CISD Yearbook of Global Studies

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# CISD Yearbook of Global Studies

## Volume 2  May 2015

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Introduction

This second issue of CISD’s Yearbook of Global Studies presents the twelve dissertations of greatest distinction written by CISD students of 2013-2014.

Emma Baraclough critically examines UK policy on corporate takeovers and argues in favour of the reintroduction of a revised public interest test for mergers. Using Malaysia and Singapore as case studies, Ai Wei Kwek examines the links between efforts to manage capital and labour mobility and discriminatory state policies that are reinforcing hostility towards migrant workers in society. Joachim Guslund examines Malaysia’s use of mandatory and voluntary performance requirements to align foreign investment decisions with national development strategies to draw out policy recommendations for developing countries. Through a comparative study of Rwanda and Kenya and a focus on the content of Information Communication Technology (ICT) for development policies, Naomi Somerville-Large shows how these countries’ different political settlements have led divergent policy outcomes and results. Silvana Tiedemann evaluates Bangladesh’s Solar Home System programme, the largest off-grid electrification programme in the world, to identify how the solar industry may yet contribute to the country’s long-term development and how such schemes could serve other developing countries.

Abigail Ghazarian looks at the politics of recognition with respect to the 1915 Armenian genocide and shows how the United States’ position is determined by its security relations with Turkey rather than the merits of historical evidence. Maren Hemsett looks at the implications of corporate tax abuse for the lack of protection of children’s rights through a study of the UN Guiding Principles on Business and Human Rights, and argues that state obligations under the UN Convention on the Rights of the Child extend to preventing tax abuse and also not hindering other states’ efforts to do so. Ole Kristian Myren examines the implications of the rise of the Islamic State for Al Qaeda’s franchising strategy, hitherto a key factor in the latter’s resilience, using as case studies two of its most prominent affiliates, Al Qaeda in the Arabian Peninsula and Al Shabaab. Laetitia Wheeler examines the dominant discourse linking Islam and violence through a focus on perceptions of the state, comparing the local reformist vision of an Islamic state (caliphate), and the internationally conceived view of a state as defined by western political and theoretical discourses. Simon Vickers critiques contemporary conceptions of post-conflict liberal peacebuilding to argue that in practice western actors are placing more emphasis on building strong, functioning and stable states with less absolute attachment to liberal ideals. Timothy Henderson examines the success of Brazil’s use of international sporting events in public diplomacy with reference to the 2014 FIFA World Cup and the 2016 Olympic Games. Kevin Miletic examines competing orthodoxies in International Relations about nuclear weapons in world politics, and argues that, in fact, the salience of nuclear weapons is a myth deeply rooted in decision makers minds (since completing his masters, Kevin has joined CISD’s doctoral program and is researching the theme of disarmament in world politics).

Covering a range of important contemporary policy issues, theoretical and disciplinary approaches and regional cases, the twelve dissertations reflect the rich diversity of intellectual interests amongst CISD’s student body. I am sure that you will enjoy all of them.

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Can Mazzucato’s entrepreneurial state thesis be applied to takeover policy?

Emma Barraclough

Abstract

A number of high-profile bids for UK companies in recent years have led to growing concern among the public, employees and academics about the country’s laissez faire approach to takeovers. At the same time, the financial crisis and a new concern about growing levels of inequality in developed countries has provoked interest in industrial policies and the capacity of the state to shape and promote economic development. This paper considers how the ideas developed by Mariana Mazzucato and William Lazonick on the “entrepreneurial state” and the “risk-reward nexus” might be applied to industrial policies. In particular, it considers whether they would allow policy makers to rethink their approach to takeover deals that would reduce the UK’s innovative capacities, or which amount to unwarranted value extraction by shareholders. It argues that taken in conjunction with work by Mushtaq Khan on creating and managing rents, their ideas provide a useful lens through which to analyse takeover policy and conceive new policies. Their approach also provides an important challenge to the dominant principle of shareholder primacy, which underpins the UK’s takeover rules. The paper concludes by evaluating a number of takeover-related policy options and arguing in favour of the reintroduction of a revised public interest test for mergers.
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Introduction

“There was a time when ‘industrial policies’, for both developed and developing countries, were bad words not to be spoken either in public or in private by respectable people,” say Cimoli et al. (2009:1).

Over the past 40 years, neoliberalism has become the dominant political and economic discourse. During this time, governments have been encouraged to retreat from economic affairs. That is now slowly changing (Stiglitz et al. 2013: 2). The financial crisis, a renewed focus on growing economic inequality within economies1, and a recognition of the importance of innovation-led growth to countries at the technological frontier has seen economists and policy makers begin to rethink the capacity of governments to shape economic development, even in developed economies2.

While this renewed emphasis on the potential of industrial policy to help economies grow is to be welcomed, much of the discourse is misguided. This is because industrial policy is still primarily viewed through a neoliberal lens, which distorts the reality of how value is created in an economy and curtails debates about how value should be shared. Although organisations and institutions such as the OECD are now encouraging governments to foster growth by intervening actively in a way that helps “build systems, create networks, develop institutions and align strategic priorities” (Warwick 2009: 47) there is little concomitant discussion about who should benefit from growth nurtured by the state. Instead, industrial policies are conceived and implemented within the dominant neoliberal economic and political framework that has shareholder primacy at its heart.

In this paper, I argue that policy makers need a new lens through which they can analyse economic problems and implement industrial policy solutions. I use ideas developed by Mariana Mazzucato and William Lazonick as a framework for the discussion. Mazzucato argues that that the state’s role in fostering innovation has been significantly underestimated. She develops this assertion further in her work with William Lazonick on the risk-reward nexus. This highlights the disconnect between those stakeholders that take risks in the innovation process and those stakeholders that enjoy the rewards.

To date, however, there has been little attempt to consider how this work can be applied to policy. The purpose of this paper is to examine whether it is feasible to apply their framework to one key aspect of industrial policy – the UK’s approach to foreign takeovers3. The decision to focus on takeovers was prompted by the debates engendered by two high-profile attempts by foreign companies to acquire large British companies: Kraft’s (successful) 2009 bid for Cadbury; and Pfizer’s (as yet unsuccessful) 2014 bid for AstraZeneca. These provoked widespread concern about the sale of flagship British companies (Business, Innovation and Skills Committee 2010; Wolf 2014). They also led to a growing understanding on the part of employees, politicians and the public (and indeed the boards of directors of the target companies themselves) that there was very little they could do to stop such acquisitions given the decision-making powers afforded to shareholders.

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1 See, for example, (Picketty 2014) and (Wilkinson and Pickett 2009).

2 A 2009 OECD paper acknowledged that “[r]ecent developments in both the theory and practice of industrial policy suggest that it is possible to find a theoretical rationale for a government role” (Warwick 2009: 47).

3 I will use the terms takeovers, mergers and acquisitions interchangeably to describe deals where one company acquires a controlling stake in another.
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These powers are underpinned by the UK’s corporate governance rules, which have the principle of shareholder primacy at their core (Collison et al. 2011). Mazzucato and Lazonick’s framework explicitly challenges the assumptions on which the principle of shareholder primacy is built. As such, it offers a new way of looking at the role of the state in the creation of value. This is important. The current discourse dismisses those who are concerned about the number and scale of foreign takeovers as rather naïve, old-fashioned protectionists who have failed to grasp the futility of trying to buck the market for corporate control (Secretary of State for Business, Innovation and Skills 2010). A new discourse around value creation that acknowledges the critical role the state can play would legitimise policymakers to frame the debate about takeovers differently. This would allow them to ask new questions: how can the state obtain a return on its investments; and how can it prevent takeovers that amount to unwarranted value extraction by shareholders at the expense of the UK’s long-term innovative capacity.

I will seek to show that taxation is no longer (if it ever was) capable of ensuring that companies that have benefitted from the fruits of an entrepreneurial state provide taxpayers with an adequate return. This paper will instead argue that there is a strong case, from both a theoretical and a practical perspective, in favour of reintroducing a public interest test for takeovers into the UK’s industrial policy toolkit.

Also relevant to any discussion about the entrepreneurial state is a consideration of rents and rent management. Mazzucato calls for governments to create and shape markets by making long-term investments in new sectors, influencing the orientation of private sector decisions, and providing long-term support to innovative industries. This amounts to the creation of rents. Managing these rents to ensure that they incentivise businesses to innovate rather than stagnate is difficult. I will use a framework developed by Mushtaq Khan to consider how the government can do this.

I begin this paper by outlining the work of Mariana Mazzucato on the entrepreneurial role of the state, and her work with William Lazonick on the risk-reward nexus. Chapter 2 shifts rather sharply to a discussion of takeovers: their benefits in theory, and their downsides in practice. This chapter will also include a case study of Pfizer’s attempt to acquire AstraZeneca. Chapter 3 will consider rent creation and management, and their relevance to a discussion about the role of the state and its right to obstruct foreign takeovers. The final chapter will address some of the practical implications of the analysis, and discuss some of the policy options open to policymakers, along with a brief consideration of their relative merits.

Rethinking the role of the state in innovation

The entrepreneurial state

Mazzucato’s 2013 book The Entrepreneurial State unpicks conventional analysis of the role of the state in relation to innovation-led growth. Mazzucato argues that the state has played, can play, and should play a far more critical role in the economies of developed countries than is generally assumed.

The ascendancy of neoliberalism saw a radical scaling back of ambitions in many developed states about what industrial policy – or indeed any form of intervention in the economy – can hope to achieve. Academic debates similarly narrowed. Much of the mainstream debate on
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industrial policy over the past three decades has split two ways. On one side are those who adhere to the market failure approach (those who believe that governments should intervene if the social returns of investment outweigh the returns available to private investors). One the other are supporters of the government failure approach (those who believe the risks of governments mismanaging industrial policies outweigh the potential benefits of implementing them) (Pack and Saggi 2006: 2; Hodler 2009: 85; Mazzucato 2013a: 4).

Mazzucato argues that that both are wrong. Governments do indeed make industrial policy mistakes, but these are inevitable if the state takes the kinds of risks necessary for successful innovation. Such failures should not discourage governments from assuming an entrepreneurial role. Nor should the state’s role in successful developed economies be restricted simply to providing the “right conditions” for growth. States pave the way for the creation of new markets by making a series of risky investments in innovation that the private sector cannot, or will not, undertake. In doing so, they promote innovation-led growth. She focuses on the United States and the UK to provide a series of case studies detailing where the state has made these kind of ground-breaking investments and effectively opened new markets: in internet technology, biotechnology, nanotechnology and pharmaceuticals, among others. Mazzucato argues that research funded and directed by the National Institutes of Health and the Defense Advanced Research Projects Agency in the US, and by the Medical Research Council in the UK, contributed directly to the ability of pharmaceutical companies and technology start-ups to bring new drugs and devices such as smartphones onto the market (Mazzucato 2013a).

In providing examples from the US experience, Mazzucato highlights the mismatch between the small-government rhetoric employed by many US politicians and the reality: that some of the most innovative, market-leading products around today have come about because of far-sighted, risky investments made by government agencies in the post-war period.

Mazzucato argues that an entrepreneurial state can undertake a number of activities, from “picking winners” and supporting them with long-term subsidies; funding research; using its agencies and laboratories to disseminate ideas quickly; and making use of procurement, commissioning and regulatory functions “to shape markets and drive technological advance” (2013: 74).

This new way of thinking about industrial policy for developed economies contrasts with other post-war paradigms. “Old” industrial policy in the UK was characterised by a preference for public ownership, subsidies for national champions in mature industries and tariffs. Neoliberal industrial policy is characterised by restricting the state’s role to that of removing impediments to market forces. But Mazzucato’s thesis rests on a new way of imagining industrial policy and the role of the state: as a market creator rather than a plugger of market gaps.

Although many economic institutions are beginning to rethink the role of industrial policy (Stiglitz et al. 2013: 2), Mazzucato’s thesis moves the debate far further on. In describing (and encouraging) a role for the state that goes beyond simply fixing “market failures”, she challenges the hegemonic view of value creation in the private sector. By doing so she connects the role of governments and the rights of citizens – something that few other industrial policy scholars have done.

The risk-reward nexus

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Mazzucato’s work on the entrepreneurial state is developed further in her work with William Lazonick on the risk-reward nexus. This focuses on the conflict between the way that value is created in an economy and how it is extracted (2013: 1093; Mazzucato 2013a: 185). It argues that the growing chasm between those who take the risks necessary for innovation and those who benefit from the returns of it is leading to greater inequality in developed economies. Mazzucato argues that this damages an economy’s capacity to innovate in the long run, on the grounds that inequality compromises economic stability. Economic instability increases the uncertainty of the innovation process and, as a result, economic growth stagnates or declines (Lazonick and Mazzucato 2013: 185). The casualization of the labour market also harms prospects for innovation. The most productive workers are those willing to go beyond their strict job specifications. Workers who fear redundancy, however, or who believe they will not share the benefits of innovation, are less likely to invest the time and effort necessary to produce it (Lazonick and Mazzucato 2013: 1099). Making growth fairer and more equitable should be regarded as good for growth, rather than simply as good in itself. Questions about the impact of inequality on growth have been much debated in recent years. Washington Consensus institutions have traditionally argued that that there is a trade-off between aggregate growth and greater equality (IMF 2003). Now, however, some institutions are rethinking the issue. A 2014 IMF staff research paper, for example, suggests that lower net inequality drives faster and more durable growth for a given level of redistribution. It concludes that redistribution appears generally benign in its impact on growth (Ostry et al. 2014).

Making growth more equitable, however, requires a better understanding of how value is created.

If we do not have a theory of value creation, how can we differentiate value that is created and value that is simply extracted (what some have called “rent”)? (Lazonick and Mazzucato 2013: 1095)

Instead, current discourse about value is dominated by two beliefs. First, that the private sector is the sole driver of innovation. Second, that shareholders have the sole entitlement to private sector profits. I have already summarised how Mazzucato debunks the myth of the first. The next section will explain why the principle of shareholder primacy distorts our thinking about policies related to the governance and control of companies.

The shareholder primacy problem

Forty-four years ago Milton Friedman wrote an article entitled “The Social Responsibility of Business is to Increase its Profits” (Friedman 1970). It epitomised ideas that began to enter, and then dominate, mainstream thinking about the purpose of companies. If Freidman articulated a view about the profit motive of companies, Jensen popularised a view about who should be the sole beneficiaries of those profits, based on the supposed principal-agency problem. Profits belong, he argued, to shareholders – the only stakeholders not to be guaranteed a return (Jensen 1976; Lazonick and O’Sullivan 2000: 15). The assumption underlying the theory that shareholders have sole claim on residual income is that shareholder alone risk their investments. This gives them a moral, as well as legal, entitlement to the returns. The dominant discourse of the free market and shareholder primacy downplays the facilitative and entrepreneurial role of the state, which is why President Obama’s 2012 stump

\[4 \text{ This is despite the fact that shareholders enjoy the protection of laws limiting their liability (Blankenburg et al. 2010; Muchlinski 2010; Lazonick 2012: 28).} \]
speech, in which he claimed: “If you’ve got a business – you didn’t build that. Somebody else made that happen” (Obama 2012), was subject to such opprobrium. The issue of shareholder primacy and the principle of maximising shareholder value (MSV) are central to debates on industrial policy in general, and to this discussion on takeover policy in particular. That is because they provide the lens through which problems are analysed and policies formulated.

Mazzucato shows us that shareholders are not the only stakeholders who take risks in the innovation process. A national innovation infrastructure consists of government agencies, academics, research institutes, banks, employees, venture capitalists and companies – and depends for its success on the organisational relations between them. Innovation is collective, cumulative (in the sense that there is a timelag before it comes to fruition and that it is built upon earlier efforts) and uncertain (Lazonick and Mazzucato 2013: 1095; Lin and Chang 2009: 491). The very collective nature of this process offers a foundation for more equitable, inclusive growth. As Lazonick and Mazzucato explain, “the participation of large numbers of people in the innovation process means that inherent in the innovation process is a rationale for the widespread and equitable distribution of the gains to innovation” (2013: 1103).

The taxation problem

The obvious way of ensuring that the state receives an adequate reward for the risks it assumes is to use the taxation system. After all, the state can expect to receive tax receipts from the growth stimulated by its investment. However, the state is increasingly unable to guarantee an adequate return. The recent focus on the tax practices of multinational enterprises (MNEs) has highlighted the difficulties that governments face when collecting corporation tax. Companies have been able to use complex subsidiary structures and transfer pricing rules to reduce their tax bills significantly (Committee of Public Accounts 2013; Mazzucato 2013a: 165) and businesses facing close scrutiny of their tax arrangements are able to relocate with relative ease. In an era of footloose MNEs, a decision by a country to raise rates of corporate tax is likely to hasten the departure of MNEs to lower tax jurisdictions (Voget 2011:1079). Governments are under pressure to compete by offering “pro-business” tax regimes with low rates of corporate tax and low rates of personal income tax to attract so-called “wealth creators” (Osborne 2012).

The pressure on governments to engage in competitive tax cutting comes at a time when companies are facing growing stock market pressure to return “value” to shareholders. They do this by keeping share prices and dividends high (Kay 2012). This trend is symptomatic of the “financialization” of companies, which is driven by placing enhanced shareholder value at the heart of corporate governance theories (Muchlinski 2011: 670). It has prompted growing numbers of companies to engage in share buy-backs and to embark on aggressive cost cutting (Lazonick and O’Sullivan 2000: 31). Financialization effectively incentivizes companies to limit their investment in staff training, or in research and development (where rewards are uncertain), and to focus instead on meeting the short-term financial targets that determine share prices. As a result, McGoey says that governments are increasingly assuming a “philanthropic” role by investing in research and development (R&D) in high-tech and innovation-driven sectors at the same time that non-financial firms are increasingly likely to divest from traditional core competences (2014: 115). The prevailing MSV-centred discourse, however, means that business leaders rarely credit the state for the support they receive. On the contrary, they use the language of the free market to suggest justify entrepreneurial companies and their shareholders benefiting from all the rewards of investment (Lazonick and Mazzucato 2013: 1097). This legitimises a situation in which “public investments … become
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business giveaways, making individuals and their companies rich but providing little (direct or indirect) return to the economy or to the State” (Mazzucato 2013a: 12).

Chapter 3 will consider what the state can do to control the rents that it creates in order to prevent investments from turning into this kind of one-directional “business giveaway”. In Chapter 4, I will explain the implications of a rent-management framework for a revised policy on takeovers. First, however, I will briefly address some of the criticisms of the entrepreneurial state and the risk-reward nexus theses.

Criticisms, caveats and rejoinders

One criticism of Mazzucato’s entrepreneurial state thesis is that it underestimates the critical role of the private sector in innovation-led growth. A related criticism is that her call for more government-directed research would lead to private investors being “crowded out”. Mazzucato responds by arguing that rather than crowding out investment, the state effectively “dynamizes” it in (2013: 5). That claim is supported by one 2014 study on patenting trends in the biotech sector. The authors say that levels of patenting by publicly-funded research bodies around the world is far higher in the cutting-edge areas of personalised medicine and synthetic biology (where private companies exhibit less confidence) than in more mature areas such as gene sequencing (Williams 2014). The authors conclude: “Public bodies are the main drivers of innovation” (Marks & Clerk 2014: 6).

The second criticism is that Mazzucato downplays the role of entrepreneurial individuals in the innovation process. The Economist says of Apple founder Steve Jobs, for example: “putting all those different state-funded technologies together into user-friendly iPads and iPhones required rare genius that deserves rare rewards” (2013). This argument, however, is circular. Without Steve Jobs there may have been no iPhone. But without state-funded investment in the technologies underpinning touch screens there may have been little with which Steve Jobs could have worked his design flair.

A third criticism is that Mazzucato’s work does not explain fully why some states are better at being entrepreneurial than others (Economist 2013). Instead her approach focuses on how states can be entrepreneurial. To the extent that her work lacks answers to this question, Mushtaq Khan’s framework on rent creation and management provides insight and fills some of these gaps. I will consider Khan’s framework, and its relevance to Mazzucato’s work and to policies on takeovers, in subsequent chapters.

A fourth criticism is that Mazzucato’s America-centred case studies are too time- and context-specific to be of wider relevance. Innovations such as GPS, SIRI and the internet have their technological origins in research projects funded by the US Department of Defence during the Cold War (Mazzucato 2013a: 63, 205). It may be politically unfeasible (as well as undesirable) for governments to engage in similarly high levels of defence spending to help incubate similar innovations. But this criticism is specious. An entrepreneurial state is not required to focus on defence spending. The dangers of climate change might provide the same degree of legitimacy for state-led R&D in green technology as the purported threat of the Soviet Union did for US defence spending in the twentieth century.

A fifth criticism is that Mazzucato and Lazonick’s risk-reward nexus provides little guidance for calculating the return that is due to the state in the innovation process. Instead, they concede that the collective, cumulative and uncertain nature of innovation makes it difficult to
measure the contributions of different stakeholders (2013: 1095). This presents an important challenge for policy makers who want to apply their analysis. While the principle of shareholder value offers an easy formula (shareholders are entitled to any residual), the risk-reward nexus framework does not. The authors do, however, explain how some economic actors gain control of organisations that create value and use product or financial markets to extract value for themselves (2013: 1096). Lazonick and Mazzucato say that this can be done by shareholders via share buy-backs, and by venture capitalists via IPOs. Is their analysis also relevant to takeovers of domestic companies by foreign acquirers? I argue that it is, and that their framework provides a new rationale for discouraging – and in some cases blocking – takeovers. Before I address this in more detail, I will first deal with the issue of takeovers more generally, putting merger control policy in historical context and explaining why governments that want to promote domestic innovation are right to have concerns about foreign takeovers.

Takeovers and industrial policy

It is important to note that not all foreign takeovers are bad for the host country. Some provide additional investment and enhance opportunities for innovation-related learning (Bertrand 2009). Others might rescue a company in financial difficulties. But some takeovers are undoubtedly problematic. They can disrupt the kind of innovation infrastructure that is important for driving high-tech, high-productivity economic growth. They can also provide shareholders with an easy (and lucrative) exit option, giving them an option to extract unwarranted value from the company at the expense of other stakeholders.

Putting merger policy in historical context

A system of merger control was introduced in the UK in 1965 and formalised in the 1973 Fair Trading Act. The legislation gave the Monopolies and Mergers Commission the authority to assess mergers that met a certain threshold, but the ultimate decision to block or allow deals was made by the Secretary of State by reference to a public interest test (Scott 2009: 11). The Act defined the public interest as including “maintaining and promoting the balanced distribution of industry and employment in the UK” (Fair Trading Act 1973 s.84(d)). The law gave the government a large degree of discretion and reflected the rather corporatist approach to industrial relations prevalent at the time (Scott 2009: 12). In 1984, however, the Secretary of State for Trade and Industry clarified that referrals to the Monopolies and Mergers Commission would be made primarily on competition grounds (Seely 2014: 6), underlining the Thatcher governments´ commitment to finding market solutions to economic problems. The Enterprise Act 2002 reduced the scope for state intervention yet further. The Competition and Markets Authority will assess mergers if the deal meets certain size or market share thresholds. The Secretary of State has no powers to make a reference, or to investigate or prevent a merger, except in very limited circumstances: if the deal raises questions of national security, media plurality or financial security (this latter category was added in 2008 to allow state intervention in Lloyds TSB’s takeover of HBOS) (Seely 2014: 4).

In regulatory terms, the trajectory of UK merger control policy is one in which notions of “public interest” have progressively been defined by economic theory and econometrics and

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5 Mazzucato dedicates just four pages of *The Entrepreneurial State* to policy recommendations to ensure the state can recoup its investments, acknowledging that “this discussion is just a start” (Mazzucato 2013a: 191). None deals with takeovers.

6 Roll says that many acquirers overvalue the target firm (1986: 198).
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interpreted in an increasingly narrow competition context (Davis et al. 2013: 7; Chisholm 2014). In practice, the UK’s 30-year-plus commitment to market liberalism has made the country exceptionally open to foreign investors, and to foreign takeovers (Kay 2012: 60), even as some OECD countries have strengthened legal protections for the defence of certain strategic sectors (Callaghan 2014: 2). This openness has had a reinforcing effect. Callaghan argues that the internationalisation of ownership of UK equities explains why public resistance to foreign takeovers has been relatively low in the UK compared to some other European jurisdictions. She suggests that employees of companies already owned by “footloose outsiders” care less if similar kinds of investor acquire their company (Callaghan 2014: 19). So-called “insider” networks of corporate governance (characterised by rather paternalistic worker-manager relationships and large, stable blockholdings) are increasingly being replaced by “outsider” network systems (where share ownership is less stable and more dispersed and where share prices, rather than personal ties and expectations, function as the key tool for monitoring). As a result, stakeholders have fewer incentives to complain about subsequent acquisitions. “Weak mobilization [against foreign takeovers] … need not imply that everyone is happy but may instead indicate that there is nothing left to lose” (Callaghan 2014: 19).

The prevailing theory of takeovers

The gradual loosening of the UK’s merger control framework reflects broader political and economic changes in the country. The discrediting of Keynesian state intervention and the rise of neoliberal policy solutions from the mid-1970s onward (Harvey 2005: 41; Stedman Jones 2012) prompted the adoption of a far more laissez faire approach to takeovers (Secretary of State for Business, Innovation and Skills 2010: 5). This approach is predicated on assumptions about the inefficiency of government intervention; the efficiency of markets; the economic and moral imperatives of letting shareholders decide the fate of the companies in which they have invested; and of maximising shareholder value.

Proponents of these ideas offer two key supposed benefits of mergers, both related to the principle of MSV. First, they argue that a liberal market for corporate control helps to resolve some of the problems of moral hazard in principal-agent relationships (Baumol 1991: 4; Manne 1965: 112; Callaghan and Höpner 2005: 312). This is because the threat of a takeover focuses the attention of directors on maximising shareholders’ returns. Second, they argue that takeovers offer improved efficiencies through bigger economies of scale (Platt Majoras 2001), the exploitation of synergies and increased market share.

The downsides to takeovers

The empirical evidence on the benefits of takeovers is less convincing. It suggests that high levels of M&A activity may not be good for either shareholders or the wider economy. There are a number of reasons for this.

First, the hubris hypothesis suggests that companies pursue deals despite little underlying economic rationale. Directors and their advisers can become so committed to the venture that they overvalue the target company (Roll 1986).

Second, the measures taken by directors to maximise shareholder value and thus stave off the threat of a takeover may impact negatively on companies’ long-term competitiveness (Kay 2012; Davis et al. 2013: 5). In an era characterised by the financialization of companies, those
companies with substantial cash assets are increasingly choosing to return it to shareholders by way of share buybacks rather than investing in R&D (Lazonick 2011: 21). Other companies may choose to cut spending on research if such spending would negatively affect their quarterly reporting figures. Third, the touted efficiency savings of takeovers have often manifested themselves in shrunken workforces (Conyon et al. 2000) and with the decline of UK manufacturing (CRESC 2011). Other efficiencies can be slower to materialise than promised by the parties involved (White 1987: 18).

Finally, and particularly relevant to the focus of this discussion, takeovers may reduce aggregate levels of innovation in an economy. Companies may resort to buying in innovation rather than developing their own innovative products or services. This practice is a form of rent-seeking. The practice is increasingly common in the pharmaceutical sector as blockbuster drugs come off patent (Mitra 2007: 280). Even when acquiring companies pursue deals with the explicit aim of increasing total innovation, the results are mixed. Cloodt et al. analysed the impact of M&A deals in the high-tech sector on the long-term innovative performance of the acquirer and concluded that “in a high-tech setting the acquisition of a large absolute knowledge base only contributes to improved innovative performance during the first couple of post-M&A years. After a few years this kind of acquisition appears to have a negative influence” (2006: 650) Another study of mergers in the pharmaceutical sector concluded that there are “serious doubts” about whether mergers produce “important innovation advances or significant increases in research productivity” (Ornaghi 2009: 78).

**Why foreign takeovers matter**

Acquisitions by foreign companies raise additional concerns. Relocating a company’s headquarters overseas has implications for the host country’s tax revenues (Kay 2012: 59) as well as its capacity to maintain spillover functions such as legal advisers and accountants. There is also a risk to jobs, given that it may be more politically expedient for MNEs to make synergetic job cuts in the host, rather than the home, country (Chang 2010: 81).

Foreign takeovers also present a threat to domestic innovation capacities because companies often choose to base their R&D facilities close to their corporate headquarters in order to lower transaction costs (UNCTAD 2005; Amsden 2009: 412), and because foreign acquisitions can negatively impact the target company’s propensity to engage in R&D (Stiebale and Reizeb 2011: 165). In addition, if a company moves its headquarters overseas the host country is likely to lose the kind of information spillovers that take place when corporate HQ learn from each other about ways of carrying out business (Voget 2011: 108). These kinds of learning externalities are increasingly being recognised as an important part of economic development (Stiglitz et al. 2013: 11). A foreign takeover can also disrupt the target company’s relationships with SMEs and impoverish its relationships with local universities and research centres (Chang and Andreoni 2014: 108).

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7 A survey of 400 CFOs in the United States, for example, found evidence that managers take business decisions designed to maintain accounting appearances. “In particular, 80% of survey participants report that they would decrease discretionary spending on R&D, advertising, and maintenance to meet an earnings target” (Graham et al. 2005: 30).

8 Baumol describes the boom in takeovers in the 1980s as having both “productive components and elements that attracted a swarm of rent seekers”, and that deals prompted by rent seeking have had negative social and economic impacts (1991:3).
Amsden sums up the importance of developing indigenous innovation capabilities: “Foreign investors do not, and probably cannot be expected to, do their state-of-the-art research outside the corporate labs. If nationally owned companies want to be first with cutting-edge products, earn entrepreneurial rents, and accumulate engineering know-how, then like everyone else they must invest in their own R&D” (2009: 419).

What does this empirical evidence mean for merger policy? Stiebale and Reizeb (2011: 165) argue that policy makers have reason to favour inward greenfield investments or domestic mergers and acquisitions over foreign ones, particularly in innovation-intense industries. At the very least, they suggest, regulators should consider the possible negative effects on innovation when they assess the welfare effects of foreign acquisitions.

While this conclusion is undoubtedly correct, it does not go far enough in challenging the prevailing neoliberal, MSV-dominated framework in which policy makers devise the rules governing takeovers. Instead of simply assessing whether a deal might negatively affect the UK’s long-term innovative capacity (important though this question is), regulators should consider the deal through the lens of the risk-reward nexus. This would allow them to pose another question: has the state received an adequate return on the rents that it created through its pro-growth industrial policies. Chapter 3 will consider in more detail how the government might try to manage the rents it creates. Before that, however, it is useful to provide a case study of a takeover bid that provoked public concern about the UK’s laissez faire approach to foreign acquisitions.

**Pfizer’s bid for AstraZeneca**

In December 2013, the CEO of Pfizer put AstraZeneca on notice that he wanted to buy the company. The New York-headquartered drugs business faced large tax liabilities in America and was eager to conclude a so-called tax inversion takeover that would allow it to relocate its tax domicile (but not its corporate headquarters or its listing on the NYSE) to a lower-tax jurisdiction.

On May 2 2014, Pfizer indicated it would pay shareholders £50 per share, describing its proposal as a “significant value creation opportunity” for AstraZeneca’s shareholders representing “compelling shareholder value” (Pfizer 2014a). On May 6 AstraZeneca responded by announcing that the company would target higher long-term financial targets “which highlight the potential for shareholder value creation” (AstraZeneca 2014b). Less than two weeks later, Pfizer increased its offer to £55 per share, valuing the company at £69.4 billion. AstraZeneca’s board of directors consistently rejected Pfizer’s overtures and on May 26 Pfizer announced that it would not make a formal offer for AstraZeneca. It is unclear why Pfizer did not launch a hostile bid, but its decision might not mark the end of its interest in acquiring the company. The Takeover Code allows Pfizer to make a revised approach to AstraZeneca when a six-month “no-approach” period ends in November (Rigby 2014).

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9 AstraZeneca is an Anglo-Swedish company and the UK’s second-largest pharmaceutical business. It employs 6,700 people directly and supports another 30,000 jobs indirectly in the UK. In 2012 it accounted for 1.8% of the UK’s exports (AstraZeneca 2014a).

10 Pfizer’s CEO told British MPs that the deal was motivated by three factors: to merge pipelines, increase efficiency and enjoy a lower tax rate and a more flexible use of financial assets (Business, Innovation and Skills Committee 2014).

11 The offer was a 39% premium on the closing price of AstraZeneca’s shares the day before Pfizer launched its bid.
Pfizer’s bid offers a number of insights that are relevant here. The first is that language used by both companies during the course of the approach highlights how the principle of shareholder primacy dominates the discourse on takeovers. Neither company, nor their respective shareholders, officially acknowledged the role of the UK government in helping AstraZeneca to thrive on global markets\(^\text{12}\) or the growth in value that should be attributed to employees (Wolf 2014). The second is that AstraZeneca’s directors are under increased pressure to return value to shareholders lest Pfizer returns in late 2014 with a revised bid. This additional focus on short-term returns might jeopardise long-term investment in the company.

The third is that it became clear that the government had few legal instruments to influence, or prevent, the deal. As concern in the UK grew about the proposed bid, Pfizer’s CEO wrote to the prime minister pledging to maintain a certain level of R&D in the UK, and to “look to” manufacture certain products in the UK, subject to the implementation of a new UK tax benefit called the patent box (Pfizer 2014b). These pledges were of little practical value, as politicians learnt in the wake of 2010 Kraft’s takeover of Cadbury (Seely 2014: 12). They were to last for five years, and the company retained a right to adjust them in the event that circumstances changed.

It can be argued that Pfizer’s decision to abandon its bid demonstrates how well post-Cadbury technical amendments to the Takeover Code\(^\text{13}\) have been at thwarting unwelcome overtures. Alternatively, that disapproval from domestic politicians can provide an effective informal brake on bids. These arguments are weak. The Code will not prevent Pfizer from making a renewed bid and AstraZeneca’s shareholders may yet accept it. In the second case it would be wholly inadequate for industrial policy in an advanced economy to be run on such an informal, unpredictable basis.

**Rent creation and rent management**

Mazzucato describes the entrepreneurial role that governments can play, but does not explain why some are more successful at driving innovation and growth than others. Here it is important to consider the role of rent creation and rent management.

This section will consider what rents are, why governments must manage them carefully, and how the issue is relevant to the debate on merger control. It will also look at how a developing country – China – has created and controlled rents and how this is reflected in its own rules on takeovers.

**What are rents?**

In simple terms, rents are excess incomes that should not exist in efficient markets. They take a number of forms, including government transfers by way of subsidies and interventions (Khan 2000:1). Many mainstream economists assume that rents are always harmful. Khan disagrees. He has sought to highlight how some rents may be essential for growth and economic efficiency, particularly in the course of economic transformation (Khan 2000: 3).

\(^{12}\) For example, research by the Medical Research Council in the 1970s led to the development of monoclonal antibodies, which make up one-third of all new drug treatments for a range of diseases including arthritis and cancer (Mazzucato 2013a: 67). AstraZeneca’s Annual Report commits the company to “increasing early-stage research deals and academic alliances” (AstraZeneca 2014c: 19).

\(^{13}\) Such as new time limits to protect against protracted “virtual bids”.

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He provides a caveat, however. So-called “good rents” must be controlled carefully and can become “bad rents” if conditions change. “Badly managed rents can mean permanently poor resource allocation as well as high rent-seeking costs” (Khan 2008: 31).

There is no single definition of industrial policy, but it is generally agreed that it encompasses policies supporting infant industries (such as providing them with subsidies or protecting them with tariffs), as well as trade policies, science and technology policies, public procurement, policies affecting FDI, IP rights, and the allocation of financial resources (Cimoli et al. 2009:1). As such, industrial policy amounts to a rent.

Khan’s work on rents deals almost entirely with rents created and managed by developing countries. It explains how their governments might be able to utilise rents as their economies undergo the structural transformation essential for industrial catch-up. But can it be applied to the kind of industrial policies that Mazzucato recommends – market-creating, “mission-orientated” interventions? More specifically, can governments manage industrial policy rents through their rules on takeovers?

There are, of course, differences between advanced and developing economies. Productivity growth in developing countries is likely to be driven by learning. Governments that create rents for this kind of learning give companies in the targeted sector an opportunity to catch up (Khan 2000: 48). In contrast, developed countries are much closer to the technological frontier, and further economic development is far more dependent on cutting-edge innovation. The kind of rent required here is one in which the government supports certain sectors in order to “make things happen” (Mazzucato 2013a: 28), using the kind of policy tools I outlined in Chapter 1. Schmitz et al. describe this kind of rent as a policy rent, which they say is a risk-adjusted above-average profit made possible by government intervention (2013: 7). These go beyond simply providing the funds for R&D in a sector to be commercialised later by the private sector. Mazzucato suggests that the US government helps to foster indigenous innovation by protecting the IP rights of American companies when they face threats from global competition (2013: 110). It does this by lobbying other governments to beef up their substantive IP laws and to enforce them more actively (Stiglitz 2002, US Trade Representative 2014).

There has been little application of Khan’s work to the kinds of industrial policies pursued by developed countries. What there is largely deals with rent creation and control for the development of green technology. In a range of studies of industrial policies implemented in developing countries, however, scholars have analysed the kind of conditions under which rent creation and management might work most effectively. There is no reason why these principles should not have universal relevance. In the next section I will outline these principles (what Khan describes as “governance capacities” (2008: 31)), before considering how China has successfully used, and managed, rents. In the final section of this chapter I will explain the relevance of rents to the debate on UK takeover policy.

Governance capacities

A government that wants to create and manage rents effectively should be confident about the state’s potentially positive role in economic development (Mazzucato 2013a: 2) and be clear about its aims (Wint 1993; Välijä 2008). The chances of a state being captured by special

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14 See (Schmitz et al. 2013) and (Morris et al. 2012).
interests seeking rents in the form of tax cuts or subsidies grows when the state is unconfident of its role in facilitating growth and innovation. Neoliberal prescriptions to shrink the state often result in policy making being outsourced to the private sector, leading to a loss of policy expertise. As a result, the state is more likely to be captured by business (Crouch 1997: 359). Instead, the government must try to develop an independent but collaborative relationship with the private sector and ensure it is a functional “symbiotic” one rather than a dysfunctional “parasitic” one (Mazzucato 2013c).

The government agencies in charge of implementing industrial policy should be relatively independent and free of the kinds of short-term political considerations that make them susceptible to rent seeking and regulatory capture (Hodler 2009: 91; Morris 2012: 41; Lee 2000: 130). This will also put them in a better position to take decisions in the long-term interests of the country, rather than being beholden to short-term concerns (Nuttall et al. 2011: 1297). Agencies in charge of implementing industrial policy should be staffed by smart people (Hodler 2009: 92; Khan 2000: 52), which is why the discourse about the role of the state is so important if governments want to create a dynamic, entrepreneurial bureaucracy. After all, who would want to work in the state sector if it is treated as a cumbersome entity capable only of “correcting” market failures, asks Mazzucato (2013: 6).

Finally, governments must be able to manage the rents that they create by being clear about the kind of performance they expect in return and by cutting public support for projects that fail to deliver (Khan 2000: 50; Rodrik 2006: 17; Hodler 2009: 92). “The recipient of the learning rent has to accept that the state will have to use its judgement if things go wrong to decide whether to keep subsidising, to restructure or even to terminate the project” (Khan 2000: 51). Khan acknowledges that the state’s ability to discipline the rents that it creates may decline in countries undergoing political change, where business and civil society become more assertive about obtaining and protecting their legal rights (2000: 52). Governments in advanced democracies are therefore likely to have the biggest challenge in disciplining the beneficiaries of policy rents. This is another reason why it is crucial to rethink the dominant discourse on shareholder value and the role of the state so that there is greater legitimacy for policies such as takeover controls.

China, rents and takeovers

As a developing country, China is attempting to use industrial policy to transform the structure of its economy and catch up with more advanced economies. In particular, it wants to import technology and know-how. Its country-specific requirements mean that its industrial policy experiences cannot simply be transposed elsewhere, particularly to a developed country such as the UK that is far closer to the technological frontier. Despite this caveat, China’s experience is worth considering for two reasons.

First, it offers an example of a country that rejected neoliberal development prescriptions that caution governments against implementing explicitly interventionist industrial policies. Second, it adds to the debate about policy rents. China’s experiences suggest that governments can create and control rents, and in doing so can nurture and develop industries that might not have developed so quickly (if at all) without them.

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15 Referred to as “embedded autonomy” (Evans 1995 cited in Rodrik 2004: 4).
There has long been a debate about the extent to which China has relied on industrial policies or market forces to propel its dramatic economic rise over the past 35 years. The conventional story is that China’s private sector grew rapidly because the country utilised its comparative advantage in cheap, plentiful labour. A World Bank report, for example, offers a narrative in which the Chinese government opens special economic zones, provides foreign firms with infrastructure and lets the market get on with it. “There was not a search … that identified firms or industries with high learning potential and likely spillovers” (Pack and Saggi 2006: 45).

