution. Despite the US's desire to negotiate on a country-by-country basis, Brazil has determined that MERCOSUR should negotiate as a bloc. Negotiating as a bloc would mean two things: 1) It would give MERCOSUR members more power in the negotiation process; 2) negotiations would favor Brazil over other countries in the region due to its current position as the undisputed leader. Brazil is attempting to assure even more negotiating power against NAFTA members by pursuing the possibility of a South American Free Trade Area (SAFTA). In August 2000, the heads of twelve Latin American countries signed a declaration calling for the merge of MERCOSUR and the Andean-free trade Agreement, which allowed trade between the Andean Community and MERCOSUR to reach $5.78 billion in 2001, up by $140 million since 2000.[21/22] According to President Lagos, a trade agreement between MERCOSUR and the Andean Community would allow L.A. to speak with one voice.

MERCOSUR members and members of the Andean Community alike seem to understand that their interests are better guarded by staying committed to their subregional associations rather than dealing with the US alone, as other Central American countries have done. It is precisely this realization that allowed ex-Brazilian President Cardoso to assert that the success of FTAA depends upon the consolidation of MERCOSUR. Because Latin American nations and NAFTA members have opposing views on critical issues (i.e. intellectual property rights and agriculture), and because MERCOSUR is in a position to negotiate with the European Union (currently some of its biggest markets), there is space for the emergence of strategic, ideological and economic opposition to the US. Washington is getting pressure from such opposition, and this is evidenced by the refusal of the Bush administration to bail out Argentina after its economic collapse in 2002. Many critics believe that such refusal was based on its desire to undermine MERCOSUR, which it sees as a threat to its divide-and-conquer strategy for maintaining its dominance in Latin America through the creation of FTAA.

Increasing ties between MERCOSUR and the EU will result in opposition to US influence over Latin America. Since the integration of MERCOSUR, the EU has taken a supportive role in the development of stronger structural elements within MERCOSUR. The idea behind this support is a growing interest in trade relations in Latin America. In 1998, the Committee on External Economic Relations of the European Parliament put out an official statement regarding its interests in MERCOSUR:

If the EU wishes to maintain its leading role in the trade policies of this region, and to prevent the entire South American continent from falling into the political and economic spheres of influence of the US, then the necessity of establishing a middle-term strategy towards the MERCOSUR is undeniable.[23]

Although the European Parliament may have been overstating the extent of its influence in Latin America, such a position led to the establishment of an economic and political relationship between MERCOSUR and the EU at the first Latin American-European summit in Rio de Janeiro in 1999. At the summit, both sides pledged to work towards a free trade pact and to intensify the international economic cooperation to promote broad and mutually beneficial trade. [24]

The Rio Summit has been followed by ten rounds of negotiations towards an EU-MERCOSUR association. Although the process has been slow due to the same issues that came up at the WTO meeting in Cancun, the 10th round of negotiations took place in Asuncion in June 2003. The meeting's agenda included trading goods, investments, services, intellectual property rights, dispute settlement, competition and the cooperation chapter. Moreover, new initiatives for consolidating the customs union and the internal market were tabled, along with discussions of the structural need for a Regional Parliament for MERCOSUR, due to its need for political cohesion.[25]

In terms of trade, the EU has become MERCOSUR and Chile's most important trade partner. The gradual deepening of economic and trade links between the EU with Latin America has resulted in a doubling of trade between 1990 and 2000.[26] In addition to the economic goals of the partnership, there is also a declaration of political alliance that seeks to strengthen multilateral institutions and jointly support the intensification of multilateral relations, including the process of reform of the UN system in the quest for a new balance. [27] Such economic and political relationships have advanced MERCOSUR's political significance by providing an alternative to US markets that have traditionally led to poor countries into economic dependence.

Furthermore, an alliance with the EU is more ideologically compatible with the domestic reforms that MERCOSUR member states are pursuing. The Rio de Janeiro Declaration, which encompasses the general principles that will guide the EU-Latin American economic and political relations, includes many clauses that address giving priority to overcoming poverty, marginalization of indigenous populations, and "consolidating socioeconomic development and protecting the rights of the most vulnerable groups of society."[28] The inclusion of these social reforms in the context of the promotion of sustainable development adds a dimension that has been largely ignored by the purely neo-liberal economic relationships promoted by US-led financial institutions. As will be apparent in the next section of the analysis, social reform becomes particularly important with the election of social-democratic presidents in Brazil and Argentina, who must respond to populist and radical anti-globalization movements.

President Lula's MERCOSUR: a reform to globalization?

An anti-globalization response is on the rise in Latin America as politicians and mass movements are expressing discontent with the orthodox neo-liberal economic approach that was adopted by governments in the 1990s. For many Latin Americans, such policies have worsened the economic problems they faced, widening the gap between the uppermost strata of society and the rest of the country. The promotion of democracy in the early 1990s turned out to be the promotion of a polyarchy in which the actors that exercised power in the transitional democracies of Latin America were the capitalists. In Capitalist Polyarchy in Latin America, William Robinson argues that the free-market policies of the 1990s created a system of semi-democracy because the increase in socio-economic power translated into political power in the hands of a few. Throughout the 1990s, there was an expectation that the political power and economic prosperity brought about by neo-liberal policies would trickle down to the masses. In reality, there as been disillusionment with these economic policies because the opposite effect has taken place.

Such disillusionment extends beyond the poor. Even among business leaders there is dissatisfaction with the economic advice of the IMF and World Bank. Argentina, which faithfully followed the strict disciple of the Washington Consensus, saw a financial collapse in 2001.[29] The financial collapse led to social unrest and to a discrediting of orthodox neo-liberal economic policies in virtually all sectors of Latin America.

Although the opposition and resistance to neo-liberalism vary in degree from those with a radical anti-globalization thesis to those who see the present neo-liberal world system as fixable, there is an overall deepening desire for an alternative leadership to prompt reform. The elections of Presidents Lula in Brazil, Kirchner in Argentina, Lagos in Chile and the re-election of President Chavez in Venezuela were the response by populist movements in these countries. These populist movements are looking for social reforms that tend to key issues affecting the masses in these countries: poverty, vast social inequality, unemployment, social security, education and health care.