This explanation is far too simple, and ignores the way that the government has sought to shape China’s economy in both formal and informal ways. A growing body of literature reveals how government policies helped cultivate domestic private sector capabilities in sectors such as consumer electronics and pharmaceuticals that are unlikely to have developed so quickly in their absence. The Chinese government has played a very Mazzucato-esque entrepreneurial role. In one example, Gallagher and Shafaeddin explain how China’s IT industry developed due to a combination of “government intervention, foreign investment, and entrepreneurism” (2010: 94). The industry had been designated one of China’s “pillars”, making it eligible for a range of strategic industrial policies and support for its R&D efforts. The government invited foreign companies to form joint ventures with Chinese counterparts and required them to transfer technology, train local staff and set up R&D centres in China. Rather than crowding out private sector investment, this approach motivated private enterprises in China to invest far more on R&D in targeted technology areas than their counterparts in Mexico, where the government adopted a far less proactive approach to upgrading its industrial structure (Gallagher and Shafaeddin 2010: 90).

**Managing China’s rents**

The kind of support that the Chinese government has provided to companies in its “pillar” industrial sectors amounts to a rent. But how has it managed these rents? Given the focus of this paper, it is instructive to consider China’s policies on mergers. The country’s 2008 Anti-Monopoly Law gives regulators the power to consider the effect of a merger on the “development of the national economy” – a broad public interest test by any other name. It also requires an inter-ministerial committee to consider deals involving foreign acquirers if the deal falls within certain key sectors, including defence, technology, equipment, and infrastructure (Healey 2012: 32). Despite being a relatively young law, the government already appears to have made use of its provisions. In 2009, for example, MOFCOM blocked Coca Cola’s proposed acquisition of Chinese juice producer Huiyuan, a decision likely to have been influenced by industrial policy considerations rather than pure market competition ones (Lin and Zhao 2012: 129). This suggests that China might be unwilling to allow shareholders of a company that has benefitted from industrial policies to cash-in by selling out to foreign acquirers.

China’s rent management, however, has not always meant that the government has blocked acquisitions of domestic companies by foreign buyers. Instead, China has often welcomed foreign investment as a way of boosting domestic know-how. While some governments attempt to prevent foreign acquisitions in their high-tech sectors lest the country loses an essential national asset, China’s position as an economic late comer means that it has been open to foreign investment in the sector to cultivate its advantage (Zhang and He 2014: 214). The country uses what Zhang and He describe as “economic nationalism” – a pragmatic

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16 See, for example, (Rodrik 2006) and (Lo and Chan 1998).
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approach to takeovers that can be protectionist or liberal depending on the nature of the deal and what it might offer China. As such, the government has nurtured an investment climate that puts acquirers on notice that it will consider the long-term impact of deals on China’s economy before it approves them.

Policy implications

So far, I have considered the entrepreneurial role of the state, and the importance of ensuring that those who take risks in the innovation process are adequately rewarded to make growth is equitable. I have summarised Khan’s insights into the potentially positive role of rent creation, and sought to explain how developed countries, as well as those in a process of catch-up, can use fundamental governance criteria to manage the rents they create. So how can these perspectives be applied to policies to control cross-border takeovers in the UK? This chapter considers implications for policies and outlines some policy options.

Mazzucato offers three general suggestions to enable a state to earn a direct return on its investments: a right to royalties in applied technological breakthroughs (subject to the development of a system of tracking and reporting the contribution of public investment); income-contingent loans; and using development banks (2013: 189). These are all useful ideas, but on their own are insufficient to manage rents created by the state. Most importantly, they do not offer a clear way of ensuring that the state can claim a return on historic investments or influence the decisions shareholders can make about a company’s future. In the context of takeovers of UK companies, these solutions would do little to help the government shape or block deals that might jeopardize the country’s innovation infrastructure or lead to any of the other problems highlighted in Chapter 2.

A more effective solution involves recasting the debate about the relationship between shareholders, companies and the state in a way that emphasises the role – and obligations – of each. This kind of paradigm shift is essential if states in developed countries are to gain the political legitimacy they require to make it harder for shareholders to sell domestic companies that have benefited from government-created rents to foreign acquirers. Being able to intervene in economically and socially undesirable takeovers is an important part of an effective rent-management regime.

The challenge of managing rents at the technological frontier

Managing rents in developed countries, however, poses particular problems for governments. Officials in developing countries have traditionally used tools such as tariff barriers and export credits to help nurture infant industries. It is relatively easy for them to assess whether such tools are effective, and to withdraw them if not. In contrast, the kind of support that Mazzucato recommends developed countries offer to domestic industries – including R&D spending and market-creating risk taking – is far harder to monitor. This is because such support is designed to promote innovation, which, as I explained in Chapter 1, is inherently collective, cumulative, and uncertain. As technology becomes more sophisticated, it also becomes harder for the state to specify the kind of performance it requires from companies and shareholders that benefit from its rents (Khan 2000: 51). This has important consequences for rent management. Khan says that the state’s ability to enforce the allocation and withdrawal of subsidies is the most important variable in the success or failure of rent creation, and one that depends on the political context in which industrial policy is conducted (2000: 51). Governments in any country find it difficult to formalise their requirements by
way of contracts because of the impracticality of trying to foresee all contingencies. Formalising the state’s requirements in countries seeking to promote innovation is likely to be even more challenging. Because of these formalisation problems, Khan argues that an industrial policy system must be based to some extent on trust (2000: 51).

In the context of takeover policies, this means that there needs to be, at the very least, a tacit understanding by shareholders and company directors that businesses that benefit from government-created rents are expected to provide a return to society. It will not be acceptable for shareholders simply to cash in in the event of a foreign takeover offer if the deal is expected to have a significant negative impact on the UK’s innovation infrastructure. Nor should shareholders be able to profit from an acquisition if the company they own has failed to provide a proper return – by way of creating jobs, training staff or paying adequate levels of tax, for example – on policy rents.

But is trust between a government and the private sector alone enough to ensure that shareholders act in the UK’s longer-term economic interests? John Kay suggests that it might be. His review (2012) of the UK equities markets and long-term decision-making decry the number of poorly conceived and executed M&A deals in the country, and the number of cross-border acquisitions. Kay’s preferred solution, however, is to change “the culture of the corporation and the financial sector” (2012: 61) rather than reintroduce an explicit public interest test, given the practical and legal challenges that such a policy would present.

While Kay is right to focus on the need to rethink business culture and the relationship between shareholders, companies and the state, trust alone is not a sufficiently reliable tool to prevent undesirable takeovers. This is particularly so in a market where corporate share ownership is as fragmented and geographically diverse as it is in the UK (Kay 2012: 29), where so-called “insider”, trust-based networks of control have increasingly given way to “outsider” systems (Callaghan 2014; Clark 2014).

Instead, if the government wants to manage its rents more successfully, it needs to introduce measures to restrict undesirable takeovers more effectively. This final section summarises the options open to policy makers.

The first is to add more “grit” to the takeover machine by, for example, amending the UK Takeover Code to require greater transparency about bids, or increasing the voting majorities needed for a successful bid (Davis et al. 2013: 13). These kinds of measures, however, still have shareholder primacy at the heart, because shareholders retain the final say over takeovers. Nor are they likely to change takeover-related business culture in any meaningful way. Similar amendments to the Companies Act 2006 ((172)(1)) and to the Takeover Code (Takeover Panel 2011) recently clarified that boards can consider other stakeholders in their decision making. These changes have had little impact on either culture or practice (Davis et al. 2013: 14; Horrigan 2012; Business, Innovation and Skills Committee 2010: 27).

The second option is to conduct a wider overhaul of company and financial law. This could reshape the legal framework away from a model underpinned by the doctrine of shareholder primacy, and tackle the most egregious manifestations of financialization. It could include reforming the tax system to encourage long-term shareholding, and ending quarterly reporting requirements (Davis et al. 2013: 16). But while these measures might be valuable in and of themselves, they do not address the issue of takeovers directly, nor are they likely to have a significant effect on takeover activity in the short term.
A third option would be for the government to make better use of its “informal authority” to deter takeovers. This is Kay’s preferred solution. He argues that “many foreign large companies would think twice before pursuing a major UK acquisition in the face of clearly expressed hostility from the UK Government” (Kay 2012: 60). The Kraft-Cadbury takeover, however, suggests this is not the case (Business, Innovation and Skills Committee 2010). In the case of Pfizer, although the company ultimately abandoned its bid for AstraZeneca in early 2014 (possibly in response to concern in the UK) there is nothing to prevent it making a hostile bid later in 2014.

The fourth option – reintroducing a revised public interest test for takeovers – would be a more effective way for the state to manage its rents and make it clear to shareholders that it will not allow them to extract unwarranted value from acquisitions that have a significant negative impact on other stakeholders. Deals could be referred to an agency charged with applying the test if they meet certain criteria: if they exceed a size threshold; or if they are within a particular industry, for example. A new test could explicitly require consideration of historical state funding; the target company’s record on job creation and tax payments; and how the acquiring company has conducted previous acquisitions, as well as assessing whether the deal will have a long-term impact on the UK’s innovative capacities. A public interest test could also be combined with a new regime requiring the acquiring company to make binding commitments (a proposal floated by the Secretary of State in the wake of Pfizer’s bid for AstraZeneca (Cable 2014)). What is vital, however, is that any measure fulfills those universal aspects of Khan’s governance criteria, outlined in Chapter 3. In particular, the agency in charge of considering a deal must have the independence and political authority to take decisions in the country’s long-term interest. A public discourse that is built on an understanding of the risk-reward nexus and not on the principle of shareholder primacy should help the government clarify the kind of performance it expects in return for the rents that it creates for companies and their shareholders.

**Conclusion**

Although some takeovers are good for an economy, not all of them are. They can be particularly damaging to a country’s ability to maintain a thriving domestic innovation infrastructure (Ornaghi 2009; Stiebale and Reizeb 2011; Gapper 2014). There is a growing sense of unease about the extent to which the UK’s *laissez faire* approach to takeovers makes its companies unusually vulnerable to foreign takeovers (Kay 2012; Chisholm 2014). This unease is heightened by a growing belief that the primary driver of many deals is not to exploit R&D synergies or to expand market share but to cut tax liabilities and slash costs (Gapper 2014). Such behaviours are the natural corollary of the trend towards financialization, which puts companies under stock market pressure to return ever-higher levels of “value” to shareholders.

Over the past five years, the UK government has made limited efforts to make it harder for companies to acquire each other. Measures such as technical amendments to the Takeover Code, however, have been conceived within the prevailing framework of shareholder primacy. As such, they are unlikely to achieve their aims in any significant way.

The framework developed by Mazzucato and Lazonick offers a new perspective on the way that value is created in a company and a new way of thinking about how that value is shared. This is relevant to policies on takeovers. Their framework can be used to develop policies that reduce the risk of shareholders extracting additional value from a company by exploiting the
opportunities a takeover bid presents, in cases where the company has not provided an adequate return to the state for any policy rents it has received.

Of course, implementing such policies would not be easy. Calculating the impact of benefits bestowed by policy rents is complex. The government should not try to prevent all foreign takeovers, nor prevent deals for short-term nationalistic or other political gain. There would be legal hurdles to overcome (EU member states may need to reformulate the Takeover Directive, for example). Most importantly, rethinking takeover policy in this way would present a challenge to the dominant shareholder primacy principle that underpins the UK’s corporate governance framework. That may seem impossible, but paradigms come and paradigms go – however enduring they may appear. A new way of thinking about value creation, industrial policy and the pursuit of more equitable growth may strengthen that challenge.
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The Politics of Denial: Exploring the US and Turkey’s Failure to Recognise the Armenian Genocide

Abigail Ghazarian

Abstract

Despite the overwhelming evidence for the Armenian Genocide that took place in 1915, the recognition debate remains a highly contentious one. This paper illustrates how both Turkey and the US have failed to recognise the Armenian Genocide. This is due to their mutually beneficial relationship harnessed by classical and bilateral diplomatic efforts. Turkey has long been in the final stage of genocide, stated by Jones as ‘denial’ (2006: 351) and fears recognising its predecessor’s actions, as it could devalue and question its foundations of statehood. This argument is supported by exposing Turkey’s actions and rhetoric towards the events of 1915, and consequently its control over the US in the recognition debate. Turkey continues to secure its own historical existence by threatening the US’ national security if they were to formally recognise the Armenian Genocide. In this sense, the US is bound to the Turkish blackout of the issue, as Turkey throughout the last century has provided a key ally to the state with many eastern enemies.
**Introduction**

Indeed it is said that ‘a terrible precedent was born in 1915, one which has come to haunt the United States and other western countries throughout the twentieth century and beyond,’ (Winter, 2008). The Armenian people, and nations the world over have sought the official recognition of the Armenian Genocide for many decades; however the events that took place remain highly contentious. As a government, Turkey accepts that many Armenians died in 1915 as a result of deportations; however the death toll and it constituting an act of genocide, under the UN Genocide Convention of 1948, are denied by the government in spite of the term being used by historians and other foreign parliaments, (Butler, 2014).

Despite an initial conciliatory response to the punishment of crimes committed, scholars such as Jones (2006), claim that Turkey have since entered into the final stage of genocide - denial, as a way of legitimising the foundations of their statehood. The US government’s failure to recognise is a result of their persistence in using classical diplomatic methods to solve international situations bilaterally. The United States are bound by the Turkish created taboo; to not formally recognise the events of 1915 as ‘genocide’, due to their dependence on Turkey as a key foreign ally. The bilateral relations that exist between the two states have ensured that the US remains under Turkish control on the issue and the recognition campaign is stifled. Indeed, despite there being significant domestic support along with the presidential campaign of Obama which promised to recognise the events as ‘genocide’, the gap between domestic politics and foreign policy demands has continued to grow.

The aim of this paper is not to prove that the Armenian Genocide occurred but rather document and analyse the US and Turkey’s changing attitudes towards recognising the events as ‘genocide’. This paper will begin by providing a brief historical background of the events of 1915. It will then advance to define the term ‘genocide’ and examine contending theories of applying the term, including retrospectively, which is at the core of the recognition debate. This paper will subsequently analyse the changing Turkish attitudes towards the events of 1915, before theorise Turkey’s current position. Consequently it will analyse the US’ changes in attitude towards the recognition cause, and theorise the US/Turkish relationship which has had a profound impact on those changes. It will then advance to take a deeper look into the Presidency of Obama to further document and explain those attitude shifts.

This paper will conclude that Turkish attitudes towards the recognition campaign have shifted overtime in lieu of a changing political climate. Currently Turkey are exerting a stance of denial in order to legitimise their foundations of statehood, which in turn, due to classical diplomatic approaches adopted by the US, and their dependence on Turkey as a key eastern ally, has prevented the US government from recognising the Armenian Genocide. In short, because of Turkey’s denial and subsequently the close relationship between the US and its Middle East ally, the recognition campaign is unable to progress any further in either country.

**Historical Background**

Bartrop argues that ‘while the history of the genocide of the Armenians by the Ottoman Turks from 1915 onwards is now well known, that of the enormous massacres of the Armenians between 1894 and 1896, and again in 1909, is less so,’ (2002: 523). The massacres occurred under the rule of Sultan Abdul Hamid II and were in response to a growing Armenian nationalist group, (Frey, 2009:77). ‘Armenians were unarmed and adhered to the perimeters set forth by the Ottoman government,’ (Cohan, 2005: 335). Ottoman Turks were reportedly
told that the massacres were a religious duty and as such the killings typically took place after Friday prayers. Witnesses of a mass killing in Urfa, south-eastern Turkey, claimed that the Armenians were bound hand and foot while the Ottoman Turks recited passages from the Quran before murdering them, (Frey, 2009: 77). The massacres were publicised in newspapers throughout the world. ‘The US media paid particular attention to the events, the New York Times as well as other news sources regularly published articles about the brutal killings,’ (Cohan, 2005: 335). The intense media attention led America to mobilise relief efforts and aid for Armenian victims became the first international mission of the American Red Cross organisation, (Cohan, 2005: 335). However, despite the international response to the massacres, the crimes went unpunished, (Frey, 2009: 77).

Following the Hamidian massacres, in 1908 a group of ‘Young Turks’ who identified themselves as the Committee of Unity and Progress (CUP), seized power of the Ottoman Empire and launched a lengthy list of debilitating measures against the Armenian people, including financial restrictions and oppressive taxation. The Ottomans subsequently entered the First World War in 1914 as an ally to Germany. At the time, Turkish propaganda branded the Armenians as pro-Russian saboteurs. Armenians and many foreign parliaments, historians and scholars, regard the 24th April 1915 as the start of the genocide. It was on this date that the Ottoman government arrested and executed fifty Armenian intellectuals and community leaders in public. Armenian property was then confiscated and citizens were marched from their homes, raped and killed. In addition, all Armenians serving in the Ottoman army had their weapons confiscated and were then murdered, (BBC, 2010). Armenia and other foreign parliaments recognise that over 1.5 million Armenians died in the acts committed between 1915 and 1918. The Republic of Turkey however asserts the figure to be much lower at 300,000. According to the International Association of Genocide Scholars, the death toll was ‘more than a million,’ (BBC, 2010).

Many politicians and activists today have called for the recognition of genocide and highlighted the inscrutable suffering of the Armenian people. Henry Morgenthau, former American Ambassador to the Ottoman Empire, noted, ‘I am confident that the whole history of the human race contains no such horrible episode as this. The great massacres and persecutions of the past seem almost insignificant when compared with the sufferings of the Armenian race in 1915,’ (2000: 213). It is argued that the massacres were like nothing that had been documented previously, and as such, ‘the Armenian Genocide ranks as one of the great tragedies of World War I,’ (Pomakoy, 2005: 261).

**Defining genocide: the debate**

Before questioning the Turkish attitude towards recognising the acts of 1915 as ‘genocide’, this paper will look at the effects of categorising, or not categorising such crimes under the term. Helen Fein writes, ‘before addressing the sociological meaning and causes of genocide, one must inquire as to how the international recognition and labelling of genocide as a crime emerged and what are the effects of labelling (or not labelling) such crimes in a special category,’ (Fein, 1993:1).

**Definition:**

Understanding how the term is defined provides the background for why so many are keen to refer to the massacres of the Armenians as ‘genocide’. It is an exceptionally powerful term that carries significant repercussions when applied to a government’s actions for the first time.
It has the power to influence how history is written ‘and even which parts of that history are written. Furthermore, such discourse influences our response to contemporary issues surrounding genocide,’ (Harris, 2008).

The term genocide was first coined in 1944 by Lemkin. Later crimes of genocide were incorporated under crimes against humanity at the Nuremberg trials of 1946. The genocide convention was subsequently passed in 1948 by the UN general assembly and genocide became a criminal act under International law in 1951 (Fein, 2001, 2). The United Nations Convention on Genocide of December 1948 asserts that genocide is the carrying out of any ‘acts committed with intent to destroy, in whole or in part, a national, ethnic, racial or religious group,’ (UN, 1948: 280).

There is a large debate surrounding the definition of the term. Larry May argues that ‘as genocide’s status changes, its scope should also be expanded, most especially to allow for cultural genocide and ethnic cleansing to be counted as crimes of genocide,’ (2010:1). However, in taking the definition fashioned at the UN Genocide Convention of 1948, the Armenians and other foreign parliaments, scholars and historians call to recognise the acts of 1915 as genocide for the following reason.

Fein notes that ‘observation of genocide has been muddled in the last decade by the concept of ethnic cleansing, formerly known as expulsion or transfer,’ (Fein, 2001: 3). Expulsion can be considered as an alternative method to genocide, Fein argues that an example of this would be the ‘German drive to force Jews to emigrate from Germany before 1941,’ (2001: 3). In many other instances however, expulsion can be considered as a step towards genocide, where an example would be the ‘German expulsions of Jews from small towns in Poland to major urban ghettos after 1939.’ In this sense, ‘expulsion under conditions of terror, rape and deprivation of food, water, and shelter, is genocide, as in the Armenian genocide of 1915,’ (Fein, 2001: 3).

In 1997, the International Association of Genocide Scholars declared unanimously that the Turkish massacres of over one million Armenians constituted a crime of genocide. The statement read:

That this assembly of the Association of Genocide Scholars in its conference held in Montreal, June 11–13, 1997, reaffirms that the mass murder of over a million Armenians in Turkey in 1915 is a case of genocide which conforms to the statutes of the United Nations Convention on the Prevention and Punishment of Genocide. It further condemns the denial of the Armenian Genocide by the Turkish government and its official and unofficial agents and supporters. (Association of genocide scholars, 1997)

Under the UN Genocide Convention definition of genocide, we see that currently over twenty governments around the world have formally recognised the Armenian Genocide. In addition, ‘The European Parliament and the UN Sub-Commission on Prevention of Discrimination and Protection of Minorities have also done so,’ (BBC, 2010). The United States, along with the United Kingdom have consistently used different terminology to refer to the events of 1915.

The debate:

In exploring the debate for applying the term ‘genocide’ both at present and retrospectively, we find two dominant arguments. The first is that genocide as a term should not be applied too sparingly, and instead we should see a move in terminology to ‘crimes against humanity’ for most cases of mass killings. The work of Professor William Schabas provides the crux for this argument. He argues that the term and definition of genocide has been distorted over time
to encompass a whole new meaning. He declares that ‘its expanded use and conflation with crimes against humanity has resulted in a “careless and potentially misleading use of precise terminology,”’ (Schabas cited in Kersten, 2011). He essentially argues that the conflated term ‘genocide’, when applied to cases of general mass killing, is futile and dangerous as it presents an idea of two separate groups; one group acting upon a different group. The differentiation between the actor and victim removes the human aspect, when in fact the offence is committed by humans to humans. He argues therefore, that such offences should be considered under terminology of ‘crimes against humanity,’ (Kersten, 2011). He does however argue fervently that ‘genocide’ should still be applied to cases where they adhere to the official definition in the strictest sense. For this he includes the massacres of the Armenians in 1915, (Schabas, 2000).

The second argument is not concerned with the conflation of the term and argues that the term genocide is valuable and thus should be applied retrospectively to events that happened in the past. This provides the core base of the campaign in support of recognising the Armenian Genocide. ‘Santayana’s frequently recalled dictum is often cited: that those who do not remember will repeat the past,’ (Santayana cited in Fein, 2001:1). Helen Fein’s argument states that it is necessary to recognise past acts of genocide to ‘enable us to respond to the present in a more informed way,’ (Fein, 2001:1). Lemkin who coined the word genocide, too made reference to past events that he considered fit under his newly founded term. In 1946, he wrote that ‘history has provided us with other examples of the destruction of entire nations, and ethnic and religious groups,’ when likening to the Holocaust. He mentions ‘the destruction of Carthage’, and ends with 'the massacre of the Armenians' by the Unionists,’ (Lemkin cited in Erimtan, 2008: 154).

Many further this argument and cite that the retrospective application of the term to past events is a way of preventing future genocides. It is argued that the Holocaust, two decades after the events of 1915, was able to go so unnoticed due to the lack of recognition and punishment of the crimes committed against the Armenian race. Before the Holocaust, it is said that Hitler referred to actions of past perpetrators of heinous crimes to validate his plans. He is quoted to have said in 1939, ‘Genghis Khan had millions of women and men killed by his own will and with a gay heart. History sees in him only a great state builder,’ (Jones, 2006: 101). In even more explicit terms he mentioned the events of 1915. When instructing the Deaths Head Killing units under his command of plans to annihilate Polish men, women and children, ‘Hitler uttered some of the most resonant words in the history of the genocide: “Who, after all, talks nowadays of the annihilation of the Armenians,”’ (Jones, 2006, 101). Jones adds that, ‘Fortunately, Hitler’s rhetorical question could not sensibly be asked today – except in Turkey,’ (2006: 101).

Frey applies the retrospective argument directly to the events of 1915. She argues that the massacres of the Armenians could have been prevented had the Hamidian massacres, illustrated in chapter 2 of this paper, not gone unpunished. The ‘Hamidian massacres as they are known worsened the plight of the Armenians because the participants…went unpunished. As a result, the Turkish authorities came to believe they could repeat and even escalate their actions in 1915 without retaliation,’ (Frey, 2009: 77). It is therefore clear to see the argument in support for applying the term ‘genocide’ retrospectively, which is at the core of the campaign for the recognition of the events of 1915 as ‘genocide’. This paper will now question whether the Turkish government has ever been conciliatory to this cause for retrospective recognition.
**Turkish Attitudes**

As this paper has already stated, the current Turkish government do not believe that the acts of 1915 constitute ‘genocide’. This paper will now examine Turkey’s attitude to the events of 1915. It will begin chronologically by viewing the early Turkish response post WW1, before addressing the Turkish position in more recent years. By illustrating theory behind genocide denial, this paper will then explain how and why Turkey has adopted such an approach in denying the Armenian Genocide.

**A chronology of the changes in attitude**

The current era that pertains to Turkish innocence and denial of the Armenian Genocide is one reason for why the recognition campaign has not advanced. The current ‘nationalist discourse’ of the Turkish government and its citizens alike, does come with an essence of obscurity even for some Turkish historians, (Clark, 2007). The atrocities carried out against the Armenians were committed by an entirely different government to the current republic. Liberal Turks argue that there is no reason why a new republican administration, established in October 1923, should feel responsible for actions undertaken by the Ottomans, and especially in this instance the CUP. Indeed at the time in 1919 when the nationalist movement was founded, the revulsion that surrounded the way Turks and the international community felt regarding the sufferings of the Armenians was so rife that ‘even the neo-nationalists were keen to distinguish themselves from the CUP,’ (Clark, 2007). This implies that the initial attitude was certainly more conciliatory to the cause for genocide recognition as we see it today. The assessment of old records supports this argument. It is evident that the Turkish response in the immediate aftermath of the events carried a more remorseful attitude. As the term ‘genocide’ was not coined until two decades later, terms such as ‘destruction of race’ were used, which fall under the definition of genocide as cited in chapter 3i.

After WW1, the Ottoman Empire was barely intact and struggling to survive. The British Empire was its only protector and the new Sultan’s regime was wishing to distance itself from the actions of the CUP, who in 1915 ordered the deportation of hundreds of thousands of Armenians, and ‘is alleged to have given secret "extermination" orders at the same time,’ (Clark, 2007).

Bruce Clark writes that ‘during the early months of 1919, few people in Anatolia publicly doubted that Armenians had suffered atrocities that were egregious even by the standards of a terrible war,’ (2007). In a bid to remove themselves from association with their predecessors, the remaining Ottoman government held four large trials and the proceedings of each trial were published in the government newspaper. It appeared that the crimes were being punished unlike the silence that befell after the Hamidian massacres. ‘In April 1919 a local governor, Mehmed Kemal, was found guilty and hanged for the mass killing of Armenians in the Ankara district,’ (Clark, 2007). At this time, in light of their dependence on the British Empire and other Entente powers, the crumbling Ottoman government were concerned with the West’s perception of its policies and actions.

In 1920, Damat Ferid Pacha (1853-1923) admitted the Ottoman government’s responsibility for a number of human atrocities, massacres and acts of destruction in the previous years. He placed blame particularly with the ‘Young Turks’ Unionist leadership (CUP), (Erımtan, 2008: 154). It was thought by Ottoman statesman that his hasty denunciation of the CUP would garner sympathy for the Ottoman state; a state that had been misled by its former corrupt and
dissolute leadership. However the British and other Entente powers ignored the pleading of the government and began break up the Ottoman Empire even further, taking land for themselves. The CUP still received condemnation ‘as the perpetrators of unspeakable crimes and murders,’ and Ferid Pasha’s hasty denunciation of the CUP had nonetheless ‘further “blackened the name of the Turks,”’ (McCarthy in Erimtan, 2008: 154). This was not the result that the Ottoman government were after and it was clear they needed to assert a stronger response. The remorseful attitude had backfired.

Still labelled the antagonists with no hope of clearing their name, the era of repentance in the Ottoman Empire did not last long. The fundamental change in attitudes came in May 1919 when Greek troops were authorised by the British and other Entente powers to occupy the port at Izmir on the western coast of Turkey. This caused outrage and Mustafa Kamal, locally known as Ataturk, began his Turkish modernisation campaign to make the Turkish nation prosper once again and be ‘masters in their own land,’ (Clark, 2007). A strong nationalist feeling soon rose up in Turkey and has existed ever since. ‘Turkish rage over the Greek landing lent fuel to the Kemalist cause…With every passing month, the British government’s leverage over the Ottoman authorities waned, and so did British enthusiasm for the conduct of war crimes trials,’ (Clark, 2007). This was proved when in 1921, the British government, having lost enthusiasm and vital influence, made a pragmatic deal to release a group of Turkish prisoners being held on war crimes for suspicion of crimes against the Armenians, (Clark, 2007). The power balance was changing and the Armenian cause was being sacrificed.

In Turkey, this release was celebrated as proof that no grave crimes had been committed against the Armenians and they have followed this rhetoric ever since. Indeed as Bruce Clark writes, ‘what it certainly proves is that British zeal for investigating the past was waning…as the Kemalist cause gained strength and the British-influenced Ottoman regime faded into oblivion,’ (2007). The atrocities had come so close to being prosecuted, however yet another failure to prosecute crimes, led to an innocent verdict by default, much like the Hamidian massacres at the turn of the century. The Turkish state now claims that since the British were the main advocates for holding the war crimes tribunals, those trials must have been malicious and under the guise of a different aim (Clark, 2007). This indicates that the shift in attitudes to the events of 1915 was the result of a changing political climate, rather than a genuine belief in their innocence. This paper will now theorise genocide denial before applying it to the case of Turkey and their actions in recent decades.

‘A spirit of defensiveness’: insulting Turkishness

Fatma Muge Gocek, a Turkish born sociologist working as a professor in America, theorises that ‘there are - or will be - three phases in her country's attitude to the fate of the Armenians,’ (Gocek cited in Clark, 2007). The first she details as a ‘spirit of "investigation" in the final Ottoman years, [the second] a spirit of defensiveness under the Turkey republic, and [the third] a new, post-nationalist attitude to history that will prevail if and when Turkey secures a places in Europe,’ (Gocek cited in Clark, 2007). Bruce Clark adds that this ‘makes perfect psychological sense, even if the immediate prospects for a move from phase two to phase three do not look very bright,’ (Clark, 2007). This theory dictates that the Turkish government are currently in the second phase, a phase of defence and continued denial following on from the early compliant response from the last years of the Ottoman Empire. This paper will now illustrate how and why this is the case.
The motives and strategies behind Turkey’s denial of the Armenian Genocide are explained by way of the ‘final stage of genocide, an indispensable one from the viewpoint of genocidaries,’ (Jones, 2006: 351). In Turkey’s case it is theoretically predictable as to why they would chose to deny ‘genocide’. When discussing genocide as a crime of the state which is usually the case, Fein argues that, ‘it is in the interest of states using genocide to deny it if they can. If these deeds have not been tried and convicted by an international court, it is easier to deny them.’ (Fein, 2001: 5). The previous chapter illustrated that this was case.

Taner Akçam, a Turkish social scientist, notes that ‘the formation of the Turkish national identity played a decisive role not only in the decision to commit genocide but also in the current denial and tabooping of it,’ (1997: 350). By admitting and formerly recognising the genocide, it could ‘reveal that this Turkish state was not a result of a war fought against the imperial powers, but, on the contrary, a product of the war against the Greek and Armenian minorities,’ (Akçam, 1997: 361-367). This in effect could alter Turkey’s historical background and delegitimise its sovereignty and foundations of statehood. On a more humanitarian approach, ‘it could show that a significant part of the National forces consisted either of murderers who directly participated in the Armenian Genocide or of thieves who had become rich by plundering Armenian possessions,’ (Akçam, 1997: 361-367). This is not a positive image of the state’s beginnings for Turkey to display to the rest of the world. Much like the American taboo associated with the Indigenous people of America.

As a result the Turkish government has stifled public debate on the issue. ‘Article 301 of the penal code, on “insulting Turkishness”, has been used to prosecute prominent writers who highlight the mass killings of Armenians,’ (BBC, 2010). Adam Jones explains ‘this is classic genocide denial, force fed to an international community by a sustained Turkish government campaign,’ (2006, 114). Donald Bloxham adds that the Turkish government has since ‘written the Armenians out of its history books, and systematically destroyed Armenian architecture and monuments to erase any physical traces of an Armenian presence,’ (cited in Jones, 2006: 114). He adds, ‘moreover, “Armenian genocide denial is backed by the full force of a Turkish state machinery that has pumped substantial funding into public-relations firms and American university endowments to provide a slick and superficially plausible defence to its position,”’ (cited in Jones, 2006: 114).

It certainly seems as though things are set to continue on this trajectory for some time as the Turkish penal code has since been revised to make even more explicit the policy of prosecution for ‘insulting Turkishness’. The preamble to the penal code specifically mentions that accusations of an ‘Armenian Genocide’ are liable for prosecution, (Clark, 2007). This indicates that, according to Gocek’s theory (cited in Clark, 2007), the Turkish government will remain in phase two of the recognition attitude spectrum for some time as they continue to exhibit a ‘spirit of defensiveness’. The following three sections will illustrate and theorise the strategies they use.

Self defence

One strategy of denial that the Turkish government employ in their ‘spirit of defensiveness’ is to claim ‘self-defence ’as an explanation for the events of 1915. In explaining how and why Turkey has adopted such an approach in denying the Armenian Genocide, this paper will now assess the theory behind promoting the idea of ‘self-defence’ as a viable explanation for genocide. It will then illustrate how the Turkish government has promoted this justification of the events.
One way of denying genocide through the rhetoric of self-defence is to present an alternative framework of the events, (Fein, 2001: 6). This is carried out by both the perpetrators and their defenders. Gamson theorises that ‘most often used is “feuding neighbours” or “ancient hatreds,” and civil war.’ (cited in Fein, 2001: 6). This framework implies that all sides are conflicting and complicit in the fighting. In this sense, the perpetrators can be accused simply of defence in a combative environment. Defence can arise in two forms. The first is that all actions were undertaken in the name of self-defence and the other is that “we did it to them before they could do it to us” – which is considered a pre-emptive approach, (Fein, 2001: 6). The Turkish government have persistently exhibited the former in recent decades.

In continuing the self defence theory Sahin Alpay, a liberal minded Turkish academic, discusses the effect that blaming has on the admittance and acceptance of past actions. In a column in the Zaman newspaper, Alpay writes that ‘The more foreign parliaments insist that our forebears committed crimes against humanity, the less likely anybody in Turkey is to face up to the hardest moments in history,’ (Alpay cited in Clark, 2007). Clark continues to assert that this is a basic fundamental of human psychology, ‘the phenomenon of individual and collective defensiveness.’ (2007). He alludes that, when one feels insecure because of large scrutiny, it becomes harder to be frank and honest about past misdeeds ‘because they feel … that accepting their accusations will have bad consequences,’ (2007).

The Turkish government has repeatedly used rhetoric pertaining to ‘self-defence’ in order to prove their innocence in the genocide debate. The government claims that the killings were in self-defence against people who were disloyal to the Ottoman Empire during the First World War. ‘To this day some writers imply that Armenian “subversion and espionage,” desertions, and uprisings fomented by Russia, caused or provoked the Genocide,’ (Kramer, 2007: 148). However, the cause for recognising Armenian Genocide would argue conversely that ‘in the context of the Young Turk aim predating the war to create a radically “pure” state in Turkey, the actual conduct of Armenians in the war was practically irrelevant,’ (Kramer, 2007: 148). It is also claimed that ‘the great majority of Armenians were not disloyal, as German officers in Turkey confirmed,’ (Kramer, 2007: 148).

Turkish literature also displays self-defence rhetoric in some cases. The Turkish Historical Society published ‘two books…in 2002 and 2004 [denying] there was any intention to exterminate the Armenians and reiterated the thesis of the Armenian “stab in the back”: “Armenian Wickedness”, “treason”, “desertion” and “rebellion”’ had made deportations a military necessity,’ (Kramer, 2007: 150).

**Numbers game: the aggregative strategy**

A second strategy of denial, that the Turkish Government use in their ‘spirit of defensiveness’, is to compare the numbers of deaths on both sides. Fein theorises this as ‘the numbers game; comparing the numbers of the victims of the perpetrator in war to the victims of genocide of the minority,’ (Fein, 2001: 6). This is an ‘aggregative strategy,’ (Fein, 2001: 6) which avoids questions relating to intent of the perpetrator. ‘It also avoids looking at the denominator of the equation which would enable you to compare the percentage of the group killed [by the perpetrations],’ (Fein, 2001: 6-7).

In accordance with Fein’s theory pertaining to aggregative strategies, there is evidence of the Turkish government denying the widely accepted figure of over a million Armenians dying in the massacres. In doing so they are questioning and minimising the statistics of Armenian victims. As previously stated in chapter 2, the Turkish government claims that 300,000 people died in the events of 1915, while the Armenians claim 1.5 million and most
others claiming a certainty of over one million. In 1985, the Turkish Deputy Foreign Minister, Kamuran Gurun, wrote a book claiming that no more than 300,000 Armenians died during WWI, (cited in Pinto and Morlino, 2011:129).

The Turkish government has also persisted in arguing that the Muslim Turks suffered many deaths. Linking the deaths of WWI caused predominantly by European armies to those of the massacres of the Armenians, enables the Turkish state to claim it lost many Muslim lives in the events of 1915. The government in Turkey banned a genocide conference in 2005 for the second time, citing the main reason as pointing to the causalities on both sides. The conference of academics and intellectuals was set to provide a critical and official analysis of the events in 1915. The first attempt to stage the debate was abandoned after Turkey's Justice Minister accused organisers of stabbing Turkey in the back, (Rainsford, 2005).

Legal definitions

Perhaps the easiest and most logical way of denying the genocide under official terms is to claim that the massacres of the Armenians fail to fit the legal definitions of genocide. This is the third strategy of denial that the Turkish Government use in their ‘spirit of defensiveness’. Mümtaz Soysal, serving as minister of foreign affairs in Turkey in 1994, claimed in the Orly Trial in 1985 that, ‘there has to be “an intent of destroying”, in part or in whole the said group,’ (1985: 48) He continues by alluding that this differentiates between homicide which is the natural result of wars and uprisings, (1985: 48). As the Turkish government claim self-defence at a time when Armenians were uprising, by this legal definition and understanding, there becomes no case for genocide. This legal parenthesis, albeit based on their version of events, provides the Turkish government with legal backing. In addition, when confronting the notion that ‘more than a million Armenians died’, they are able to legally dispel the relevance of such a claim. Soysal adds that, ‘the concept of numbers only becomes significant when it can be taken as a sign of such an intention against the group,’ (1985: 48). Thus in failing to prove that there was intention to massacres the Armenians, which is difficult from the Turkish version of events, the recognition campaign is stifled.

It is not just the perpetrators who have an interest in denying genocide, ‘Foreign policy elites in allied states also often view their state as having an interest in denying their client’s genocide in order to demonstrate their loyalty,’ (Fein, 2001: 6). Having illustrated the Turkish changes in attitude towards the events of 1915 and the theory behind their current stance of denial, along with the strategies they use, this paper will now assess the subsequent US involvement in the denial of the Armenian Genocide.

The US’ recognition

Despite the many governments around the world and the forty two states within America which have by proclamation or legislation recognised the Armenian Genocide, the country as a whole has failed to officially do so, (Armenian National Committee of America, 2013). This paper will now illustrate how the US has increasingly adopted a bilateral approach to foreign relations with Turkey, which in turn hampers on the progress of the recognition campaign. Famed scholars such as Bernard Lewis (cited in Karpel, 1998), argue that the acts of 1915 surrounding the massacres of the Armenian race do not constitute ‘genocide’. And this failure to see the events as genocide would, on the surface, appear to be why the US does not formally recognise the events as such. However the forty two states within America that have
by proclamation or legislation recognised the Armenian Genocide, and the presidential campaign of Obama supporting the cause, asserts otherwise. In addition, details of ‘race extermination’ are written in US official documents and reports at the time.

**US official records**

Although it is not the intention of this paper to prove that the Armenian Genocide occurred, details of the events in the US historical records are important to present for purposes of the US’ own recognition. The existence of these records complicates the recognition debate beyond simply ‘they do not believe it happened’. It suggests that at the time of the events this was not the case and thus there must be other reasoning behind their lack of official recognition now. This paper will later seek to explore and theorise the reasoning.

Tracing back the events to almost one hundred years ago, we see endless accounts in the US official records which note the ‘genocide’, or Armenian ‘race extermination’, occurring. The term genocide, having not been coined until 1944, is not mentioned however similar examples of destroying a race or ethnic group, which were found in the old Turkish records and explored in chapter 4i, are. The Armenian National Committee of America details some of these records.

Consul Leslie Davis wrote to Ambassador Henry Morgenthau on the 24th July 1915,

Any doubt that may have been expressed in previous reports as to the Government’s intentions in sending away the Armenians have been removed and any hope that may have been expressed as to the possibility of some of them surviving have been destroyed. It has been no secret that the plan was to destroy the Armenian race as a race. (ANCA, 2013)

Here shows explicit mention, by a US government official of ‘race extermination’. In addition, Ambassador Henry Morgenthau had previously written to the Secretary of State in a confidential telegram dated 16th July 1915 that the ‘deportation of and excesses against peaceful Armenians is increasing and from harrowing reports of eye witnesses it appears that a campaign of race extermination is in progress under a pretext of reprisal against rebellion,’ (ANCA, 2013). This was another explicit mention of race extermination by a US official, the US Ambassador.

Henry Morgenthau also reported his conversation with Talaat Pasha regarding the deaths of Armenians, dated 8th August 1915, where he claimed that,

I argued in all sorts of ways with him but he said that there was no use, that they had already disposed of three quarters of them, that there were none left in Bitlis, Van, Erzeroum, and that the hatred was so intense now that they have to finish it. I spoke to him about the commercial losses and he said they did not care…He said they want to treat the Armenians like we treat the Negroes, I think by this he meant the Indians. (ANCA, 2013)

Having illustrated that the US government at the time of the events, believed a genocide, or ‘race extermination’ was occurring, this paper will now document the change in attitudes and begin by theorising why this might be.

**Theorising the US/Turkish Relationship**

This paper argues that the US has continued to exhibit a bilateral approach with Turkey which has hampered efforts for the US official recognition of the Armenian genocide. Indeed, even
though Barack Obama has publically declared his support for the recognition throughout presidential campaigns, and the vast civil society movement that calls for it, the demands of foreign policy, and especially good relations with Turkey, weigh higher. Lisa Martin writes that ‘the United States is turning more frequently to bilateral negotiations,’ (1992: 765). It is imperative that the US’ national interest is not compromised. As the following chapter illustrates, the Turkish government has frequently threatened the US’ national and security interests when the Armenian Genocide recognition campaign starts to gain momentum.

In defining bilateral diplomacy, G. R. Berridge, and Allen James assert that it is ‘the conduct of diplomatic relations between two states through formally accredited missions,’ (2001: 19, 160). As such, bilateral diplomacy is indistinguishable from ‘traditional diplomacy’, and places a strong emphasis on written forms of communication. It is evident that the US has exhibited such relations with Turkey as this paper will demonstrate in the following sections.

Bilateral diplomacy is also defined in contrast to multilateral diplomacy which is ‘diplomacy conducted via conferences attended by three or more states…”bilateral diplomacy”…is conducted on state to state basis,’ (Berridge and James, 2001: 19, 160). The US has typically not resorted to multilateral forms of diplomacy when conducting relations with Turkey in recent decades as the following sections will illustrate. Turkey has been a key ally for the US. They provided an essential military and intelligence base during the Cold war and a vital buffer to the Communist movement. They are also a bulwark to the Middle East and a vital base to ground air force and weapons in easy reach of eastern targets.

The 1980s: shifts in attitude

The 1980s is a decade that illustrates with clarity the effect which bilateral relations has on the Armenian Genocide recognition campaign, in contrast to the effect of multilateral diplomacy. Ronald Reagan is the only US president, who throughout his time in office, referred to the events of 1915 as ‘genocide’. This attitude however, eventually hampered on security relations with Turkey and attitudes were subsequently forced to change. Since then no other US president has so ardently referred to the events in such a way.

In 1981, in a proclamation calling on all Americans to remember the Victims of the Holocaust, he made explicit mention of the events in 1915 as ‘genocide’. He wrote, ‘like the genocide of the Armenians before it, and the genocide of the Cambodians which followed it—and like too many other such persecutions of too many other peoples—the lessons of the Holocaust must never be forgotten,’ (Reagan cited in Peters and Wooley, 2014). This was a statement which unequivocally advocated for the retrospective application of the term ‘genocide’ as argued by Fein in chapter 3ii. However after the Özal government’s succession to power in November 1983, attitudes in the US government were forced to shift.

Turkey had always provided a great military alliance throughout the period of the Cold War and this was a bilateral relationship beneficial to both sides. ‘Turkish leaders remained keen to continue the alliance because they saw it as a warranty of Turkish security against the Soviet Union,’ (Uslu, 2003: 254). The United States were keen to keep their Eastern ally close. On the 29th March 1980, Turkish-American Military relations were made official with the signing of the Defence and Economic Cooperation Agreement (DECA), (Campany 1986: 103-123). Under the agreement the US provided the Turkish military with defence equipment, services and training in addition to aid. Turkey’s deal in return was to authorise that the US forces remain in Turkey and allow them to carry out military activities, (Uslu, 2003: 254). It seemed as though the bilateral relationship was having little effect on the recognition
campaign as Reagan had yet to be chastised for his reference to the events as ‘genocide’ and the military alliance was holding strong.

However, when the Özal government came to power, they took issue with the content of the DECA agreement and argued that the US conditioning of aid relating to good behaviour was prejudiced. The US had, in light of the Turkish invasion of Cyprus in 1974, and in addition to Reagan’s sympathies with the Armenian Genocide recognition cause, reduced aid donations. The US government claimed that Turkey’s reluctance to recognise the events of 1915 as ‘genocide’, amongst other signs of ‘bad behaviour’, meant that they were entitled to less aid than its neighbour Greece. This was a decision that had been made by the US and other nations multilaterally. The Özal government of Turkey called in the US to negotiate new terms of the DECA agreement, bilaterally. They threatened that the agreement would not be renewed and the US would lose its military alliance with Turkey if this did not happen, (Uslu, 2003: 254-255). The US was reluctant to adhere to such demands at first. This however changed in the late 1980s when the Turkish government vamped up its actions against the US one step further.

In assessing the US and Turkey’s relationship towards the end of the Cold War, Omer Karasapan writes about the Turkish and US Strategy in the Age of Glastonast. “On May 20, 1989, a top-of-the-line Soviet MiG-29 fighter evaded pursuing Soviet interceptors and landed at Trabzon airport in northern Turkey. An apparent intelligence bonanza had literally landed in NATO's lap,’ (1989: 4). The US were eager to inspect the Soviet property however within a matter of hours, the Turkish government released the MiG-29 back to the Soviets without permitting the US to inspect it. This was in spite of a personal plea from Admiral William Crowe, US chairman of the Joint Chief of Staff, to General Necip Torumtay, his Turkish counterpart, (1989: 4). This frustrated the US, and ‘members of Congress wrote to Secretary of State James Baker that Turkey's rejection of the US request was “unacceptable for a member of NATO receiving millions of dollars in aid,”’ (1989: 4).

However the US’ resentment towards the Turkish government did not last long, ‘a State Department official later noted understandingly that the Turkish decision to return the plane immediately may have been to defuse the growing controversy in Turkey over how the plane had managed to evade air defences,’ (Cumhuriyet cited in Karasapan, 1989: 4). Although it was arguably a sly remark, it could have been far worse. The United States was beginning to realise how vital Turkey were in their international efforts for US security.

In the wake of the Gulf war the US were increasingly relying on their Middle East ally, and Bush coming into presidency in 1989, took a far more relaxed approach to the Armenian issue. In efforts to appease the Turkish government who were still resentful about the levels of aid relating to ‘bad behaviour’, the Americans reassured that ‘non-binding [American Genocide recognition] resolutions passed by Congress did not constitute major U.S foreign policy pronouncements and that they were not connected directly to the foreign aid legislation or to the general tone of U.S Turkish cooperation in security and defence matters,’ (Uslu, 2003: 265).

Recent resolutions

In recent decades the recognition campaign has continued with as much eagerness as previous decades; however as before it is always stifled by the continued bilateral relations between Turkey and the US. On 21st December 2010, a support passage for the Armenian Genocide resolution was published. Frank Pallone JR, Edward Royce, Adam Schiff and Jackie Speirbrad Sherman, all members of Congress, wrote urging the support of H.Res.252, the
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‘Armenian Genocide Resolution’. It was a two-party resolution with over one hundred and forty cosponsors. They wrote that the resolution and human rights legislation, ‘honours the victims of the Armenian Genocide, during which 1,500,000 men, women, and children were murdered by the Ottoman Empire…and it properly pays tribute to the unprecedented American humanitarian response to this crime,’ (ANCA, 2010). This is where the US official records become an important part of the recognition campaign. Also pointing to the US historical records of the events in 1915, they added that they contain ‘thousands of pages documenting the premeditated extermination of the Armenian people. [Their] own Ambassador to the Ottoman Empire, Henry Morgenthau, recalled in his memoirs that the Turks “never had the slightest idea of re-establishing the Armenians in a new country,”’ (ANCA, 2010).

In addition, they pointed to the US’ failure to follow in the footsteps of the International community in recognising the Armenian Genocide. They assert that despite the US’ global leadership in promoting human rights worldwide, ‘on the issue of the Armenian Genocide, however,…[they] lag behind…As a global leader in human rights, it is imperative for the U.S. to stand on principle and recognise the annihilation of the Armenians as “genocide,”’ (ANCA, 2010). This is, in essence, calling on the US government to act more multilaterally and in coordination with other states around the world. They also point to the multilateral institutions that the US see themselves a part of, yet on this issue are not. In this sense, the US’ bilateral relations with Turkey are directly hampering the recognition of the Armenian Genocide and it is argued by the resolution’s supporters that a multilateral approach should be adopted.

Most fundamentally, the members of Congress pointed to Helen Fein’s argument surrounding the importance of recognising past genocides and applying the term retrospectively. It is a lesson that must not be ignored in their eyes, writing that,

Above all else, this resolution seeks to apply the lessons of this horrific experience to our government’s on-going efforts to prevent future atrocities. In adopting this measure, the U.S. House will be acting in accord with our long and proud tradition of condemning and commemorating genocides... History is a continuum. Yesterday impacts today, which impacts tomorrow. It’s much harder to get tomorrow right if we get yesterday wrong. The world’s strength to oppose killing today is made greater by accountability, for actions present, but also past. It’s weakened by denial of accountability of past acts. Not recognizing the Armenian Genocide, as such, weakens us. (ANCA, 2010)

This was a very powerful message by the members of congress. However it is one that has been repeated many times without progress. It was not long before the Turkish government became aware of these remarks and blocked the resolution’s success once again. Turkey used its bilateral relations with the US to prevent ‘human rights justice’.

Aram Hamparian, executive director of the ANCA wrote to warn the members of Congress of the Turkish interference the same day in a letter with the subject title ‘Turkey’s threats,’ (ANCA, 2010). He wrote that, ‘the Turkish government is once again trying to interfere in the work of the U.S. Congress. Turkey’s leaders, who have already criminalized the discussion of the ‘genocide’ on their own soil, are seeking to export their “gag rule”,’ (ANCA, 2010). Hamparian further, openly criticised the Turkish government writing that, ‘Turkey stands among our allies as the only one that regularly and openly threatens our leaders, our interests, our allies, and even the safety of our service members,’ (ANCA, 2010). Finally he calls on the US government to ignore the threats and allow justice to prevail over politics, writing ‘we should never outsource our nation’s stand against genocide to a foreign power. No nation not even an ally - deserves a veto over U.S. human rights policy. For these reasons…please vote
YES on H.Res.252,’ (ANCA, 2010). Despite the plea to congress, the resolution failed and improved bilateral relations between Turkey and the US ensued.

Throughout the repeated efforts of the US Congress and civil society movements that followed from 2010, the threats continued. In 2014 Turkey once again condemned the US Senate resolution ‘branding the massacre of Armenians by Ottoman forces during World War One as genocide and warned Congress against taking steps that would harm Turkish-American ties,’ (Butler, 2014). The resolution, like the many before it, adopted by the Senate Committee on Foreign Relations in April 2014, called ‘to remember and observe the anniversary of the Armenian Genocide,’ (Butler, 2014). The resolution cited that ‘The President should work toward an equitable, constructive, stable, and durable Armenian-Turkish relationship that includes the full acknowledgment by ... Turkey of the facts about the Armenian Genocide,’ (Butler, 2014).

Bob Menendez, a Democrat from New Jersey who chairs the Foreign Relations Committee, and Mark Kirk, a Republican from Illinois, presented the bill:

Next year [2015] will mark the 100th anniversary of the Armenian Genocide, during which 1.5 million Armenians were killed by Ottoman Turkey ... To honor the survivors and the memory of those lost, and to lead globally on human rights, the United States should finally join the European Union and 11 of our NATO allies in officially recognizing the Armenian Genocide. (Tanış, 2014)

It was hoped that a slight thawing in bilateral relations as had been occurring throughout 2014, along with new members in Congress who had a history of supporting Genocide bills, would enable the bill to pass, (Tanış, 2014).

However in a bitter response, the Turkish foreign ministry once again alluded that the committee had acted beyond its position and responsibilities and that the resolution was a ‘hastily and ineptly prepared’ draft resolution, (Butler, 2014). They added that they ‘reject this attempt at political exploitation that distorts history and law and we condemn those who led this prejudiced initiative,’ (Butler, 2014), the Turkish government once again fervently criticising the legal support for the recognition of the events as ‘genocide’ as outlined in chapter 4v of this paper. The Ministry pointed to Turkish efforts to set up a joint commission to investigate the events and that this would enable the Turks and Armenians to obtain a ‘just memory of the tragic 1915 events,’ (Butler, 2014). Armenia have still yet to accept such an offer as they already consider the Armenian Genocide to be a historical fact documented by many international historians, including both Turkish and Armenian. They believe that the Turkish commission would simply push for its own version of events if such a commission were to deliberate the issue. The Turkish government also added that ‘it is essential that the U.S. Congress engages in efforts aimed at strengthening our historic alliance ... instead of damaging Turkish-American bilateral ties,” (Butler, 2014). This is an overt mention of the countries bilateral relations and the importance with which Turkey sees it.

In highlighting the continued domestic support for the recognition of the events as ‘genocide’, in August 2014, the Californian Senate unanimously passed the Armenian Genocide Education Act. This Act adds testimonials from Armenian Genocide survivors into the curriculum at Californian public schools. The act also encourages state schools to provide their teachers with resources to teach about the events of 1915, (Arm radio, 2014). This development emphasises that despite the domestic support for the recognition of the events of 1915 as ‘genocide’, the US government is still yet to officially recognise the events in the
international arena. Barack Obama, aware of the domestic support for the recognition cited in his presidential campaign his support for the recognition of the Armenian Genocide. Yet as the following chapter will show, this attitude is once again forced to change in lieu of foreign policy demands once he becomes President.

Barack Obama and recognition

This section will illustrate how Barack Obama used public diplomatic approaches to gain domestic support for his election in his presidential campaigns. However once he gained presidency he continued the bilateral approaches to diplomatic relations with Turkey. Edmund Gullion asserts that ‘public diplomacy … deals with the influence of public attitudes on the formation and execution of foreign policies. It encompasses dimensions of international relations beyond traditional diplomacy,’ (Gullion, cited in McPhail, 2010: 89). On the contrary, Berridge and James present a more negative view of public diplomacy by claiming it is ‘a late-twentieth century term for propaganda conducted by diplomats,’ (2001: 197). This essay will focus on the public diplomacy on international issues for a domestic audience. Indeed a further research area might include American public diplomacy in Turkey and the Turkish perception of the US relating to the genocide recognition debate.

Taking a deeper look into the presidency of Barack Obama, we see it clearly illustrate how the US’ bilateral relations with Turkey have firmly affected the progress of the US resolution to recognise the Armenian Genocide. Even before the full force of his presidential campaign, Obama publically criticised the Secretary of State for firing the U.S. Ambassador to Armenia, John Evans for referring to the events of 1915 as ‘genocide’ in public. And again during his campaign for presidency in 2008, Barack Obama stated his feelings towards the events of 1915 in a statement. He said, ‘My firmly held conviction [is] that the Armenian Genocide is not an allegation, a personal opinion, or a point of view, but rather a widely documented fact supported by an overwhelming body of historical evidence…As President I will recognize the Armenian Genocide,’ (The Armenian Reporter, 2008). This rhetoric garnered support for Obama from a large Armenian-American population and others who sympathised with the recognition cause. He directly appealed to those people saying that he was ‘proud of [his] strong record on issues of concern to the one and a half million Americans of Armenian heritage in the United States,’ (The Armenian Reporter, 2008).

In speaking directly about the events of 1915 he added that,

> I also share with Armenian Americans - so many of whom are descended from genocide survivors - a principled commitment to commemorating and ending genocide. That starts with acknowledging the tragic instances of genocide in world history. As a U.S. Senator, I have stood with the Armenian American community in calling for Turkey's acknowledgement of the Armenian Genocide. (The Armenian Reporter, 2008)

In the statement, Obama drew parallels with the genocide in Darfur, recognised by the US, who are keen advocates for the further worldwide recognition, (Straus, 2005: 123-124). Obama compared the two by stating that, ‘tragically, we are witnessing in Sudan many of the same brutal tactics - displacement, starvation, and mass slaughter - that were used by the Ottoman authorities against defenceless Armenians back in 1915,’ (The Armenian Reporter, 2008). He also called for a more multilateral response to the issue in Darfur, aware himself of the power it has to bring about justice. He stated that he had visited ‘Darfuri refugee camps, pushed for the deployment of a robust multinational force for Darfur, and urged divestment from companies doing business in Sudan,’ (The Armenian Reporter, 2008).
Despite the overwhelming conciliatory response to the Armenian Genocide recognition cause that Obama exhibited throughout his presidential campaign, his attitude has changed since becoming President. In April 2014, on the 99th anniversary of the massacres of the Armenians, President Obama called the events ‘one of the worst atrocities of the 20th century,’ (Knox, 2014). However, for the sixth consecutive year, and coincidentally since becoming President, he failed to use the word ‘genocide’. This would have been a ‘move that Armenians would have cheered but would also have risked profoundly angering Turkey, a crucial NATO ally,’ (Knox, 2014)

The decision not to refer to the events as ‘genocide’ is no doubt linked to Turkish Prime Minister Erdogan’s statement issued the night before, declaring that ‘using the events of 1915 as an excuse for hostility against Turkey and turning this issue into a matter of political conflict is inadmissible,’ (Knox 2014) . He added that ‘It is indisputable that the last years of the Ottoman Empire were a difficult period, full of suffering for Turkish, Kurdish, Arab, Armenian and millions of other Ottoman citizens, regardless of their religion or ethnic origin,’ (Knox, 2014), and reiterated the Turkish defence rhetoric detailing losses for all involved. This undeniably alerts us once again to the demands of domestic politics and civil society campaigns falling short of carrying the same importance as foreign policy demands. Turkey’s repeated warnings of hampering relations if the US takes formal steps towards recognition become ever more apparent. In fact, after a similar statement from Obama in 2011 which referred to the atrocities of 1915 but omitted the word ‘genocide’, Turkey’s then ambassador to Washington, Manik Tan, heavily criticised the President’s actions of referring to the events, and denounced Obamas words on Twitter, claiming it was inaccurate, flawed and one sided.

Obama’s statement in 2014 which failed to use the term ‘genocide’ was met with frustration by the Armenian National Committee of America. Executive Director Aram Hamparian deplored the ‘sad spectacle’ of Obama bowing to Turkey’s ‘gag rule.’ He added that ‘President Obama continues to outsource his policy on the Armenian Genocide, effectively granting Turkey a veto over America's response to this crime against humanity,’ (Knox, 2014). Obama’s changing attitude ultimately shows that presidential campaigns have the power to convey messages to sway voters and as such, ‘as a public diplomacy tool, [the] process is invaluable,’ (Seib, 2011), however they are not necessarily true to real life. Obama has arguably used this tool to simply appeal to a large audience. Once elected into office, the demands of foreign policy became too much to continue the support for the cause, even for the president of the United States.

Conclusion

In conclusion, the campaign to recognise the Armenian Genocide in Turkey and the US continues to be stifled for two reasons. Firstly, despite the early conciliatory response, the Turkish government has since entered into a stage of ‘denial’ in lieu of a changing political climate. The change in attitude came after WWI and the events of 1915, when the British and other Entente powers began to dissolve a crumbling and corrupt Ottoman Empire. This sparked a rise in nationalism as they fought to claim back their land and the new Turkish Republic was founded. This nationalism still exists today and as a result, the Turkish government has turned the Armenian Genocide into a taboo. Fearing the legitimacy of the foundation of its nation’s statehood being called into question, the current Turkish government refuses to acknowledge the events of 1915 as ‘genocide’. Theories of denial
suggest that they exhibit the typical attitudes of a state denying genocide by ultimately claiming self-defence, disputing the numbers killed and questioning the legal arguments.

Secondly and consequently, despite the overwhelming domestic support and international backing, the US government have failed to recognise the events of 1915 as ‘genocide’ due to their own political and security interests being threatened by Turkey. Despite the documentation of ‘genocide’ in US official records at the time, in addition to vast domestic support for the cause, the gap between domestic politics and foreign policy demands continues to grow. Turkey has increasingly become an important ally for the US and it is a relationship which cannot afford to be compromised. As such the bilateral relations between the US and Turkey have meant that Barak Obama and other Presidents before him, have been unable to recognise the Armenian Genocide. Obama’s initial support for the cause during his presidential campaign merely showed public diplomacy successfully working to garner support.

It will be interesting to see whether, as Turkey moves closer to finding its place in Europe and consequently moves further from its Ottoman past, it will transcend to a new political climate where it is able to recognise and acknowledge the actions of its predecessors. This would undoubtedly free the US to do the same.
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Evaluating the role of investment performance requirements in Malaysia: Lessons for developing countries

Joachim Hauge Guslund

Abstract

This paper examines the utilisation of performance requirements in Malaysia. In an effort to enhance the potential benefits of foreign direct investments, the Malaysian government has relied on a mixture of mandatory and voluntary performance requirements to align the behaviour of foreign investors with the objectives of national development strategies. Although controversial, these requirements continue to play a key role in Malaysian investment regulation. By examining their impact on the manufacturing sector, this paper argues that performance requirements have contributed to the successful fulfilment of the wider development goals drawn up in early industrial strategy papers. Based on the experiences of Malaysia, some policy recommendations for other developing countries will be presented.
Introduction

Foreign direct investment (FDI) is often regarded to be an important contributor to economic growth for developing economies. Defined as investments involving a foreign investor acquiring a controlling stake in a domestic enterprise, with possession of at least 10% of voting shares being a basic criterion, FDI is characterized by direct, long-term and stable links between economies and an indicator of global economic integration (OECD 2013). The potential benefits of such investments are by now widely recognized, and well documented (Balasubramanyam et al 1999, De Mello 1999). Direct benefits include job creation and increased state revenue through taxation. Equally important, however, are the indirect effects of technology-transfer and increased efficiency through linkages with existing domestic enterprises. Through linkages with the home countries of foreign investors, FDI may open up new possibilities for domestic exports and increased integration into global value chains. Increases in FDI flows, the annual balance of outward and inward FDI, can also be taken as a measurement of the economic performance of an economy, and the perceived confidence of investors in the future economic trajectory of a country.

However, the potential benefits of FDI do not manifest automatically or uniformly across nations, sectors or localities. Well-designed policies need to be in place, not only as a way of attracting initial investments, but to ensure that the positive externalities of FDI materialize and are absorbed by the host country. Without a comprehensive strategy aimed at maximising the benefits of foreign investments, developing countries stand at risk of either failing to attract FDI at all or having potentially harmful externalities, such as a crowding-out effect of domestic firms, negate the positive impacts the investments may have (OECD 2002).

Over the last fifty years, few countries have had as remarkable success with attracting and benefiting from FDI as Malaysia. By pursuing an export-oriented growth strategy, financed largely through FDI, Malaysia has managed to achieve sustained economic growth and gradually expanded and elevated its position within global value chains. Unable to rely on domestic investors for its economic expansion like some of its regional neighbours, Malaysia constitutes an ideal case study for developing countries looking to incorporate similar growth strategies at home.

This article will examine how the provision of performance requirements on new investments have contributed to the growth of the Malaysian economy since its independence, with particular focus being paid to the manufacturing sector. By evaluating the experiences of Malaysia, and the relative effect and importance the different requirements have had, some lessons for other developing countries will be discussed.

Section 2 will provide historical and political context of Malaysia, and examine the role of British colonialism in creating a political economy that allowed for comprehensive development strategies to be enacted. Section 3 will outline the economic growth of Malaysia since its independence. It will also provide the theoretical foundations of performance requirements, and present the different performance requirements introduced in the country. Section 4 will evaluate the success the performance requirements have had in inducing desired behavioural change in the country, and evaluate the overall effectiveness of performance requirements. It will be argued that the overall effect of Malaysian performance requirements have been positive. While some requirements has led to a greater change than others, they do not appear to have significantly deterred investments in a way that would discourage their continued utilisation.

Finally, section 5 will discuss the extent to which the Malaysian experience should influence decision-makers in other developing countries. Although the unique political
context of Malaysia may be difficult to replicate, it will be argued that some of the lessons from the country remain applicable elsewhere.

**Contextual background**

After decades of colonial rule by Britain, and a period of Japanese occupation during World War II, the independent federation of Malay emerged in 1957, consisting of the area today referred to as Peninsular Malaysia. With the incorporation of North Borneo and Sarawak in 1963 country became reconstituted as the Kingdom of Malaysia (Singapore withdrew from the new union in 1965). The legacy of British colonial rule left lasting impacts on the emerging country, which continues to be visible today. In order to appreciate the context in which the policies of the emerging state where created, these impacts needs to be addressed.

**Colonial legacy on the Malaysian Economy**

One aspect of this legacy is its role in shaping the political economy of the nascent state. While a unique system of elected monarchs serving five year terms as a largely symbolical head-of-state was introduced shortly after independence, the country continues to rely on a Westminster-style of Parliament. Furthermore, the country has adopted a judicial system based on common law. While this may have contributed to some familiarity amongst investors from commonwealth nations, its direct impact on the economic performance of the country seems arbitrary. More significant was the impacts on the structural organisation of the Malaysian economy. During the British rule, considerable efforts went in to harvest the natural tin resources present on the peninsula, and to modernise the rubber plantation industry. This endeavour proved so successful that in the years leading up to WWII, Malaya was the single most profitable colony in the British Empire (Gomez and Jomo, 1999: 10). The continued revenue originating from these two exports meant that by at the time of independence in 1957, Malaysia enjoyed a comparatively high standard of living compared to other countries in the region (Rao 1980). The domination of these two industries however also entailed a highly specialised economy, where the flow of foreign exchange earnings and trade surplus became increasingly indebted to favourable world markets, and the absence of shocks or stressors. Additionally, the country had to on imports for much of its food supplies, as well as other commodities. Accordingly, the need to diversify the economy and strengthen its resilience became a priority. The realisation that the tin deposits would eventually be depleted, along with reduced demand for natural rubber, only increased the urgency of this matter. The first Malaysia Plan, the quinquennial strategy paper outlining the economic vision of the government, bluntly stated; “Malaysia must seek to develop new patterns of economic activity which will sustain the growth of the economy during this time of relatively unfavourable circumstances” (Malaysia 1965).

**Political economy at independence**

The development of tin and rubber industries also had a marked effect on the ethnic and demographic distribution in the country. In order to bring in skilled and experienced labour, the British allowed and even encouraged immigration and resettlement of workers from India, China and Java. Malaysia, already a home to a range of different peoples, became even more heterogeneous (Gomez & Jomo, 1999). As opposed to the existing minority groups in the country, Indian and Chinese immigrants largely considered, and perhaps indeed intended, their stay to be a temporary one. Little efforts, individually or publicly, was therefore exerted to integrate these two new groups into the existing society. Instead, they remained largely isolated from the historical Malay (Bumiputera) community. This was reinforced by the
economic specialisation of the two groups, encouraged by the colonial power; the Chinese predominantly started working and investing in the urban tin-mines, while Indians came to be closely connected to the many self-contained plantations. Malaysians, continued to be limited to small-scale rural agricultural production and urban service provision. By 1957, this specialisation had contributed to a disproportionate aggregation of equity amongst foreign investors, predominately British, and ethnic Chinese capitalist. The native Malaysian Bumiputera population, while making up the majority of the population, owned only a marginal share of publicly listed companies. The economic division between the different ethnicities, also came to be reflected in the composition and creation of political parties in the emerging state. United Malays National Organisation (UMNO) quickly became the largest party, with an electoral base consisting almost entirely of Malaysian Bumiputera. However, while being the largest party, UNMO still needed additional support in order to secure electoral majority and the necessary funds to establish a successful party organisation. British reluctance to negotiate independence with an all-Malayan opposition put additional pressure on the party to seek out coalition partners from other ethnic groups (Gomez & Jomo 1999). The necessary support was found in the anti-communist Malaysian Chinese Organisation (MCA), dominated by Chinese business owners, and the Malaysian Indian Congress (MIC). Together they formed the Alliance party (from 1973 onwards known as Barisan Nasional), that would go on to become the driving force in Malaysian politics; remaining in power until now. Reflecting the central position of the UNMO within this coalition, affirmative action aimed at increasing Bumiputera ownership and entrepreneurship soon became another key part of the Government's economic strategy, while cautious not to antagonize the many business-owners supporting the MCA or their interests (Malaysia 1965).

Summary

Briefly summarized, Malaysia at independence was a country with clear economic specialisation, divided amongst ethnic cleavages, and with an urgent need to address not only the inevitable decline of its two most vital exports, but the growing discontent of a marginalised rural Malayan population. At the same time, a dominant political party and solid State finance allowed for bold and comprehensive reforms to be enacted.

FDI and the use of performance requirements

The economic growth of Malaysia since then has been remarkable. Over the course of a generation, the country has gone from being a primary commodity exporter to become an advanced exporter of manufactured goods. Between 1967 and 1997, when the Asian financial crisis hit, the Malaysian economy averaged an astonishing 7% annual growth in GDP, outperforming most of its regional competitors (World Bank 2008). The same period also saw a significant increase in exports, along with greater shares of value added.

Of special interest to this article is the shift in the economy away from extractive industries and agriculture, towards manufacturing. This shift in Malaysia is noticeable both in terms of export compositions, as well as employment figures. Rubber and tin together constituted 86.8% of total exports, and agriculture more than 60 percent of employment in 1957 (Li & Imm, 2007). By 2012 agricultural employment had decreased to 12.6% as manufactured goods had grown to make up 30% of GDP and 85% of exports by value (Malaysia Department of Statistics, Li & Imm, 2007).
There are several reasons why the shift to manufacturing is crucial for developing countries in general, and Malaysia in particular. By developing a robust manufacturing sector the economy becomes less vulnerable to external shocks and fluctuating prices at the world market. Nicholas Kaldor highlights in his seminal article (1967) how annual GDP growth is found to increase as the level of manufacturing as share of GDP increases. Furthermore, evidence is produced to show that investments in the manufacturing sector often leads to *increasing returns*, as economies of scale increase productivity. It is also suggested that similar productivity gains may occur in non-manufacturing sectors as forwards and backwards linkages to the local industry is created (Blalock and Gertler, 2008). By increasing the research and development expenditure; gradually introducing additional stages of production and more advanced technological processes in the manufacturing of exports, a larger share of value-added will be kept in the economy. For developing countries this is of particular concern as the technological gap to developed countries risk locking them in a chronic state of underdevelopment. While initially attracting investment due to low wages and availability of unskilled labour, developing countries need to progress to engage in more advanced, capital-intensive production in order to combine wage growth with global competitiveness. The successful shift to manufacturing in Malaysia should be seen as the result of direct efforts aimed at channelling investment into the manufacturing sector.

**Theoretical foundations of performance requirements**

A central policy tool utilised by Malaysia to maximise the benefits of new investments has been to include the provision of performance requirements (PR). As host countries and investors may have conflicting interests, PR should be seen as policy instruments that seek to adjust firm behaviour according to domestic development goals. They may encourage investors to better respond to opportunities in the domestic market, or try to alleviate market-failures or structural inequalities (UNCTAD, 2003). Motivations for host governments may be both economic, and political; while preferably intended to increase the overall welfare of the host country population, they may also be imposed to favour more narrow groups or elites.

PR may be imposed both at pre- or post-establishment phase. The former may be conducted through screening-agencies or by issuing manufacturing permits, while the latter is more often connected to preferential grants or incentives. Accordingly, requirements may either be mandatory or voluntary. Additionally, PR may take the shape of domestic regulation, applied to all investors within a country or sector, regardless of nationality.

OECD (1996) divides PR into two broader categories; those related to trade and local production, and those concerning capital structure and management. Amongst the PR related to production, import/export-restrictions or requirements, and local content requirements are the most frequent. Managerial requirements, meanwhile, may include local equity requirements, stipulate local employment ratios or enforce technology transfer.

Several studies have attempted to discern the effects such requirements may have. Of these, several seem to support the utilisation of targeted PR. Richardson (1993) reveals that local content requirements may foster domestic industrialisation by inducing foreign firms to increase the efficiency of domestic input production. Others highlight the advantages of providing conditional incentives to foreign firms in terms of technology transfer and human capital formation (Ramachandran, 1993). More critical conclusions have been reached by other studies, suggesting performance requirements may lead to reduced global and host country welfare, albeit not discussing the possible ulterior motives for their utilisation (Davidson et al, 1985).
Despite the on-going debate regarding the effect of PR, there has been a growing consensus amongst developed countries, although frequently having utilised them themselves in the past; that PR amount to unwarranted distortion of the free market and have sought to reduce their utilisation (Guisinger, 1985). This has led to some limitations on their use being enacted as parts of new multilateral treaties, despite vocal protest from several developing countries.

In Malaysia, PR have been utilised to champion a wide, and at times conflicting, set of development goals. In addition to economic objectives, considerable efforts have been taken to encourage Bumiputera participation. While this reflects attempts to alleviate persisting economic inequalities, it has also served to legitimise the continued rule of the Barisan Nasional coalition. After outlining the early policy developments in this field, this paper will now present the different requirements in more detail.

Historical evolution of investment policies

Shortly after independence a period of import substituting industrialisation (IS) was initiated. To this effect, the Pioneer Industries Ordinance (PIO) act passed in 1958. PIO sought to encourage a diversification of the economy through a mixture of tax incentives and tariff protection for a period of up to five years for foreign investments in production aimed at domestic markets. Despite some success in attracting investments, PIO failed to accomplish its expected targets in terms of job creation and output; on average only 2,400 new jobs were created per annum by “pioneer firms” during the first ten years (Siva lingam 1994, p 10). Growing discontent over the increasing unemployment figures and economic marginalisation amongst the Bumiputera led to the abandonment of IS and a shift towards labour-intensive industry and export-orientation towards the end of the 1960s. A new set of policy incentives was launched to accomplish this transition with the 1968 Investment Incentives Act (IIA) replacing PIO, along with the establishment of the Federal Industry Development Institute (FIDI, as well as the Bumiputera stock exchange (Gomez & Jomo 1997). The term “pioneer industry” would, however, remain in use.

Failing to deliver immediate result, ethnic clashes and social unrest erupted in the spring of 1969, leading to a readjustment of the government coalition to include a broader segment of Bumiputera parties under the new name Barisan Nasional. While this transformation ostensibly sought to reduce racial tension by becoming more accommodating towards the MCA, the reconfiguration occurred “essentially on Malay terms” with notably reduced influence for Chinese interest overall (Mauzu quoted in Gomez & Jomo 1997, p 22). Shortly thereafter, a comprehensive new strategy, the New Economic Policy (NEP), was launched, which put increased emphasis on the need for equitable growth.

With the introduction of NEP, labour-intensive export-oriented industrialisation continued to be prioritised, with the passing of a number of targeted legislations, notably the abolition of payroll tax, introduction of free trade zones and amendments to the IIA increasing the tax holiday period.

Equity requirements

In accordance with the principles of the NEP, the first performance requirements prescribing equity ownership were introduced in 1975. Several motivations informed the inclusion of equity requirements in investment regulation and incentive structures. Ensuring (partly) domestic ownership of enterprises guarantees that a share of profits remains in the country to be utilised by domestic entrepreneurs as working capital. As a part of a wider redistributive
policy, increasing the share of Bumiputera ownership became a way of reducing ethnic tensions in the country. Equity participation in manufacturing is also considered to foster “soft” technology-transfer and absorption of knowledge, as local participants gain valuable insights into the managerial structures and practices of foreign firms (Kumar, 2003). Domestic ownership requirements may additionally be understood as a way of influencing the boardroom decision in order to better align firm behaviour with Malaysian interests.

Following the criteria laid out by the Industrial Action Co-ordination plan, all manufacturing companies employing more than 25 workers or possessing a share value exceeding 250,000MR1 in Malaysia were required to ensure a minimum level of Bumiputera equity ownership in order to be granted a manufacturing license. Furthermore, sales of reserved equity would need Government approval, providing the government with considerable discretionary influence over the ownership structure of foreign firms (Malaysia, 1974). Initially, this requirement was set at 30% for all manufacturing enterprises, however, exceptions were granted for companies producing for export. Based on export-to-sales ratios, companies were allowed a higher percentage of foreign ownership, ranging up to 100% foreign ownership provided they export more than 80% of their output. In response to a marked downturn in FDI in the early 1980s, some of the equity requirements were further liberalized, with the minimum requirement for full ownership being reduced to 50% export sales, provided there was no direct competition with domestic firms. The threshold for companies requiring a manufacturing permit was also increased to share values of RM2.5 million or 75 employees (MIDA).

These exceptions would only apply to firms involved in export-oriented production. Market-seeking or import-substituting manufacturing enterprises would still be required to conform to the original requirement of 30% Bumiputera ownership. After several enterprises expressed frustration with the lack of domestic investors willing or eligible to fill the necessary Bumiputera equity share, the Government eventually decided to step in as co-investor in such instances, through the use of designated regional development corporations (UNCTAD, 2003).

Due to in part to perceived loss of state bargaining power as a result of increased regional competition for in the wake of the Asian financial crisis in 1997, equity restrictions were again liberalised and finally discontinued from 2003 (Tran, 2013). Now, manufacturing permits may be granted to foreign investors, regardless of Malaysian equity shares. However, 60% Malaysian equity is still a requirement for those companies applying for tax incentives, such as Pioneer Status or ITA (MIDA).

Employment requirements

Ensuring sufficient employment in the face of rapid population growth has been one of the most central goals of the NEP. As with equity requirements, special considerations have been taken to ensure Bumiputera participation. Under the ICA, the office granting the manufacturing permit had considerable room to determine whether applications were "consistent with national economic and social objectives", and in furthering of these objectives “impose such conditions as they (saw) fit” (Malaysia, ICA). While discretionary exemptions could be made, this would normally require Bumiputera participation at all levels of the enterprise.

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1Approx. 100,000USD in 1975
As the incentives granted to Pioneer Industries tended to favour large capital-intensive enterprises, the Labour Utilisation Relief (LUR) act was introduced in 1971 as a way to promote investments in labour-intensive manufacturing. Incorporated as part of the IIA framework, LUR provide temporary tax exemptions on income depending on the number of domestically employed workers. Beginning at 50 employees, firms would enjoy a tax holiday for two years, extended up to 5 years for larger employers. These incentives were made available to both domestic and foreign investors. However, due to the initial threshold being set at such a high number of employees compared to the average size of domestic enterprises, most domestic entrepreneurs would in effect be prevented from enjoying the incentive. According to estimations by FIDA, only 10% of manufacturing firms in 1973 employed sufficient workers to qualify for tax holidays under the LUR scheme (Anuwar, 1983). Restrictions imbedded in the IIA framework, further stipulated that only one set of incentives could be enjoyed by a firm simultaneously, meaning new investors would have to choose between the LUR incentives or Pioneer status.

Following a surge in investments toward the end of the 1980s and early 1990s, and subsequent labour shortage, the employment requirements were eventually phased out for most new investments by the mid-1990s (UNCTAD, 2003).

Local content requirements

Although historically widely utilised, by both developed and developing countries, a particularly contested requirement has been the provision of local content requirements (LCR). As most foreign firms, particularly subsidiaries, tend to import considerable shares of their production inputs from abroad, LCR is meant to encourage firms to increase the share of locally produced inputs. While potentially contributing to increased domestic employment as well as technology spill over, such effects are not guaranteed to manifest, as LCR may also serve as a deterrent for potential investors considering expansion (Alavi & Hasan, 2001). While LCR may increase local input production, there is typically concerns from foreign investors regarding the quality of local products, and local suppliers' flexibility and reliability in terms of delivery time and punctuality. Since the availability of domestic input providers may be limited, particularly at initial phases after the policy has been enacted, some discretionary concessions may need to be made while the industry builds up the required expertise. Proponents may argue that LCR will as it encourages foreign investors to transfer technology, while critics argue that undue protection of domestic producers may prevent them from ever becoming competitive on international markets (Ismail, 1995).

Despite these concerns, LCR has been a part of Malaysian investment policies since the introduction of IIA in 1968, and was again included in its eventual predecessor, the Investment Promotion Act of 1986. In both instances, content requirements was highlighted as one of several considerations when assessing applications for Pioneer status or the Investment Tax Allowance (ITA) scheme. With the absence of explicit target figures, discretion was given to approving officers to decide what emphasis should be put on LCR when considering new applications. In effect however, 30% local content requirement would become the norm (Alavi & Hasan, 2001). In addition to the voluntary requirements connected to incentives, the automotive industry has been subject to a separate set of LCR. One of these has been creation of a designated list of items that would have to be locally sourced in order for enterprises to avoid increased tariffs. As such tariffs would severely impact on the profitability of auto production in Malaysia, the criteria effectively became mandatory. Items on the “mandatory deletion list” included items that the government determined could be locally produced to a satisfactory quality, such as tires, fuel tanks and exhaust-systems...
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(Gustafsson 2007, p 50). Export credit re-financing schemes, as well as export insurance programs, introduced by the Government in 1986 as a way to help struggling small and medium enterprises obtain sufficient liquidity also had local content requirements (MIDA, 2014b).

As the GATT/WTO agreement on trade related investment measures (TRIMS) came into effect following the Uruguay round discussion of 1994-5, Malaysia was forced to abandon its use of LCRs. Initially given a 5 year period to conform with the new framework owing to its position as a developing country, formal content requirements seized to be in effect from 2004.

Training requirements

As part of the efforts to ensure Malaysian workers remain competitive, gain the necessary skills and knowledge to operate modern advanced technology, and, eventually replace expatriate workers, the Government of Malaysia has set out several incentives to encourage training programs for domestic employees. Such requirements have been included either as informal requirements for the granting of manufacturing permits, or as a sub-condition for Pioneer or ITA applications. However, as with many others of the requirements connected to these grants, training requirements were not explicitly formulated and could vary between individual applications.