What distinguishes these populist movements from those in the 1970s and 1990s is that they have accepted globalization as an inevitable fact. Traditionally, neo-liberal austerity has been incompatible with populist interventionist and redistributive objectives; however, there has been an emergence of neopopulist movements that continue to rely on traditional populist strong points such as mobilization of the informal masses and redistribution but accept neo-liberal policies as a means to accumulate capital.[30]

Ideologically, these neopopulist responses model the Third Way approach that Clinton, Blair, and Holland's Wim Kok attempted to devise: a center-left economic strategy of a new post-industrial capitalism that depended on market-driven processes for economic prosperity. The underlying thesis is letting the market dictate (within limits) investment and jobs, but using government in a traditional liberal manner to make workers more competitive and to protect them from illness and poverty.[31] According to the Third Way, neo-liberal policies should create the prosperity to expand access to health care, protect social security, increase spending on education, and alleviate growing inequalities. However, because Latin American economies are not post-industrial, movements in Latin America have taken the Third Way approach further since they seek to reshape current power structures and the social status quo.[32] The election of social democratic presidents who are deeply connected to worker movements has been an important step that Latin Americans have taken in reforming traditional social structures.

Leading Latin America's alternative to orthodox neo-liberal practices of domestic and global economics is Brazil's left-wing President Lula. Since his election in October 2002, President Lula has been described as a man with audacious ambitions to alter the balance of power among nations, with an admirable record of fighting for justice and a symbol of hope.[33] He is also the leader of the one of the world's largest subregional organizations.

Though initially there was much skepticism about his economic leadership due to his history as a dogmatic socialist, Lula has chosen to continue his predecessor's liberal economic policies. He has been so rigorous in pursuing liberal economic policies that in the first six months of his term, he stabilized Brazil's currency and created more economic ties with other Latin American economies like Venezuela and Cuba, as well as with countries outside the hemisphere like India and South Africa. Although he is getting much pressure from his own party for embracing neo-liberalism and globalization, his policies are once again attracting investors.[34]

Lula is expanding international markets because he understands Brazil's economic needs. Economic policies have been mainly aimed at increasing Brazil's trade surplus and thereby increasing its national budget. An increase in public and private revenues along with his tax reform will boost the government's resources and its ability to support social programs to aid the reduction of Brazil's startling inequalities. Lula has started on the path to domestic social reform by salvaging the country's social security and reforming the tax system to benefit the public sector. He is also in the process of negotiation with the country's most powerful social movement, the Movement of Landless People of Brazil. According to Lula's current policies, such social reforms will be accomplished through opting for globalization and neo-liberal policies.

Lula's acceptance of globalization, however, does not mean that he is willing to accept the current balance of power in the global markets. His negotiations with South Africa and India to join Brazil in a tew triangular dialogue that will focus on technological alliances and social issues like world hunger served as a political alliance that gave them negotiating power against developed countries at the WTO meeting in Cancun[35]. The development of such coalitions is Lula's strategy for developing nations to push the IMF, the World Bank and the UN to be more democratic and deal with social issues that these nations face. As Indian Finance Minister Yashwant Sinha said, "[developing nations] have thought enough about South-South cooperation, we have reached this stage now where we want to give it a concrete shape and Lula's leadership is catalyzing such relationships."[36] In mid-October of this year, Lula joined with Argentina's Kirchner to develop the Buenos Aires Consensus as an alternative to the Washington Consensus. This plan would give poorer nations the sovereign space to determine their own development strategies, balancing social necessities with economic stability.[37]

President Lula's left-wing political orientation has led him to intensify ties between Brazil and more radical Latin American governments. Brazil's relationship with Cuba is now tighter than ever. For example, during Lula's visit to Cuba, he and Castro negotiated a bilateral economic relationship dealing with tourism and pharmaceutical investments and trade. Furthermore, in Venezuela, Lula gave President Hugo Chavez a $1 billion line of credit to buy Brazilian exports, at a time when Chavez is in the midst of an acute political crisis.[38] Tipping the balance towards such governments seems ideologically consistent with Lula's own platform for social reform.

The star of Lula's social platform is the Zero Hunger program, which is an international effort among MERCOSUR members as well as associated developing nations. Though his proposal to end hunger through the creation of a tax on arms sales failed to gain support from representatives of major world powers, it is an issue that will by addressed by the Social Development Council within MERCOSUR. The creation of a Social Developmental Council is another of Lula's first reforms of MERCOSUR; with the participation of business leaders, political parties and social movements, the Council is designed to address programs like the Zero Hunger program, the development of coordinated educational programs, and debt renegotiation.[39]

A plan aimed at addressing poverty in developing countries in the context of a financial institution like MERCOSUR is a signal of an emerging trend that has the potential to change the current world economic order. What makes this social platform so powerful and different from those promoted by the IMF and the World Bank is that it rejects the top-down approach in which social reform in poor countries is planned and imposed by developed nations through financial institutions where poor nations do not have a voice. Although it is plausible that President Lula may fail in his attempt to redistribute the balance of power within the global economy, his leadership has already made progress in showing the world that an alliance of developing nations can be a great oppositional force against the economic giants. Even in his short time as president and leader of MERCOSUR, his domestic approval rate is high among all sectors and his magnetism has made him a symbolic figure among leaders of the developing world; as Greider and Rapoza argue, "[Lula] has taken what looks like the most promising initative to reform globalization." [40]

Conclusion

International capitalism is a force that has revolutionized international politics. The international actors are now multinational corporations, business leaders, the working class and even those classes that have been negatively affected by international investment. States act within a framework established by these actors, and these actors pursue their interests through states. In Latin America, it is evident that the US has acted as a dominating power in the process of pursuing its economic interests. Such domination was accomplished through interventions that instituted friendly dictators and unreasonable economic policies towards Latin American countries that ultimately benefited American financial elites. However, the process of economic liberalization caused emergence of a new set of actors within Latin American politics.

Concerned with their expanding economic interests, an elite financial class, acting through the state, responded to US dominion by the formation of MERCOSUR and other subregional associations. The creation of MERCOSUR signaled a redistribution of power in Latin America-US relations because economic opposition, and even cooperation, has created a situation in which the US can no longer be a dominant power. Undoubtedly, there is no economy in the world that can match the United States; therefore the creation of MERCOSUR has not challenged the US' position as world leader. However, MERCOSUR will force the United States to sacrifice some of its interests in order to maintain cooperation with Latin America.