Programs explicitly linked to training expenditure did not come about until the mid '80s, when new tax deductions became available for expenses going to buildings used for training purposes; 10% deduction against income tax on initial investments followed by annual 2% deductions (UNCTAD, 2003). This effort was further expanded in 1992, with double tax deductions being offered on approved training expenses. Enterprises already granted 100% income tax deduction as part of their Pioneer status would however have no direct economic gain from these new training incentives. Additionally, the risks associated with having expenditures evaluated and approved retrospectively once they had been incurred may have reduced the attractiveness of the incentive (Ibid).

Following the meagre success of these incentives in encouraging new training programs, voluntary tax incentives were eventually discontinued. Instead, they were replaced in 1993 with the Human Resources Development Fund (HRDF), a fund aimed at supporting and financing new training initiatives amongst Malaysian firms. All eligible firms employing more than 50 people would now be required to pay the equivalent of 1% of their payroll to the fund. Manufacturing firms with less than 50 employees and paid-up capital of less than RM 2.5 million may subscribe to the fund on a voluntary basis (HRDF). After six months participation in the fund, firms become eligible to have parts of their training expenses reimbursed. Several different programs have been developed in cooperation with representatives from participating enterprises, in order to make sure the fund would be able to meet the demands of different sized firms.

During the initial years, the government would match the projected contributions of private firms. After this, the fund has remained self-sufficient. The fund continues to be in operation, with new training schemes frequently being added, reflecting the evolving needs of the industry. By 2011, the fund had close to 7000 participating firms from the manufacturing sector (HRDF 2012).

Research & development requirements

Enhancing the research capabilities of domestic industry has long been a focus of the Malaysian industrial plans. R&D and technology transfer agreements were taken into
consideration when granting manufacturing licenses from an early point, however, direct incentives to this effect did not come about until the mid-1980s (UNCTAD 2003). The incentives introduced to encourage R&D at this point, largely mirrored the incentives aimed at encouraging personnel training; up to double tax deductions for expenditures connected to R&D, and tax exemption for buildings utilised for R&D purposes. Unsurprisingly, the same weaknesses manifested again; firms already enjoying 100% income tax exemption will have no direct motivation to apply. Firms not enjoying other incentives still expressed hesitance to apply, due to the slow process of having expenses approved and refunded.

New incentives were therefore added; with firms providing R&D activities for clients in Malaysia (excluding its parent firm) being eligible for Pioneer Status, with 100% tax exemption for up to 5 years, or Investment tax allowance (ITA) status for up to 10 years (MIDA). These incentives are available to both domestic and foreign enterprises. Part of the qualifying criteria for R&D incentives, as stipulated by MIDA, is to have at least 70% of income derived from research activities, and more than half its workforce consisting of appropriately qualified personnel performing research functions. Specialised, domestic SMEs are more likely to be able to meet these strict criteria. Not only do large MNEs likely already have advanced proprietary technology and R&D centres established elsewhere, they may also be hesitant to give local employees insight into their most advanced research. Since the establishment of special purpose companies designed to take advantage of the incentives may therefore not be rational for these larger firms, more modest tax breaks have also been included for in-house R&D.

Other requirements

Additional requirements have been linked to geographic distribution of investments. As the rapid industrialisation saw a concentration of new jobs and investments going to the certain clusters on peninsular Malaysia, steps were taken to encourage increased investments to other parts of the country. Investments with Pioneer Status or ITA, going to one of the two states on Borneo; Sarawak and Sabah, are eligible an extra tax deduction, along with investments to the “Eastern Corridor” on the peninsula.

The introduction of free trade zones (FTZ) has also contributed to geographic diversification, by linking incentives and regulatory liberalisation to localisation in designated areas. In total, 12 free trade zone have been established across the country, guided both by desires to bring investments to rural areas and to provide attractive commercial hubs, including the potential for positive synergy effects. The role of FTZs as a deciding factor in the location of investments appear to be significant; during the 1970-1990 period, more than half of all export output originated from the different free trade zones (Siva lingam 1994). However, the location of FTZ may to some extent reflect the preferences of the firms consulted in the planning process. FTZs may therefore have been established where firms already intended to invest, rather than drawing investments to them.

Policy evaluation

Evaluating the effectiveness of the many performance requirements is no simple task. On the surface, Malaysia appears to have made significant strides towards accomplishing, at least in part, the expressed goals motivating their introduction. Exports have boomed, and the economy is considerably more diverse than at any previous point. Employment-figures have gone up, and Bumiputera participation in the economy increased. The Malaysian workforce
continue to be largely competitive, due to the continuous training and education being offered, although rising wages could potentially pose a problem in the future. Perhaps most importantly, the country has not experienced ethnic uprisings of the scale seen in 1969, contributing to the stability of the coalition Government.

However, these changes do not necessarily mean the individual performance requirements presented in this article have been successful. When assessing the impact of PR, the likelihood of firm behaviour being adjusted as a response to requirements needs to be assessed. If investors are found to have behaved in accordance with the requirements regardless of their impositions, regulations and incentives may have been redundant. In order to evaluate the relative success of performance requirements in Malaysia, their respective impacts will now be addressed.

Economic diversification and export orientation

One of the most central goals of the Malaysian industrial policy, as outlined in the initial Malaysia plans, has been to diversify the economy and increase the share of manufactured exports. In this endeavour, Malaysia has largely succeeded; while commodities, primarily tin and rubber, constituted 89% of exports prior to 1965, it had been reduced to only 13.3% by 2000 (BNM 2011). Over the same period, manufactured products have grown from a negligible amount to comprise almost 75% of total exports by value. This growth is closely connected to inward FDI. While steadily growing during the 1970s, manufactured exports finally took off following the large volume of FDI approved in the mid-1980s (UNCTAD 2003).

Although domestic firms also begin to exhibit increased export-performance during this period, perhaps as an effect of increased competition or positive-externalities, local investments largely remained aimed at domestic markets (Rasiah 1995).

Both the establishment of free trade zones, and attachment of export requirements to different incentives have likely contributed to the increased export growth, although it is difficult to quantify their respective impacts. As previously noted, considerable shares of export output originate in FTZ, suggesting the offered incentives contributed positively to the attraction of exporting industries (Siva lingam 1995). However, with the reported motivations predominantly being access to labour, reasonable infrastructure and political stability, combined with the limited size of the domestic market, it is unlikely that established firms would have altered their export-ratios in the absence of export requirements (UNCTAD 2003). Since the majority of the manufacturers produce to serve their home-markets, the provision of export requirements may have been largely superfluous.

Due in part to pressure to conform with multilateral treaties, particularly the GATT “Agreement on Subsidies and Countervailing Measures”, Malaysia has been forced to phase out its use of incentives with export requirements, with a complete termination occurring in 1998 (UNCTAD 2003, WTO 1995). The abolishment of incentives with export requirements coincides with a dramatic decline in inward FDI to the country. However, this decline should be viewed in connection to the financial crisis across the region at this time, and cannot be explained by the removal of subsidies alone.

While in line with the original government strategies, new challenges have emerged as FDI induced exports have increased. Two concerns have been the lack of linkages to domestic industry, and limited contribution to the national trade-balance. Export oriented FDI has been greatest in Electrics and Electronics, having grown to become the leading export, contributing to more than half of all domestic exports and 10% of global output. Being largely footloose industries, not dependent on the presence of natural resources, the rise of E&E manufacturing is perhaps not surprising, as this industry can more easily relocate to
benefit from FDI incentives. Due to the limited capacity of domestic firms to provide production inputs to these enterprises, combined with import duty exemptions for intermediate products not available locally, many MNEs only carry out isolated stages of their production chains in the country (Rasiah 1995). The high share of imported inputs in manufacturing sector contributed to limit the sector’s contribution to the total value-added in the economy, and contributed to the negative trade-balance prevailing for most of the 1990s, despite increased exports (UNCTAD 2003). Although, Malaysia today exhibits comparable levels of total manufacturing value-added (as % of GDP) to most of its regional competitors, important transitions remain in order to reduce the dependence on imported inputs, and instead increase the total factor productivity of the economy (World Bank 2014). Of particular concern is the limited output of the small and medium enterprises in the manufacturing sector, which are typically characterized by domestic enterprises. While employing a third of all workers within manufacturing, SMEs only contribute a quarter of total output (ILO 2012).

Local content requirements

The introduction of local content requirements should be seen as a direct response to this structural imbalance. However, due to multilateral obligations through WTO, mandatory requirements were only in effect for a short period, and their impact is subsequently hard to measure. The sub-sector that enjoyed the most rigid local content requirements, and was covered for the longest period of time, was the automotive industry. The experiences from this sector however, remain conflicting.

Mandatory local content requirements have been enforced in this sector since the late 1970s, with specified lists of components to be domestically sourced imposed on most automobile assemblers. This list has since been gradually expanded as domestic expertise has increased. The results on locally assembled cars has been significant; with share of domestic content increasing from only 8% in 1979, to 18% in 1982, and 30% in 1985 (Natsuda & Thoburn 2014). Additional incentives was enacted in 1991, which established required minimum percentages of local content in new assembled cars, ranging up to 60% for certain models (Ibid).

In another effort to promote local linkages, Malaysia decided to establish a national car manufacturer producing under its own brand name, “Proton” (later to be joined by “Perdua”). Due to the strict local content requirements on domestically assembled car, in addition to heavy government subsidizing and quantitative import restrictions on foreign produced car, these two manufactures have come to dominate the local market. These producers are also the ones that made the greatest use of local content, with new models from Proton reportedly containing up to 90% local content – twice that of domestically assembled Japanese cars (Natsuda & Thoburn 2014).

However, the competitiveness of these models largely stems the protective measures taken by the government, including the punitive taxes placed on foreign manufactures that fail to meet the local content requirements. Although formally banned in 2004, some new contentious policies have since been introduced, that while permissible under the TRIMS framework, appears to have a strong market distorting impact. One such measure has been the introduction of an excise tax on car sales and manufacturing which varies according to local content. While this regulation does not technically differentiate between foreign and domestic enterprises, in effect they strongly favour the national car producers (Natsuda & Thoburn 2014).
As a result, the export-performance of Malaysian car manufacturing has been highly limited, and the flow of inward FDI to the sector decreasing. A comparison with neighbouring Thailand reveals striking differences in outcome. While both countries provided similar content incentives, Thailand liberated its policies in the wake of WTO TRIMS and has not favoured national brands. Instead, they focused their incentives on types of cars, namely pick-up trucks, rather than champion specific national manufactures.

The success of Thailand’s alternative strategy is easily identifiable. Both countries produced comparable number of vehicles until around 1999, Thailand's output has since increased with almost 750%, with exports overtaking domestic sales. Meanwhile, Malaysian output has doubled over the same period, however they remain a net importer of cars (OICA). In line with the focus on Bumiputera participation in the economy in Malaysia, and as a result of the promotion of the two national manufacturers, a larger share of the automobile-sector, including sub-suppliers, remains domestically owned in Malaysia as compared to Thailand. However, due to the larger size of the Thai industry, domestic participation remains greater here in absolute terms (Natsuda & Thoburn 2014).

The lessons from the automotive industry can therefore be said to be twofold. Initial requirements did contribute positively to the economy, with growing shares of local content being utilized. However, in combination with excessive protection of national manufacturers, too strict requirements have since created an environment hostile to foreign export-oriented investments in the sector, limiting total output. In the absence of comprehensive studies on the effects of LCR from other sectors, this case study provides valuable insights into the overall effectiveness of the incentive. While the experiences from the auto sector are not readily transferred to other manufacturing sectors, they seem to suggest some positive impact of LCR during the initial phases of local industry creation. At this point local content use rose, while maintaining similar output growth as comparable countries in the region. Although production has slowly risen since then, albeit at a slower pace than regional competitors, protection of domestic enterprises has reduced the overall competitiveness of the industry.

The overall effectiveness of the requirement in increasing local content, appears to have been sacrificed as efforts to widen Bumiputera ownership and participation have been given priority. The initial experiences from the Auto sector does however suggest that in the absence of differential treatment being given to national enterprises in other sectors, LCR is likely to have contributed more positively.

Labour requirements

FDI has contributed to significant job creation in Malaysia, particularly in the manufacturing sector. Today, manufacturing represents the single largest sector by employment, employing nearly 18% of the total workforce, a slight reduction from its peak in 2000 (ILO, 2014). Of this, the vast majority are employed by large privately held enterprises, dominated by foreign equity (Department of Statistics, 2012). Indeed, studies reveal that employment growth in sub-sectors dominated by FDI has consistently grown at a greater pace than those dominated by local equity (Athukorala & Menon, 1996, p 39). Moreover, employment amongst foreign manufacturers between 1983-1992 grew at a higher rate than outputs, suggesting increasing labour-intensity (Athukorala & Menon, 1997).

To what extent this job creation can be ascribed to PR is uncertain. As previously noted, a key attracting feature of Malaysia has been access to cheap labour, and as such it is likely that the country would have seen an influx of labour-seeking investments regardless of these provisions. Of the incentives most directly targeting employment growth has been the
LUR program, alongside the abolition of pay-roll tax. However, the effectiveness of this program has been hampered by two inherent weaknesses. Firstly, by limiting firms to a single incentive package under the Investment Incentives Act, new investors had to choose which incentive packed to apply for. With capital-intensive firms most likely to apply for either Pioneer Status or ITA as these provide a wider set of tax deductions, LUR would mainly attract firms already determined to initiate labour-intensive production (Anuwar, 1983). Amongst these enterprises the incentive is likely to have had some impact, by encouraging larger scale production. With each successful LUR applicant generating 180 jobs on average, the threshold for receiving the longest tax holiday (5 years) being set at 350 workers appears to have been well calculated (Based on data from UNCTAD, 2003). However, the initial employment threshold being set too high, leaving the incentive unobtainable to most firms constitutes a second weakness of the program. With more than 90% of manufacturing firms employing less than 50 employees in 1972, the average enterprise would have to undertake considerable expansion in order to meet the necessary requirements (Anuwar, 1983). A lower initial threshold would have increased the likelihood of small firms expanding to take advantage of the incentive package. Additionally, firms already enjoying tax holidays, would have no new motivation to alter their business strategy towards increased labour-intensity as the LUR incentives would simply replace existing tax exemptions.

Ultimately, LUR did lead to some job creation. In total, the firms awarded with LUR incentives between 1972 and 1986 created 16749 new jobs, in addition to those created through in-direct linkages (UNCTAD, 2003). In comparison, more than 700,000 jobs were created by projects receiving Pioneer Status or ITA over the same period. The large difference comes as the result of only 1% of total incentive applicants opting for the LUR scheme. This highlights the lack of coordination, and at times competing objectives, of the different incentives. In retrospect, a more effective way to achieve increased employment would perhaps have been to link subsidies directly to the number of employments, with a low minimum threshold, for all new investments. Although this may too have proven to be problematic, as the costs accompanying such an incentive structure would likely have risen.

Despite the limited success of the incentives aimed directly at promoting employment-growth through increased labour-intensity, unemployment did steadily decrease until the mid-1990s, at which point labour-shortage emerged as a potential concern, (Malaysia 1996). While attributable to general economic growth, and a shift away from agriculture towards more labour-intensive sectors, PR may still have had a positive influence on this development.

_Bumiputera participation_

In addition to the efforts undertaken to decrease the general unemployment in the country, considerable efforts have gone in to ensure equitable growth between the different ethnicities, with emphasize being put on ethnic Malays. Accordingly, Bumiputera participation in the workforce has dramatically increased as a result of the affirmative action explicit in various performance requirements. While comprising only 29% of the manufacturing workforce in 1970, the same sector now draws almost half its workers from the Bumiputera population, in line with the targets set out as part of the New Economic Policy (Various Malaysia Plans). In total, almost a quarter of all Bumiputera workers are now affiliated with the manufacturing sector, surpassing agriculture as the dominant Bumiputera employer. However, considering the Bumiputera make up 67% of the population, there is still progress to be made in order to achieve a truly equitable distribution.
Part of this evolution can be explained by the provision of performance requirements, combined with the need amongst foreign investors for cheap workers. With unemployment historically higher amongst the Bumiputera, along with comparatively low levels of higher education meant that a general uptake of unskilled and semi-skilled labour would likely disproportionately be drawn from this ethnic community regardless of imposed requirements. However, the initial speed of the growth (Bumiputera participation doubled during the 1970s), suggest that incentives did play a role. A greater challenge has been to impact the composition of Bumiputera workers across the different levels of corporate structure. Although the targets for overall Bumiputera participation have been reached, assuring proportionate representation at supervisory and managerial positions has been less successful. Although no countrywide statistics exists for the manufacturing sector alone, the share of Bumiputera amongst managers and administrators in the country as a whole stood at only 37% in 2000 (7th Malaysia plan). When taking into consideration that Bumiputera has persistently been favoured for such positions within the public sector, their share in the private sector must be considerably lower (Lee 2009). Indeed, data from one of the regional development corporations, Penang DC, confirm that while the overall targets for Bumiputera participation in the industrial workforce have been met, Bumiputera participation decreases as one moves towards the top of the organizational hierarchy (PDC, in UNCTAD 2003). Amongst managerial employees, only 14% are reported to be Bumiputera, although a rising trend is visible.

The difficulties in achieving equitable ethnic representation across hierarchical levels within the manufacturing sector illustrate some of the shortcomings of performance requirements. While the requirements linked to employment have been successful in achieving their broadest goals of ethnic participation, they cannot be expected to alleviate the wider structural inequalities in the Malaysian society, such as educational levels, by themselves. Interviews with business-leaders indicate that the performance requirements have not deterred investments. Indeed many say they sympathize with their objectives and have actively tried to recruit Bumiputera workers at all levels, but report having trouble finding sufficient amount of qualified candidates (UNCTAD 2003). Provided one accepts these comments are sincere, they illustrate the need to embed performance requirements within a wider policy framework aimed at increasing the employability of Bumiputera workers.

Training requirements

The provision of training requirements may be said to be part of an effort to increase the skills of the Bumiputera workforce, although references to ethnicity has been less explicit. Moreover, training requirements has sought to upgrade to the skills of the workforce in general, and increase productivity.

The initial performance requirements linked to tax incentives proved to have little impact, as they were simply not attractive enough for most firms. Meanwhile, the establishment of a dedicated fund for financing training initiatives has been more successful. Differing in nature from the other requirements covered in this article, compliance with the Human Resource Development Fund regulation only require monthly payments. Subsequent utilisation of the fund, including requests for reimbursements, remains voluntary. Despite this, both subscription to, and utilisation of the fund has remained high. In the manufacturing sector, 386,000 training courses of various duration was approved in 2011, with nearly 320 million Ringgit (100 million USD) reimbursed across all sectors (PSMB 2012). One study conducted by the World Bank, argue that the HRDF has been instrumental in encouraging skills upgrading amongst Malaysian enterprises, suggesting it had a greater influence on
training expenditure than the introduction of new technology (Tan 2001). Furthermore, it was found that training expenditure was positively correlated with increased productivity amongst the enterprises in the sample. Although this true for all firm sizes included in the survey, the efficiency gains were larger for bigger firms, more likely to employ advanced technology. This could be one of the factors explaining why utilisation of the HRDF has been greatest amongst medium and large enterprises, and lesser amongst smaller and domestically owned enterprises (Felker & Jomo 2002).

Despite this skewed distribution, the fund continues to represent one of the most successful applications of performance requirements in the country. While it is hard to measure the direct effects of the HRDF on the economy, the increased efficiency and productivity gains documented on the firm level by Tan, suggest that the incentive is likely to have to have contributed to the steady growth rate of 1.5% per annum in total factor productivity in Malaysia during the last decade (MPC 2012).

**R&D requirements**

The increasing availability of skilled labour, along with enhanced access to training subsidies has contributed positively to the recent growth in R&D expenditure in the private sector. While private sector dedicated just 296 million RM to R&D in 1994, expenditure has since increased rapidly, reaching 2 billion RM by 2004 before doubling to 4.3 billion RM in 2008 (MASTIC 2000, 2006, 2012). Today the private sector constitutes the greatest contributor to overall R&D, accounting for nearly 70% of total expenditure. Foreign owned or controlled enterprises have shown the greatest increase, contributing more than half of all private expenditure by 2004. It should however be noted that this figure includes nationally owned enterprises, such as Proton.

Determining the influence of the performance requirements directly tied to R&D on this evolution is complicated by the fact that much of the relevant data on R&D expenditure at the firm level remain confidential. While early response to the introduction of R&D incentives was lacklustre, a positive trend has since emerged. Initial feedback from international investors highlighted the problems associated with cumbersome bureaucratic procedures, as well as a shortage of skilled labour (DCT 1999). Moreover, many interviewed in the survey reported they were unaware of available incentives, explaining the initial lack of applications for the grants. However, by the year 2002, a third of surveyed companies reported they had benefitted from the available incentives for R&D (MASTIC 2002). Additionally, concerns regarding the lack of skilled labour have since decreased, and the amount of R&D expenditure reported as outsourced overseas has been reduced (MASTIC 2012). Of private expenditure on research today, an estimated 6.15% can be ascribed to government funding through the available tax incentives (and grants), up from 1.2% in 2004.

The growth in government contribution to private R&D reflects increased government attention to R&D, as well as increased awareness of available incentives. Considering the remarkable growth in private R&D expenditure, particularly amongst large, foreign owned enterprises, the incentives appear to have had the desired effect. Caution should, however, be exercised in order to limit the dependence on government funding. While the current ratio of public-to-private sector R&D expenditure is in line with comparable OECD countries, government incentives must be continuously evaluated to prevent unnecessary subsidies.
Equity requirements

Although the original target of 30% Bumiputera equity ownership as outlined in the NEP have not been met, some progress towards this goal has been made. While owning only marginal shares of total equity in private limited enterprises at independence, Bumiputera ownership was recorded at 21% by 2008 (Oxford Business Group 2010). This marks, however, a considerable decline since the peak in the early 1980s, when the corresponding figure stood at almost 50%. The subsequent reduction is directly related to the liberalisation of mandatory equity requirements that followed the introduction of the Promotion of Investments Act in 1986 (Lee 2002). Although Bumiputera equity did not decline in absolute numbers, their relative share shrunk as the number of new manufacturing permits granted to large foreign investors, exempted from equity requirements, increased. The relative decline in Bumiputera equity ownership during this period encapsulate the conflicting policy objectives inherent in Malaysian development strategy; by exempting export-oriented enterprises from mandatory equity-requirements in an effort to increase FDI, the prospects of meeting the overall targets for Bumiputera ownership has been reduced.

Although some equity requirements still remain as a prerequisite for obtaining Pioneer Status or ITA, the removal of mandatory equity requirements in 2004 has further reduced the likelihood of meeting the initial 30% target in the near future. While the decision to remove the mandatory requirements were influenced by external pressure from multilateral organizations, this could also be understood as part of a wider shift away from a redistribution-centred to a growth-centred development strategy (Lee, 2002). The removal of the equity-requirements may also prove to have a positive effect on employment and productivity of domestic firms, as a study has found many firms owned by ethnic Chinese, as well as foreigners, have operated at less-than optimal size in an effort to avoid the regulations (Tran, 2013).

It appears, that while the requirements did have a significant impact during the first years following the implementation of the ICA, their role was consciously reduced in an effort to attract larger shares of capital.

Overall assessment

The overall impact of performance requirements in Malaysia appears to have been positive, with investor behaviour increasingly aligning with the stated objectives of national strategy papers. Particularly noteworthy is the shift away from import-substitution towards export-orientation, and increased labour-intensity in times of high unemployment. However, these are also areas in which firms would have the greatest objective benefit from acting in accordance with the requirements. The establishment of a national fund for worker training, and the imposition of a mandatory levy to finance it, should be highlighted as another key example of behavioural changes directly attributable to the provision of performance requirements. The success of this program may further be taken as evidence for the relative strengths of mandatory as opposed to voluntary requirements. Similarly, mandatory equity-restrictions had an important role in increasing the share of Bumiputera equity ownership, although it has since been reduced in importance, due to conflicting policy goals. This highlights a recurring theme amongst Malaysian performance requirements and incentives; in an effort to accomplish multiple strategic goals through the use of the unified incentive structures, the overall effectiveness has been reduced. It may be speculated that by focussing on a narrower set of strategic goals, greater progress could have been made improvements.
In general, however, the Malaysian government has proven to be largely proactive in adjusting the performance requirements according to the evolving needs of economy and feedback from private enterprises. The reduced emphasis on equity-requirements in times of reduced FDI flows, and the shift toward worker training as unemployment levels decline both attest to this flexibility.

Perhaps most importantly, the provision of performance requirements does not appear to have had deterred investments to the country. Although the passing of the investment coordination act in 1975, along with the mandatory performance requirements that came with it, has been highlighted as a possible reason for the slump in inward FDI recorded in the years 1975-1978, investments have since increased (Ismail 1995). Overall, foreign investors have not reported the performance requirements as significant obstacles, not surprising, considering the voluntary nature of most requirements. Investors unwilling, or unable, to meet the specified criteria may simply have chosen to forgo the incentives on offer. Indeed, a quarter of all approved investments between 1981-2001 did not receive any conditional incentives (UNCTAD 2003). This highlights the attractiveness of Malaysia as an investment destination, but also raises concerns that some of the incentives offered may have been unnecessary. Making clear cost-benefits analysis regarding the provision of investment incentives is complicated by a lack of available data. Evidence from other (albeit less developed) countries suggest annual revenue losses could amount to several per cent of GDP (ActionAid 2013). However, as incentives and performance requirements are not guided by economic motivations alone, clear verdicts on the efficiency of performance requirements will remain controversial and coloured by ideological inclinations.

Further studies on the behaviour of firms with and without conditional incentives would be a valuable contribution to academic knowledge on the effects of performance requirements.

Lessons for other developing countries
Malaysia exemplifies a country that has successfully industrialised through the use of foreign direct investments. The experiences of Malaysia illustrate that performance requirements may play an important role in shaping the behaviour of foreign investors, and accordingly help maximise the benefits of FDI. Provided otherwise favourable conditions are present, the Malaysian experiences suggest that performance requirements does not necessarily deter investors, as long as the requirements to not significantly reduce the profitability of their operations. This should be of particular significance for the many developing countries that can attract investments due to natural resource endowments, or can offer access to larger domestic markets.

Efforts need to be made to ensure coherent utilisation of performance requirements, so that different incentives and requirements do not undermine one another. Identification and prioritisation of a select few policy goals are likely to have greater impact than wider application. By allowing some discretion to be exhibited when reviewing individual investments, requirements can be adapted to address the most pressing needs of the economy. However, countries struggling with corruption need to balance this possibility with the reduced transparency that comes with it.

The Malaysian experience of imposing a mandatory levy to be utilised for R&D purposes illustrate one way in which performance requirements can be utilised, that reduces the potential for corruptive practices.

Some contextual factors have undoubtedly contributed to the success of Malaysia that may not be easily be transferable, or indeed desirable in other developing countries. The stable political climate of Malaysia, along with the dominant position of the UMNO, has undoubtedly contributed to attract investments to the country. Furthermore, it has enabled
long-term strategy papers to be enacted and pursued. At the same time Barisan Nasional could also be said to exhibit autocratic tendencies. Affirmative action, of the extent undertaken in Malaysia, is unlikely to gain legitimacy in more ethnically heterogeneous or democratic societies.

Furthermore, the introduction of multilateral treaties regulating the use of performance requirements has prohibited some of the requirements previously enforced in Malaysia. The experiences from the Malaysian auto-sector do however reveal that considerable policy room still exist. While the relative negotiating power of developing countries continue to debatable, they should as far a possible exert caution when entering into new bi-lateral investment treaties to prevent further diminishing of their available policy options. Where the imposition of protective tariffs or quantitative restrictions on exports is prevented due to structural adjustment programs, voluntary performance requirements may provide a valuable alternative.

While the potential benefits of performance requirements continue to be context specific, the Malaysian case study should inform developing countries on the positive contributions they may have.
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Evaluating the role of investment performance requirements in Malaysia: Lessons for developing countries

Oxford


State Obligations and Corporate Responsibilities – Tax Abuse and Children’s Rights

Maren Hemsett

Abstract

This paper examines children’s rights realisation according to article 4 of the Convention on the Rights of the Child. Rights of children have improved drastically since the millennium, but there is still a long way to go before they are all fully realised. One of many reasons for this is that governments lack funding. Governments increase their revenues through aid, loans and taxation. This dissertation examine lost revenue due to tax abuse and interprets the obligations that derive from article 4 to include obligations to hinder tax abuse, collect adequate revenue and to not hinder other states in their revenue collection. It uses the UN Guiding Principles on Business and Human Rights adopted by the UN Human Rights Council in 2011 to determine state obligations and corporate responsibilities towards children’s rights realisation.
Introduction

In 1989, the Convention on the Rights of the Child was developed to strengthen the rights of children worldwide (UNGA 1989). This treaty is today the most ratified human rights convention with 194 state parties.1 During the 25 years since the convention was adopted, children’s rights have improved drastically but are still not fully realised. 57 million children are deprived of education, 1 billion children live in poverty and the child mortality rate is still very high (UN 2013, 5; UNICEF 2014). The reasons to this are many and complex, but an important reason is that countries lack finances. It is estimated that $38 billion is needed annually, just to give all children access to education (UNESCO 2014, 8).

Another estimate is that developing countries lose almost $1 trillion due to illicit financial flows every year. Illicit financial flows consist of crime, corruption and tax evasion and enrich mostly wealthy individuals and large corporations (Global Financial Integrity 2014a). These are resources that developing countries need and which, in theory, could have been spent on children’s rights.

The imbalance between the financing of children’s rights and the billions that are fraudulently evaded every year prompted the research question of this dissertation: How can the legal obligations for states under article 4 of the Convention on the Rights of the Child (CRC) and the corporate responsibility to respect children’s rights be interpreted in relation to tax abuse?

A brief overview of the relevant debates

This question is trigged by developments in several fields of research the last years. First, UN Human Rights Council endorsed the UN Guiding Principles on Business and Human Rights (UNGP) in 2011 (UNHRC 2011a). The UNGP defines the states duty to protect and the corporate responsibility to respect, and was the first framework of its kind to be endorsed by a UN body.

Second, increased focus has been paid to corporations and taxes. The last decades, international trade, production and investments have moved faster than any financial regulations to control it. This has resulted in large amount of illicit financial flows, which represent billions of dollars of lost governmental revenue (IBA 2013, 23; Dev Kar and Sarah Freitas 2012, j).

Third, a new multidisciplinary line of arguments has evolved, linking taxation directly to the realisation of human rights. The argument goes as follows: States are responsible for the realisation and financing of human rights. States lose billions of dollars every year due to tax abuse. If a state lacks funding for human rights realisation, they should make sure that tax is not evaded. States should further not prevent others from collecting their taxes and they should also work towards international mechanism to combat tax abuse. In addition to this, corporations should also make sure that their tax planning strategies do not hinder the state’s attempt to collect taxes (see e.g. IBA 2013; Grace Zhao 2014; UNHRC 2014a; Balakrishnan, Douglass College, and Center for Women’s Global Leadership 2011; Save the Children 2014).

This line of arguments is quite new and differs from a prior focus on budget allocations and spending because it argues to raise the revenue, not necessarily allocate differently. The legal argumentation for this approach is found in human rights treaties which declare that economic, social and cultural rights should be fulfilled to the “maximum extent of … available resources

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1 The United States, Somalia and South Sudan have not ratified the convention and are therefore not subject to the analysis in this paper.
and, where needed, within the framework of international co-operation” (UNGA 2006, para. 2; UNGA 1966, para. 2; UNGA 1989, para. 4). Policies or practices that hinder tax collection and the ability of the state to allocate maximum of its available resources can thus be seen as contrary to human rights conventions.

The lacuna – tax and children’s rights

This dissertation intends to add to this new multidisciplinary approach by focusing on article 4 of the CRC and analyse the implications tax abuse have on children’s rights. It will include references to state obligations under article 4 as well as corporate responsibility not to contribute to violations or hinder realisation of rights. Children are tomorrow’s leaders, farmers and teachers and policy choices carried out today will have great implications for the future. Children constitute more than 30% of the world’s population and they have a right to a wide range of services (UNICEF 2014, 1; UNICEF, Save the Children, and UN Global Compact 2012, 2). Every day millions of children should be able to go to school, visit a health clinic, benefit from social assistance, access the justice system and be protected from violence and abuse. Realization of children’s rights costs money. The lack of sufficient and efficient investment in children in many countries is one of the biggest barriers to realizing children’s rights.

Brief literature overview, limits and structure

This dissertation takes on a multidisciplinary perspective and includes legal, ethical as well as political arguments. The main arguments will be legal and will take into consideration both hard and soft law. General Comments, reports and other documents from UN bodies will be explored and added to the interpretation of treaties. Although being not strictly legally binding, these will be used to demonstrate the development in the field and support the thesis’ main arguments. The text will be argumentative and propose legal obligations that are not traditionally connected to the sphere of human rights. The law will be read as it is used today, as it could be interpreted and how it possibly could look like in the future.

Most of the literature used in this dissertation is reports from organisations like Save the Children, ActionAid, Christian Aid, Tax Justice Network, and the International Bar Association (IBA), along with reports, general comments or other documents from UN bodies. The work of the World Bank, the IMF and the OECD will also be paid attention to. Some academic writings from both legal and other social sciences are used to underscore arguments and explore the intersections of this paper between human rights, children’s rights, taxation and tax policies, governmental revenue collection and spending and international cooperation.

Due to the scope of this dissertation, the focus is primarily on corporate tax abuse and related aspects such as personal income tax, taxation of the informal sector, the effects of having a progressive versus a regressive tax system and the use of tax policies to benefit the poorest (e.g. reduce taxes on food or clothes) are therefore not included in the analysis.

The dissertation is divided into five chapters, the first being this introduction. The second chapter looks at the importance of taxation, revenue collection and its links to human rights. It also defines the term “tax abuse”. The third chapter presents the UNGP, including an oversight of corporate responsibilities and state duties. The chapter continues with an elaboration on state obligations and on the interpretation of “maximum available resources” and “international cooperation”. Chapter four looks at children’s rights with specific focus on education and health and contextualises tax abuse and children’s rights by using Zambia as an example. In chapter five this dissertation’s findings on state obligations and corporate responsibilities will be elaborated.
Taxation

The last decade has shown increased focus on tax related problems. Tax avoidance, tax evasion, capital flight, illicit financial flows, base erosion and profit shifting, transfer pricing, tax haven or secrecy jurisdiction are examples of terms that have become important elements in business, politics, legislation and civil society engagement. Awareness on how corporations and wealthy individuals are able to minimize their taxes has resulted in investigations and calls for stricter regulations. Companies such as Google, Amazon and Starbucks has been scrutinised in public hearings about their non-existing tax payments (BBC 2012) and the tax is on the agenda of international and regional arenas such as the G8, G60, G77, the EU, OECD, the UN and the African Union (see e.g. Global Financial Integrity 2014b). What used to be an argument against free trade, liberalisation and deregulation is now used as arguments for equality, growth and development on all levels.

As an extension of this increased focus on tax, a link between lost revenue related to tax and the fulfilment of human rights has emerged. The argument has two combinable sides. First, all human rights must be facilitated and paid for by the state. All rights are more or less expensive to provide and the state is obligated to realise the rights to the “maximum extent of its available resources”. Second, governments lose billions of dollars every year due to tax abuse. At the same time we know that tax is the most important source of revenue, and also the most sustainable and predictable way to generate revenue for states. Every dollar lost due to tax abuse could in theory be spent on realising human rights.

Revenue, redistribution and representation

Tax can be said to have three main functions when it comes to fulfilment of human rights. First, it generates revenue needed to allocate resources to human rights. As the UN Special Rapporteur on the right to education said: “One cannot imagine how any state would raise revenue to finance health, education, water and sanitation, or assistance for those too young or too old to work, were it not for taxation” (Tomasevski 2005, 233, note 127). Second, tax has the potential to redistribute wealth between different income groups and hence to decrease inequality, which in turn can lead to reduction of poverty and promote human development (Alex Cobham 2005, 4). Third, it strengthens the relationship between citizen and state and encourages social citizenship that in turn can enhance governmental accountability and transparency (Mick Moore 2007, 24). In addition to this, research shows that countries that generate more revenue from taxation than through natural resource export or aid, in general are more careful with spending, less corrupt, more equal and richer (Brautigam, Fjeldstad, and Moore 2008, 1). Adequate taxation policies thus are crucial to both revenue raising and human rights fulfilment.

Tax abuse

Tax practices that are seen as harmful are normally divided into tax avoidance and tax evasion, where tax evasion is illegal and tax avoidance technically lawful but perhaps questionable morally. Other terms are capital flight or illicit financial flows. These include several forms of illegal practices such as trade mispricing, money laundering and corruption. This dissertation uses the term tax abuse. Tax abuse includes “practices that are contrary to the letter or spirit of domestic and international tax laws and policies” (IBA 2013, 7) like tax evasion, transfer mispricing and tax fraud but also elements of legal tax practices that may be seen as immoral.

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2 For a discussion on the costs of different rights, see Holmes and Sunstein 2000.

3 Most countries generate more in tax revenues than they receive in aid. Out of the 34 countries in Sub-Saharan Africa only 8 prove the opposite. See OECD et al. 2013 and UNHRC 2014a, para. 2.
“because they avoid a ‘fair share’ of the tax burden and have negative impacts on the tax revenues and economies of developing countries” (IBA 2013, 7).

It is estimated that developing countries lose almost $1 trillion every year due to illicit financial flows. Corporate tax abuse accounts for 80% of this, which is almost ten times more than they combined receive in aid (IBA 2013, 23; Dev Kar and Sarah Freitas 2012, j; Global Financial Integrity 2014a). In addition to the enormous sums lost to tax abuse, developing countries also give corporate tax incentives to promote investment that equals $138 billions every year (ActionAid 2013, 8). This is per se not illegal, but illustrates how the perceived need to facilitate foreign direct investments influences a country’s ability to collect revenue. Numbers like these can help explain the huge gap between developed and developing countries’ tax revenue measured as a percentage of GDP. While OECD countries on average get 35% of their GDP from taxes, more than half of all sub-Saharan countries get less than 17% from taxes (OECD 2013, 1).

**The UN Guiding Principles On Business And Human Rights**

This chapter will briefly look at the history of the UN Guiding Principles on Business and Human Rights (UNGP) before it moves on to look at the corporate responsibilities defined by the UNGP. It will then define state duties both within and outside this framework, and end by interpreting the meaning of “maximum available resources” and “international cooperation”.

**A brief history**

The UNGP was developed to define state and corporate obligations with regards to human rights. While state obligations directly derive from the treaties they ratify (UN 1969, 26), the responsibilities of corporations are not so straightforwardly understood. Corporations are in general only bound by domestic laws, and can therefore only be held accountable of violations of international law standards where these are implemented nationally (Filmer-Wilson 2005, 218; Cernic 2011, 335). There is however no guarantee for how well states implements standards domestically, even if they have ratified the given convention (Hathaway 2002, 1941–1942). Some states are unable or unwilling to implement domestically, which creates a legal lacuna where corporations are not efficiently regulated. It can therefore be argued that corporations should have legal obligations under international law, especially concerning human rights.

This was tried in 2003, with little success, when the UN Norms were introduced as a framework for business and human rights (UNHRC 2003). The UN Norms’ attempt to clarify obligations for states and corporations ended up imposing binding legal obligations for both states and corporations. Neither states nor corporations welcomed this, and John Ruggie was adopted to develop a new framework (UN 2005). This became the UNGP, which was endorsed by the UN Human Rights Council in 2011. The UNGP provided the first global standard for states duties and corporations responsibility for “human rights impacts linked to business activities” (UNHRC 2011b, 29). It builds on existing obligations and acknowledged practices and does not propose any new legal duties (Cragg, Arnold, and Muchlinski 2012, 3–4). By using a “‘smart mix’ of regulatory and voluntary policy instruments” (European Union 2011) the UNGP may however contribute to the development of both domestic and international legislation over time (Connie de la Vega, Amol Mehra, and Alexandra Wong 2011, 8–9).

Despite the warm welcome of the UNGP, the Human Rights Council recently adopted a resolution to establish a working group to develop a legally binding treaty on business and human rights (UNHRC 2014b). Several countries spoke against the resolution saying that it
would undermine the implementation of the UNGP and they upheld the importance of robust domestic legislation for corporations (Third World Network 2014). Trying to create an international legal binding instrument for corporations was tried and failed with the UN Norms. It may therefore look like complex structures like these must go the detour through establishing best practices, voluntary codes of conduct and explicit expectations set forth by governments before further legally binding obligations can be created. The UNGP has established a solid foundation for further developments but the attempt to create a treaty might end up outside of this platform and thus fail for similar reasons as the UN Norms. This dissertation will therefore utilise the UNGP as it currently stands to elaborate on state duties and corporate responsibilities with regards to taxation.

The corporate responsibility to respect

Corporations are, as mentioned above, not legal persons under international law and can therefore only have responsibilities and not duties. The responsibility to respect is defined in the UNGP as a “global standard of expected conduct for all business enterprises wherever they operate” and “exists independently of States’ abilities and/or willingness to fulfil their own human rights obligations” (UNHRC 2011a, principle 11, commentary). Corporations should “avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur” (UNHRC 2011a, principles 14 and 15). They should also have in place policy commitments, perform due diligence processes and enable remediating processes (UNHRC 2011a, principles 14 and 15). The corporate responsibility with regards to taxation will be elaborated in section 5.2.

State obligations under human rights law

Human rights treaties are said to impose a tripartite obligation on states. This entails the obligation to respect, protect and fulfill. First, the obligation to respect requires states to respect rights that derive from treaties they are party to and hence refrain from violating these. Second, the obligation to protect requires states to make sure that third parties do not violate human rights. Finally, the obligation to fulfil means that the state must realise rights by actively facilitate and provide them (UN 1987, 67–69).

This tripartite obligation is not mentioned in any of the human rights treaties themselves. It has nevertheless been widely accepted and has been incorporated in several UN bodies’ definitions (see e.g. ComESCR 1999a, para. 15; ComESCR 1999b, para. 46; ComRC 2003a, para. 4; ComRC 2013a, paras. 1, 71–74; ComRC 2013b, paras. 26–31; ComRC 2013c, para. 54). The Committee on Economic, Social and Cultural Rights (ComESCR) stated in 1999 that “the right to education, like all human rights, imposes three types or levels of obligations on States parties: the obligations to respect, protect and fulfil” (ComESCR 1999b, para. 46).

The duty to protect

The UNGP focuses on the second obligation, the obligation to protect against third parties, which also include business enterprises. The UNGP confirms that states must protect against abuse by third parties by taking appropriate steps to prevent human rights abuse, including effective policies, legislation and regulations (UNHRC 2011a, principle 1). The state should further enforce laws and regulations that require corporations to respect human rights, whether these are national or international, mandatory or voluntary (UNHRC 2011a, principle 3). When a state “contract with, or legislate for, business enterprises to provide services that

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4 This was first proposed by Henry Shue in 1980 and later developed by Asbjørn Eide in 1987 as the UN Special Rapporteur on the Right to Food. See Shue 1996, 52 and UN 1987, 67–69.
may impact upon the enjoyment of human rights”, it must make sure, through control and oversight, that the rights are respected (UNHRC 2011a, principle 5). The UNGP also emphasise the importance of policy coherence. All “governmental departments, agencies and other State-based institutions that shape business practices” must comply with the state’s human rights policies in their activities and actions. When states conclude investment treaties or contracts with corporations, the coherent human rights policy must be followed (UNHRC 2011a, principles 8 and 9). This is also important for the state as an international actor in multilateral institutions (UNHRC 2011a, principle 10).

When looking at the UNGP in relation to tax issues, the principle of policy coherence directly influences the state’s taxation policies. Tax policies should be an integrated part of a state’s policy coherence on human rights and influence decisions both nationally and internationally. Policy coherence can also trigger the state’s third obligation, the obligation to fulfil, because human rights must be considered also when collecting revenue. The state should for example consider human rights in both tax collection systems and corporate investment incentives.

The next sections will interpret the obligation to fulfil and examine state duties according to article 4 of the CRC:

> “States Parties shall undertake all appropriate legislative, administrative, and other measures for the implementation of the rights recognized in the present Convention. With regard to economic, social and cultural rights, States Parties shall undertake such measures to the maximum extent of their available resources and, where needed, within the framework of international co-operation” (UNGA 1989, Article 4).

The obligation to fulfil

The obligation to fulfil has been interpreted by UN bodies several times. In General Comment No.16 the Committee on the Rights of the Child (ComRC) state that it “(…) requires States to take positive action to facilitate, promote and provide for the enjoyment of children’s rights” (ComRC 2013b, para. 29). The Economic Social and Cultural Rights (ComESCR) says that states must fulfil (facilitate) by taking “positive measures that enable and assist individuals and communities to enjoy the right(s)” and fulfil (provide) specific rights “when an individual or group is unable, for reasons beyond their control, to realize the right themselves by the means at their disposal” (ComESCR 1999b, para. 47).

Article 4 of the CRC holds that this should happen by taking “all appropriate legislative, administrative, and other measures” (UNGA 1989, Article 4). The ComRC has interpreted this to also include judicial, budgetary, and promotional measures (ComRC 2013c, para. 54c). This means that children’s rights must, in line with the principle of policy coherence, be considered in all aspects of the state’s actions. In addition to comply with expectations to respect or protect, the state must also make sure that there are no other obstacles in the way for the enjoyment of a right. The state cannot simply assume that the right is fully enjoyed; it must actively facilitate and provide for its enjoyment (Koch 2003, 15). E.g. the state must build schools, educate and pay teachers, develop syllabuses etc. in order to fulfil the right to education.

In addition to “legislative, administrative, judicial, budgetary, promotional and other measures” (ComRC 2013c, para. 54), article 4 also points out that these measures should be performed “to the maximum extent of their available resources and, where needed, within the framework of international cooperation” (UNGA 1989, Article 4). This wording is repeated in several general comments, reports and statements from the ComRC and other UN bodies (see e.g. ComRC 2013a, para. 71).
Maximum available resources

Although all states are sovereign and have discretion to spend their resources as they like, this wording limits the discretion of states significantly (Alston and Quinn 1987, 179). All states party to the CRC are required to fulfil economic, social and cultural rights to the “maximum extent of their available resources” (UNGA 1989, para. 4). The Maastricht Guidelines on Violation of Economic Social and Cultural Rights also specifies that it is a violation under international law not to utilize maximum available resources (International Commission of Jurists 1997). It is however difficult to define what maximum available resources means and even harder to examine whether a country has followed this or not. Some attempts to define has been made:

First, the ComRC clarified in 2003 that to fulfil children’s rights to the maximum extent of available resources the state must “identify the proportion of national and other budgets allocated to the social sector and, within that, to children, both directly and indirectly” (ComRC 2003b, para. 51). Second, in 2007 the ComESCR interpreted the term to include both existing national resources and international resources generated through cooperation and assistance (ComESCR 2007, para. 4). Third, in 2009 the ComRC interpreted “available resources” to include “human, technical, organizational, natural and information resources” (ComRC 2009).

In order to measure if states are actually utilizing maximum available resources, the ComESCR has developed an indicator that uses different comparisons. These include comparing spending on ESC-rights to non-ESC-rights spending, comparing expenditure on a specific right with the expenditure on the same right in other countries, and comparing budget allocations and spending against international benchmarks measured as percentage of GDP (Balakrishnan, Douglass College, and Center for Women’s Global Leadership 2011, 2–3). These comparisons gives an indication of how much each country spends on different rights, but it is extremely difficult to create universal standards to fit all countries. A rich and sparsely populated country can spend a very low percentage of their GDP and still fulfil all children’s rights, while a densely populated country with low governmental revenue must spend a prohibitively large amount of their budget to achieve the same results. The persistent focus on how much a country spends on children’s rights or human rights in general will not change this. Additional attention should be paid to how the budget itself can be increased (ComESCR 2007, para. 5). Has a state really utilized the maximum of its available resources if it has not taken appropriate steps to increase its governmental revenue?

On a few occasions UN bodies has emphasised exactly this; the need to increase governmental revenue. First, in 2000 the ComRC expressed concerns about “the widespread practices of tax evasion and corruption which are believed to have an effect on the level of resources available for the implementation of the Convention” in Georgia (ComRC 2000, para. 94). Second, in 2007 the Special Rapporteur on extrajudicial, summary or arbitrary executions said: “the reason the executive branch of the Guatemalan State has so little money to spend on the criminal justice system is that the legislative branch, the Congress, imposes exceptionally low taxes” (UNHRC 2007, para. 61). This dissertation argues that more attention should be paid to the revenue raising aspect of budgeting for children’s rights. If the governmental budget is too low it is impossible to allocate enough resources to fulfil all rights. In order to fulfil children’s rights the budget itself must therefore change. Simply put: if the

5 The CRC does not specify economic, social and cultural rights. See Nolan 2013 page 253 for a list of rights and elements of rights in the CRC that are reflected in the ICESCR.
pie is too little to give a big enough slice to the fulfilment of children’s rights the solution is to bake a bigger pie.

This problem has been highlighted by three major reports the last year: One report from the International Bar Association (IBA) (IBA 2013) and two reports from the Human Rights Council (UNHRC 2014c; UNHRC 2014a). The most recent report from June 2014 addresses fiscal policies with a particular focus on tax as a decisive factor for the enjoyment of human rights. It argues that a state breaches its obligation to utilise maximum of available resources if its “actions or omissions … diminish public revenues by allowing large-scale tax evasion” (UNHRC 2014a, para. 5). This also includes “potential resources that could be raised through reasonable efforts, such as taxation measures” (UNHRC 2014a, para. 25). It further highlights that ”a state that does not take strong measures to tackle tax abuse cannot be said to be devoting the maximum available resources” (UNHRC 2014a, para. 60).

The report also looks at tax incentives. States worldwide offer investment incentives to attract foreign investment, especially corporations exploiting natural resources (UNHRC 2014a, para. 64; UNCTAD 2013, 136). It’s estimated that developing countries lose $138 billion in revenue per year due to corporate income tax exemptions alone (ActionAid 2013, 8). This accounts for 2 to 8 per cent of GDP in many African countries (Claire Kumar 2014, 43). Poorly designed and/or regulated investment initiatives that deprive states of revenue can thus indicate an unwillingness from the state to utilize its maximum available resources (UNHRC 2014a, para. 69). States should therefore reconsider their investment incentives in order to realise children’s rights in accordance with article 4.

International cooperation

International cooperation is also emphasised by the three reports. Earlier, the ComRC has pointed out the shared international responsibility and the existing obligation to global cooperation and assistance (see e.g. ComRC 2009). There is a third party obligation of information exchange that can promote and benefit children’s rights and an obligation for donor countries to provide 0,7% of GDP to development assistance (Vandenhole 2009, 61–62). The three reports add a new element to this when arguing that “actions of States to facilitate and/or actively promote tax abuse and other illicit financial flows through their tax secrecy laws and policies could jeopardize their compliance with international human rights obligations” (UNHRC 2014a, para. 62; IBA 2013, 2; UNHRC 2014c, para. 42). International cooperation will be further elaborated in section 5.1.

Children’s Rights

This chapter will look at why it is important to uphold children’s rights when discussing human rights and taxation. It will give a brief overview of children’s rights realisation today and illustrate the importance of tax, using Zambia as an example.

Why children’s rights?

During the last decades, a lot have been written about tax and a lot of attention has been paid to budgeting for children’s rights. The current debate on tax and human rights is a chance to connect to two topics, and this dissertation will therefore focus on children’s rights. Children make up almost 1/3 of the world’s population (UNICEF 2014, 1; UNICEF, Save the Children, and UN Global Compact 2012, 2), and they lack the ability to know and fight for their rights. They are also less likely to be able to access remedies for themselves than adults. Furthermore, children have as one of their rights the right to education. Without putting one right before another, the right to education serves as an example of how important it is to realise children’s
Children’s rights today

Out of the 2.2 billion children in the world there were 6.6 million children that died before the age of five in 2012 (Save the Children 2014, iv). In 2011, 57 million children were not attending primary school. Even though this is a huge improvement from 2000 when 102 millions were out of school, the progress has significantly slowed down (UN 2013, 5). These numbers also hide the unequal realisation of children’s rights. As an example, at Madagascar the child mortality rate decreased significantly in the late 90s and early 2000s, but while the richest layer of the population saw a decline to 49 deaths per 1,000 live births, this number was more than doubled for the poorest part (Save the Children 2012, 4).

Children’s Rights has gained attention and additional financing through the Millennium Development Goals (MDG) since 2000. Now, the MDGs are coming to an end and the finances for the post-2015 goals are not yet provided. How will governments that rely on aid to realise children’s rights uphold and improve their achievements if the amount of international development assistance decreases?

Children’s rights and tax

So far there has been written very little about tax and children’s rights. One report by Save the Children, released in July 2014, has its primary focus on this, while two other instruments focusing on business and children’s rights mention tax briefly (Save the Children 2014). These are General Comment No. 16 (ComRC 2013b) and Children’s Rights and Business Principles (UNICEF, Save the Children, and UN Global Compact 2012), respectively aimed at states and corporations. Up until now, the debate about children rights and business has mainly revolved around child labour (UNICEF, Save the Children, and UN Global Compact 2012, 3), and General Comment No. 16 is thus a positive contribution to fill the existing lacuna on children’s rights, business and taxation. It deals with taxation briefly but nonetheless clearly:

“Ineffective taxation systems, corruption and mismanagement of government revenues … can limit the resources available for the fulfilment of children’s rights in accordance with article 4 … States should develop and implement effective laws and regulations to obtain and manage revenue flows from all sources, ensuring transparency, accountability and equity” (ComRC 2013b, para. 55).

The Children’s Rights and Business Principles framework also mentions tax and children’s rights. This time the responsibility of corporations are addressed. Corporations should not
undermine “government efforts to protect and fulfil children’s rights” (UNICEF, Save the Children, and UN Global Compact 2012, principle 10). They should also:

“Recognize that respect for the rule of law and the use of responsible business practices, including the payment of taxes to generate revenues, are essential for governments to meet their obligations to protect and fulfil children’s rights” (ibid.).

The report from Save the Children concludes that under the CRC there is an “obligation for states to put in place effective legislation at the national level to curtail outflows and tax evasion and to ensure well-equipped tax authorities” (Save the Children 2014, 7). In addition, all states party to the CRC must “forge international agreements to support national tax collection efforts, to ensure countries know who is evading taxes and where their profits are being kept” (ibid.). According to these sources, both states and corporations must reconsider their tax policies and make sure that they include considerations of children’s rights.

Children’s rights and tax in Zambia

To demonstrate the correlation between tax abuse and the level of realisation of children’s rights, two rights that correspond to two MDGs will be examined in more detail. The first is the right to education, which is stated in article 28 (a) in the CRC; “Make primary education compulsory and available free to all” (UNGA 1989, article 28 a). The second is related to the right to health; article 24 (1a) “diminishment of child and infant mortality” (UNGA 1989, article 24 1a). Today 6.6 million children die before the age of five every year and 57 million children worldwide are not attending primary school (UN 2013, 5; Save the Children 2014, iv).

Even though not every dollar lost due to tax abuse can or will be used on children’s rights, the numbers do tell a powerful tale. Only one part of tax abuse, investment incentives given to companies to free them from corporate tax, amounts to so much that if they were all cancelled tomorrow there would be enough money to provide primary education to all school age children, realise the MDG related to health, and still there would be more money left (ActionAid 2013, 3). Another example from Christian Aid reveals that trade-related tax evasion alone has indirectly caused 5.6 million deaths of children the last 15 years because of lost opportunities to invest in children’s health (Christian Aid 2008, 1). Save the Children has calculated that if illicit financial flows were stopped without changing current spending patterns, it would on average reduce the time it takes to diminish child mortality by 20 years. For Zambia it would take only 11 years (Save the Children 2014, 18–19). This despite the fact that the mortality rate for children under five was 88.5 per 1,000 in 2012, which is almost the double of the world average on 47.8 per 1,000 (The World Bank 2014a).

Zambia lost on average $1,9 million every year due to illicit financial flows during the years 2010 to 2012 (Global Financial Integrity 2014c). This is more than 2,7 times as much as Zambia spent on education and health combined in 2011 and equals around 9% of the country’s total GDP (O’Hare et al. 2014, 152–153; Government Spending Data 2014). With a population that consists of 46.6% children under 14 years old, Zambia has huge challenges in realising children’s rights (The World Bank 2014b). Every dollar lost due to tax abuse is much needed. This is however not the only thing Zambia needs. In 2010 Zambia had a corporate tax rate of just 1.7% and the total tax rate represented just 16.6% of GDP (ActionAid 2009, 40). The UN has estimated that the tax to GDP ratio should be 20% in order to achieve the MDG, and Zambia is loosing out of much needed revenue due to poor legal structures and tax policies (UNDP 2010, 26). It is estimated that Zambia lost $63 million due to reductions in mining taxes between 2004 and 2008. In 2008 a new mining tax was
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introduced, expected to increase income. Despite this positive effort, several of these incentives were reversed already in 2009 (Odd-Helge Fjeldstad and Kari K. Heggstad 2011, xiii; ActionAid 2009, 8). The government of Zambia said in 2012 that it is “losing as much as $2 billion annually to tax avoidance, with the mining industry the biggest culprit” (Hill 2012).

Zambia is heavily depending on aid, receiving almost $1 billion every year from 2010 to 2012 (OECD and World Bank 2014). In 2013, Zambia’s total GDP was $22.28 billion, which means that aid represented approximately 4.5% of Zambia’s total revenue (The World Bank 2014c). If donors stop paying for children’s rights, especially education and health, Zambia will not manage to uphold the existing level, never mind do better than today. Zambia should therefore re-examine its tax policies both nationally and internationally to raise its revenue to an adequate level. This task may be challenging, but not impossible. In Ecuador, the education expenditures tripled from 2003 to 2010 because the government “renegotiated contracts with oil companies, widened its tax base and made education a higher priority” (UNESCO 2014, 10). In Peru, the government has imposed a new tax on the mining sector to increase spending on health and education. The tax is estimated to amount to approximately $1.1 billion per year (Peruvian Times 2011).

This shows that tax can be a decisive factor for countries’ development and their ability to realise children’s rights. It is however not only up to Zambia to facilitate this change. The international community and in particular countries with high levels of tax secrecy must also take responsibility for parts of the almost $2 billions that Zambia loses every year. This will be highlighted in greater detail in section 5.1.

Defining obligations and responsibilities

This chapter will utilise the analysis and interpretations done so far in this paper and incorporate these in the UN Guiding Principles on Business and Human Rights. State obligations and corporate responsibilities will be clarified according to the paper’s research question: How can the legal obligations for states under article 4 of the Convention on the Rights of the Child and the corporate responsibility to respect children’s rights be interpreted in relation to tax abuse?

State obligations

This dissertation has focused on the obligations to protect and fulfil, and interpreted these according to the text in article 4 of the CRC. The way they are interpreted in this paper makes them overlap at some points, because they both refer to collection of taxes. There are however differences: The state’s “actions or omissions that diminish public revenues by allowing large-scale tax evasion” (UNHRC 2014a, para. 5) are breaches of the obligation to protect and the state should therefore actively combat tax abuse. The obligation to fulfil requires states to enacting legislation that ensure an adequate tax rate on income taxes, corporate taxes, consumption taxes or natural resource taxes. To allocate the maximum of available resources, as article 4 of the CRC prescribes, is thus a combination of the two obligations, where the duty to protect can serve as an opportunity to carry out the broader obligation to fulfil.

The UNGP defines the duty to protect as a duty to take active steps to prevent human rights abuse by third parties. The state must regulate the relationship between corporations and individuals, placing itself in the middle of these two parties by enforcing laws that require corporations to respect human rights. At first glance, this may seem to be restricted to obvious human rights breaches such as child labour or pollution of drinking water. However, this paper has shown that the duty to protect against third parties can also include financial responsibilities. The state as a regulator must make sure to hinder tax abuse by corporations.
If the state do not regulate properly and corporations manage to evade taxes, the state might violate its obligation to protect, if its citizens, as a consequence, are deprived of their full enjoyment of rights.

Corporations that evade taxes are often able to do so due to loopholes in legislations or inconsistent practices. For example, when a state offer tax incentives to corporations, the incentive is designed to last for only a specific period of time. An investor will sometimes get a tax holiday the first five years. If corporations successfully manage to take advantage of these incentives by shutting down and “reinvent themselves under a different name or corporate entity to benefit from a new tax holiday” (ActionAid 2013, 5), the state has not regulated properly. As part of their duty to protect against third party abuses, the state must therefore tighten regulations to provide transparency and accountability.

Investment incentives should also be considered as part of the obligation to fulfil, because the state must not only make sure that corporations obey the regulations, they must also consider whether such incentives are beneficial for the fulfilment of children’s rights or not. Research from Mozambique, Tanzania and Zambia show that “tax incentives play only a marginal role in influencing for investment decisions” (Odd-Helge Fjeldstad and Kari K. Heggstad 2011, xvi). Incentives must reflect a coherent human rights policy and states should therefore “reconsider special tax holidays, incentives and rates that ultimately reduce the level of resources available to Governments for fulfilling their human rights obligations” (UNHRC 2014c, para. 51). Investment incentives should therefore be considered under both the obligation to protect and the obligation to fulfil.

The example of investment incentives gives an indication of how other tax issues should be approached in order to utilise the maximum of available resources. The corporate tax rate level and its subsequent implementation and control should also be subject to the obligation to fulfil (set the rate at adequate level and implement it) and the obligation to protect (controlling for evasion or fraud). The state should also review other tax measures that can promote children’s rights, related to corporations or not.

As demonstrated earlier in this paper, the state also has an international obligation to cooperate. This obligation can be considered in two ways. First, domestic tax policies in one state might affect other states, positively or negatively. Second, international or regional tax initiatives might affect states domestically.

With respect to the first, the spillovers from other countries’ tax policies can be severe, especially for developing countries. According to the IMF, “the base spillovers from others’ tax rates are two to three times larger, and statistically more significant” (IMF 2014, 20) for developing countries than for OECD countries. “The apparent revenue loss from spillovers ... is also largest for developing countries” (ibid.). The obligation to cooperate internationally in article 4 of the CRC is interpreted to include “actions of States to facilitate and/or actively promote tax abuse and other illicit financial flows through their tax secrecy laws and policies could jeopardize their compliance with international human rights obligations” (UNHRC 2014a, para. 62; IBA 2013, 2; UNHRC 2014c, para. 42). Research done by Global Financial Integrity show that 45% of all illicit flows end up in tax havens, which represent $450 billion of lost governmental revenue elsewhere (Global Financial Integrity 2014d). Tax havens do not only facilitate a channel where corporations can evade their revenue, the effect of their tax policies also leads to tax competition globally. A tax haven that is party to the CRC is therefore in breach of its obligation to cooperate internationally, because its tax policies hinder other states in their revenue collection.
Tax havens represent one extreme end on the scale of tax policies. Countries that do the opposite, implementing law and regulations to hinder tax abuse, can create positive spillovers globally. They can also be important drivers for international cooperation on these issues, and thus comply with the second aspect of international cooperation. Because tax abuse must be addressed in both domestic and international forums, states should jointly pursue multilateral solutions to secure states worldwide their rightful tax income. This means that states must actively and sincerely engage in initiatives such as public reporting for corporations on a country-by-country basis, global automatic exchange of information, registries of beneficial ownerships, and disclosures of legal arrangements. Exchange of tax information correspond well with the ComRC’s earlier emphasis on third parties’ exchange of information that can promote and benefit children’s rights (Vandenhole 2009, 61–62).

Corporate responsibility

The state obligation to realise children’s rights has been clearly defined above. The corporate responsibility to respect will now be analysed according to these obligations. The UNGP state that corporations have a responsibility to avoid causing or contributing to “adverse human rights impacts” (UNHRC 2012, 5). Adverse human rights impacts occur when the ability of an individual to enjoy his or her human rights is removed or reduced (ibid.). Because governments need income from taxes to facilitate rights, “business enterprises that knowingly avoid paying tax are purposefully depriving countries of the resources they need to fulfil their human rights obligations” (UNHRC 2014a, para. 7). If they do, they undermine “government efforts to protect and fulfil children’s rights” (UNICEF, Save the Children, and UN Global Compact 2012, principle 10). Further, the responsibility “exists independently of States’ abilities and/or willingness to fulfil their own human rights obligations” (UNHRC 2011a, principle 11, commentary). Corporations must thus pay their fair share of taxes also where governments are not specifically asking for it.

As a part of the responsibility to respect children’s rights corporations must perform due diligence measures, including the potential impacts of the company’s tax strategies (UNHRC 2011a, principle 17). When exercising due diligence both actual and potential impacts should be considered. Corporations should therefore be aware of how their tax planning policies affect financial flows and tax revenues in the countries they operate. They should review practices with children’s rights impacts in mind. As an example, corporations should “refrain from negotiating special tax holidays, incentives and rates that will prevent governments from fulfilling their human rights obligations” (IBA 2013, 152). They should not only refrain from negotiating such deals, they should also not make efforts to take advantage of poor legislation or control of such deals (for example change name of an affiliate to acquire a new tax holiday). If an actual or potential children’s rights impact is found, the corporations should “cease or change the activity that is responsible, in order to prevent or mitigate the chance of the impact occurring or recurring” (UNHRC 2012, 18).

In response to international efforts to curb illicit financial flows, corporations should make necessary information available. This includes information about beneficial owners and public available reports on tax matters for each country where they operate (IBA 2013, 152).

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6 See IBA 2013, 150–151 for recommendations for states, and in general the work of Tax Justice Network, found at www.taxjustice.net.
Conclusion

This dissertation has looked at state obligations and corporate responsibility under article 4 of the Convention on the Rights of the Child and how these can be interpreted in relation to tax abuse. It started with an introduction that defined the research question and scope of the paper. The second chapter gave a brief overview of the increased focus on tax issues the last decade, before it shed light on the link between tax and human rights realisation. The chapter also introduced the term tax abuse and illustrated the amounts of lost governmental revenue in developing countries by comparing it to income from international development assistance.

Chapter three started with the background for the development of the UN Guiding Principles on Business and Human Rights and their role in the debate today. It took a quick look at the legal differences between state obligations and corporate responsibility under international law, before it explored the UNGP framework and elaborated on state duties according to the tripartite obligation: respect, protect and fulfil. The chapter ended with detailed examinations of the wordings “maximum available resources” and “international cooperation”, taken from article 4 of the CRC. The fourth chapter started by underscoring the opportunity to combine two fields of research that up until recently did not overlap much; tax abuse and children’s rights. It briefly looked at the status of children’s rights realisation today before it linked children’s rights to tax, using Zambia as an example.

The dissertation’s last chapter utilised the prior analysis and clarified state obligations and corporate responsibilities in relation to tax issues. State duties were interpreted to include obligations to combat tax evasion, re-examine and control corporate tax incentives, introduce tax rates at adequate levels and to participate in regional and international forums to enhance global initiatives. It was established that the obligation to devote maximum resources includes “potential resources that could be raised through reasonable efforts, such as taxation measures and international assistance and cooperation” (UNHRC 2014a, para. 25). This should be done according to the state’s policy coherence on human rights.

Even though it is the primary responsibility for states to put in place legislation to stop tax abuse, corporations are expected to comply with international standards and practices elaborated in the UNGP. Corporate responsibilities was defined to include examinations of the corporation’s tax planning strategies as part of a due diligence process. Emphasis was also put on corporations’ role when negotiating special tax incentives or exploit poor legislation or control.

In today’s globalised world where the possibilities to abuse tax systems has developed and advanced much faster than the regulations to constrain it, these findings on state obligations and corporate responsibility may be a suitable way to interpret the text of article 4 of the CRC. Questions of enforcement and accountability are still partially unanswered, and more research is needed in this direction. The UNGP has however created greater awareness and started processes on legislation for business and human rights. When facilitating implementation of the UNGP, states and international institutions should include legislation on tax issues that can benefit children’s rights as well as human rights in general.
Bibliography


State Obligations and Corporate Responsibilities – Tax Abuse and Children’s Rights


Brazil’s Public Diplomacy Policy and the 2014 FIFA World Cup

Timothy Henderson

Abstract

This paper investigates how Brazil has used the FIFA World Cup as a public diplomacy tool in order to increase its soft power potential by improving its international image. The concept of public diplomacy is introduced and there is a special focus on its relations to soft power and sporting mega-events. There is an overview of historical examples of when Brazil has used sporting mega-events as instruments for public diplomacy. This paper also examines Brazil’s current public diplomacy policies and how these include the 2014 FIFA World Cup and the 2016 Olympic Games. This paper seeks to understand how successful this policy has been and considers how the reception of Brazil’s public diplomacy policy has been affected by the domestic opinion towards the World Cup and the portrayal of certain issues during the lead up to the event. Survey results from the BBC World Service and the Pew Research Center suggest that the World Cup, in combination with other initiatives, has on the whole been effective in portraying a positive image of Brazil abroad.
Introduction

On the 30th October 2007, Sepp Blatter, the President of Fédération Internationale de Football Association (FIFA), announced that Brazil would host the 2014 FIFA World Cup. This was a moment of immense pride for all Brazilians, the greatest football tournament in the world was finally coming back to grace their land again. Brazil now had an opportunity to right the wrongs from the 1950 World Cup and display to the world, through its football players and fans, its culture and newfound economic might.

As Joseph Maguire (2002: 529) states, “sport can play a key political role in nation building by arousing domestic pride in a national team’s achievements and, at the international level, by signalling a collectively recognised identity on the international stage that is appealing to others.” Brazil is a country that has forged a national identity that resonates incredibly with football and it was the conquest of the World Cup in 1958 and 1962 that consolidated the Brazilian passion for and identity with football (Conchas, 2014: 168; Gaffney, 2010: 15). Throughout the past century, Brazil has been able to portray a positive image of itself abroad through the achievements of its football team. Its players, from Pele to Ronaldo, are seen as some of the greatest players to have ever played the game. Its style, known as ‘futebol arte’, is described as passionate and exciting, consisting of dribbling and tricks, as opposed to passing and lacklustre (Bellos, 2003: 1). It is a style that became specific to Brazil and it was believed, whether true or not, that Brazilians possessed a uniqueness that differed from any other country. It also came to symbolise various facets of modernity and has served as a tool of the state (Natali, 2007: 269). Its team is the only team to have participated in every World Cup tournament and is the most successful team of all time, having won five World Cups, more than any other team (Conchas, 2014: 168). It is now seeking to consolidate and enhance this positive image of itself throughout the world by hosting two sporting mega-events, the 2014 FIFA World Cup and the 2016 Rio Olympics. According to Andreia Soares e Castro (2013: 29), hosting these tournaments shows that Brazil is at an important stage of a broader long-term strategy of enhancing its soft power, prestige and visibility. She goes on to suggest that Brazil’s smart power, or its effective combination of economic power and high-profile diplomatic skills and insight, will confirm the country’s rising role as a leader in world affairs.

Brazil is at the forefront of the new emerging powers discourse. Towards the end of 2011 it overtook the UK to become the world’s sixth largest economy and the Economist estimates that it will have the world’s fourth largest economy by 2030, behind the US, China and India (Grix and Lee, 2013: 534; ‘The Brazilian Model’, 2011). Brazil has a population of nearly 200 million people (the fourth largest in the world), has abundant natural resources, has deterrent military power, is one of the world’s largest aid donors, and also has long-standing ties with many of the world’s emerging and developed nations. Brazil’s global rise mainly occurred during the two terms (2003-2010) of President Luis Inácio Lula da Silva (Lula) in which sustained economic growth, financial stability, social inclusion and the full exercise of democracy prevailed (Soares e Castro, 2013: 29). Brazil’s rise as an economic powerhouse has subsequently seen a shift towards a soft power initiative within Brazil’s Foreign Ministry. The governments of Lula and Dilma Rousseff have realised that increasing hard power through faster economic growth is not enough. It is clear that exerting influence and promoting soft power has been an important goal of Brazil’s foreign policy in order to strengthen its regional and global influence. The hosting of the 2014 World Cup can be understood as a public diplomacy tool that is part of a greater soft power strategy.

There have been a number of works focussing on sport and sporting mega-events and how they can be utilised as mediums for image building, nation branding, public diplomacy and soft power. Barrie Houlihan (in Santos, 2014: 3) identifies various ‘themes for
discussion’ such as sport as a vehicle for diplomacy, for ideology, for nation building, for access into the international arena and for commercial gain. Yu Wai Li (2013) highlights how global sporting events can provide vehicles for image building, nation branding, cross-cultural communication and persuasion, and propaganda. Bárbara Schausteck de Almeida, Wanderley Marchi Júnior and Elizabeth Pike (2013) examine how the bidding and hosting of the 2016 Rio Olympic and Paralympic Games is part of Brazil’s soft power strategy. Christopher J. Finlay and Xin Xin (2010) link the notion of public diplomacy with sporting mega-events in regards to the 2008 Beijing Olympics. Stuart Murray and Geoffrey Allen Pigman (2013) suggest that sporting mega-events can offer significant public diplomacy opportunities to the host nation. Jonathan Grix and Donna Lee (2013) bring these ideas together by focussing on three states (China, South Africa and Brazil) and the role that sporting mega-events can play in public diplomacy. This paper focuses purely on the 2014 FIFA World Cup and its relation to Brazil’s public diplomacy policy. This is an investigation into how Brazil has used the World Cup as a public diplomacy tool in order to increase its soft power potential by improving its international image. This paper will examine how successful the policy has been and will assess how the reception of Brazil’s public diplomacy policy has been affected by the portrayal of certain events and issues during the lead up to the World Cup.

This paper will begin by introducing public diplomacy and soft power. It will distinguish between the two and proceed to analyse how sport and sporting mega-events can be utilised for public diplomacy and soft power gains. The following chapter will then focus on past sporting mega-events that Brazil has used as part of a public diplomacy campaign in order to improve its image abroad. Next will see an examination of Brazil’s current public diplomacy policies under the Dilma administration. Following that, there will be an evaluation of certain events and issues that have occurred during the preparations for the World Cup and how these may have negatively affected the reception of Brazil’s public diplomacy policy. The penultimate chapter will investigate the reaction of the Brazilian population to the hosting of the World Cup and how this might affect the international reception of the government’s public diplomacy campaign. Finally, this paper will examine the reception of Brazil’s public diplomacy policy abroad to gauge whether Brazil’s policy of hosting the 2014 World Cup has been successful. Due to time and space constraints and the focus of the paper being on the build up to the World Cup, the timeframe used starts from the day that Brazil won the right to host the World Cup until the first day of the World Cup itself (30th October 2007 – 12th June 2014).

Public Diplomacy and Sport/Sporting Mega-Events

Hedley Bull (1977: 156) defines traditional diplomacy as “the conduct of relations between sovereign states with standing in world politics by official agents and by peaceful means.” In recent years however, the scope of diplomacy has expanded greatly to include new diplomatic actors methods. Adam Watson (in Beacom, 2000: 15) refers to the general acceptance that diplomacy is increasingly not just about dialogue between states and their representatives, but also with non-state actors. These non-state actors include multinational organisations, non-governmental organisations (NGOs), corporations and even international sports organisations, with particular reference to FIFA and the International Olympic Committee (IOC). Even though FIFA has become a diplomatic actor itself, this paper will focus on the diplomatic policies of the Brazilian government. It will, however, take into account the influence that FIFA has over a host nation’s domestic and foreign policies.
Public Diplomacy and Soft Power

Murray (2011: 7) alludes to the fact that the reform of traditional diplomacy has been underway for some time now and chief among the long list of reforms has been the mass government stampede towards public diplomacy. Public diplomacy has become an increasingly important part in the foreign policies of modern states, due to the development of electronic technology and its heightened importance and relevance in forming public opinion in regards to governments and states. Public diplomacy, however, is not an entirely new term nor practice. It is only since the 1990s that the political environment has been open to the idea of its (re)emergence. Today, most states, from the British to the Chinese, are investing in public diplomacy. Edmund Gullion (in Cull) states; “public diplomacy … deals with the influence of public attitudes on the formation and execution of foreign policies. It encompasses dimensions of international relations beyond traditional diplomacy; the cultivation by governments of public opinion in other countries; the interaction of private groups and interests in one country with those of another.”

Public diplomacy is often mistaken as an equivalent to nation branding or soft power. György Szondi (in Pope, 2014: 4) contends that “nation branding is more likely to be de-politicized, focus on economics, have a one-size-fits-all approach and be reliant on images and symbolism; whereas public diplomacy is politicized, more concerned with building relationships and has more emphasis on substance and content.” Joseph S. Nye (2004:2) introduces the concept of hard and soft power. He refers to hard power as the power “to influence the behaviour of others to get the outcomes one wants” and soft power as the ability to “attract and co-opt them to want what you want.” He (2004: 32) suggests that states must find a successful combination of these two powers in what he terms ‘smart power’. Soft power, however, is not synonymous with public diplomacy, as the latter refers to actions for interfering in external behaviour and the former also includes internal actions and policies (Nye, 2008). Public diplomacy has a long history as a means of promoting a state’s soft power and there are many proponents, which include Nye and Cull, of public diplomacy being an effective foreign policy tool but Nye (2008: 95) does warn, “if the content of a country’s culture, values, and policies are not attractive, public diplomacy that ‘broadcasts’ them cannot produce soft power.” There are also those who critique the effectiveness of public diplomacy. Realists, such as Hans Morgenthau, Kenneth Waltz and John Mearsheimer, all believe that public opinion doesn’t and shouldn’t matter and therefore public diplomacy becomes irrelevant. David M. Edelstein and Ronald R. Krebs (2005) also introduce the limits of public diplomacy by referring to the problems the USA has with its public diplomacy. As they (2005: 89) assert, “it’s not the packaging that others dislike. It’s the product.” This paper acknowledges the limits but takes the stance that public diplomacy can be an effective diplomatic tool for states, especially in this modern world of innovative communication technologies.

Public Diplomacy and Sport/Sporting Mega-Events

Murray and Pigman (2013: 2) have identified two distinct categories of sports diplomacy. The first is comprised of cases in which international sport is consciously employed by governments as an instrument of diplomacy. The second category, international-sport-as-diplomacy, concerns the diplomatic representation, communication and negotiation between non-state actors that take place as a result of on-going international sporting competition. The former category is the more familiar form of sports diplomacy. This paper will focus on the first category involving governments and their use of sport and sporting events as a tool for public diplomacy. The hosting of major sporting events fits nicely within
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the concept of public diplomacy since “such events are modern state-centric affairs that provide unique opportunities for hosting countries to fix the gaze of a global television audience” (Grix and Lee, 2013: 529).

Robert Redeker (2008: 499) explains how in international relations “some less powerful countries seek to call attention to themselves through sports, which procure for them a surplus of power and influence greater than that which is effectively theirs on the world stage.” Brazil is a state on the rise and it is using its footballing prowess and this major sporting event to embellish its power and influence in the world. The communicative power of international sport has been considerably enhanced by the revolution in information and communications technologies over the past several decades. This transformation has made international sport a primary avenue through which public diplomacy can be communicated and implemented (Pigman, 2012). The importance of using sporting mega-events to achieve foreign policy goals can be demonstrated by many of the emerging economies seeking to increase their influence in the world. In the past decade alone, the rising economic powers of Brazil, Russia, India, China and South Africa, also known as BRICS, have hosted or will host a major sporting mega-event. China hosted the 2008 Olympics in Beijing, South Africa hosted the 2010 FIFA World Cup, India hosted the 2010 Commonwealth Games in Delhi, Brazil will host the 2014 FIFA World Cup and 2016 Olympics in Rio de Janeiro, and Russia hosted the 2014 Winter Olympic Games in Sochi and will host the 2018 FIFA World Cup. This demonstrates how important sporting mega-events can be for states seeking to increase their soft power.

Murray and Pigman (2013: 5-6) suggest that sporting mega-events, like the FIFA World Cup, can offer significant public diplomacy opportunities. Sporting events are “global communication events that offer host-nations the unique opportunity to promote a soft power agenda by allowing them to construct global messages about their cultural identities and work towards public diplomacy goals that may be more difficult to achieve under normal circumstances” (Finlay and Xin, 2010: 876). The FIFA website states, “the FIFA World Cup is the world’s most widely viewed sporting event” and FIFA research estimated that 909.6 million television viewers tuned in to at least one minute of the 2010 FIFA World Cup final at home (‘FIFA World Cup™’; Gleeson, 2014). Media coverage of the event, according to FIFA, reached an estimated 46% of the world’s population, providing an unparalleled platform to use the event as a form of public diplomacy to improve the image of its nation among foreign publics (Grix and Lee, 2013: 533). FIFA’s television director Niclas Ericson told Reuters that the World Cup in Brazil is set for a record global television audience thanks to new technology and fan-friendly scheduling and this means that Brazil will have the perfect medium with which to promote itself abroad (Gleeson, 2014).

Public Diplomacy and Sporting Mega-Events – Positives

There are many reasons for a state to want to host a sporting mega-event such as the FIFA World Cup, be they economic or political. Sporting mega-events are watched by a large portion of the world’s population and sponsored by the world’s leading transnational businesses. In this globalised world, they can provide unprecedented diplomatic opportunities for host states to practise the politics of attraction by championing universally shared and admired sporting norms in ways that project a positive image of themselves in order to increase credibility and status on the world’s stage (Grix and Lee, 2013: 536). Despite concerns, the consensus among commentators was that the 2010 World Cup in South Africa definitely put the new, democratic South Africa on the map, fulfilling one of the government’s central foreign policy goals of presenting itself as a global middle power. A number of studies reported changing perceptions among visitors to South Africa from
negative to more positive. Approximately 309,000 visitors came to South Africa for the World Cup, with some 51% suggesting that they would never have thought of visiting had it not been for the World Cup (Grix and Lee, 2013: 534). Economically the host state can attract the international audience through inbound tourism, increased trade and inward investment.

Public Diplomacy and Sporting Mega-Events – Negatives

Hosting a sporting mega-event always includes negatives that counteract the positives for a host nation. As Helen Lenskyj (in Gaffney, 2010: 26) explains, “nearly every global mega-event has resulted in financial losses for the host, temporary cessation of democratic process, the production of militarized and exclusionary spaces, residential displacement, and environmental degradation.” High-income countries, according to the World Bank ranking, are the most ready to host mega-events. They are equipped with a modern infrastructure system of transport, telecommunications, energy and sanitation. They also have private firms and organisations that are able to afford to maintain those facilities after the mega-event (de Melo, 2010: 13). Middle-income countries, such as Brazil, usually have a per capita income that is three to four times lower than that of the high-income countries. They do not have the same transport, telecommunications, energy and sanitation infrastructure of developed countries. This means that they will have to invest more in the improvement of facilities in order to comply with the demands of FIFA. The risk of high construction costs is coupled with the risk of underutilised elite sporting facilities after the event (Santos, 2014: 2). Host nations bear most of the costs for hosting the World Cup. Public diplomacy as a method to improve a state’s image abroad does have its risks. The world’s gaze can often be focused on the negative aspects of the socio-economic and political system. Rather than becoming opportunities to attract, they become events that repel (Grix and Lee, 2013: 530). Examples of this can be seen in the preparations for the 2010 Commonwealth Games where there were extensive images of poverty, pollution and corruption in India. Also, prior to the 2008 Olympic and Paralympic Games, images proliferated of China’s poor record on human rights issues, quality of manufacturing and environmental awareness (de Almeida, Júnior and Pike, 2013: 274).