Within Latin America, grassroots movements and the elections of progressive leaders such as President Lula indicate that the poor and working classes are emerging as important actors within the region. The extent to which President Lula's leadership will alter the framework of international relations through a reform in the global economy will require strict cooperation between developing economies that may or may not be willing to take risks that will alter the face of international relations in the future.

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An interview with William Greider, National Affairs Correspondent for *The Nation "South-South" Cooperation and Brazil's President Lula*

Conducted by Melody Hildebrandt

William Greider, a political journalist for over 40 years, is currently National Affairs Correspondent for The Nation. *A former* Rolling Stone *and* Washington Post *editor, he is the author of the national bestsellers* One World, Ready or Not, Secrets of the Temple, Who Will Tell The People *and, most recently,* The Soul of Capitalism.

Hemispheres: Is the new "South-South cooperation" advocated by the Indian Finance Minister, and as evidenced by the unified action of the G-20 in Cancun, further distancing the prospect for a healthy North-South relationship? Are we seeing a more profound splintering of interests, or is this alliance between developing nations necessary to give them more leverage at the negotiating table before an international agreement can be fairly reached?

***Greider*:** I think that before you can get genuine North-South relationships which are more balanced than they have been, the South would do well to develop their own cooperative networks, and that's really just beginning. If you look back over the last thirty years, there have always been organizations that said that's what they were, but they didn't have too much reality to them. So they have started again, so you can't say much more than that at this moment, but I think that it is a promising start. One of the reasons that there is more promise now than there was in the past is that some of those countries, with India being a dramatic example, have genuine economic development and girth now. They are still very poor countries, but they have a foothold. Brazil is a less dramatic example, and China is willing to participate at some level, too. The thing to remember is that all of those countries will pursue their own self-interest - countries do that without exception. But I was struck by Cancun at how those three big countries, and a bunch of a somewhat smaller ones, recognized that, first, they have a self-interest in unifying, and second, that they can say "no" to the United States and the world won't come to an end. That seems obvious, but for those countries used to getting whipped around and used to pursuing self-interest by screwing the *other* poor countries and making their own separate deals with the US, Europe, or Japan, this is new stuff, and so I find it more promising. The other big element which is not widely appreciated yet in this country is that the US has its own deep economic troubles. It is sinking in debts to foreigner creditors, including China, Japan, and Europe. This is very serious, and other people in the world know this is happening, so they realize that US hegemony has a very shaky foundation. Starting a war in Iraq didn't help, to put in mildly. The war actually accelerated the process of other countries saying "Hey we need to get together here because the US is running out of control with its military power." They aren't going to say that obviously, up front, but I sense that that is a motivation. So, there is a lot of energy behind this South-South cooperation, and it might fail, but I am impressed.

Hemispheres: So this unity will help them forge a healthier North-South relationship in the future?

***Greider*:** Yes, although the US is pretending that that is nonsense. You can look at their behavior in Cancun, and now they are literally bribing these small countries to get out of the G-20. You would say, "What's the big deal with Honduras or Costa Rica? Why are you beating up on these small countries that don't have much of a prospect for a large trading future?" I think the answer is that US wants to make clear that you don't do this to the US.

Hemispheres: Many economists, notably Kenneth Rogoff at the Center for International Development, argue that developing nations are hurting themselves with their protectionist policies. Others, like Lori Wallach at Global Trade Watch, claim that trade agreements that force developing nations to abandon their trade restrictions remove the "development tools" that Western nations used to grow into economic powerhouses. Do you agree with either of these positions or do you have a different point of view?

***Greider*:** Well I think that the history is pretty obvious. Americans don't have a very clear picture of it because a) they don't know their own history as a nation; and b) they are propagandized by the globalization cheerleaders to believe that free trade is a natural state of things and therefore everyone ought to get back to it. But in truth, it's not; it's never been in the history of the world. American development in the 19th century had a lot of elements, one of which was the capital that it received from Britain to build roads and trains, etc, but Americans were protectionist when they needed to be. By the end of the 19th century, they had general tariffs across all the agricultural products and a lot in manufacturing as well. That gives domestic enterprises the space to grow and get to the level of girth that they can then compete with the rest of world, and perhaps surpass. Now we are pretending that these very poor underdeveloped countries don't have to do that, and that it's illegitimate for them to do that. That's nuts.

Hemispheres: Presidents Luiz Inácio Lula da Silva of Brazil and Néstor Kirchner of Argentina unfurled last year a "Buenos Aires Consensus" to rival the often harshly criticized "Washington Consensus." Was this merely a symbolic move or does President Lula's vision for reforming the current path of globalization have a chance of being incorporated into future trade agreements? Did the deadlock in Cancun reflect the impossibility of intersection of these proposals?

***Greider*:** That's a good question and I'm not sure which of those is more right that the other. In the ideal sense, Southern countries are going through a necessary process of standing up to the US and resisting the FTAA and a new round of WTO that screws them once again. If they can do that and hold together, which I think that they have a good chance of doing, then they can come back and say "Okay, are we going to do business on mutual terms? Or are you going to keep hammering us?" Because that's the way they see it. They have got a lot speaking for their side now, including the fact that neo-liberalism and the Washington Consensus has failed utterly, especially in Latin America. Where it hasn't created disasters are basically countries that did not follow it, with China being the most obvious example. Malaysia basically opted out of the IMF rules and chose to use capital controls because they made sense, which they did. Argentina was the most loyal country in Latin America to follow the US's prescriptions for the last 10-15 years, and look where it got them. This is beyond theoretical; we have a decade of experience now, which was almost a lost decade for a lot of Latin America. They have a real basis for saying that they are going to do it differently now. I think that the WTO is an ill-designed, awkward, impossible arrangement that won't be able to sustain itself. I don't mean that it will be abolished, but it will lose its authority. It has turned into a pseudo-rule making body in which the ruling is so unavailable to most people in the system, while very available to multinational corporations, and that the rules so obviously reflect that that in the end, it won't be able to enforce those rules. After all the American righteousness about free-trade, when push comes to shove, we are not going to take the price subsidies and import barriers off of sugar, or cotton, or most commodities. And why aren't they? Because they realize that those sectors would be demolished if they did. So do we believe truly in free trade? There is a longer history at work here. The US was the singular leader of the post-war era with a vibrant economy compared to everyone else. I literally believe that that era is over, only the behavior in the system hasn't changed yet to acknowledge that, especially in the United States.