Public Diplomacy and Sporting Mega-Events – Examples

Since the beginning of the 20th century, there have been various examples of states using sport and sporting mega-events as a tool for public diplomacy, even if this term may not have been used at the time. An early example of sport being used as a public diplomacy tool was in September 1919 when the French football team, following the injunction of British sports federations, refused to meet the Swiss team since it had played a match against the Germans. The aim of this was to influence public opinion and consequently to change the foreign policy of the government (Kissoudi, 2008: 1690). Adolf Hitler used the 1936 Berlin Olympic Games to present to the world the power of the Nazi government. Lincoln Allison (in Murray, 2011: 14) notes that all kinds of governments

“have endorsed international sporting competition as a testing ground for the nation or for a political ‘system.’ German Nazis, Italian Fascists, Soviet and Cuban Communists, Chinese Maoists, western capitalist democrats, Latin American juntas – all have played the game and believed in it.”

More recent examples include the 2008 Beijing Olympic Games, where it is argued that it was largely an extension of a ‘traditional’ public diplomacy campaign centred on the
well-crafted messages of the governing state/party elites, backed by a ‘socialist’ regime of mobilisation (Li, 2013: 2). Thandiwe January-McLean, the CEO of South African Tourism admitted to the public diplomacy intentions of the 2010 World Cup in South Africa and stated, “the World Cup provided a fantastic opportunity to market South Africa to the world” (Salmon, 2011). The development of soft power was a direct legacy aim for the 2012 London Olympic Games, with plans to build influential relationships with other countries by way of a global public diplomacy campaign which included specially commissioned films, events and activities (de Almeida, Júnior and Pike, 2013: 274).

Brazil’s Public Diplomacy Policy and Sporting Mega-Events – History

The 2014 FIFA World Cup will not be the first time that Brazil has used a sporting mega-event to promote its values across the world. The first sporting mega-event to take place in Brazil was the 1919 South American Football Championship in Rio de Janeiro. Just one year after the end of the First World War, this Championship was deemed a unique opportunity to promote peace through international competition (Santos, 2014: 4). This was soon followed by the 1922 South American Games, which were also held in Rio de Janeiro. At this time, Brazil had one of the five temporary chairs in the League of Nation’s Executive Council but a rotation system for the temporary chairs had been adopted (Santos, 2014: 12). This sporting mega-event not only coincided with Brazil applying to renew its position as a temporary member of the League of Nation’s Executive Council but was also used as an instrument to show the world its prestige. The same logic is evident in the 2014 World Cup as it also coincides with Brazil seeking to become a permanent member of the United Nations Security Council (UNSC).

In 1947 FIFA selected Brazil to host the first World Cup since the end of the Second World War (Gaffney, 2010: 13). Brazil was to be host by default since it was the only official bidder whilst Europe was still recovering from the War (Goldblatt, 2008: 266). This sporting mega-event, the largest to have ever occurred in Brazil, was to be utilised by the Brazilian government as a highly important public diplomacy tool. As de Almeida, Júnior and Pike (2013: 279) note, “the main idea of hosting the 1950 World Cup was to show Brazilian modernity through civility, organisation and urban growth to the world.” The state was fully behind it as it financially committed to building massive stadiums in Belo Horizonte and Rio de Janeiro (Gaffney, 2010: 13). However, for all Brazilians, the tournament will forever be remembered as one of the most devastating moments in the country’s history. Brazil lost 2-1 to Uruguay in the final and the team would never wear their white uniforms again (Goldblatt, 2008: 293). The effects of the tragedy were so great because “it happened at the beginning of a decade in which Brazil was looking to assert itself as a nation with a great future” (Bellos, 2003: 45). At a moment in time when many countries were recovering from the damages of World War II, it was Brazil’s time to shine. Football represented the power of Brazil therefore the loss was a blow to national identity, and a step backwards politically and economically because of how the government constructed an idea of football as a symbol of Brazilian dominance (Ronquillo, 2012: 18). Now Brazil feels the pressure to perform on the global stage, redeem itself and emerge as a developed nation. There is no denying the historic significance of the 1950 World Cup when it prepares for the 2014 World Cup.

São Paulo was the host of the 1963 Pan American Games and this was to be Brazil’s last mega sporting-event for almost fifty years. The use of sports by the military regime took another route, through the nationalist propaganda of the national football team’s achievements, with the aim of making it a showcase of success of the regime (Santos, 2014: 8). It was only in 2007, whilst trying to show its credentials for its bids to host the 2014
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World Cup and 2016 Olympics, that Brazil hosted another sporting event. This was the staging of the 2007 Pan American Games. Hosting sporting mega-events has thus always been part of a wider strategy and can be understood as one of the most important aspects of Brazil’s foreign policy at the beginning of the 21st century.

Brazil’s Public Diplomacy Policy and Sporting Mega-Events – Present

During President Lula’s two presidential terms, Brazil pursued a highly active and visible foreign policy agenda. He opened more than 37 embassies during his term alone, which was a source of pride to the country’s diplomatic establishment (Muggah and Hamann, 2012). Lula’s successor Dilma has continued this line of proactive foreign policy and public diplomacy has formed a large part of this. The hosting of the World Cup is not the only public diplomacy avenue that Brazil has taken to improve its soft power potential. The Brazilian governments, under Lula and Dilma, have actively sought many ways in order to improve its image to foreign publics.

Brazil’s public diplomacy policies

In order to enhance its status on the global stage, Brazil has sought to increase its weight and influence in international institutions by strongly advocating for reform of global governance institutions and the revision of global norms. This has been demonstrated by its efforts to gain a permanent seat on the UNSC and its successful efforts in joining the core group of states negotiating the Doha round trade talks of the World Trade Organization (WTO) (Engstrom, 2012: 837-838). Within the UN, the WTO and the International Monetary Fund (IMF), Brazil’s main agenda has been to democratise the decision process through institutionalised coordination with other developing countries, such as IBSA (India, Brazil and South Africa) and the G-20 (the group of 20 major economies). Another key strategy of Lula’s foreign policy was his attempts to coordinate governance with the EU and the USA, North-South Cooperation, and other countries, South-South Cooperation (SSC) (de Almeida, Júnior and Pike, 2013: 275). Brazil has strategically used SSC to counterbalance North-South postures that have dominated institutions and fora, as well to secure both economic and political interests that advance the state’s soft-power. A defining objective of Brazil’s positioning at the centre of the SSC agenda was to champion hunger and poverty reduction globally and domestically.

Brazil, through various projects, has been trying to portray an image of itself as a global leader in development. Brazil has slowly become one of the world’s more significant aid providers. Foreign aid is a clear part of its public diplomacy policy. 47% of Brazil’s development aid goes to other Latin American countries and this may have helped Brazil win the bidding for the World Cup (Frayssinet, 2011). Other South American states decided not to challenge Brazil and this is possibly due to the aid that they are receiving. Brazil provides between $25 and 100 million to the United Nations Development Programme, $300 million to the World Food Programme and $350 million to Haiti (Muggah and Hamann, 2012). Alongside the substantial amounts of aid that Brazil provides, it is also leading by example in gender equality with the appointment of a woman to head the nation’s thriving energy industry. President Dilma is similarly an example of the progress that women have achieved in Brazil (Ristovic, 2012). Brazil has drawn on internal innovation and exported social policy successes abroad. Areas of social innovation include tropical agricultural research, such as high-yield cotton projects in Benin, Burkina Faso, Chad and Mali. Brazil also has vocational training programmes, for example support for centres of education excellence, in Angola,
Mozambique and Paraguay. Brazil currently has technical cooperation agreements with more than fifty countries from across the Global South (Muggah and Hamann, 2012). Other public diplomacy instruments include humanitarian and development assistance and cooperation policy towards poorer states, participation in UN peacekeeping operations, disaster relief campaigns, its AIDS and ethanol policies, and its lead in clean energy (Soares e Castro, 2013: 30). All these public diplomacy examples confirm Brazil’s quest for enhancing its soft power influence on the world stage and can be understood as products of an effective foreign policy to advance Brazil’s global status.

Brazil’s public diplomacy policies – sport/sporting mega-events

It was clear that, from the onset of his administration, President Lula strongly promoted various aspects of culture, especially sport. This ‘investment in culture’ and ‘sports diplomacy’ is continuing under the Dilma administration confirming that cultural diplomacy, which falls under the umbrella of public diplomacy, is a clear priority of Brazil’s foreign policy (Soares e Castro, 2013: 30). Carlos Resende (in de Almeida, Júnior and Pike, 2013: 278) gives an example of how sport and foreign policy were coordinated during Lula’s presidency. In 2004, President Lula asked the Brazilian Football Confederation to play a friendly game in Haiti labelled as ‘The Match of the Peace’. Brazil had just won the 2002 FIFA World Cup and well-known football players not only played but also appeared publicly in armoured vehicles of the UN. Here, Brazil was investing in the political situation of Haiti and intended to show a positive message through football. There has been a palpable utilisation of sport and sporting events by the Brazilian state to promote a positive image abroad.

The state’s involvement was definitely one of the main factors for Brazil winning the bidding to host the 2014 FIFA World Cup and the 2016 Olympic Games (Santos, 2014: 12). A statement by Lula regarding state financing of infrastructure for the World Cup supports this; “it is more than a promise made by the current government, it is a promise made by the state, to show the world that Brazil is a growing country with an organized, stable economy” (Gaffney, 2010: 20-21). As de Almeida, Júnior and Pike (2013: 279) note, “the foreign affairs involvement is not only related to the delivery of the events, but also influences the decision process on what image should be presented to the wider international audience.” The combination of being able to host both the FIFA World Cup and the Olympic Games, the two largest sporting events in the world, displays the importance of these events as well as Brazil’s influence, willingness and ability to host such events. The successive hosting of these two sporting mega-events has only occurred once before, the 1972 Munich Olympics and 1974 West Germany World Cup, and this demonstrates its rarity and importance.

There are multiple benefits associated with the Brazilian state’s investment in the 2014 World Cup. The Getúlio Vargas Foundation and Ernst & Young Consulting published an ‘ex-ante’ multiplier effect study about the impact of the expenditures of 2014 The World Cup. It is estimated that the expenditures will cause a chaining effect that could multiply the investments being made in the country by five (de Melo, 2010: 12). Miguel Conchas (2014: 170) believes that there is an opportunity for the host country to exhibit its creativity and skill, from the way the games are televised, like the advances in 3D technology, to the planning and preparations into the actual staging of the events. Others such as Soares e Castro (2013: 31) note that there will be a “legacy in infrastructure (new stadiums, hotels, roads, rail and bus systems, ports, airports), urban and social opportunities; legacy in creation of jobs and income; promotion of the country’s image on a global scale (potential to develop as a destination for business, trade and tourism)”. However, there is also the possibility of over expenditure and underutilisation and this shall be expounded upon in the following chapter.
Brazil’s Public Diplomacy Policy and 2014 World Cup – Setbacks

The protests of June 2013 that started in São Paulo have highlighted the many underlying issues of hosting the FIFA World Cup. The protests have drawn the world’s media to the negative impacts of hosting the World Cup and the attitudes felt by the local population. This chapter will explore the various setbacks for the Brazilian government and how this might affect its public diplomacy campaign.

In recent years, the Brazilian economy went through what many would describe as a boom. Having stabilised under Fernando Henrique Cardoso in the mid-1990s, it accelerated under Lula in the early 2000s. It also managed to barely stumble after the Lehman collapse in 2008 and in 2010 it grew by 7.5%, its strongest performance in 25 years. However, since then the economy has slowed down dramatically. In 2012, the economy only grew by 0.9% (‘Brazil’s Future: Has Brazil Blown it?’, 2013: 14). The total estimated cost of hosting the World Cup is more than $11 billion (Koba, 2014). This economic downturn coupled with the unequal investment, a perception of many Brazilians, for the World Cup has caused hundreds of thousands to take to the streets. The international media has focused upon the following controversies, scandals and issues and this could be detrimental to the effectiveness of Brazil’s public diplomacy goals.

Protests

On the 6th June 2013, a small rally occurred opposing a rise in 20 centavos of São Paulo bus fares (‘Protest in Brazil: Cheering for Argentina’, 2014: 45). Over two weeks this rally transformed into a nationwide protest, the largest of a generation, complaining about poor public services, corruption, the rise in the cost of living, ineffectual government and much else. The marches highlighted the contrast between expensive new stadiums and substandard public infrastructure. This coincided with the hosting of the Confederations Cup, a warm up tournament/dress rehearsal for the World Cup. This was the first time that the world was able to see first-hand the Brazilian preparations for the World Cup but, unfortunately for the Brazilian authorities, it was marred by the scenes of protest against the Dilma government. These scenes drew the world’s attention to the negative aspects of hosting the World Cup and there is a worry that protests might happen again during the World Cup itself and may have serious negative effects on Brazil’s public diplomacy policy.

This negativity, however, is counteracted by the fact that Brazilians have a deeply entrenched passion for football and this implies that a full repeat of the protests last year will be unlikely. Support for President Dilma, which plummeted after the protests, has already rebounded (‘Brazil’s Big Year: Kick-off Approaches’, 2014: 36). Among paulistanos, support for the protests has dropped from 89% at the end of June 2013 to just 52% by May 2014, according to Datafolha (‘Protest in Brazil: Cheering for Argentina’, 2014: 45). There are a few reasons for this drop in support. The protests have become more overtly political and more extreme, which is putting off moderates who had at first increased the numbers. They may also be put off by the presence of 100,000 policemen and 57,000 soldiers that have been enlisted to keep the peace during the World Cup. Security forces are also more wary about repeating the excesses of last June. 13,000 police officers have received special training in facing down troublemakers without undue violence. Bruno Torturra of Mídia Ninja, an activist news outlet, believes the scale of the protests at the World Cup will depend on how well the event is run, together with the performance of Brazil’s team on the pitch. Should the national team be eliminated early, Mr Torturra reckons more Brazilians are bound to question the extravagant expense, which the government puts at $11.5 billion (‘Protest in Brazil: Cheering for Argentina’, 2014: 45-46).
Stadiums

94% of Brazil’s World Cup budget is for the renovation and construction of stadiums (de Melo, 2010: 9). The estimated cost for this has more than tripled since Brazil was awarded the tournament in 2007. The current official estimate of $3.5 billion for Brazil’s twelve stadiums is well above the $1.87 billion that Germany spent on its twelve stadiums for the 2006 World Cup and more than twice the $1.48 billion spent by South Africa on its ten stadiums for the 2010 World Cup (Koba, 2014; Downie, 2012). The majority of those funds will come from the Brazilian National Development Bank. There is a risk that six of the twelve stadiums will turn into white elephants after the tournament ends. Nine of the twelve grounds are publicly owned and more than 90% of the total expenditure is expected to come from public funds. The stadiums in Brasília, Cuiabá, Fortaleza, Manaus, Natal, and Recife are overly expensive. This is coupled with the fact that these stadiums are in cities that have no football team in the Brazilian National Championship. It will therefore be extremely difficult to fill the grounds on a regular basis after the World Cup and ticket prices are so low that they won’t be able to pay back their investments (de Melo, 2010: 13). Brazil’s government insisted on staging games in twelve cities, rather than the required eight, in order to spread the benefits across the country. It has, however, only succeeded in spreading itself thin. In Cuiabá, a city with little footballing tradition, authorities are spending $285.7 million on a stadium for only four group games. The authorities of the Amazonian city of Manaus are spending more than $293 million on a stadium but its best club is in the fourth division of the Brazilian Championship (Downie, 2012). The whitest of these elephants, in Brasília, may end up costing $900 million, which is nearly triple the initial estimate. It is unlikely to ever to draw capacity crowds after the tournament, as the city also lacks a good league side (‘The World Cup: Pitch Imperfect’, 2014: 47). The impression here is that the Brazilian federal government is more concerned with short-term gains rather than long-term investment and this can have negative consequences on its public diplomacy policy.

There is an agreement between the Brazilian government and the local authorities in the twelve cities hosting World Cup games that at least 5% of the workers building or renovating the stadiums must be prisoners. There is a rigorous evaluation process for selecting the inmates, which is conducted by a group of social workers, lawyers and psychologists. For three days of work, each inmate earns one day off his sentence (‘Brazil Inmates Seek World Cup Redemption’, 2012). It is a goal of this program to endow the prisoners with skills that they can use after the stadiums are finished and after they leave prison. Investment in the population is good for Brazil’s international image and it can also show that the World Cup is beneficial for the citizens of Brazil (Ronquillo, 2012: 34). “Because of this program, they will be able to continue working in civil construction in the future … the social legacy will be tremendous” said Simone Ponce, a spokeswoman for the Santa Barbara and Mendes Junior consortium (Azzoni, 2012). However, this social legacy has been overshadowed by strikes, deaths and violations of labour rights. In February of 2012, São Paolo workers threatened to go on strike. Complaints included lack of benefits and unequal pay among regions across the nation in cities that are building stadiums (‘Brazil World Cup 2014 Stadium Workers Threaten Strike’, 2012). Eight construction workers have died in accidents, six more than in South Africa four years ago. The media centre at the stadium in Curitiba won’t be ready for the event and so journalists will have to stay in tents (‘The World Cup: Pitch Imperfect’, 2014: 47). These all portray the Brazilian preparations in a negative light, which counteracts the positive gains of Brazil’s public diplomacy campaign.
Housing rights

There have been previous examples of mega-events in Brazil that have been detrimental to the poorer groups of society. In 1922, when hosting an exhibition in Rio de Janeiro, the government forcibly relocated many slum-dwellers because it wanted to present a modern face to the world. Domestic critics of the 1950 World Cup in Brazil objected that the money would be better spent on schools and hospitals (‘Football and Brazil: Intersections’, 2014: 84-85). The 2004 Athens Olympics and 2008 Beijing Olympics have already demonstrated how low-income neighbourhoods are ‘cleared’ in order to create space for mega-event infrastructures and renovation (Gaffney, 2010: 8). This is now occurring in Brazil during the preparation for its World Cup and it has been met with opposition.

The Homeless Workers Movement have been protesting on the platform that the poor are paying the price for the World Cup, with displacements and evictions caused by the construction of new infrastructure. There are disputes over how the eviction and displacement process has been handled by authorities (‘Group Plans to Intensify Protests Against Evictions Ahead of 2014 World Cup’, 2012). Rio de Janeiro’s officials maintain that no forced evictions have been conducted and that all families are being appropriately compensated before losing their homes but independent research by local NGOs, Rio de Janeiro’s Public Defenders’ Office and international organizations including Amnesty International and WITNESS has proven otherwise (Amnesty International, 2011). There are an estimated 1.5 million families living in favelas around Brazil’s major cities that are within construction zones of urban renovation projects for the World Cup and the Olympics (Dubon, 2011). As of April 2012, 1,345 families had been put on waiting lists for relocation and it was estimated that 170,000 people would eventually have been evicted to make way for the World Cup and the Olympics (Williamson, 2012).

One of the prominent renovation zones is the surrounding area of the Maracanã Stadium in Rio de Janeiro, especially the Favela do Metrô. Under the authority of the municipality, public works vehicles demolished illegal housing. The goal was to entirely eliminate the favela, and in its place build a promenade with parks, garages, restaurants and a cultural and training centre. Raquel Rolnik, the United Nations Special Rapporteur on the Right to Adequate Housing, is concerned about the procedures used by the municipal authorities. These include no prior information, consultation or negotiation, no compensation and temporary relocation in homes or subdivisions in Cosmos, a suburb 60 km from Rio de Janeiro (Raspaud and Bastos, 2013: 201). It must also be taken into account that the Favela do Metrô is visible from the stands of the Maracanã stadium. It is obvious that any overview taken by the cameras, which extends beyond the roof of the stadium, will inevitably focus on the Favela do Metrô. This could be seen as unpleasant for the image of Brazil. The clearing of Favela do Metrô could therefore be interpreted as Brazil trying to promote a clean and modern image of itself to the world but it may actually be harming it due to the manner in which it is being conducted. The government’s slum-clearing efforts have been met with violent resistance. In May 2014, demonstrators incensed by the billions being spent on stadiums and security set tyres alight in a new wave of protests (‘Football and Brazil: Intersections’, 2014: 84).

Security crackdown

Headlines about gangs, drugs, and violence are not conducive to promoting a positive international image. Brazil has therefore taken what it deems as necessary precautions in preparation for the World Cup. In 2009, the Human Rights Watch released a report regarding the abuses that have plagued Brazil’s crime infected cities of Rio de Janeiro and São Paulo,
including local law enforcers committing unlawful killings and the excessive use of force (Dubon, 2011).

The Brazilian authorities have been trying to prevent violence in its own communities as well as protect tourists from the groups of people it labels as criminals and drug traffickers. UPPs, ‘Pacifying Police Unit’ (UPP in the Portuguese acronym), have been sent into certain areas to drive out these groups. In November of 2011, more than 3,000 police and soldiers charged into Rochina, Brazil’s largest favela, as part of a campaign to drive out the drug gangs. One resident applauded the police invasion, “tell the world we’re not all drug traffickers! We’re working people and now they’re coming to liberate us.” Marisa Costa da Silva, who runs a shop at the base of the favela, was less sure. She said, “we’ve heard they’ve been abusive to slum residents in other places they’ve taken. I have no idea what to expect” (Brooks, 2011). Levels of violent crime have now been reported to decrease in Rio, and this includes deaths by police officers. Its success is being credited to the UPPs, which is significant since this could give legitimacy to use violence when entering favelas (Ronquillo, 2012: 62). The state of Rio now actually pays the police bonuses for killing fewer people, leading to fears that some officers may have switched from recording ‘deaths while resisting arrest’, as the police traditionally disguised their murders, to simply disposing of the evidence (‘Policing and Politics in Brazil: From Hero to Villain in Rio’, 2013: 51).

Other infrastructure issues

Over the past decade, Brazil’s aviation industry has grown more than any other in the world. Passenger traffic increased 118% between 2003 and 2011, according to the government (Osse and Fuoco, 2012). Flying is no longer an upper class privilege, many Brazilians from lower and middle classes have started travelling by aeroplane and this has increased lines, waits, and lessened the quality of service (Phillips, 2012). This rapid growth in air travel and mismanagement by Infraero, the state operator, has overwhelmed Brazil’s airports. Although not a fan of privatisation since she became Brazil’s president, Dilma Rousseff has accepted that the state alone cannot fix Brazil’s long-neglected airport infrastructure problem. On the 22nd November 2013, Singapore’s Changi Airport Group and Odebrecht, a Brazilian construction firm, offered $8.2 billion to upgrade and run Galeão airport in Rio de Janeiro. The hub airport at Belo Horizonte went to Swiss and German operators in partnership with CCR, a toll-road operator (‘Infrastructure in Brazil: Taking Off at Last’, 2013: 48). This investment will be a healthy injection to the infrastructure problem posed by the World Cup, which should help alleviate the travel fears of visitors.

A high-speed train linking São Paulo and Rio de Janeiro was also mentioned when Brazil was picked to host the World Cup in 2007. It will, however, not be ready for the World Cup and may not even be ready for the 2016 Olympics. There are similar examples of failed plans in host cities across Brazil, including a planned monorail that has been scrapped in Manaus (‘A World Cup Effort Few are Celebrating’, 2011).

FIFA

FIFA is an organisation that faces a long list of corruption charges but it presents an even longer list of demands for countries hosting the World Cup. Countries submitting bids to host the World Cup must agree to eight conditions, these included tax exemption, exclusive commercial rights and visa waivers for FIFA affiliates (Burns, 2012). In October 2011, Brazilian legislators passed a law granting a comprehensive four-year tax exemption to FIFA, its member associations and its partners, which consist of Coca-Cola, VISA and Adidas (Burns, 2012). The Brazilian Senate has also passed a controversial bill paving the way for
alcohol to be sold in stadiums at the 2014 World Cup. When Brazil was chosen to host the event, it promised to sell alcohol at matches despite a 2003 drinks ban introduced to stop violence (‘Brazil Senate Approves Controversial World Cup Law’, 2012). This is all because FIFA does want to lose its very profitable business relationship with Budweiser. It receives tens of millions of dollars from Anheuser-Bush InBev, the giant brewing company that makes Budweiser, in World Cup Sponsorship (Chappell, 2012).

As previously mentioned, Brazil will have to bear most of the costs of the World Cup and FIFA will only be responsible for the prize money paid to the teams along with the cost of their travel and preparation, which amounted to just $279 million in Germany in 2006. Yet the event’s main direct benefits, from television and marketing rights, all go to FIFA. According to Citi, FIFA’s profit in Germany came to $1.8 billion (‘South Africa’s World Cup: Who Profits Most?’, 2010). The 2010 World Cup in South Africa resulted in a record $3 billion in income for FIFA, $100 million of which it contributed to development projects in the country. At the end of 2010, FIFA had $1.2 billion in reserve (Burns, 2012). The South African Government had spent $4.3 billion preparing for the event but only attracted an estimated $1.1 billion in tourism spending. This is an outcome that contradicts the Brazilian government’s claim that the World Cup will provide an economic boost. This is all because the additional costs of infrastructure improvements, security, advertisement, and lodging all falls upon the host nation.

**Brazil’s Public Diplomacy Policy and 2014 World Cup – Domestic Reception**

This chapter considers the views of the domestic public regarding the World Cup and how this may affect the opinions of foreign publics. The World Cup returning to Brazil is meant to create a sense of pride among the Brazilian population but in the years since it won the right to host the event, domestic public opinion has waivered, partly due to the aforementioned issues.

According to Datafolha, support for hosting the World Cup has fallen sharply, from 79% after it was awarded in 2007, to 48% in 2014 (‘The World Cup: Pitch Imperfect’, 2014: 47). From 2007 to 2012, there has been an increase in satisfaction with the way things are going in Brazil. The Pew Research Global Attitudes Project showed that in 2007, overall satisfaction was at 17%, whereas in 2012 it had risen to 43% (‘Spring 2007 Survey’, 2007; ‘Spring 2012 Survey’, 2012). However, this drastically changes after the protests of June 2013. A survey in 2014 by the Pew Research Center found that 72% of Brazilians are now dissatisfied with the way things are going in their country, up from 55% just weeks before the demonstrations began in June 2013. Two-thirds now say Brazil’s once-booming economy is in bad shape, while just 32% say the economy is good. In 2013, the balance of opinion was reversed: 59% thought the country was in good shape economically, while 41% said the economy was bad. Brazilians are also feeling far less positive about their country’s place in the world in 2014 than they did in 2010, but most still believe Brazil will eventually be one of the world’s leading nations (‘The World Cup and Brazil’s Place in the World’, 2014).

This survey also confirms the stance of the protests towards the state’s handling of the World Cup. About 61% think hosting the event is a bad thing for Brazil because it takes money away from schools, health care and other public services, a common theme of the protests. Only 34% think the World Cup, which could attract more than 3.5 million people to the nation’s twelve host cities, will create more jobs and help the economy (see Appendix 1.1) (‘Brazilian Discontent Ahead of World Cup’, 2014). This negative domestic attitude towards
hosting the World Cup could subsequently have a negative impact on the effectiveness of this public diplomacy campaign.

There is also scepticism about the international benefit of hosting the World Cup, which directly relates to the effectiveness of Brazil’s public diplomacy policy. The public opinion is about evenly divided with around 39% of those surveyed saying that the World Cup will hurt Brazil’s image around the world while 35% said it will help, and 23% said it will have no impact (see Appendix 1.2) (‘Brazilian Discontent Ahead of World Cup’, 2014). This is an indication into how Brazilians feel that the World Cup is being received abroad and foreign publics may consequently reciprocate this, which is not a positive sign for the Brazilian authorities.

There have also been a few Brazilian footballing legends that have spoken out about the preparations for the World Cup. Romario, the former striker turned congressman, recently told Brazil’s official government news agency, “back then [in 2007], Brazil was in position to host the best World Cup of all time … unfortunately, maybe because of politics, work which was supposed to be halfway done hasn’t even started, and the Brazilian people is paying for that (‘A World Cup Effort Few are Celebrating’, 2011). Pele, Brazil’s most famous footballer of all time, has warned organisers over the little amount of progress that has been made towards hosting the 2014 World Cup in Brazil (‘Pele Warns Brazil 2014 World Cup Organisers Over Slow Progress’, 2011). These high-profile statements, which will catch the attention of foreign publics, may counteract the positive aspects of the World Cup.

Brazil’s Public Diplomacy Policy and 2014 World Cup – International Reception

The success, benefits and effects of public diplomacy are difficult to ascertain but for the purposes of this paper, Country Rating Polls by the BBC World Service and the Pew Research Center will be used to calculate how effective the World Cup has been for Brazil’s public diplomacy policy.

When Brazil won the right to host the 2014 FIFA World Cup in 2007, there were already doubts amongst international media outlets regarding Brazil’s ability to host a successful sporting mega-event. The immediate response by TIME magazine was, “it has an infrastructure woefully unprepared to host such an event, a questionable ability for long-term planning, and a political class riddled with people who see such opportunities less as a way to build a nation than as a chance to line their own pockets” (Downie, 2007). This goes to show that Brazil’s public diplomacy policy would have to be able to overcome these perceived negative impressions in order to be effective during the build up to the main event. Since 2007, however, Brazil’s soft power and public diplomacy policies have been in full flow and this can be endorsed by Monocle magazine’s third annual ‘Soft Power Survey’, in which Brazil jumped from rank 21 to 17 indicating that it is on the move in its projection of influence around the world ahead of the 2014 World Cup (Soares e Castro, 2013: 32). In 2014, Barry Sanders, USC Center on Public Diplomacy (CPD) Advisory Board Member and Chair, notes, “so far the global spotlight has been on Brazil’s economic slowdown, its serious problems of socioeconomic inequality and its issues of governance and inefficiency” but “problems leading up to a major event are forgotten in good impressions emanating from the event itself” (‘Featured Expert Opinions: Will the World Cup Help Brazil’s Soft Power?’, 2014).

The BBC World Service Country Rating Poll from 2008 reveals that Brazil was widely viewed as having a positive influence in the world, with few countries expressing reservations and no country having a majority saying it had a negative influence. An average
of 23 tracking countries from across the globe showed that 44% of those surveyed believed that Brazil had a mainly positive influence in the world, whereas only 23% said that it had a mainly negative influence (see Appendix 2.1) (‘2008 Country Rating Poll’, 2008). This positive influence across the globe can be attributed to Brazil’s foreign policy campaign, which includes the aforementioned public diplomacy policies such as aid programmes and the strive for reform of international institutions. It is interesting to contrast this with the results from the BBC World Service Country Rating Poll from 2014 in order to somewhat whether Brazil’s public diplomacy policy has been effective or not. Global views of Brazil’s influence in the world remain mainly positive in 2014. In the 20 tracking countries polled in 2013 and 2014, an average of 44% give it positive ratings, the same as in 2007, and 26% who give negative ratings, up 3% from 2007 (see Appendix 2.2). While the proportion of unfavourable ratings has increased by 3% since 2007, Brazil remains comfortably seated in the table of all rated countries, ranking seventh in terms of positive views received, and having the fifth-lowest proportion of negative ratings (‘2014 Country Rating Poll’, 2014). One of Brazil’s unique characteristics is that it holds the largest rainforest in the world, the Amazon. Over recent years, images of deforestation have promulgated across the globe and this may have led to this increase in negative ratings. These results imply that the World Cup as part of Brazil’s public diplomacy policy has not increased the global opinion regarding its positive influence in the world but its perceived negative influence has increased. Because Brazil still has an apparent positive influence in the world, it could also be understood that the World Cup has helped reinforce its soft power potential and this can be demonstrated through there being no decline in positive rating.

A 2014 survey by the Pew Research Center found that Brazil is well regarded in much of the world. Apart from Egypt, Jordan and Turkey, countries had an overwhelmingly favourable view of Brazil. Views of Brazil are particularly positive in Latin America, Africa and Asia. In total, a median of 54% across the 37 countries surveyed had a favourable view of Brazil (see Appendix 2.3) (‘Positive Ratings for Brazil across Much of the Globe’, 2014). Combining the results of the aforementioned surveys suggest that the World Cup, in combination with other initiatives, has generally been effective in portraying a positive image of Brazil abroad. It can therefore be argued that its public diplomacy policy has been a success.

**Conclusion**

Football’s dominance in Brazilian culture and identity is unparalleled. Brazil does excel at other sports, such as basketball and volleyball, but it is not world-renowned in these sports and this reinforces the importance of both football and the ‘homecoming’ of the FIFA World Cup to the Brazilian people. It is clear that throughout the 20th and 21st centuries sporting mega-events have been used by states all over the world as a foreign policy instrument. This paper has shown that the upcoming FIFA World Cup is not the first time that Brazil has used a sporting mega-event to promote a positive image of itself abroad. The 1919 South American Football Championship, the 1922 South American Games, the 1950 FIFA World Cup and the 1963 Pan American Games are all previous examples of this. After a hiatus in hosting mega-events, due to the military regime, President Lula made a conscious shift towards soft power and public diplomacy initiatives, with a special focus on sporting mega-events. Brazil has sought to utilise the 2014 FIFA World Cup, alongside the 2016 Olympic Games, in its wider foreign policy strategy as a public diplomacy tool in order to increase its soft power potential. Negative portrayals in the international media of the 2013 protests, stadium complications, housing rights violations, security crackdowns, other
infrastructure issues and the role of FIFA could have had undesirable consequences for Brazil’s public diplomacy policy. The attitudes of the domestic population towards the hosting of the World Cup may also have had an influence in the way that this public diplomacy initiative has been received abroad. This, however, has not been the case as the negative aspects of the World Cup have been counteracted by Brazil’s proactive foreign policy campaign, which includes the various public diplomacy policies such as aid programmes and the strive for international institutional reform.

This paper was an investigation into how successful this policy has been and the survey results from the BBC World Service and the Pew Research Center suggest that the World Cup, in combination with other campaigns, has for the most part been effective in portraying a positive image of Brazil abroad. It shows that international opinion has not been significantly affected by the damaging images in the media or the domestic opinion of the World Cup. This could be accredited to preconceived positive perceptions of the Brazilian state abroad. With the focus of this paper ending by the time the World Cup begins, there will be the need for further investigation into how the staging of the World Cup itself affects the global views of Brazil. Further down the line, it will also be necessary to evaluate the longer-lasting impact of both the 2014 World Cup and the 2016 Rio Olympics in regards to Brazil’s standing in the world. Brazil has been an international footballing powerhouse for decades now but will the 2014 FIFA World Cup be the point when Brazil is finally seen across the world as an economic and political powerhouse too?
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Brazil’s Public Diplomacy Policy and the 2014 FIFA World Cup

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Books


Electronic Resources


Reports

## Appendices

### Appendix 1.1

**Most Say Hosting World Cup Is Bad for Brazil**

- **Good thing because it creates jobs:** 34%
- **Bad thing because it takes money away from public services:** 61%
- **Don’t know:** 1%
- **Both/Neither (VOL):** 3%

Source: Spring 2014 Global Attitudes Survey. Q12B. PEW Research Center

### Appendix 1.2

**World Cup and Brazil’s Image**

- **Help:** 35%
- **Hurt:** 39%
- **No impact:** 23%
- **Don’t know:** 3%

Source: Spring 2014 Global Attitudes Survey. Q125. PEW Research Center
### Appendix 2.1

#### Views of Brazil's influence
*By Country, December 2007*

<table>
<thead>
<tr>
<th>Country</th>
<th>Mainly positive</th>
<th>Mainly negative</th>
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<tbody>
<tr>
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<tr>
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<tr>
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<td>India</td>
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<tr>
<td><strong>Average of 23 Tracking Countries</strong></td>
<td><strong>44</strong></td>
<td><strong>25</strong></td>
</tr>
</tbody>
</table>

*The white space in this chart represents "depends," "neither, neutral," and "OK/NA."
*No tracking data available
**Not including views of subject country.
Appendix 2.2

Views of Brazil’s Influence
By Country, 2014

The white space in this chart represents “Depends,” “Neither/nor,” and “OK/NA.”

Asked of half the sample (except in Japan)
Question not asked in Argentina

Global average (Brazil excluded)
‘A Tale of Two Commodities’: 
Capital Mobility and Labour Migration in Malaysia and Singapore

Ai Wei Kwek

Abstract

Capital and labour are both essential commodities to capital accumulation. However, while globalisation has conferred greater degree of freedom in capital movement, labour mobility continues to be subject to state control. This article seeks to examine the selective behaviour of the state in exercising their sovereignty in relations to these two ‘commodities’ in Malaysia and Singapore. By employing world-systems theory, I hope to demonstrate that the availability of cheap labour was instrumental in the economic development of Malaysia and Singapore, which served as the ‘periphery’ to the ‘core’ transnational corporations in 1960s. Yet, in an effort to transform themselves into ‘global cities’, both countries have engaged in a policy rationalisation process of pursuing preferential treatment towards high-skilled foreign workers and against low-skilled migrant labourers. I argue that over-reliance on foreign capital for development is misguided, and must be accompanied by more diligent state regulation. Further, I hypothesise that hostility towards migrant workers at the societal level is reinforced by state discriminatory policy and propose that migration should be seen from a historical lens and celebrated as an essentially human activity, instead of merely an economic transaction.
Introduction: A Tale of Two Commodities

Charles Dickens, in his epic novel ‘A Tale of Two Cities’, tells of a time when the world experienced a huge divide between the aristocracy and the peasantry. Today, global capitalism has similarly led to such binary between two commodities essential to capital accumulation. On the one hand, capital has enjoyed a greater degree of mobility, in an increasingly ‘borderless’ world (Ohmae, 1994). On the other, the movements of people in the form of labour, despite the promise of greater mobility in a shrinking world, remain subjected to stringent border controls by nation-states.

In the case of Malaysia and Singapore, post-colonial economic development has taken the neoliberal approach of opening up to foreign capital as a pathway to growth1. Positioned as a ‘periphery’ to the ‘core’ in the globalising economy (Wallerstein, 1974), both states have catered for capital’s need for cheap labour by suppressing wages and movement. As such, states sovereignty is exercised selectively - while capital flow is largely free and hard to regulate, labour movement is tightly under the control of the state via its immigration authority. Meanwhile, the vision of becoming a ‘global city’ has led to a preference of high-skilled ‘human capital’ over low-skilled migrants, a pursuit that shapes a bifurcated labour force.

This is also a tale of two cities. While the two neighbouring countries, sharing deep historical and social ties, have gone their own way with Singapore leading in economic growth, both nonetheless started on the same path, with equally labour-intensive sectors. While both arguably differ in their labour policy, with Singapore adopting a proactive policy in attracting foreign talent and Malaysia relying heavily on migrant workers, both have equally institutionalised preferential treatment towards foreign workers based on skill levels.

In this article, I attempt to examine the intricate links between capitalist development in Malaysia and Singapore vis-a-vis labour migration. In particular, I seek to understand how the positioning of Malaysia and Singapore within the context of a globalising economy has led the state exercising its sovereignty selectively towards capital and labour. Further, how is the bifurcated labour structure informed by the state discriminative policy based on the skill levels of foreign workers? To what extent, is the ‘us’ and ‘them’ identity construction of the locals towards migrant workers shaped by post-colonial state-sponsored xenophobia?

This article will be divided into four parts. Firstly, I will provide an overview of migration theory and propose to employ the world systemic context as a complement to the traditional neoclassical economic approach. Secondly, I compare the mobility between capital and labour. I argue that while Malaysia and Singapore have done fairly well in controlling capital flight with effective governance, the force of global capitalist system still compels the nation-state to confer a greater degree of freedom for capital inflows and outflows. On the contrary, labour, particularly low-skilled migrants, are subject to heavy state surveillance within and at the borders.

In the third section I delve into the division between high-skilled and low-skilled foreign labour. I argue that the two countries resemble their shared colonial past in which the economies are still largely built by imported labour in a bifurcated fashion. I also argue that local resentment against low-skilled foreign labour, often referred to as migrant labour, is more rhetorical than factual and is reinforced by the state. This could be seen as a post-colonial identity construction of “self/other”,

1 Among the eight High Performing Advanced Economies (HPAEs), Malaysia and Singapore have relied much more on FDI than others (Japan, South Korea, Taiwan, Hong Kong, Thailand, Indonesia) (Jomo, K.S. 2001 p5)
'A Tale of Two Commodities': Capital Mobility and Labour Migration in Malaysia and Singapore

which is deeply embedded in colonial constructions of identity, created through processes of ‘Othering’ practised by British administrators of the past (Nah, 2003). I then hypothesise that there is a trend in the continuation of the historical legacy of post-colonial identity construction, where the ‘other’ has now changed to be the foreign migrants. Lastly, I conclude by proposing some recommendation for policy and future academic work.