Hemispheres: Since you mentioned cotton, if the US were to remove its barriers to trade that eliminate, for example, Western Africa's comparative advantage in the commodity and developing nations were to reciprocate, then do you believe that poorer nations could reap some benefits from free trade?

***Greider*:** No, not really. Obviously there are some examples where that would be the case. But you are talking about the US, with a highly developed, capital-intensive agriculture. I don't think that a lot of African or Central American countries could stand up to that sort of production power, even if their natural comparative advantage was better. A good example is Mexico under NAFTA. The original statement of purpose was to eliminate tariffs on American grain and simultaneously modernize Mexican agriculture and help the small farmers move up the ladder in technological capability. They didn't do that. So now the barriers are falling and the peasant farmers are going to be wiped out. If I were an African leader and I could withstand the political pressure I would say that I needed another 20 years before we could be ready for that deal.

Hemispheres: Do you predict that a NAFTA expansion into a Free Trade Area of the Americas (FTAA) will happen any time soon? After Lula's grandstanding at Cancun, U.S. trade negotiator Robert Zoellick announced his intentions to proceed with or without Lula's support, but can there really be a FTAA without Latin America's largest economy, Brazil?

***Greider*:** Well Zoellick can say that if he wishes, but after talking to players from multinational corporations for the last several years, I know that the only reason that they wanted FTAA was Brazil. We're talking about a power relationship here. Once the US got Mexico, Brazil was really the only other power in Latin America that they couldn't roll automatically. We still could push them around a lot, especially on the capital side, but that's why they wanted that agreement. They could take out Chile or Argentina if they had to, and the rest are just asterisks anyhow. So the reality is that Brazil was the purpose of this agreement. And I know a multinational lawyer, whom I can't name, but who is in the middle of all of these negotiations, who told me three or four years ago, "We're never going to get the FTAA. It's a pipe dream. Brazil isn't stupid enough to go for this deal." He meant that Brazil has enough inherent strength on its own, so why should it turn over its economy to the US?

Hemispheres: It is hard to imagine the US truly removing its protection of commodities that Brazil also produces, such as oranges, but if it did, couldn't Brazil reap enormous benefits?

Greider: Yes, oranges are a good example, but there are two elements at work here. One is the real trade gains from opening, and it is a mixed picture that isn't totally one sided. But the other element is the investment rules, which are quite draconian. If you're Honduras or Antigua, it's a clear choice - you're going to get something positive out of this deal. So the rules of who has sovereignty are not as important there. But that's not Brazil's situation. For many decades, people could see the prospect of a really strong economy there, but for one reason or another, Brazil never got to that take-off stage. Regardless, you don't want to through that prospect away in order to get a good deal with Citigroup right now.

Hemispheres: What is Brazil afraid of with the investment rules? That was also a huge issue at Cancun.

Greider: The rule is basically, if the US puts its capital in there, Brazil can't regulate it or use its government in ways that the US regards as illegitimate. And that is undefined, but certainly the implication is that the government can't favor Brazilian companies in contracting or give broad social guarantees and subsidies, etc. In NAFTA, investment didn't become an issue for Mexico because it was desperate to make the deal, and would have done so on any terms. They hoped that they could get a take-off with NAFTA and then remove the restrictions later, or that American finance would be friendly to them. But it wasn't friendly and the US never helped the country develop. So Brazil has some experience to look at. If the US wouldn't make a balanced deal with Mexico, why should it make one with Brazil? This is a changing power relationship, which I believe is good for the world and for those in Latin America. If the US understood the world more broadly than the narrow interests of Wall Street and multinational corporations, it would understand that it's good for the US, too. I had a sense that the clear free-market ideology has peaked. The world went through 40 years of stripping away tariffs and making rules and that was real progress. But we're at the point now, where if countries can resist, they're not going to go to the pure American version where they're supposed to turn over their sovereign powers to some world system. The US wouldn't either, if we were faced with that choice. We won't even participate fully in the United Nations. Americans who are cheerleaders for globalization are deeply hypocritical and a lot of them don't understand this confrontation. If you look at the newspapers, these issues are almost never mentioned. They had to be covered after Cancun because there were these 20 countries saying, "Here are our issues," and even then they didn't take it very seriously. If you step way back from what's been happening, I do believe that there is a level of sincerity on the part of the advocates. What they believe is that the globalized economy is good for everybody, yes some people get hurt, but on the whole it's a good thing. So, it needs a system of governance which they will construct a piece at a time, whether it's through regional compacts like NAFTA or FTAA or the WTO if possible. The advocates believe that this is righteous work, making the world stable. But when you ask who those advocates are speaking for, it turns out to be a very narrow spectrum of the universe: multinational commerce and banking.

Hemispheres: It seems hard for me to believe that developing nations won't gain from us all opening up our markets. The World Bank estimated that a successful completion of the Doha Round of WTO negotiations would raise global income by 500 billion dollars a year by 2015. Do you not buy these numbers? Are developing nations really not going to benefit from a new round of trade regulations?

Greider: No, I don't trust any of those estimates - I've been hearing them for over 20 years. The figures for the WTO after 1994 were wrong, those for NAFTA were wrong, those for China normalization were wrong. It's not that there was no growth, but their projections were unreasonable. If you put yourself in the place of a developing country and decide that you can sell a certain commodity as well as one of the rich countries, but you need capital so you are dependent on the rich countries, and you don't have scale, and you don't have retail networks that the developed nations have. So, we're asking these nations to leapfrog over these hurdles and trust the World Bank's projection of how good it is all going to be. That is not a sound gamble for a businessman to take. Maybe a country doesn't have any choice and it needs to take the gamble, but if a country has enough going for it, it needs to keep control over its own development. Otherwise it just becomes an outpost for Japan, the US, *et cetera.* That is basically what a lot of those major countries have in mind. And you have a living example of what I'm describing in Mexico. Did Mexico get economic dependence? The banking system is basically owned by Europe and the US and the middle class did not grow. True, it did experience tremendous growth and employment out of the *Mequiladoras* zone, but now it is in decline, probably permanently. Companies in the US figured out that it was a lot cheaper just to go straight to China.

An interview with Kenneth Rogoff, Director of the Center for International Development (CID) at Harvard University on Trade Liberalization and Economic Development

Conducted at the CID by Melody Hildebrandt and Anita Gardeva

Kenneth Rogoff is currently the Director of the Center for International Development (CID) at Harvard University. Previously, Mr. Rogoff served as Economic Counselor and Director of the Research Department at the International Monetary Fund from August 2001 to September 2003. He is a faculty member in the Department of Economics at Harvard University and has published extensively on policy issues in international finance, including exchange rates, international debt issues, and international monetary policy.