Notes on terminology

To make a clear distinction between labour as a commodity and as a person, I reserve the term ‘labour’ to refer to labour as commodity, while the term ‘labourer’ or ‘workers’ as the owner of that commodity. Between high-skilled and low-skilled foreign labour, the former will be referred to as ‘expatriates’, while the term ‘migrants’ will be confined to refer to the latter, as both groups are dealt with as separate entities by the state. It must be noted that while migration encompasses internal migration within the country, for the purpose of this article, the term will be used solely to refer to in-migration of foreigners. It is also important to bear in mind the difference in migration patterns in urban and rural settings, particularly in the case of Malaysia, where, for example, the state of Sabah receives a considerable number of migrants from the Philippines.

Migration Theory - An Overview

Castles (2010) argues that migration is ‘one part of the process of transformation of fundamental structures and institutions, which arises through major changes in global political economic and social relationships’ (pg.1566). There has been contention with the word ‘migration’, where some scholars opined that the word implies a long-term movement from one nation-state to another, a la in the 19th and 20th centuries. However, the 21st century has been characterised by fluidity and openness, which has made it normal for people to think beyond borders and cross them frequently. Nonetheless, the right to mobility is more class-specific and selective than ever (Bauman, 1998). National borders have become more restrictive than ever, allowing only people with economic resources or political influence to cross freely. Indeed, UNDESA (2013)’s statistics shows that only 3% of the world’s population are international migrants.

Traditional neoclassical economics asserts that migration is essentially caused by imbalances in supply and demand for labour across geographical locations. Countries with large endowments of labour relative to capital will have a low market wage, while countries with small endowments of labour relative to capital will produce a high market wage. As a result, the wage differential will cause labour from the lower wage country to move to the higher wage country. This in turn will cause the supply of labour in the labour abundant country to decrease, while the supply of labour in the labour-scarce country to increase, reaching an equilibrium after which no migration will take place. Meanwhile, capital flow will mirror the labour flow, moving from the capital-intensive country to the capital-poor country (in Massey et al, 1993).

The neoclassical economists also explain migration in terms of rational choice theory. Individuals, after a cost-benefit consideration, move from one country to another to expect a positive net return. The act of ‘migrating’ - the travel cost, the effort to learn a new language and culture, the psychological difficulty in adapting to a new culture and depart from old ones, are considered an investment before a higher return can be captured (ibid).

This economic view on migration however fails to take into consideration the structural factors influencing labour migration. In this article I would like to draw the attention to the Dual Labour Market Theory and World-Systems theory to complement the traditional economic view outlined above. Dual Labour Market theory argues that international migration stems from intrinsic labour
demands of modern industrial societies. Steering away from the rational choice model, Dual Labour Market theory focuses on the demand side and not the supply side. Piore (1979) argues that permanent demand for immigrant labour is inherent to the economic structure of developed nations, thereby causing international migration. It is not the push factors by sending countries, but the pull factors by receiving countries that is paramount. Structural inflation motivates the employer to seek cheap options in the form of foreign workers - if wages are raised at the bottom, the hierarchy will be upset and wages at the top have to be increased correspondingly to maintain the socially-defined job hierarchy. It is important for the hierarchy to be maintained as wages not only provide monetary remuneration, but also confer one’s social status and serves as a motivation for upward mobility. A migrant’s social status, while might be of the lowest in the receiving country, is desirable as they still see themselves as part of their society back home, in which working abroad and having the ability to send back remittances earns them prestige.

World-systems theory, on the other hand, claims that international migration originates from ‘the structure of the world market that has developed and expanded since the 16th century’ (Massey et al, 1993). Wallerstein (1974) defines the world-system as a ‘multicultural territorial division of labor in which the production and exchange of basic goods and raw materials is necessary for the everyday life of its inhabitants’. Within this structure lies a power hierarchy between the ‘core’, dominated by powerful and wealthy societies, and the ‘periphery’ which are systematically exploited by the core. Advanced economies venture into developing countries to utilise cheaper labour and natural resources that can keep the costs of production low, but as they are motivated by higher profits, the surplus from the ventures is systemically transferred from the semi-proletarian sectors in the periphery to the high-technology, industrialized core and leads to a process of capital accumulation at a global scale, hence causing what he termed an ‘unequal exchange’. As such, the gap between the core and the periphery, rather than narrowing, could instead widen. This was a direct criticism of the modernisation theory which claims countries go through uniform states of development. Because of the establishment of western capitalism, non-western countries have been forced into different paths of development by becoming a dependency to the existing world-system (Chirot & Hall, 1982, p.83). Rosa Luxemburg (1951) has called these regions the ‘hinterlands’ of capitalism. Following the demand for labour by capital movement, migration became a natural outgrowth of disruptions and dislocations that inevitably occur in the process of capitalist development (Massey et al, 1993, p.445). Hence global cities emerge. These cities, while concentrating wealth and highly educated workforces, also create the demand for services from unskilled workers. At the same time, outsourcing of industrial production overseas creates a bifurcated labor market structure with strong demand for workers at both the upper and lower ends, but relatively weak demand in the middle (Massey, 1993, p.447).

**Capital and Labour**

**A Borderless World for Capital?**

Post-colonial Malaya inherited an economy that depended mainly on primary commodities with a dominant presence of foreign owned corporations. Labour was organised along ethnic lines, a remnant of the British ‘divide and rule’ colonial policy. With high commodity prices driving economic development, the government initiated an industrialisation strategy building on its manufacturing sector, with massive inflows of foreign capital. By 1987, foreign firms accounted for 40% of manufacturing output in Malaysia (Rasiah, 1995a, p.7). In 1989, there were already ten free trade zones in Malaysia (ibid). Agriculture and forestry comprised 29.6% of GDP in 1970, but dropped to a mere 6% in 2005; while the manufacturing sector increased its share from 14.6% in 1970 to 34.9% in 2005 (Khong & Jomo, 2010). Following this growth, the country saw an inflow of
migrants. The number of migrants surged in the late 1980s and early 1990s, following government sponsored megaprojects like the construction of the Twin Towers and Putrajaya, and the feminisation of the labour force, creating a demand for domestic workers. Since then, it has followed an upward trend, except for a sharp drop in 1998 due to the economic downturn (Kassim, 2005; appendix Table 1). As of 2013, there were 1.8 million documented migrant workers, while the number of undocumented migrants was estimated to be another two million (World Bank, 2013).

Singapore at its independence was burdened with a high unemployment rate and social unrest. Sharing a brief alliance with Malaya, Singapore together with Sabah and Sarawak formed the Federation of Malaysia. As the political marriage broke down, Singapore was faced with multiple crises, including Indonesia’s opposition to Malaysia that resulted in the cutting of its entrepôt trade, and the devaluation of the Sterling which cost 20% of their GDP and employment (Low, 2001). Despite its small geographical size and limited natural resources, Singapore went on high gear to transform itself to a high income nation with the People’s Action Party, the only ruling party since independence. Not only has the government adopted a FDI-oriented strategy to industrialise the country by providing tax incentives, developing infrastructure and institutionalising laws to ease labour relations (Chew & Chew, 1995), it has also been in business through government-linked companies (GLCs) since the 1960s (Low, 2001). Following the remarkable growth led by labour-intensive foreign manufacturing firms, the country was faced with a labour shortage, thereby exerting an upward pressure on wages. To alleviate this stumbling block to economic growth, the government responded by importing labour (ibid). The serious shift to high-technology, capital-intensive industries in the 1980s following the first oil-induced recession in 1974 subsequently attracted foreign workers with more specialised skillsets. In 2010, foreigners made up one third of the total population of Singapore (Yeoh & Lin, 2012; appendix Table 2), while there are more than 1.4 million foreign workers in Singapore, comprising more than one-third of Singapore’s total labour force (ibid; appendix Table 3).

Such FDI-friendly policies have long been lauded as a success story in both countries. The ability to attract foreign capital and efforts to make the countries ‘business-friendly’ destinations are often used by politicians to measure their governing performance. In many instances, political dissidents have even been silenced in the name of national interest, political instability is said to deter investors’ confidence (Kamal, 2011). Cases have been made in enabling capital to flow freely without or with minimal institutional interventions (Callick, 2013; Leong, 2013), much akin to a ‘borderless world’ for capital to move from one economic area to another (Ohmae, 1994).

With the inflow of capital comes industrialisation, which in turn creates the need for labour. As the quest for cheap labour led the transnational corporations out from the core to the periphery, labour was incorporated into global production upon spatial location (Haworth & Hughes, 2002, p. 65); Malaysia and Singapore, prior to their industrial transformation in 1980s, fit the bill of being the semi-peripheries that provided not only cheap labour, but also infrastructure and stability. Traditionally, such demand was filled by internal migration from rural Malaysia to urban settings to make up the factory line. Nonetheless, as demand for labour exceeded the supply from the domestic labour force, Malaysia embarked on a policy of importing labour. Meanwhile, Singapore, an island-state with less than two million residents at the time of independence, had been consciously aware of the need to import human capital and thus embraced migration from the beginning. While its immigration policy carefully managed it with a quota system with intentional avoidance of low-skilled foreign workers, as contrary to Malaysia hiring migrants without having any clear policy programme to fill the gap at the low level (Pecoud & De Guchteneire, 2007), both countries started off with equally labour-intensive industries.
While globalisation has brought the world closer, the shrinking of relative distances between places has been a geographically and historically uneven process. Bauman (1998) claimed that globalisation is ‘divisive as much as it is uniting’; that what appears as globalisation for some means localisation for others. Moreover, with the development of newer and faster transportation, capital, in what Harvey (1990) called ‘time-space compression’ or Marx’s term ‘annihilation of space’, moves relatively faster and in most cases, fast enough to keep permanently a step ahead of any polity which may try to contain and redirect its travel. Nation-states in a globalised world have become no more than guardians of capital. In fact, as Bauman (1998) argued, the states are now ‘far from being forced to give up their sovereign rights’, but ‘actively and keenly sought to surrender them’, even ‘begged for their sovereignty to be taken away’. Such supra-state formations have given rise to the phenomena of ‘absentee landlordship’, in which the mobility of capital has conferred those who own it a ‘radical unconditionality’ that disconnect them from the obligations towards their employees and the local community.

Evidently, the free market ideology which sees capital movement as a rational process might have been a misplaced faith. The 1990s saw an accelerated progress towards the liberalisation of the capital market and integration with global financial markets, leading to massive short-term inflows, particularly portfolio investment (BNM, 2009). Following speculation on the Thai Baht in 1997, massive capital outflows from Southeast Asia occurred, with the most affected countries - Thailand, Malaysia, Indonesia, Philippines and South Korea - losing a total of 11 billion dollars in net private capital outflow (Ito, 1999). The Asian Financial Crisis in 1998 served as a wake-up call to the region. Ito (1999) demonstrated that capital had generated moral hazards, where the implicit guarantee of deposits by emerging market invited too much capital flows, causing investors to be complacent and reckless. Countries relying on short-term capital flows also found themselves caught in a liquidity crisis when investors refused to roll over lending, causing a bank run; or behave in ‘herd mentality’ since it is rational to exit the market when others do. Although the Malaysian government had taken some unorthodox measures to prevent capital flight, including requiring non-residents to wait for one year to convert ringgit proceeds from the sale from Malaysian securities as well as the elimination of the offshore ringgit market, they were too little and too late. Not only were the controls implemented over a year after the crisis began, they were quickly relaxed only after a year in February 1999 (Abdelal & Alfaro, 2003).

Beyond 1998, Malaysia continues to receive significant amount of foreign direct investment (FDI), though the nature of capital flows has changed as the economy developed. FDI is increasingly channeled into the higher value-added services sector, such as the financial services and shared services operations. The Bank Negara Malaysia (BNM) 2009 annual report observed that short-term capital flows have become more prominent in the Malaysia financial system, rising in volume and volatility. Between 2004 and the first half of 2008, Malaysia experienced net portfolio inflows of RM54 billion. In 2008, as the Global Financial Crisis hits, massive outflows in the form of portfolio investment occurred as foreign financial institution carried out massive deleveraging activities, resulting in a net portfolio outflow of RM111 billion between the second half of 2008 and the first half of 2009. Meanwhile, FDI also suffered a drop from the peak of 4.5% of GDP per annum in 2007.

Although Singapore was less severely affected by the Asian Financial Crisis, its close integration with the global and regional markets also meant that it could not fully shield itself from the crisis. Heavy investments in real estate and mega infrastructure projects funded through short-term foreign currency bank loans has also cautioned bankers in face of the vulnerability of the economy to money flows (Vaughan, 2013).
As opposed to the belief that FDI spurs growth and development, it has been shown that FDI usually follows growth, rather than leading it (Stalker, 2000; Chang, 1998). Transnational Corporations (TNCs) choose where they invest; usually in economies that are already opened up and with human and physical infrastructure. Chang (1998) demonstrated that only 29.2% of world FDI went to developing countries between 1990 and 1994. Meanwhile, Ito (1999) observed the virtuous cycle of foreign investment that was used to drive domestic growth which in turn attracted more capital in the Southeast Asian region, aided by Japanese yen appreciation, currency stability and good regional connectivity for trade, was disrupted during the 1998 crisis when capital outflows caused the currency to depreciate which in turn made the real economy and the banking sector weaker; thus reducing the investors’ confidence, whose pessimism then encouraged further capital outflows. Beja Jr., (2006) also showed that contrary to the conventional wisdom that allowing greater freedom in capital movement would encourage business and create jobs, deregulation and liberalisation policies actually resulted in greater capital flight.

Meanwhile, TNCs are often perceived as the primary vehicle of globalisation as they create restructuring imperatives for states and societies alike. To a large extent globalisation has come to be equated with the actions of TNCs and what is loosely termed ‘global competition’ is the ‘outcome of how individual firms have reacted over time to the changing balance of opportunity and threat’. Yet, corporations are rarely considered within a wider set of social power relations (Amoore, 2002, p. 31).

Labour: Commodified, but not liberalised

On the other hand, labour does not enjoy such privileges as capital. Unlike capital, the movement of labour continues to be subject to stringent border controls and tight visa regulations by these nation-states. Particularly, many migrant workers are faced with a restrictive working permit system which only allows them to stay temporarily, and they can be denied the right for their permit to be renewed by the state. While the Malaysian government pursued a FDI-oriented economic policy with the setting up of export processing zones, labour relations were contained in order to be ‘good’ so as to provide flexibility to help firms increase efficiency and boost productivity (Bhopal & Todd, 2000). Arguments about the wage-productivity differential have been made time and again, with employers complaining that wages are too high and hence costing industries their competitiveness (Rasiah, 1995b, p.80). Khoo (2010) argued that Malaysia is both neoliberal and interventionist at the same time. It controls the markets, but also enacts neoliberal measures. It differentially protects and regulates segments of capital while strictly controlling labour. Without the rights to unionisation and therefore no means to organized collective bargaining, the position of the foreign workers is further weakened. Rasiah (2000) also noted that the decomposition of production onto value added skills stages through Taylorist and Fordist forms until at least 1980s had led to the transnationalisation of production with unequal consequences, as the dehumanising stages generated considerable social tensions that were often dealt with using authoritarian solutions (pg.945).

Employing a Marxian view of labour power as a commodity, where a labourer is the bearer of that commodity and sells it to the capitalist in a supposedly ‘free’ labour market, one can draw useful comparison between the mobility of labour and capital (Harvey, 2014). Surplus value is created by systemic and continuous use of labour, which capital needs to expand, under the supposedly free

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2 Taylorism refers to the scientific management system advocated by Fred Taylor, in which the workers are timed follow a machinelike routine to maximise productivity (Encyclopedia Britannica, 2014). Fordism refers the system of mass production of standardised goods that was popularised by Henry Ford in the 20th century, which became dominant in advanced capitalism during post-war reconstruction (ibid).
and fair transaction in a proper functioning market system. Harrod & O’Brien (2002, p.13) observed that rapid increases in financial mobility increased the power of corporations as it provided the possibility for production to move to lower wage and less unionised environments. However, these labourers do not share in the wealth they helped to create. Globalisation of labour is disproportionately weaker than globalisation of capital.

Indeed, labour is easier to dismiss during economic bad times. The world-systems framework theorises the inherent duality between labour and capital, where the cost of leaving the capital idle during downturn must be borne by the owners, whereas labour can be dismissed when demand falls so that the labourers bear the cost of their own unemployment (Massey et al, 1993 p.442). During the Asian Financial Crisis, 60,000 migrant labourers were retrenched in Malaysia, while 100,000 reportedly did not get their permits renewed (Pillai, 1998). Moreover, there are an estimate of two million undocumented workers in Malaysia, who act as the ‘shadow reserve army’ (Standing, 2011) - not only do they provide a cheap supply of labour to the industries, they can be fired and deported at ease whenever the need arises. As they do not appear on official payrolls, they simply fade away when recessions hit. As such, productivity always increases more than employment in times of boom and output decreases less in economic contractions. One can see that from the protests by employers whenever major arrests on illegal migrant workers were carried out. Discourses on minimum wage also failed to consider migrant workers in the earlier phase (MTUC, 2013).

The different treatment conferred to capital and labour in Malaysia and Singapore is not an isolated case. Instead, it supported the argument made by Anderson et al. (2009), that the simultaneous process of granting more freedom to capital and less to migrants is far from a contradiction, but is in fact a crucial underpinning of global capitalism and the global system of nation--states. While transnational economic interaction is largely a *laissez-faire* and therefore harder to control, nation-states turn to labour as a ‘solvable’ problem as the answer to their economic mirage. Borders are set up to constrain crossing and selectively permit access, separating the inner and the outer world. As such, borders are ‘legitimated’ (Cohen, 2006) to serve as an ideological tool that generate and reinforce inequality (Anderson et al., 2009).

**Positioning in the global hierarchy**

The activities of transnational corporations in the production and exchange of commodities on a global scale have given birth to a hierarchy of cities in the global value chain. There emerges a *new international division of labour*, where cities evolve into positions and define their specific function in this global system. For instance, the Asian inter-firm networks often involved the Japanese firms as providers of technological knowledge, Taiwanese and Korean companies as the management and suppliers of the goods, and local Southeast Asian firms as the labour provider (Ong, 2000). Wilkinson (2001) demonstrated that the Malaysian electronic plants occupy a particular space within the developing commodity chain with Japanese firms. Meanwhile, Singapore’s development strategy as a global city has consolidated its power as a regional, if not global, command and control centre (Lai, 2013, p. 199).

Yet, Harrod and O’Brien (2002) cautioned that TNCs are essentially national companies with international operations. Their main boards tend to be from a home base and the majority of sales and revenues are generated from home markets. There may be a hidden sentiment of ‘economic nationalism’ among TNCs in believing that their home recipe is superior, and they usually import technology and top management from their home base. Essentially, they are capitalists venturing outward from the core and entering the peripheral regions for land, raw materials and labour. Their quests for cheap production and labour costs have gravitated many of their lower level production processes toward the shores of the world’s peripheral regions. Jesudason (1988) showed that British
companies often just export to Britain and did not form strong ties with local markets, whereas third world transnational are here to exploit the export quota. Meanwhile, Chang (1998) demonstrated that the most TNCs, particularly from the United States and Japan, do the majority of their research and development (R&D) within their home bases.

As Malaysia is losing its competitiveness in terms of cheap labour, it strives to transform its economy into a knowledge-based, value-added economy. While the FDI are expected to provide technological spillovers, this has not proven to be an easy task. Menon (1998) observed that the total productivity growth of domestic and foreign firms only average about 0.5% per year from 1988 to 1992. To a large extent, Malaysia’s economy is kept alive by the continuous supply of cheap labour by foreign workers, which has helped mitigated the pressure of real wages and retained Malaysia’s competitiveness in the 1990s (Menon, 2001; Rasiah, 1995b). Rasiah (1995b, pg.78) observed that as the cost for workers rises, the labour-intensive manufacturing industries had the choice of either automating the production, or turn to foreign labourers, who are legally constrained in working mobility and hence are less capable of job-hopping.

As such, both Malaysia and Singapore fulfill the description of what Ong (2000) called the ‘post-developmental states’, where the state strategises to form links with global capital, claiming cultural unity and stability, and combining the selective adoption of neoliberal practices to make the country more ‘bankable’ in the eyes of global corporations. To that end, states have employed a flexible set of strategies, making institutional adjustments to meet the challenges of global forces, being strong and protectionist in certain areas but near-absent in others, to find their place in and negotiate their sovereignty vis-a-vis the global market.

‘Expatriate’ and ‘Migrant’

Contradiction does not just exist between capital and labour, but also varies according to the nature of the jobs assumed and the level of skills possessed by the workers. Whereas the movement of highly skilled professionals are valued and celebrated as ‘mobility’, the movement of low-skilled workers is seen as undesirable and unwanted ‘migration’ (Castles, 2010).

In their vision to become world-class cities, Singapore, and Malaysia’s capital, Kuala Lumpur (KL)³, have embarked on selective migration policies that favour skilled foreigners over low-skilled foreigners. The former is called the ‘expatriate’ that is conferred a higher status and enjoys greater privileges from the immigration policy, while the latter is the ‘migrant’ which denotes an undesirable phenomenon to be controlled, if not curtailed. In Singapore, expatriates are encouraged to stay and are expected to take up permanent residence or citizenship (appendix: table 4). Meanwhile, Malaysia, until recently, has been ironically liberal with cheap migrant labour, while making it hard for skilled labour to enter the country (Kwek, 2010). Since then, alongside the mission to reverse brain drain of Malaysian talents, it has also stepped up in its efforts to woo expatriates by issuing a resident pass-talent (RP-T) under its Economic Transformation Programme under the purview of Talent Corp (appendix: table 5). Their presence is said to enrich the city landscapes, as the cities aspire to be where ideas and talents gathered (MMO, 2014).

Global City Formation

³ Malaysia’s secondary cities like Penang, Johor Bahru are also competing with KL in becoming the hub in their respective regions.
Olds & Yeung (2004) argued that emerging global cities are often accompanied by very strong political and institutional will to construct ‘national projects’. The construction of the twin Petronas towers, at one point the tallest building in the world, in KL that put Malaysia on the map and the Multimedia Super Corridor project, were indeed endeavours by Malaysia under Prime Minister Mahathir Mohamad to construct, in Jessop & Sum (2000)’s words, ‘representations of entrepreneurial global cities’. While emerging global cities like KL cannot facilitate outflows of capital in the degree of other major global cities like London or New York, they do facilitate outward flows of surplus capital in the forms of profits generated by TNCs \(\textit{ibid}\). Instead of acting as a ‘command and control’ centre (Sassen, 1991) of the global economy, KL, like other emerging global cities, acts more as a coordination centre responsible for receiving or channeling inward flows of development capital, people, goods and services and information from the global economy (Olds & Yeung, 2004).

Singapore’s vision to be a global city was articulated as early as 1972. However, it was only in the 1980s that it became a reality with the help of information and communications technology (ICT) innovations and a surge in cross-border activities of transnational corporations (Lai, 2013). A small island-state with limited geographical size, minimal natural resources and a small population, it was ingrained in the nation’s psyche that to become a global city would mean integrating into the network model of capitals, goods and people. With no hinterland of its own to support its economic activities, the larger region of Southeast Asia became the hinterland for the ‘global city-state’ of Singapore (Olds & Yeung, 2004).

**Underbelly of a global city**

Despite the portrayal of cities as vibrant and creative, the actual construction of cities is formed not only by professionals, but also by low-skilled workers that act as the underbelly of a global city. Sassen (1991) also note that the number of unskilled ‘foreign workers’ has escalated at the same rate as skilled ‘foreign talents’, presumably to support the needs of the rising elite class, particularly the expatriates, in domestic and commercial settings. Yeoh (2004) also argued that the cosmopolitan dream of Singapore has led to acts of forgetting that are not accidental or ignorant but often ‘structural necessities’ where migrant workers are systematically excluded from the ‘city aspiration’.

Nonetheless, privileges given to expatriates are not enjoyed by the low-skilled labourers. They are only given temporary working permits that subject them to the expulsion at the command of the state. Indeed their presence is intentionally kept transient, in what is termed the ‘use-and-discard philosophy’ (Yeoh, 2001). While the availability of cheap labour has been the key factor to economic success, they are now seen as the stumbling block to economic transformation. Policy makers are also more than happy to echo the popular view that the presence of the migrant labourer is the cause for low wages and declining jobs (Standing, 2011), while talks of up-skilling the labour force and helping the industry to move up the value chain has dominated policy discourse as a solution to reduce reliance on migrant labour (PEMANDU, 2012).

It is however arguable that the locals are more affected by the presence of high-level expatriates who taken up managerial positions (Yeoh & Chang, 2001). A report produced by the World Bank in collaboration with the Ministry of Human Resources of Malaysia in 2013 has shown that it is not true that migrant labour has taken away jobs from locals. In fact, the economic benefits from immigration to Malaysia continue to exceed the economic costs, particularly as Malaysians continue to raise their human capital levels, leaving a job vacuum in labour-intensive sectors. The main results indicate that 836 new full-time jobs and 169 part-time jobs are created for Malaysian workers for every 1,000 new foreigners that enter a given sector in a given state. In particular, the impacts are found to be very positive and significant for women working in the service sector.
(especially in high value-added services), presumably because the role of childcare is now relegated to domestic workers. Older workers with medium education levels in the low-skill intensive services, agriculture and mining sectors are also amongst the beneficiaries from migrant inflows, presumably as the availability of migrants to fill up the lower rank jobs has created opportunities for their upward mobility to become supervisors (World Bank, 2013).

With the educational level of the locals rising, young graduates are no longer willing to take up the ‘dirty, dangerous and derogatory’ (3D) jobs which are then filled up by migrants. Meanwhile, blue-collar local workers cannot compete with the migrants, who have lower expectations on wages, inducing a scenario of ‘race to the bottom’. Hence, a bifurcated labour structure is formed, where jobs at the top and at the bottom end are filled up by foreigners, leaving the locals competing for the declining middle. Dual labour market theory asserted that structural inflation prevents raising wages for the locals, as that would mean that the wages of the higher rank labour force has to be subsequently raised too (Massey et al, 1993). Hence, cheap labour is imported instead to sustain the hierarchy. Meanwhile, workers in the capital-intensive primary sector are more costly to lay off, hence they have become more like capital. Indeed they have been distinguished from the migrant labour by being called ‘human capital’.

At the same time, such hierarchical arrangements are pursued at the regional level, with the establishment of ‘Growth Triangles’ that are determined by an ‘economic geometry’ based on exploiting each country’s comparative advantage in which location, the accessibility of cheap labor, the possibility of exploitation of complementary resources and the proximity of a regional hub enhance the competitive advantage of the region in the global economy. As such, the Singapore-Johor-Riau (SIJORI) growth triangle allows Singapore to retain the ‘command and control’ function at home, while moving ‘low-end’ jobs offshore. Meanwhile, Malaysia has jumped on the bandwagon of bringing homegrown capital abroad. From 2000 to 2009, Direct Investment Abroad (DIA) by Malaysian companies has grown on the average of 3.5% of GDP per annum, peaking at 6.8% in 2008 (BNM, 2009). Since 2007, Malaysia overseas investment has surpassed its FDI inflows (MIDA, 2013).

Post-colonial Identity Construction

The immigration policy adopted by the governments has come with a deeper impact on the social structure. The formation of two distinct foreign groups in Singapore has led to different local sentiments. Whereas both countries show xenophobic attitude towards the migrants, Singaporean locals have also in recent years shown dissatisfaction over the expatriates.

In Singapore, the division of labour is institutionalised. Each sector is allowed to source for workers from specific countries that are divided into categories of ‘Traditional Source Countries’, ‘Non-Traditional Source Countries’, ‘North Asian Countries’ and the People’s Republic of China’ (MOM Singapore, 2014). The enforced division of labour and structurally unequal access to work in Singapore explains the concentration of workers from particular sending countries in selected sectors, thereby reinforcing the dynamics of ‘race’/ethnicity and nationality (Ye, 2013, p.145). Yet, the government is cautious of upsetting the racial composition. As such, in 1990, during the intake of 25,000 skilled workers from Hong Kong, which was estimated to increase the ‘Chinese’ population by about 100,000 (including spouses and children), the government for the first time publicly announced that it would officially commit to maintaining the racial proportion at 76-15-7 percent for the three races of Chinese, Malay and Indian to alleviate the fears of the minority community (Chew & Chew, 1995).
As such, the Singaporean State continues to play a strong role in classifying processes that reproduce class categories. A similar division of labour is observed in Malaysia, though the role of the government is more obscure. It is usually the Bangladeshi workers in construction sectors, Indonesian women as domestic maids (preceded by Filipinos, and increasingly taken over by Cambodians following the maid freeze), and Nepalese as security guards (appendix: table 6).

In many ways this resembles the measures taken by the British government. It was reasoned that there was a lack of labour availability due to the laziness of the locals whose lifestyles were not motivated by wages; hence the failure to attract more foreign capital to Malaya (Alatas, 1977). As such, they turned to importing labour from China and India. While the Chinese labourers came to Malaya as relatively freer workers, the Indians, mostly from the poverty-stricken region of Tamil Nadu, came under a highly state-organised, indentured labour (Kangani) system. Apart from being perceived as a cheap, docile labour force, the Indian labourers were also meant to counterbalance the growing Chinese population in Malaya (Garces-Mascarenas, 2012). Garces-Mascarenas (2012) argued that this is not dissimilar with Malaysia’s effort to diversify its foreign labour composition after 2000 where labour from Vietnam and Myanmar was encouraged to reduce reliance on Indonesian labour, when hostility between Indonesia and Malaysia over issue on labour mistreatment has led to a halt of construction output overnight by 40% as 70% of all construction workers were Indonesians.

Indeed, Marxist theorists argued that colonialism had been a rationalising process in the search for lower market and labour costs as a way to overcome falling rates of profits in the industrialising countries of Western Europe. As such, it facilitated the growth of the capitalist world economy, with one of its transformative features being the introduction of wage labour. Specialised labour for particular tasks along the industrial production chains were introduced in the colonial periphery towards the end of 19th century as the capitalist economy expanded globally (Tajuddin, 2012). With the new division of labour, different ranges of remunerations are created, thereby forming the new ethnic stratification structure with each racial group varying in socio-economic status. As such, under colonial rule, the construction of dichotomous “us and them” social boundaries had not only been the very premise upon which relationships between Europeans and locals were expressed, but it also served to delineate the social worlds of the various local groups (ibid p.8).

State-sponsored xenophobia?

Malaysia was recently downgraded by the US State Department Trafficking in Person (TIP) 2014 from a Tier 2 to Tier 3 country after allegations of torture and deaths of migrant labours. There have been constant reports of mistreatment of foreign workers, particularly domestic maids, and construction workers who are exposed to dangerous occupational hazards that lead to death. The narrative of the workers being short-changed and getting less than what they have been promised by agents back home is not uncommon, as is the reports of workers’ passports being withheld by their employers, thereby restricting their ability to escape (Pattison, 2014)). Those who run away risk becoming an illegal migrant and subjecting themselves to arrest by authorities and an uncertain fate in notorious detention centres. The use of outsourcing companies whose practices are poorly regulated by the government and contract-based labour arrangements create vulnerabilities for the workers. Moreover, levies are paid by workers rather than employers. Hence, while many foreign workers migrate willingly to Malaysia in search of greater economic opportunities, many subsequently encounter forced labour or debt bondage at the hands of their employers, employment agents, or informal labour recruiters.

Singapore does not fare much better in the report either, with concerns over forced labour due to debt bondage, abuse by employers in non-payment of wages and unscrupulous practices by
recruitment agencies. There have also been reports of seizure of passports, leaving migrants vulnerable to being repatriated, and unsuspecting labour subsequently subjected to sex trafficking (US TIP, 2014).

Adepoju (2007) observed that formerly colonised states tend to carry the feature of immigration control, expulsion of non-indigenous workers and forms of state-sponsored xenophobia. In Malaysia, the task of hunting down ‘illegal’ migrants is delegated to the People’s Volunteer Corp (RELA), who has a broken human rights record, such as raiding without warrants, asking for bribes and destruction of property and documents. The arrests often also fail to distinguish between refugees and asylum seekers. In a government clampdown effort coined ‘Ops Tegas’ in 2005, then-deputy prime minister Najib Razak has reportedly said that actions will be indiscriminately taken towards illegal persons, whether or not they carry documentation from the United Nations High Commission of Refugees (UNHCR)4. In 2007, Human Rights Watch called for the disbandment of RELA, calling it ‘little more than a vigilante force’ used by the Malaysian government to fan xenophobia (Crush & Ramachandran, 2010).

‘Us’ and ‘Them’

Barth (1969) notes that boundaries can be real or symbolic; visible or invisible. The markers that divide can include territory, history, language, economic consideration or symbolic identifications of one kind or another (in Cohen, 2006 p.98). In Singapore, migrant workers are confined to their communities, carefully carved out by the Singaporean government. These communities are equipped with their own local grocery stores and other facilities so that they are self-sustaining (Ye, 2013, p. 146). In Malaysia, there has not been a state effort. Accommodation is usually provided by employers. Living conditions are reportedly bad, particularly for construction workers who are usually isolated from the locals.

At the societal level, foreign workers are often seen with much suspicion. Locals have blamed foreign workers for taking jobs as they often have low expectation and accept lower pay. They are also seen as the causes of crime, with local reportedly feeling unsafe with the migrant community. Indeed, the foreign workers are often not well integrated in the local communities but usually form their own pockets within cities in places like Chow Kit in Kuala Lumpur or Little India in Singapore. They are somewhat invisible, unseen to the locals outside of their technical function as workers, but whose existence also glaringly visible, causing uneasiness with their differences. Recent incidents in Singapore and Malaysia respectively can perhaps best illustrate these sentiments.

In November 2012, Chinese national bus drivers in Singapore held a nation-wide strike, the first in 25 years, in protest of the different wages received by Chinese drivers, which was lower than those paid to their Singaporean and Malaysian colleagues. This strike is said to have ‘rattled’ Singapore, as it was considered unthinkable for a nation that prides itself in its stability, business-friendly environment and prosperity among its population. Public reaction included outpourings of unforgiving remarks with xenophobic undertones, calling the protesters to go home if they are not happy (Wong, 2013). A year later, on 8 December 2013, a riot was sparked in Little India of Singapore, when one of the Bangladeshi workers was knocked down by a bus. The incident, though dismissed as isolated by the government, has nonetheless put the nation under the international spotlight with regards to the migrant community in their midst contrasting the image of Singapore being a land of prosperity and human talents. One telling revelation is that the reason the migrants

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4 Malaysia does not recognise the 1957 Refugee Convention nor the 1967 protocol. Refugees are not entitled rights to work nor to education, and often treated as undocumented migrants (UNHCR, 2014).
gathered in Little India was to claim their weekly wages from the supervisor (New York Times, 2013).

The most recent election in Malaysia has seen migrant workers being accused of colluding with the governing party in phantom voting. A self-organised group of election watchdogs, Anything But UMNO (ABU) by concerned Malaysians even set out to attempt to stop suspicious ‘Banglas’ at the voting station. The 13th General Election that took place in May 2013 was to many Malaysians of great historical significance. It was the first election since independence in which the government faced substantial challenge from the opposition and a potential loss of power. The country’s notorious election rigging practices had earned distrust among its voters, giving rise to civil society movements like Bersih that demand clean and fair election. However, with the allegations of migrant workers being used as phantom voters by the ruling party, nationalist sentiments emerged among certain factions. While the movement was set out with legitimate intention for clean election, nationalism reared its ugly head as citizens started throwing unfriendly remarks at the Bangladeshi workers, asking them to not interfere with the Malaysian election which is a ‘national matter’. Paranoia also seeped in with citizens recording when they notice so-called ‘suspicious’ migrant activities such as large number of migrant labour appearing in the constituency as the election draws near. (Pragalath, 2013)

As such, Malaysia and Singapore, in their effort to become global cities, have made conscious policy decision to discriminate within foreign labour according to skill level. High-skilled ‘expatriates’ are looked upon, even to the extent of being fetishised, as a source for talent pool, being given perks to stay or even to take up citizenship and in many cases paid a higher salary range than the locals. Particularly in Singapore, this has led to discontent among local ‘heartlanders’ towards expatriates as the former feel that the latter has been given too much benefit by the government. Meanwhile, low-skilled labour continues to be socially-shunned, politically-controlled and their rights, including to decent wages and working hours and to participate in trade union, restricted.

Conclusion

In this article, I have demonstrated that Malaysia and Singapore owe their economic success to FDI-dependent, export-oriented industrialisation policies. As the TNCs from developed countries ventured out from their core in search of cheap labour, land and resources, Malaysia and Singapore in the post-colonial era served as the semi-peripheral regions in the global hierarchy by hosting labour-intensive manufacturing activities. Such growth would not have been successful without the availability of cheap labour in the form of migrant workers.

As the two countries were losing their competitiveness in low wages to regional countries, policymakers sought to reduce reliance on foreign labour to aid the transition into high value-added and knowledge-based economies. Singapore, due to its scarcity in land and human resources, opted to embrace ‘human capital’, with PR and citizenships given out graciously to ‘talents’. Malaysia, while has been lax on its low-skilled migrant intake, also stepped up its efforts to attract high-skilled foreign workers, and its attempts to reverse its brain drain in recent years. The vision of a global city has led to a preferential treatment of workers according to their skill level, as the professionals are said to bring vibrancy and creativity to the city. Yet, despite all the effort, there is still a substantial number of low-skilled migrant workers in the country serving as the ‘underbelly’,

5 A derogatory term for Bangladeshi workers used by locals.
arguably to cater to the needs of the upper middle class in the services sector. Foreign workers also continue to fill the gap left by locals in taking up the 3D jobs.

As such, a divisive labour structure is created where the ‘expatriate’ is clearly distinguished from the ‘migrant’. These labourers, who use their labour as commodity to create surplus value for capital, do not however share in the wealth of the nation. Instead, they continue to be discriminated against and exploited both by the state and by society.

Under the ideological framework of neoliberalism, allowing a ‘frictionless’ movement of capital has been upheld as a mantra for good economic practice. While the state relinquishes control over its sovereignty to the globalising forces of capitalism, which as some argued is a continuation of colonialism; it continues to enforce its sovereignty upon labour mobility via its control on immigration. Governments are more than happy to play into the electorate’s psyche by blaming foreign workers, particularly the low-skilled labourers, for the lack of jobs, given that they are not answerable to the migrants in the election. These migrants are easily subject to deportation and are always the first to go when crises hit, making them the ‘shadow reserve army’ of the economy.

At a societal level, migrant workers are not accepted as part of the wider community. One should note that Malaysia is a highly racialised political environment, where the minority is constantly negotiating the meaning of, and their rights to, citizenship. The call of ‘pendatang’ (intruders) by far-right Malay groups, who sees themselves as the native Bumiputera (sons of soil), has angered the non-Malay population who are descendants of migrants in the colonial period. This ironically has not led to greater acceptance of migrant workers who now make a similar voyage as their predecessors. They are still seen as outsiders, a less desirable element of the landscape, if not a security threat. A similar ‘not-in-my-backyard’ attitude is also seen in Singapore, where the migrants are excluded in their own self-sufficient communities and are not welcomed in the neighbourhoods nearby. Here is a pattern of the colonial legacy which both the countries share - whereas in the past, identity has been formed vis-a-vis the colonial master, now the locals construct their self-identity by excluding the migrants as ‘others’. Garces-Mascarenas (2012) argued that the post-colonial discourse on migrants is also one of class struggle, as migrant workers are seen as an obstacle to the local’s attempts to obtaining better wages and working conditions. The institutionalised division of migrant labour according to ethnic group by governments also encourages these sentiments.

Indeed, the contradictions between capital and labour are often tangled up in other social distinctions such as race, ethnicity, gender and religion (Harvey, 2014). The state’s attitude towards capital and labour must be viewed within the political-economic context of the country. Jesudason (1989) argued that Malaysia’s obsession with FDI is driven by ethnic considerations, as foreign multinationals are looked upon to create jobs beyond state capacity in Malaysia. Following the race riot in 1969, the government launched the New Economic Policy to appease the poorer sector of the population, particularly the Malays, with job creation. Jesudason (1989) also claimed that the state elites in Malaysia saw the multinationals as an alternative source of investment to the Chinese business sector, as the presence of foreign companies provided Malays with more ownership opportunities and top positions than the family-oriented Chinese big businesses. Turning to multinationals could also prevent enriching the Chinese businesses which would upset the ethnic-based distribution of wealth.

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6 Although the origin of the ‘Malay’ has been contested in the past, they are officially recognised as the indigenous people and enjoy special privileges under the New Economic Policy.
Meanwhile, low-skilled jobs have been ‘exported’ to regional growth triangles. Singapore, having graduated into an advanced economy, and Malaysia, aspiring to do so by 2020, are increasingly behaving like advanced economies, taking advantage of cheap labour and natural resources abroad and thereby externalising the less-desirable elements of their economic activity. While the cities successfully incorporate into global networks and became more prosperous, their ‘new peripheries’ are either marginalised or forgotten (Yeoh, 2004).

On the other hand, despite both governments' desire to transform their economies to move up the value chain, knowledge transfer from FDI has proven to be an uphill task. Such faith might have been misplaced, as multinational companies continue to rely on technology and management from their home base. Labour-intensive industries, on the other hand, continue to rely on imported migrant labour.

Nonetheless, it is not to say that the nation-states are powerless against the free market. Singapore and Malaysia have both deployed some form of state intervention and FDI selectivity in guiding their industrialization processes. What should be stressed, however, is the intertwining between capital and labour and the state’s unequal handling of these two ‘commodities’. Labour is only negotiated through the perspective of capital, while the labourer is rarely emphasised. The state continues to exercise its power to sustain and reinforce inequality by ‘illegalizing’ labour through the bureaucratisation and commercialisation of borders. It is not in the state's interest to challenge the status quo, as the illegality ensures the extraction of cheap labour, which the economy uses to resist structural inflation. As Swiss novelist Max Frisch once said regarding the guestworkers recruited by Switzerland post-World War II, ‘They asks for workers, then human beings came’. In some sense, there lies the contradiction of global capitalism where capital is treated more ‘humanely’ than labour.