Hemispheres: The first issue we would like to discuss is development and then we will move on to what happened at the trade talks in Cancun. Do you think the Millennium Challenge Account that President Bush unveiled last year is going to help Africa reach the Millennium Developmental Goals set up by the United Nations or whether the focus is becoming too much on aid rather than self-sustainable growth?

Rogoff: I think that the Millennium Challenge Account is actually well conceived. It's a small step and I wouldn't make too big of a deal about it, but I think it is an improvement in a number of dimensions over the way the World Bank gives money. First of all, a big problem with World Bank funding is that a lot of it is loans and not aid, so a lot of African debt is just World Bank funds. It is clear that they are not going to grow fast enough to be able to repay it, and thus it is better if the funds are structured as aid. You run into problems inevitably with African countries that have 300 percent of GDP debt. The fact that the Millennium Challenge Account is aid is good, and the fact that that it rewards good performances is good, but on the other hand, it is a pittance in terms of the amount of money. It's about 5 billion dollars; maybe it will turn to 8 billion dollars a year. It's actually a lot of money compared to what is given right now by the United States, but in terms of what reasonable aid levels are, it's small. What the United States should give is 200 billion dollars a year in aid, with an eleven trillion dollar economy. Yes, you're right, aid is only a small part of the solution, and I think some advocates of aid, like Jeffrey Sachs, way overstate the benefits of aid and how much good it would do, but the fact that aid isn't everything doesn't mean that it's nothing.

The United States, in particular, could easily afford to give a lot more aid than it does and should do so. A lot of what needs to be done in Asia, and in Africa, and in other regions that are underdeveloped, is internal, and there's nothing that the outside world can really do, besides providing some capital, some support. Development takes hundred of years and doesn't happen overnight. However, I think the Millennium Challenge Account actually is something where the Bush Administration really did the right thing and doesn't seem to get any credit for it anyway because people are so angry at other things that they don't notice that the Millennium Challenge Account was, I think, very well conceived.

Hemispheres: In an article I read of yours in *Finance and Development,* you talked about how achieving growth in Africa was going to have to come not just come from capital accumulation, which basically over the past couple of decades has been the mantra of what is necessary for growth, and more about soft factors such as institutions. Do you think that Western nations have any ability to help these lesser-developed nations build these institutions or is their sole power with giving aid or loans?

Rogoff: I think it varies country by county and case-by-case. We can certainly provide education to some percentage of people-it's very helpful having exchange in education. I don't think you can tell people what to do. Development is a political, social, and economical phenomenon all happening together. And just as in the Middle East—they've gotten rich overnight, but they haven't developed—you see that money isn't everything. Development takes time and the West has an obligation to try

its best to help, but at the same time, there are limits. Certainly providing technical assistance and exchange of people is very good and very important, and health is certainly a problem to address. I think there are a lot of ways the West can help *at the margin*, but I don't think people should regard it as a failure if Africa doesn't all of a sudden turn into Korea overnight.

Hemispheres: Now moving on to the collapse of the WTO negotiations at Cancun, some of the greatest frustrations that were voiced there came from West African countries, like Côte d'Ivoire, who are angry over the American protectionist policies that dilute the comparative advantage that Africa has in areas such as cotton. Regardless, Western nations are still pressing for capital account liberalization and the removal of trade barriers, but the frustration is that the western nations aren't reciprocating. Is there anything that can be done to make them do so?

Rogoff: First I want to establish that, quantitatively, what developing nations do to themselves in terms of trade is ten to twenty times worse than what Western countries do to them. If you look at the cost of protectionism, the giant costs are domestic protectionism that is instigated by developing countries, just on agricultural trade alone. The restrictions that developing countries put on imports and exports, their own tariffs, are way worse quantitatively. At the IMF we released a report advocating that the rich countries and their subsidies and agricultural barriers are outrageous, they're unconscionable, and we shouldn't have them. They actually hurt the OECD countries a lot more than they hurt Africa. I mean, Japanese consumers suffer a lot more from Japan's trade barriers than anybody else does. Americans suffer a lot more from our own agricultural subsidies, and the same with Europe. But it's unconscionable, even if we're taking small amounts away from Africa, it's not morally conscionable what we're doing. We need to give them every chance possible, and this is such an easy way to do it. The Europeans and Japanese are much worse than the Americans, by the way, in terms of their protectionism. All of that is true. But, the politically correct mantra is that the rich countries hurt the poor countries, and while it is the truth, it misses the main point. India still has gigantic tariffs on everything. India's growth has suffered mightily by trying to be a closed Soviet-style economy until the last ten to fifteen years. It's still coming out of that. Many African nations have scars of socialism from the sixties and seventies still left over. And they don't just have tariffs- there are many African countries where you pass a roadblock every five miles going through the country and you have to pay bribes. There are physical blockages to trade. This is way bigger explanation for why they're not growing than the agricultural subsidies. I think the point about the agricultural subsidies is a failure of moral leadership on the part of the west. If you are an African leader saying, "We have to liberalize our trade," what do you say to people who say "Look, President Bush just passed steel tariffs, the US Congress just passed this farm bill, and you're telling *us* we have to liberalize our trade?" And it's very difficult for the leaders in the developing countries, who fully well understand these issues, to gain political traction when the West is setting a bad example.

Hemispheres: Now to discuss the idea of financial integration in developing nations, do you think that the macroeconomic instability that initially results from such integration is outweighed by the benefits of faster growth? For example, prior to the Asian crisis and in other places where nations liberalized capital accounts and reduced their restrictions on capital inflows, a lot of instability resulted even though, in the long term, there should be growth.

Rogoff : Well I think the first point to make is that the academic consensus was always that you should liberalize trade ahead of trying to liberalize your financial market. The countries that really got hammered are countries like Brazil and Argentina, who didn't liberalize trade and borrowed tons of money. Of course, when the markets turn on you and you don't have a lot of exports relative to what you borrowed, you get killed. You want trade to grow at least at the same rate as your financial market integration. The second point is that as your trade grows fast, as China's is today, you can't stop some level of financial market integration because you can't keep a lid on your citizens once they are earning lots of income from abroad. It's very hard to make them turn it all over to the central bank. And once you're importing a lot, it's very hard to control everything, there are just too many ways around it – that's been the experience of the whole last century. But what is really hard to understand are countries that borrow and don't know how to trade – it's just nuts. Certainly a big part of the Asian financial crisis was that they had fixed exchange rates. If they hadn't had fixed exchange rates, even with all the other mistakes they made, they would have had a mini-crisis instead of a maxi-crisis. They are again moving towards fixed exchange rates, and I think that these big reserves that they're building up will prove to be a Maginot line, as long as they keep their fixed exchange rates.

Hemispheres: In your article "International Institutions for Reducing Global Financial Instability," you argue that sweeping proposals to reform the global financial architecture are impractical, but they do provide a good kind of framework for where we want to head. How you think this argument translates over to multilateral trade negotiations? Do the smaller steps that countries are taking such as regional and bilateral free trade agreements help us progress towards a global agreement or are they hindering our way towards a global arrangement? Are we losing sight of the big picture or was Cancun too ambitious?

Rogoff : Well there are two sides to this and I think most academics, led by Professor Jagdish Bhagwati, view that bilateral trade agreements are a disaster and multilateral trade agreements are the only way to go. The reason is that when you have lots of diverse bilateral trade agreements, you end up with a patchwork of tariffs and regulations that are very hard to enforce. If you import a wood chair, maybe the wood came from one country, the construction was done in another, packaging was done in a third, and then how do you figure out what the tariff is? We have this far-flung global trade network, and if we have a lot of bilateral trade agreements, it's really going to hamper it. A further case that has been made by, most famously by Australian economist Max Corden, is that once you have bilateral trade agreements, they freeze political interest and they block broader multilateral trade agreements. That's the standard academic argument. I think that argument ignores the dynamic effects of bilateral agreements. Often bilateral agreements are able to take up cutting edge issues that people just can't reach agreement on in the multilateral agreements. We gain experience with some of these different approaches and they get later incorporated into multilateral agreements. So the people who favor bilateral agreements say, "Oh it takes so long to get a multilateral agreement, we can get things much quicker with bilateral agreements, we can redo the bilateral agreement, the bilateral agreements provide a blueprint for multilateral agreements." And it is a tough call which of those two camps is right. Is the US moving too quickly into all these bilateral agreements that are going to block progress that would be coming sooner in multilateral agreements? I think the academic consensus is clear that we prefer the multilateral agreements, but the experience of the bilateral agreements and their dynamic effects is something, I think, academics have to look at more closely, and experience will tell.

Hemispheres: The focus of the talks at Doha and Cancun was more on developing nations than in the past when they centered more upon the interests of industrial nations. The Doha Round is referred to as the "Doha development agenda" and the World Bank estimated that a successful agreement to the proposals in Qatar would raise global income by $500 billion a year by 2015. Did the developing world, represented largely by the G-20 and several Western African countries who literally blocked negotiations, expect the focus of the negotiations to be focused too much upon the idea of aid and donor issues as opposed to trade? Did the developing countries miss a crucial opportunity for growth, or were their complaints justified? Don't they have the most to lose by failure at the negotiating table?

Rogoff : Well, the way that you framed the question is the sort of politically correct view that previous rounds have been for the industrialized countries and not for the developing countries. I think the larger truth is that developing countries have been exempted and allowed to keep these awful tariffs and quotas that they are very detrimental to their growth, although, yes, there are exceptions in certain cases and places where they are a good idea. But each of the previous rounds had this huge list of special exemptions, and now in large part, a lot of the industrial tariffs are gone, and so you have to focus on developing nations because that is where the tariffs are. So there is a lot of kicking and screaming because there is a strongly vested elite in the developing nations who don't want to lower their tariffs and they, more than anyone, are pointing at the rich countries and trying to make it a competition. It's not. Mexico benefited from the free trade agreement with the United States because it lowered its tariffs. The United States hardly had any tariffs on Mexico when we entered into the free trade agreement with Mexico-it was Mexico that lowered its tariffs. And the developing countries like China and India that have been lowering tariffs gradually, where they've done it, they've got huge benefits. That said, the agricultural protection is horrible, especially in Europe and Japan-it's just criminal. Japanese consumers pay 30 percent of their income for food, verses something like 16 percent in the United States and a little bit higher for Europe. It's completely because of tariffs. That is something really wrong and it would help developing countries if Japan got rid of it, and the developing countries were right to point to that, but at the end of the day, they're hurting themselves by not liberalizing their trade.

Hemispheres: You referred to Mexico and the United States; do you think that a Free Trade Area of the Americas (FTAA) expanding NAFTA is still a possibility for the near future? It seems like Brazil and the United States, especially now, are really at odds, especially over US agricultural policy that President Lula is so angry about. Do you think that right now the disappointment is just too much for them to come together?

Rogoff: I hope that it is something we see in the future. President Lula has done a magnificent job in his first year in office, but it's been a very difficult political balancing act, and whatever his beliefs, I just don't think he has the internal political power to liberalize trade. Something like his visits to Castro, while not necessarily being that meaningful, were very good in helping appease the left, and helping him push forward what is basically an economic reform agenda. I think he's probably made the calculation that this is an area where he's not going to get a lot of progress easily and quickly, so why not use it for rhetoric. Certainly just as Mexico benefited from the free trade agreement, the MERCOSUR region, which has Argentina and Brazil in it, is the most closed economy in the world, and they need to open up their economies in order to enhance competition and growth. There are people, like Dani Rodrik and Joseph Stiglitz who debate the gains from trade, but the evidence is just overwhelming, especially when you look at the dynamic evidence and the evidence from microeconomic studies that trade enhances competition. Yes, it's possible to find examples where it is done foolishly and where it's been a mistake, but there are way more examples where countries have stayed closed and it has been a mistake, with India being Exhibit A.

Hemispheres: So do you think that we're going to see the Doha Round get back on track any time soon? What can make people come back together to negotiate?

Rogoff: Oh, they'll keep negotiating. If you look at the history of trade negotiations, there is always a lot of grand standing and last minute collapse of talks. If you take Bargaining 101, the most basic principle of driving for a good bargain is to show that you are willing to walk away from the deal. And so you see this all the time. These people are professional negotiators. You're always watching someone or other walk away from the deal, but it doesn't mean there's not going to be a deal. Eventually there will be – there has to be. There are too many benefits to go around and hopefully the United States will continue to exhibit good leadership, as it generally has in the past, and the Europeans will be more responsible than they have been in the past.

Hemispheres: Then there is an agreement out there?
Rogoff: We'll have something someday. In the history of these negotiations, they always seem to fall apart, and then they have a deal, and I think that is the nature of complex bargaining, that everybody has to somehow show where his pain threshold is and try to move things a little bit.

Hemispheres: Finally, this is a somewhat off-topic question, but it relates to one of our essays. I was hoping that you could talk a bit about South Korea and the developmental state model. The government's tight regulation and five year plans do not conform to the Washington Consensus, but it still experienced spectacular growth. Is this model a viable alternative in some cases to the Washington Consensus and does the Asian Crisis affect this evaluation?

Rogoff: Well I think that the contemporary thinking on Korea is that it really reformed tremendously after the Asian Crisis. Although there are still many areas where it needs to reform and liberalize further, there is a widespread view out there that Korea has leapfrogged Japan and has gone much further away from these five year plans and industrial planning which, with most research I've seen, indicates that both Japan and Korea succeeded in spite of it, not because of it. There are many people who think Korea has the seeds of tremendous growth ahead, whereas Japan has refused to confront its problems. But it is not due to Korean industrial policy, with the most recent example being their decision that people should save less, so they just made it very easy to get credit cards, and this has been a disaster. It was this government-imposed credit card program that they're still trying to pick up the pieces from. I think you need government regulation, and there are varying degrees of it, but most studies I've seen of industrial policy in Asia suggest that it was ineffectual. They had a lot of other things going for them like high levels of education, high savings rates, social stability, that are very beneficial for growth, and so they grew really fast.

An interview with Jeffrey Schott, Senior Fellow at the Institute for International Economics on the World Trade Organization and the Free Trade Area of the Americas

Conducted at the IEE by Melody Hildebrandt

Jeffrey Schott is currently a Senior Fellow at the Institute for International Economics. During the Tokyo round of multilateral trade talks, he was a member of the United States' negotiating team. Mr. Schott is the author of many books and articles relating to trade negotiations, the WTO, NAFTA and FTAA, and economic sanctions.

Hemispheres: Is the current flourishing of current bilateral and regional free trade agreements going to hamper the progress of an international agreement at the level of the WTO or is any piecemeal form of trade liberalization beneficial?

Schott: Although it's not a black and white issue, U.S. strategy is being implemented in a way that is complementing and reinforcing initiatives to produce results from the WTO. The basic point that most analysts tend to overlook is that the new WTO doesn't work like the old GATT. Thus, the implications of the spread of regionalism for the multilateral trading system are different due to the environment in which Free Trade Agreements (FTAs) operate in an era of globalization and increased competition. Most of the FTAs today are North-South agreements and have an outward-oriented policy aimed at breeding investment, as opposed to the old market orientation when discrimination was one of the objectives of these agreements. Under the WTO, many more developing countries are now are actively engaged in the trading system and have a greater stake in this system than they did a few decades ago. Combined with the fact that the WTO operates on a consensus basis, a deal has to be much bigger to accommodate and appeal to the diverse interests of countries to gain support. The second point is that the U.S., Europe, and Japan have much less to give in terms of concessions in a multilateral trade agreement than the past. They have almost nothing to give in trade reform, except the barriers that have not been subject to liberalization in previous trade rounds. Very strong political interests defending these few barriers, which means that the cost of reaching a deal for the U.S., Europe, and Japan is higher if that deal is to include these sensitive issues. The third point is that as a result of these complications in the negotiating process, a different way of negotiating emerged. You have to engage in coalitional politics to build blocs of countries to help build and reach a consensus. FTAs can facilitate that process because they promote common interests. All of these things greatly complicate the process of the WTO and caused the messy result in Cancun.

Hemispheres: Especially because most of the tariffs that need to be removed are in the developing world, if we give away too much in bilateral agreements, will it be harder to reach an agreement on an international level?

Schott: There are two aspects to this argument. The first is that if you cut your bilateral deals with your major trading partners, you have less incentive to extend those concessions except on a most favored nation basis. The second aspect is that if you take care of all of the easy things bilaterally and you leave the tough things, such as agricultural subsidies, for Geneva, there will be nothing left at Geneva to build an agreement around. I think the arguments about FTAs meeting those two standards are discordant. Given the environment in which developing countries operate and their need to attract investment, many developing countries get preferential access to US and Europe anyway, though unilateral and temporary. To be conducive to investment, you have to have an open import as well as export policy and have appropriate regulatory policy to reduce red tape and transaction costs. So it's not clear to me why these types of agreements would be disincentive for these developing countries to move forward in the WTO. Countries that have preferential trade agreements will say that they don't want other countries to get the same treatment they're getting because it would dilute the value of their preferential access to the industrial markets. But even if those countries blocked progress in Geneva, they couldn't stop the US and EU from doing more bilateral and regional deals, and accomplishing the same thing. The countries that follow such a policy will find that their trade and investment preferences are transitory. When you think about FTAs, you really have to think of them primarily as investment driven. There is a sharp competition among developing countries for these investment dollars, which are a very important component of their economic development strategy. So the trade agreement itself is not going to provide the necessary benefits for these countries unless they can complement them with domestic economic reforms that attract investors to the country to help finance its development by bring in management skills and new technology. Generally, the FTA issue today revolves around economic development strategies in an era of globalization.

Hemispheres: A major argument against the creation of FTAA is the so-described "draconian" investment laws. Is this contention valid or exaggerated?

Schott: There's an understandable, though incorrect, argument that dictates you want to control your investment policy and allow discrimination as a tool of industrial policy. However, you must ask the very simple question: would companies go in and invest under those conditions when they have the opportunity to invest under more favorable circumstances, and more profitably, in another country? Most of the countries in Latin America would recognize that this isn't an issue because they are competing heavily against Mexico and Brazil. Mexico has already introduced a more open investment policy. Though it's less open than Mexico, Brazil has been liberalizing and attracts more funds essentially due to the size of its economy and the massive privatization that took place in the 1990s. So the only question in this case that should Brazil be worrying about is will the money flow into Brazil? Some Brazilian economists and policy makers say that they have leverage because of the size of their domestic market and contend they can still attract investment even if they place costly restrictions on foreign investors in their market. However, empirical evidence shows that the level of foreign investment has decreased dramatically in Brazil in recent years due to the downturn of the Brazilian economy and because privatization has dried up. They're now in a much more competitive position and whether they can get back up to the level of capital inflows that they experienced earlier in the 1990s is a raging debate in Brazilian policy making circles. It's not clear that they can do so when there is increased competition from East Asia and when other countries in Latin American are beginning to aggressively open up their markets.

Hemispheres: What do that recent events reveal about the prospect for a Free Trade Area of the Americas (FTAA)?

Schott: There's a gross misunderstanding of FTAA negotiations. First, the problem that countries now have are the short-term negotiating constraints related to the election cycles of the US and Brazil in particular. Second, we are finally beginning to recognize that the January 2005 deadline was never realistic, and that one cannot try to shoehorn negotiations into that timeframe without completely distorting the process. And third, the decline in Latin American and Caribbean economies in the early years of this decade have put many of the smaller economies behind in their capacity building efforts, which are needed to allow them to undertake more medium and longer term reforms that are envisaged by the initial FTAA. The current short-term constraint is disagreement between the U.S. and Brazil over agriculture. The U.S. is unable to deal with the market access demands of Brazil on particular products and in the meantime, there won't be any immediate progress made on domestic subsidies. And at the same time, the election cycle in Brazil is making it difficult for Brazilian negotiators to talk in any concrete terms about US priorities in the FTAA regarding services, investment, intellectual property, and government procurement. That is not necessarily a roadblock to future negotiation when these policies are up for review and /or when they are put on the table. And indeed, the business community in Brazil is beginning to object to the straitjacket that Brazilian officials have put their FTAA policy. We're beginning to hear signs of dissent, but obviously nothing that could be translated in the next few months, and in the US you won't see a review of our agricultural programs until the new Farm Bill before the Congress is rewritten in the Congress, late next year and in 2006. That's the time when you can have a hard negotiation on these issues, which is leading the negotiations toward a terminus in 2006, early 2007. We can't go beyond that because the expiration of US Trade Promotion Authority in June 2007 is a hard constraint. What is needed now is an approach to keep the negotiations on track so that countries can do their homework in preparing their domestic policies to adapt to a freer trade regime in the latter part of this decade, and then engage in hard negotiations later this year and in 2006.

Hemispheres: Is a "FTAA-lite" worth signing or does it ignore the issues of importance?

Schott: This concept comes from the decisions taken in the Miami Ministerial in November last year. To understand it, you have to look at its timing: It was two months after Cancun and two months before the heads of state were meeting in Monterray for a Special Summit of the Americas. The trade ministers didn't want a repeat of Cancun and have the FTAA talks collapse. It would set a very bad precedent following the WTO failure and it would throw into the laps of their bosses a big mess in Monterray. There was an immense amount of pressure on the leaders of that negotiation, the US and Brazil, who are the co-chairs, to come up with a deal. So you can't fault them on that tact, but the band-aid that they came up with in Miami was really weak. It postulates a core of issues that could be agreed upon by all participants, with everyone else agreeing to additional obligations if they so chose. The basic flaw in the Miami approach is that there is no conceivable core at this moment that would balance the interests of the major players in the negotiation without being a large agreement that would encompass much of what is on the agenda. They haven't made any progress since Miami, and whether they do later remains to be seen, but I'm skeptical.

Hemispheres: When the negotiations failed quickly at Cancun, many of the anti-globalization observers saw this as a sign of victory for the G-20 and an important symbol that developing nations would henceforth be united against a Western-dictated trade agreement. Was the G-20's goal actually trade collapse? Are they just making a point? Don't they have the most to gain by a new trade consensus?

Schott: There's a lot of confusion on this issue, particularly because of all of the rhetorical flourishes that came out from Cancun and immediately afterwards. Essentially, the seeds of the G-20 were actually planted during the G-8 summit last summer. The group organized to object to the US – EU compromise proposal on agriculture that was tabled in August. It was essentially organized as a coalition to prevent this watering down of prospective agricultural reforms in hopes that they would drive the US back to its initial ambitious proposals for agricultural reform. However, there was no unity among the G-20 about what they would put on the table, and in fact, some didn't put anything on the table. The answer to the questions of whether they wanted to have a negotiation, is that some of the nations did, and the Brazilians got the G-20 to put forward a reform a revised proposal off of the so called Derbez Text that was tabled at Cancun. Unfortunately, the negotiators never got around to talking about it because the meeting ended abruptly, but there was an attempt, as we saw on the Brazilian part, to try to reengage the negotiations. The Indians were not interested at this time, so that lead to the recriminations about the "can-do" and "won't-do" countries. Since then, there have been a number of meetings of the G-20 and they are trying to develop a constructive alliance that has an offensive as well as defensive agenda. But it's very difficult because part of their offensive agenda is to promote trade amongst themselves. The other part of it is related to broader foreign policy interests of the four core constituents of that group: Brazil, India, South Africa, and China. But then again, each of those countries has a different interest and different level of commitment to the alliance. It will be interesting to see how this coalition evolves over time, both in terms of their bilateral relations and their impact on the WTO negotiating process.

Hemispheres: Do you think the G-20 could be a positive step towards more North-South cooperation?

Schott: It could end up being quite constructive for the WTO process if it is managed in a way that pursues constructive reforms as well as blocking other initiatives. The jury is out on this one, and in fact the jury hasn't even been sequestered because it's an evolving process. But I do think it has the potential to be a constructive force.

Hemispheres: You argue in your article in *The Economist* that some of the nations at Cancun pursued "geopolitical objectives" rather than trade agreements and what were these underlying motives or goals?

Schott: Some countries wanted to pursue foreign policy interests over their trade and commercial interests, and some were willing to sacrifice potential economic gain to advance this political agenda. Others realized that they have leverage on the commercial front because of their pivotal role in various foreign policy or security crises in which the major powers are engaged. For the G-90, the bulk of the least developed countries and under-developing countries that came out cheering after Cancun, I believe that they thought they were making a statement about their power as a trading bloc to block the WTO process. And as I concluded in my Economist article, they did so, and they were the biggest losers from that. It took a while for the Geneva ambassadors to understand this, but several months later the officials were fairly chastened by the lost opportunity and the cost of delay in multilateral liberalization that resulted from Cancun.

Hemispheres: Do you think the Doha Round will get back on track along the same timetable as the FTAA?

Schott: I think the FTAA will get on track around the same time as the