Looking Forward - Seeing Migration as Human Activity
There is a tendency in the current discourse for migration to be seen as a policy ‘issue’ to be addressed. However, this need not be the case. History has shown that migration has been a normal aspect of social life, and that the expansion of migration since the 16th century was merely the ‘accelerated pace of change’ due to the development of the capitalist world market in the West. (Castles, 2010). Particularly, in the case of Southeast Asia, the region formerly known as the Malay Archipelago, borders are not only geographically contiguous but also have been historically porous (Garcés-Mascareñas, 2012). Migration is ultimately a human activity.

By acknowledging migrants as autonomous agents, we could return humanity to the owner of the labour, and not merely treating them as economic instruments. Recent incidents of worker strikes and riots in Malaysia (The Sun (2013); Viet Nam News (2013)) and in Singapore (Wong, 2013) suggest that the workers have the capability to self-organise, even in highly oppressive environments. Sporadically, there have been helplines set up by senior workers to help redress issues faced by newcomers. As such, a sense of kinship and solidarity can be observed among the workers. If pushed to a corner, migrant workers denied of their basic rights and the means to seek redresses are likely to respond with hostility, creating equally alienating responses towards the locals in the host nation. As such, a more integrated approach should be embraced, as countries can benefit from the cultural diversity and improved relations with migrant nations.

Rather than reducing the number of migrant workers, a more pressing issue to address would be an over-reliance on foreign capital. Blind faith towards FDI-driven economic development needs to be curtailed as an over-dominance of foreign capital leads to a suppression of indigenous industrial and technological capabilities (Jomo, 2001). As such, the success of an FDI-driven industrialisation depends heavily on how the state can capture the productive capacities from the relocation of
transnational capital and strengthen domestic industries (*ibid*). Chang (1998) maintained that governments can still assert strategic industrial policy in the face of globalisation by imposing restrictions on entry and ownership, as in the case of South Korea and Taiwan; and by maximising technological spillovers.

Even more ‘fluid’ than FDI are portfolio investments, which are more speculative and short-term in nature. There has been an upward trend of speculative activities and financialisation of the economy, both by foreign capital within the countries and by governments elsewhere. This process of financialisation has circumvented the passage of Money-Commodity-Money with profit (M-C-M’), replacing it with Money-Money with profit (M-M’). Capital now in itself is a surplus-generating commodity, and arguably generates more and faster profit than labour does.

More often than not, migration is seen from the perspective of the receiving country, as an issue to be resolved to maximise benefits or protecting the sovereignty of the nation-state in a fashion of ‘methodological nationalism’ (Beck, 2007). Even beyond the national discourse, migration is also seen as a problem to be ‘fixed’ in the modern international governing body - either by imposing tighter border controls or the more liberal approach of addressing the ‘root causes’ of migration, usually poverty and violence in sending countries, so that there is less incentive to migrate. Even so, international agencies have increasingly acknowledged the significance of migration, with the United Nations Development Programme (UNDP) producing the Human Development Report 2009 which highlights the potential of migration to enhance human capabilities.

Bakewell (2007) called this the ‘sedentary bias’, and shows that this has a long history that started with colonial policies and continued to be perpetuated by contemporary development agencies. Anderson et al. (2009) went a step further to critique the current humanitarian action and human rights discourse for being constrained by the concept of the nation-state, where the notions of state sovereignty and citizenship are not questioned, therefore unhelpful when it comes to the claims of the 'illegalized'.

Indeed, the notions of citizenship and borders are only made possible through the ‘imagined communities’ of nation-states (Anderson, 1983). O'Neill (1993) argues that boundaries and national identities are characteristically permeable and variable - national identities can be reshaped, reformed and recombined. Recognising the economic interplay between labour and capital, and how nation-states exert their sovereignty towards these two commodities, one could perhaps make sense of the complexity of evolving social and national identities throughout history of Malaysia and Singapore.
Bibliography


Appendix

Chart 1 Cumulative Net FDI Flows by Sector in Malaysia

<table>
<thead>
<tr>
<th>Year</th>
<th>Peninsula</th>
<th>Sabah</th>
<th>Sarawak</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-1999</td>
<td>77.78</td>
<td>18.78</td>
<td>3.46</td>
<td>532,723</td>
</tr>
<tr>
<td>2000-2009</td>
<td>80.37</td>
<td>15.58</td>
<td>4.07</td>
<td>642,057</td>
</tr>
<tr>
<td>1993</td>
<td>79.33</td>
<td>16.62</td>
<td>4.07</td>
<td>726,689</td>
</tr>
<tr>
<td>1994</td>
<td>78.74</td>
<td>16.26</td>
<td>5.01</td>
<td>745,239</td>
</tr>
<tr>
<td>1995</td>
<td>79.6</td>
<td>1.61</td>
<td>3.66</td>
<td>1,495,637</td>
</tr>
<tr>
<td>1996</td>
<td>84.24</td>
<td>10.01</td>
<td>5.76</td>
<td>937,508</td>
</tr>
<tr>
<td>1997</td>
<td>42.84</td>
<td>15.19</td>
<td>8.44</td>
<td>891,398</td>
</tr>
<tr>
<td>1998</td>
<td>77.19</td>
<td>11.62</td>
<td>11.20</td>
<td>819,684</td>
</tr>
<tr>
<td>1999</td>
<td>75.16</td>
<td>13.37</td>
<td>11.49</td>
<td>769,566</td>
</tr>
<tr>
<td>2000</td>
<td>77.13</td>
<td>13.81</td>
<td>9.07</td>
<td>1,057,156</td>
</tr>
<tr>
<td>2001</td>
<td>78.13</td>
<td>13.13</td>
<td>8.75</td>
<td>1,239,862</td>
</tr>
<tr>
<td>2002</td>
<td>78.35</td>
<td>13.06</td>
<td>8.61</td>
<td>1,359,500</td>
</tr>
</tbody>
</table>

Source: Bank Negara Malaysia, 2009
### Table 2: Changing Proportion of Citizens to Foreign Nonresidents in Singapore, 1947-2010

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>940,824</td>
<td>1,445,929</td>
<td>2,074,507</td>
<td>2,413,945</td>
<td>3,016,379</td>
<td>4,027,887</td>
<td>5,076,732</td>
</tr>
<tr>
<td>%</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total born in Singapore and Malaysia</th>
<th>571,331</th>
<th>1,055,184</th>
<th>2,013,563</th>
<th>2,282,125</th>
<th>2,705,115</th>
<th>3,273,363</th>
<th>3,771,721</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>60.7</td>
<td>73</td>
<td>97</td>
<td>94.5</td>
<td>89.7</td>
<td>81.3</td>
<td>74.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total resident population</th>
<th>1,874,778</th>
<th>2,194,280</th>
<th>2,595,243</th>
<th>2,705,115</th>
<th>2,985,886</th>
<th>3,230,719</th>
<th>3,771,721</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>90.4</td>
<td>90.9</td>
<td>86</td>
<td>89.7</td>
<td>86</td>
<td>74.1</td>
<td>63.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Permanent residents</th>
<th>138,785</th>
<th>87,845</th>
<th>109,872</th>
<th>109,872</th>
<th>72</th>
<th>7.1</th>
<th>10.7</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>6.7</td>
<td>3.6</td>
<td>3.6</td>
<td>71</td>
<td>72</td>
<td>7</td>
<td>10.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total nonresident population</th>
<th>60,944</th>
<th>131,820</th>
<th>311,264</th>
<th>754,524</th>
<th>1,305,011</th>
<th>63.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>2.9</td>
<td>5.5</td>
<td>10.3</td>
<td>18.7</td>
<td>25.7</td>
<td>10.7</td>
</tr>
</tbody>
</table>

Source: Yeoh & Lin, 2012

### Table 3: Foreign Workers in Singapore, 1970-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Total labour force</th>
<th>No. of foreign workers</th>
<th>Percent of total labor force</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>650,892</td>
<td>20,828</td>
<td>3.2</td>
</tr>
<tr>
<td>1980</td>
<td>1,077,090</td>
<td>119,483</td>
<td>7.4</td>
</tr>
<tr>
<td>1990</td>
<td>1,537,000</td>
<td>248,200</td>
<td>16.1</td>
</tr>
<tr>
<td>2000</td>
<td>2,192,300</td>
<td>615,700</td>
<td>28.1</td>
</tr>
<tr>
<td>2010</td>
<td>3,135,900</td>
<td>1,088,600</td>
<td>34.7</td>
</tr>
</tbody>
</table>

Source: Yeoh & Lin, 2012
### Table 4: Eligibility Schemes and Conditions for Work-Permit, S-Pass, and Employment-Pass Holders, Singapore

<table>
<thead>
<tr>
<th>Type of Pass</th>
<th>Pass</th>
<th>Eligibility</th>
<th>Eligible for Dependent’s pass?</th>
<th>Eligible for Long-term social visit pass?</th>
<th>Subject to Dependency ceiling?</th>
<th>Subject to Foreign Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>P</td>
<td>P1</td>
<td>Foreigners whose basic monthly salary is more than S$8000</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>P2</td>
<td>Foreigners whose basic monthly salary is more than S$4500 and up to S$8000</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Q</td>
<td>Q1</td>
<td>Foreigners whose basic monthly salary is at least more than S$3000 and who possess recognised degrees, professional qualifications, or specialist skills</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>S</td>
<td>A category of work pass for mid-level skilled foreigners earning a minimum monthly salary of S$2000</td>
<td>Yes (if monthly basic salary is equal or more than S$2800)</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>R</td>
<td>Work pass issued to a skills qualified or unqualified foreigner below 50 (non-Malaysian) or 58 (Malaysia) years of age, who earns a monthly basic salary of not more than S$2000</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
</tbody>
</table>

Source: Yeoh & Lin, 2012

### Table 5: Benefits enjoyed by expatriates under the Resident Pass-Talent (RP-T) Programme, Malaysia

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly calibre individual with the ability to drive business results that contribute towards Malaysia’s economic transformation</td>
<td>Ability to live and work in Malaysia for up to 10 years</td>
</tr>
<tr>
<td>Have worked in Malaysia for 3 years and possess 5 years of total work experience</td>
<td>Flexibility to change employers without having to renew the pass</td>
</tr>
<tr>
<td>Currently hold a valid Employment Pass, a PhD/Master’s/Degree/Diploma (of any discipline) from a recognised university or a professional/competency certificate from a recognised professional institute</td>
<td>Spouse and dependents under 18 years of age are eligible for the Residence Pass-Talent dependent</td>
</tr>
<tr>
<td>Earn a gross taxable income of RM144,000 per annum, have an income tax file number in Malaysia and paid your taxes for 2 years</td>
<td>Spouse can seek employment without the need to apply for an employment pass</td>
</tr>
</tbody>
</table>

Source: Talent Corp Malaysia official website
Table 6: Documented migrant workers in Malaysia, as of 2007

<table>
<thead>
<tr>
<th>Nationality/Industry</th>
<th>Domestic Helper</th>
<th>Construction</th>
<th>Manufacturing</th>
<th>Services</th>
<th>Plantation</th>
<th>Agriculture</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>296,984</td>
<td>210,838</td>
<td>206,898</td>
<td>40,116</td>
<td>297,615</td>
<td>102,629</td>
<td>1,155,080</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>17</td>
<td>49,289</td>
<td>151,376</td>
<td>28,764</td>
<td>2810</td>
<td>8,171</td>
<td>223,113</td>
</tr>
<tr>
<td>Nepal</td>
<td>30</td>
<td>4624</td>
<td>178,714</td>
<td>20,617</td>
<td>1,483</td>
<td>6,556</td>
<td>223,222</td>
</tr>
<tr>
<td>Burma</td>
<td>30</td>
<td>15,111</td>
<td>79,425</td>
<td>20,617</td>
<td>1,483</td>
<td>6,556</td>
<td>123,222</td>
</tr>
<tr>
<td>India</td>
<td>99</td>
<td>7,577</td>
<td>30,803</td>
<td>23,298</td>
<td>21,631</td>
<td>144,158</td>
<td>253,232</td>
</tr>
<tr>
<td>Vietnam</td>
<td>10</td>
<td>5,299</td>
<td>106,686</td>
<td>2,826</td>
<td>90</td>
<td>623</td>
<td>115,464</td>
</tr>
<tr>
<td>Philippines</td>
<td>10,397</td>
<td>1,686</td>
<td>2,856</td>
<td>2,765</td>
<td>5,038</td>
<td>2,581</td>
<td>25,323</td>
</tr>
<tr>
<td>Thailand</td>
<td>417</td>
<td>1,015</td>
<td>790</td>
<td>15,216</td>
<td>63</td>
<td>555</td>
<td>18,056</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1</td>
<td>4,387</td>
<td>3,296</td>
<td>1,829</td>
<td>816</td>
<td>5,080</td>
<td>15,409</td>
</tr>
<tr>
<td>Cambodia</td>
<td>6,825</td>
<td>176</td>
<td>2,404</td>
<td>231</td>
<td>201</td>
<td>86</td>
<td>9,923</td>
</tr>
<tr>
<td>Others</td>
<td>893</td>
<td>2,508</td>
<td>2,857</td>
<td>3,174</td>
<td>369</td>
<td>248</td>
<td>10,049</td>
</tr>
<tr>
<td>Total</td>
<td>315,703</td>
<td>302,440</td>
<td>766,105</td>
<td>202,357</td>
<td>356,335</td>
<td>163,176</td>
<td>2,106,116</td>
</tr>
</tbody>
</table>

Source: Kwek, Ivy (2010)
Are nuclear weapons still relevant?

Kevin Miletic

Abstract

Nuclear weapons occupy a particular place in the collective imagination. It is commonly believed that those weapons provide their possessor with unrivalled benefits. However, apart from their unequalled potential of mass destruction, we know very little about nuclear weapons. Some argue that they are a force for peace and stability, others argue that they will inevitably bring chaos to the world. But few scholars have questioned their widely assumed salience in international relations. The real question is whether nuclear weapons are really relevant in the conduct of international politics? In order to provide an answer to this question, this paper constructively analyses the effects attributed to nuclear weapons. The nuclear deterrence theory, the pre-eminent role nuclear weapons play in maintaining peace and stability, the utility of nuclear weapons in the pursuit of foreign policy objectives, the efficiency of nuclear weapons in crisis management, and other broadly accepted assertions will be questioned and assessed in light of empirical cases.
Are nuclear weapons still relevant?

Introduction

Since their creation, nuclear weapons and their impact on the international system have been a highly debated topic among scholars, politicians, military strategists and civil society activists. But, despite all the attention that eminent figures have given to the study of nuclear weapons and their impact, it is still unclear whether nuclear weapons help guarantee peace and stability or will eventually bring chaos to the world. (Mueller, 1988) Even if the effects of nuclear weapons on states’ foreign policy are still subject to heated discussions, it seems that there is a widely and informally accepted consensus on the fact that, for better or worse, nuclear weapons have significantly influenced and shaped international relations over the last 70 years. (Mueller, 1988) In fact, nuclear weapons' importance in the history of world affairs since World War II seems to be a given which has too rarely been questioned. (Mueller, 1988) As a result, the current debate around nuclear weapons is monopolized by two sides which are either in favour of nuclear weapons because they see nuclear deterrence as necessary to ensure peace and stability or against nuclear weapons because they see nuclear deterrence as a risky policy that makes the world more dangerous and unstable. (Snider, 2009) In practice, this does not leave much room for different analytical approaches. (Snider, 2009) And given that no other mainstream school of thought objectively assesses the relevance of the nuclear deterrence theory, intellectual honesty would recognize that the potential merits (or demerits) of nuclear weapons require more in-depth analysis. (Doyle, 2013) Indeed, relatively little attention has been given to the study of how global society and inter-state relations are impacted by nuclear weapons. (Rajagopalan, 2013) In order to assess the real influence of nuclear weapons on world affairs, it would be necessary to push the reset button and make sure that the atomic bomb was never invented, which is obviously not possible. (Snider, 2009) Nevertheless, questioning the salience of nuclear weapons in international relations would provide an innovative manner to understand international politics. (Snider, 2009) This would enable scholars to develop new intellectual frameworks to assess how much nuclear weapons have influenced the international system. (Snider, 2009)

By adopting such a critical approach, this paper aims at contributing modestly to deepening our understanding of the role nuclear weapons have in international relations. To this end, we will firstly focus on what the arguments of nuclear weapons' supporters are. Secondly we will verify those arguments by testing them in light of historical developments. In the literature, the theoretical framework that has most extensively been used to comprehend the relations between nuclear weapons and statecraft is realism. Therefore, we will refer to the realist paradigm to provide an analysis of how important (or not) nuclear weapons are for the international system. By doing so, this paper aims at reframing the discussion on nuclear weapons by shifting the attention away from the current debate on nuclear weapons, which does not question their importance and focuses only on their positive or negative nature, to a debate that sheds light on the true relevance of nuclear weapons in international relations. In other words, the purpose of this paper is to get a better understanding of whether nuclear weapons really matter in international politics or whether they are “essentially irrelevant” (Mueller, 1988)?

In a realist world, the international system is a self-help system. (Waltz, 1981) This self-help system is characterized by a state of anarchy where states have to fight for their survival. (Waltz, 1981) In this anarchic and uncertain world, states cannot trust anyone and can only rely on themselves. (Mearsheimer, 2003) This irreducible sense of distrust among states leads them to adopt a power-maximizing behaviour. (Mearsheimer, 2003) In such a system, the only way states can maximize their power, and thereby enhancing their security, is by building up their military. (Donnelly, 2008) In other words, in realism, military power
determines states' position within the international system. Because realists consider military power as a crucial key to understanding international politics, they have provided the bulk of studies of nuclear weapons and their impact on international relations. Many realists (Robert Jervis, John Mearsheimer, Stephen Waltz) claim that nuclear weapons have far-reaching consequences for the international system. (Alagappa, 2008) This claim is based on certain widely accepted assertions that need to be questioned in order to verify their relevance and accuracy. In this regard, this paper will consist of a review of those realist arguments that make the case for the centrality of nuclear weapons in inter-state relations. Each realist argument will be subject to a critical analysis based on empirical examples.

**Nuclear weapons: the ultimate defence?**

The most eloquent realist argument that illustrates the importance of nuclear weapons is the concept of nuclear deterrence. In realists' opinion nuclear deterrence has brought about a revolution in the manner that states conceive their security. With nuclear deterrence, states do not need any defence capability to dissuade other states from attacking. (Waltz, 1981) Deterrence, unlike defence, works by dissuading a state to carry out an attack, not because it would be too difficult to undertake it, but because the reply to the attack would cause great damages, thereby cancelling the gains of the attack. (Waltz, 1981) In practice, what nuclear deterrence does, is that states define their security, not in terms of their ability to defend themselves from an attack, but in terms of their ability to punish a belligerent state if it were to attack. (Waltz, 1981) Waltz summarizes the message of nuclear deterrence in those words: “Although we are defenceless, if you attack we will punish you to an extent that more than cancels your gains” (Waltz, 1981). It is then the prospect of getting severely punished and their inability to impede the punishment from happening that will prevent states from attacking. (Waltz, 1981) Thus, nuclear deterrence reduces the relevance of the offensive role of military forces and limits the danger of military escalation among nuclear weapon states. (Alagappa, 2008) In other words, the prospect of victory for a potential attacker will be reduced by the threat of nuclear escalation, making such an attack unlikely. (Schelling, 1966) The corollary being that the way states envision the conduct of war changes. Following this logic, in a world without nuclear weapons, a state can decide to attack another state if it presumes that success is possible. (Waltz, 1981) Whereas in a nuclear world, a state will not launch an attack unless it is sure that it will succeed. (Waltz, 1981) Moreover, a world without nuclear weapons would see much greater military imbalance between states. (Rajagopalan, 2013) Although nuclear weapons are extremely dangerous, they tend to equalize military power for conventionally weaker states and inhibit great powers' aggressive behaviour. (Rajagopalan, 2013) From this point it follows that conventional differences among states could create more insecurity and could be the cause of possibly greater armed conflicts between states. (Rajagopalan, 2013) As a result of nuclear deterrence, the underlying military logic of war-fighting strategies becomes less aggressive and less adventurous. (Waltz, 1981) Hence, nuclear deterrence is seen as the ultimate defence because the cost of an attack would be so high that it is not worth it. In Waltz's words, nuclear weapons “make it possible to approach the deterrent ideal” (Waltz, 1981). The practical consequence of reaching the point of ideal deterrence is that a nuclear power would be discouraged to start a war against another one, even a conventional war, because of the potential threat of annihilation if the conflict gets out of control. (Waltz, 1981) It might sound paradoxical but in the realist view, it is this fear of annihilation that makes states less fearful. (Mearsheimer, 2003) John Mearsheimer argues that the tremendous destructive capacity of nuclear weapons makes nuclear armed states less inclined to fight against each other, thus in a nuclear world, states “will have less reason to fear the other than would otherwise be the
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Therefore nuclear weapons through nuclear deterrence are the most effective tool to enhance a country's security.

In sum, realist wisdom holds that nuclear weapons are essential to national security because the structure of the international system is anarchy. (Snider, 2009) This means that relations between international actors are characterized by a perpetual state of conflict. (Snider, 2009) But thanks to nuclear weapons, states can escape from this perpetual state of conflict, because nuclear deterrence allows them to ensure their national security. (Snider, 2009) In fact, the very nature of nuclear deterrence is considered by many realists to be unique and cannot be compared to any other types of weapons. (Zagorski, 2013) During the Cold War, the nuclear deterrence theory justified the development of nuclear weapons to maintain the balance of power between the United States and the Soviet Union. Indeed, in the realist's view, the balance of power was maintained through nuclear deterrence because neither the United States nor the Soviet Union would have risked attacking each other, knowing that the result of such an attack would have been mutual assured destruction (MAD).

As Winston Churchill stated it in 1955, safety would “be the sturdy child of terror and survival the twin brother of annihilation”. (Doyle, 2013) But since the Cold War, the state of world affairs has changed. Kenneth Waltz's famous argument stating “the more nuclear weapons the better” (Waltz, 1981) is linked to the Cold War context and do not seem to be applicable nowadays. (Chunsi, 2013) Now the world is characterized by improved means of communication that make socialization among people easier, greater political convergence (the number of democracy has increased) and deeper cooperation among the great powers, just to mention a few changes. (Zagorski, 2013) As a result of those structural changes, the global security context bears no resemblance with the Cold War context. (Doyle, 2013) Those historical changes appear to have undermined the ability of nuclear deterrence to fulfil its role of ultimate security provider. (Doyle, 2013) The key question today is whether nuclear deterrence is still relevant to deal with global threats and guarantee states' national security, or whether there are other possible strategies that are more effective and less risky. (Doyle, 2013) At a global level, nuclear deterrence seems to be ill-suited to face the emerging global threats of international terrorism, transnational crime, health risks, cyber-attack, natural resource shortages and climate change. When it comes to international terrorism, one can observe that nuclear weapons did not deter terrorists groups from attacking the United States, Russia, the United Kingdom, India, Pakistan, and Israel. (Doyle, 2013) Terrorists’ networks, being by nature dispersed and not subject to territorial bounds, are difficult to identify and target. A nuclear strike on a terrorist group would just have a marginal effect on the larger terrorist network and would probably spark a major crisis with the country in which those terrorists took refuge. The same kind of analysis applies to transnational criminal networks.

Concerning climate change, nuclear weapons are not at all relevant for obvious reasons. If anything, the use of nuclear weapons would cause greater environmental problems on a global scale. In an ever more interdependent environment where security challenges are not limited to national boundaries but rather transcend them and threaten the security of all states, national security policies based on a narrow military doctrine seem to be out of date. (Green, 2013) The concept of security in the 21st century can no longer be understood as a “win/lose” military game but should rather be conceived in broader terms in order to encompass humanitarian aspects, cooperative dynamics and collective measures. (Green, 2013)

Of course, realists would argue that a major war between nuclear powers cannot be excluded,
especially since the tensions between the United States and Russia recently increased over the conflict in Ukraine and that China's recent bold moves in the China Sea directly threaten the United States' interests. The justification for the possession of nuclear weapons is based on the possibility of the resurgence of a nuclear threat from an aggressive state with an important nuclear arsenal and significant conventional forces or an emerging hostile nuclear power with malevolent intentions. (Ritchie, 2014) Furthermore, many states such as Pakistan, India, North Korea and Israel evolve in a hostile regional context and face significant existential and conventional threats. (Rajagopalan, 2013) Therefore, the reliance on nuclear deterrence is vital to them because it enables them to deter any military attempt aiming at destroying them. Indeed, their security policy is based on the belief that, as Thomas Schelling argues, nuclear weapons deter all kinds of attacks because of the risk that even the smallest incident could escalate to a nuclear war. (Schelling, 1966) But if we have a look at history we can see that the deterrent value of nuclear weapons is more than questionable. Indeed, nuclear weapons did not deter Egypt and Syria from attacking Israel in 1973; they did not prevent India and Pakistan from being at war in 1999 and 2001-2002; and they did not impede Argentina from fighting against Great Britain in the 1982 Falklands War. (Doyle, 2013) These empirical facts lead us to the conclusion, as Robert McNamara observes, that the deterrent value of nuclear weapons is overplayed. (McNamara, 1983) In fact, nuclear weapons have no other deterrent value than to deter an attacker from using its nuclear capability to strike a country's national territory. (McNamara, 1983) From this point it follows that nuclear weapons are of no use for deterring threats that are not nuclear and that are not directed towards the country's national territory. (McNamara, 1983) In other words, nuclear weapons do not serve any other purpose than to deter an enemy from using its nuclear weapons. (Freedman, 2004) In McNamara’s view, US nuclear capability could not even be used to defend Western Europe from a Soviet invasion. (McNamara, 1983)

### Nuclear weapons: extended nuclear deterrence a reliable deflector?

Nuclear weapons remain a key element in NATO's collective security policy. It is believed that NATO's nuclear weapons provide all NATO countries with a nuclear umbrella under which their security is enhanced, regardless of their actual military power or geographic position. Extended nuclear deterrence is perceived to be so effective and credible that those countries which benefit from it, have willingly decided to refrain from developing nuclear weapons for themselves. However, the effectiveness and credibility of extended nuclear deterrence seem to have been exaggerated. (O'Neil, 2011) Some may even say that it has become redundant in the current strategic environment. (O'Neil, 2011) First of all, certain empirical cases prove the concept of extended nuclear deterrence to be inefficient. Indeed, if we refer to the US extended nuclear deterrence policy in South-East Asia, we can see that it has been ineffective in deterring North Korea from militarily provoking South Korea and escalating tensions in this region (sinking of South Korean boats and shelling South Korean islands). (O'Neil, 2011) Secondly, the credibility of extended nuclear deterrence does not match the credibility of extended conventional deterrence. (O'Neil, 2011) In fact, massive conventional strikes have a more dissuasive effect than extended nuclear deterrence because of their well-known precision and lethality and the absence of taboo over their use. (O'Neil, 2011) This lack of efficiency and credibility is mainly due to the factors that have to be present to make the threat of extended...
nuclear deterrence seem real. Indeed, at least three variables have to be present: the provider of extended nuclear deterrence must stick to its commitment, even at the risk of undergoing a nuclear strike on its national territory; allies need to be convinced that the provider of extended nuclear deterrence will deliver on its commitments; and the potential attacker, as well, has to be convinced that the provider of extended nuclear deterrence will not hesitate to use its nuclear capacity to defend its allies. (O’Neil, 2011) Moreover, it is absolutely not clear whether a country would choose to acquire nuclear weapons in the events of a US extended nuclear deterrence withdrawal. (O’Neil, 2011) Hence, the role of extended nuclear deterrence appears to be overestimated, at best it can be seen as a rhetorical device developed to shore up alliances. (O’Neil, 2011)

Nuclear weapons: the best guarantor of stability and peace?

In the realist perspective, not only nuclear deterrence provides new means for state to enhance their security and become untouchable, but also contributes to making the world a more peaceful and more stable place. (Waltz, 1981) Indeed, following the realist logic, one would argue that nuclear deterrence makes the outbreak of wars less probable between nuclear powers, and if wars were to be fought, they would remain at a low intensity of conflict. (Waltz, 1981) This is due to the fact that the use of nuclear weapons would bring great losses, thus no rational actors would dare to start a war. (Waltz, 1981) In a conventional weapon world, countries go to war knowing that they may be defeated, but defeat does not mean that they will be completely annihilated. (Waltz, 1981) Whereas, in a nuclear weapon world the calculations about victory and defeat do not follow the same logic. (Waltz, 1981) In a nuclear war, there are only two possible outcomes: survival or total destruction. (Waltz, 1981) The cost of winning a nuclear war is so excessive that states would want to avoid armed conflicts. On the one hand, it is by fear of destruction that nuclear deterrence makes war less likely to happen. On the other hand, nuclear deterrence also removes incentives to fight for enhancing its security, because no matter how powerful the others are, the sole possession of nuclear weapons is enough to guarantee a country's integrity. (Waltz, 1981) In this view, reliance on nuclear deterrence helps pacify our global society and inter-states relations. (Waltz, 1981) Competing states possessing nuclear capacity would then become more careful in the way they deal with each other. (Waltz, 1981) Hence, the high effectiveness of nuclear deterrence allows for stability and the perpetuation of peace. (Jervis, 1989)

Over the past seventy years, major powers have not been engaged directly in an armed conflict against each other and no nuclear weapon has been used. In the realist theory, this is explained by the fact that nuclear deterrence prevents a major armed conflict from breaking out. At first sight, this observation seems valid, knowing that major powers were often engaged in direct warfare before the invention of the atomic bomb. (Doyle, 2013) Allegedly, nuclear weapons lead to peaceful and stable political relations among states because they want to avoid any move that might trigger a military escalation. (Blechman and Hart, 1984) If nuclear weapons were such a strong force for peace and forced states to refrain from escalating tensions, how can we explain that the United States saw the need to put itself in

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DEFCON 3\(^9\) or above at least three times (in May 1960, in November 1962, and in October 1973) in its history? (Sagan, 1985) Apparently, nuclear weapons did not prevent crises from occurring, which means that political relations among states were far from being stable and peaceful despite the presence of nuclear weapons in their arsenals. However, realists would argue that, although the level of political tension was high, nuclear weapons played a major role in preventing the Third World War from breaking out. But the only thing we know for sure about nuclear weapons, is their mass destruction capacity.\(^{10}\) Since nobody can really explain why a conflict did not happen, the war-preventing nature of nuclear deterrence cannot be verified for sure and remains a mere assumption.\(^{11}\) This assumption does not take into account other war-discouraging factors that may have prevented a potential war from occurring. (Mueller, 1988) As a member of the US Joint Chiefs of Staff argued in 1949, “if there is any single factor today which would deter a nation seeking world domination, it would be the great industrial capacity of this country rather than its armed strength” (Huntington, 1961). Following this logic, nuclear deterrence alone did not seem to have played an important role in maintaining peace in the post-World War II (WWII) period. In fact, this long period of peace following WWII appears to be the result of a complex historical process in which many factors were involved such as increasing economic and cultural interdependence; advances in information technology; development of regional security alliances; on-going East-West security dialogues; and the evolution of European integration, amongst others. (Doyle, 2013) This implies that nuclear weapons' contribution to the absence of direct military conflicts between great powers is marginal. (Doyle, 2013) This long period of peace can be better explained by “the lack of fundamental political and ideological conflict and the development of a much greater range of mutual interests between the former adversaries” (Doyle, 2013). Indeed, the fact that great powers share certain interests and the relative congruence of their policy objectives seem to be a better indicator for peace than the build-up of nuclear arsenals. (Kugler, 1984) If this is verified, then nuclear weapons' role in improving stability and maintaining peace is overplayed. (Doyle, 2013) Furthermore, the fact that both India and Pakistan possess nuclear weapons does not seem to have helped ease the tensions between them.\(^{12}\) In fact, the acquisition of nuclear weapons did not make them become more peaceful and did not change significantly their behaviour.\(^{13}\) Despite them having nuclear weapons they fought two wars in 1999 and 2001-2002.\(^{14}\) If anything, nuclear weapons seem to create significant tension on the international scene by fostering hostility and mistrust rather than help diffuse the tension. (Lebow and Gross, 1994) War existed long before the invention of the atomic bomb, it still occurs while certain countries have nuclear weapons, and it is likely to continue after all nuclear weapons are removed from states' arsenals. (Doyle, 2013)

**Nuclear weapons: the obsolescence of alliances?**

Realists argue that nuclear weapons influence the patterns of alliances. Some of them even

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9  DEFCON is the process by which American military forces are placed on alert. There are five DEFCON levels.
support De Gaulle's observation that nuclear weapons make alliances obsolete. This realist belief that nuclear weapons have an effect on alliances dynamics is justified by the idea that becoming a member of an alliance does not enable one country to enhance its security. Given that nuclear forces do not add up, it is unnecessary to join an alliance to become more powerful or to improve its security. Furthermore, alliances become less relevant in the international system, the reason being that they can no longer perform their previous task of balancing power because nuclear weapons provide its holder with such a power that it can only be balanced by another nuclear country. (Waltz, 1981) Even the duplication of its nuclear forces would not bring a huge difference in the alliance's power, given that nuclear forces do not add up. Therefore, combining different national forces would not make the alliance more or less vulnerable because it would not substantially increase the alliance's power.

The realist claim that alliances are useless for nuclear powers, tends to over-emphasize the importance of nuclear weapons in projecting a country's power into the international arena. Indeed, the purpose of alliances and alignments is not only to increase the military power of member states, it can also have wider functions that go beyond merely military objectives. (Alagappa, 2008) Alliances can enhance other attributes of power which nuclear powers could not enhance by themselves. (Alagappa, 2008) For example, alliances can “extend the power and influence of the dominant partner; they can assist in the construction of a preferred order; and allow for shared responsibilities” (Alagappa, 2008). Furthermore, the patterns of alliances seem to be better reflected by political and ideological reasons than sound nuclear strategy. (Mueller, 1988) As Warner Schilling argued: “The advent of nuclear weapons had not influenced the American determination to restore the European balance of power” (Schilling, 1961). We can also think of Israel and North Korea. Although both countries possess nuclear weapons and rely very much on it as their ultimate security guarantee, nuclear weapons have not diminished the relevance of their respective alignment with the United States and China. (Alagappa, 2008) This suggests that the nuclear component of alliances' strategy is overplayed. (Perkovich, 2009) The example of the United States, France, and the United Kingdom shows us that the role that nuclear weapons play in shaping the patterns of alliances and alignments is less important than realists assume. Moreover, it demonstrates that for security purpose the development of a genuine security community is much more efficient than nuclear deterrence, because it allows to resolve the security dilemma without risk of annihilation. (Zagorski, 2013)

Nuclear weapons: the most effective instrument of foreign policy?

Another influential realist, John Mearsheimer, observes that holders of nuclear weapons do not need to comply with the rules of the international system. (Mearsheimer, 2003) In fact, nuclear weapons provide its possessors with such a tremendous destructive capacity that it allows them to enter a new reality where international pressure and threats of attack cannot reach them. (Mearsheimer, 2003) In other words, nuclear powers become untouchable thanks to the severe punishment they can inflict upon their adversary. Realists argue that military superiority allows a country to ensure its national security and help it achieve its foreign policy goals. (Snider, 2009) Following this logic, nuclear weapons
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should provide states that possess them with such an overwhelming military advantage on others that it would be pointless for a non-nuclear country to go against the will of a nuclear power. The corollary being that nuclear armed countries should be more successful than non-nuclear countries in meeting their disputed foreign policy goals. (Kugler, 1984) In other words, nuclear states should always impose their views in disputes with non-nuclear states. (Kugler, 1984)

Yet, history tends to indicate that nuclear weapons are not sufficient to get other countries to do what is wanted from them. (Snider, 2009) Even when the United States were the only nuclear power between 1945 and 1949, this did not provide them with the ability to force the Soviet Union to stop its annexation of Central Europe. Now the United States, Russia, and China have the ability to destroy the planet with their respective nuclear arsenals, but regardless of how militarily powerful they are, their military strength does not enable them to achieve specific geopolitical objectives. During the Vietnam War, the Vietnamese guerrillas were not deterred at all by the United States' nuclear weapons. In this case, as well as in many other cases such as the United States' experiences in Afghanistan and Iraq, and Russia's experience in Afghanistan, nuclear weapons did not provide any kind of military advantage to their holders. This is due to the fact that nuclear powers cannot use their nuclear capacity to get a non-nuclear country to comply with their demands. As a matter of fact, nuclear weapons did not help the United States to make Saddam Hussein leave power in either 1991 or 2003 and it did not prove useful in forcing Serbia to stop attacking Kosovo in 1999. Russia as well, despite its nuclear capacity, did not manage to stop NATO's expansion in the Balkans. As shown by these examples, nuclear weapons are not really helpful in the pursuit of a country's foreign policy objectives in the international arena. They appear to provide its holder with extremely limited influence, neither Israel nor the United States, despite their tremendous nuclear capability, seem able to dominate the Middle East. Moreover, the United States' nuclear weapons did not prevent the Soviet invasion of Czechoslovakia; the Chinese intervention in the Korean War in 1950-1952; and the Soviet invasion of Hungary in 1956. (Kugler, 1984)

And in cases where foreign policy objectives of nuclear states were attained such as when the United States prevented Soviet actions during the Berlin blockade of 1948; during the Greek civil war in 1951; and during the Middle East war in 1973; we cannot give nuclear weapons full credit for these achievements, since we do not know which arguments made the Soviet decision-makers change their mind. (Kugler, 1984) From these examples we can see that nuclear weapons seem to be a weak support for a country's foreign policy. This is due to the fact that nuclear weapons cannot translate into tangible power that can be wielded on the international stage. (Blechman and Hart, 1984) It fails to give its possessor the ability to force others to comply with its demands. (Blechman and Hart, 1984) Realists would still argue that the United States did use the implicit threat of nuclear weapons in half a dozen of cases, as a means of bolstering their foreign policy. (Blechman and Hart, 1984) However, the fact that they did use them as a foreign policy tool, does not tell us whether the threat was decisive in forcing the other country to change its course of actions. (Blechman and Hart, 1984) Moreover, nuclear powers seem more inclined to resort to conventional weapons if the use of force is needed. For example, one can take the example of China, and observe how it resorts only to the use of its conventional forces rather than its nuclear weapons to advance its national interests in the China Sea. (O'Neil, 2011) Actually,

both China and Russia have used force as a key element of their foreign policy but neither of
them has threatened to use nuclear weapons in the pursuit of their regional policy objectives.
(Alagappa, 2008) More immediately, Russia and China's nuclear weapons aim at equalizing
the imbalance in conventional forces with the United States, but it is unclear what kind of
threats these nuclear weapons are supposed to deter. (Alagappa, 2008) The only countries
which use nuclear weapons to deter a precise threat are India and Pakistan, both countries
hold nuclear weapons to deter large-scale conventional attack by the other. (Lewis & all.,
2014) North Korea is a more complicated case to analyse, some argue that nuclear weapons
allow to neutralize the United States and South Korean conventional advantage, and others
say that North Korea would be better off without nuclear weapons and would still preserve its
integrity because what, actually, deters the United States and South Korea is not nuclear
weapons but China. (Alagappa, 2008) So far, the realist belief that nuclear weapons are a key
instrument of foreign policy seems to be vastly overrated. Despite their destructive potential,
nuclear weapons are not of great help when it comes to advancing national interests in the
international arena.

Nuclear weapons: the substitute to arm races?

Another realist assumption is that nuclear powers are likely to cut their military spending and
stop arm races. (Waltz, 1981) The reason being that nuclear weapons make the build-up of
conventional forces unnecessary and obsolete. (Waltz, 1981) In a conventional world, the
quantity and quality of conventional forces that a country possesses will determine how
powerful, in terms of military power, a country is on the international scene. From this point
it follows that countries have a strong incentive to increase their military spending, the direct
consequence being that states will have to engage in an endless arm race to maintain their
relative power. (Waltz, 1981) Whereas with nuclear weapons, there is no need to compete
with other nuclear states over deterrence capability. (Waltz, 1981) With nuclear deterrence,
states are no longer interested in building up their military forces, because it provides them
with the ability of inflicting frighteningly severe damages on others. (Waltz, 1981) Thus once
the nuclear deterrence capability of a country is operational, it does not need to build up its
stockpile of strategic weapons. (Waltz, 1981) Waltz argues that nuclear weapons change the
pattern of arm races because with nuclear deterrence “more is not better if less is enough”
(Waltz, 1981).

However, the latest developments in military capability seem to go against Waltz's claim.
Indeed, by 2003, US military planners had decided to develop the Prompt Global Strike
initiative to design conventional weapons which could reach any targets on the planet.25 This
pushed Russia and China to carry out their respective development of long-range hypersonic
conventional missiles.26 Thus the United States, Russia and China seem to be engaged again
in an arm race which is seen as crucial to gain military advantage over its opponents and
avoid being too vulnerable to a whole new kind of attack.27

25 http://www.foreignpolicy.com/articles/2014/05/06/target_boost_glide_hypersonic_weapons_china_arms_rac
g (14.09.2014)
26 http://www.foreignpolicy.com/articles/2014/05/06/target_boost_glide_hypersonic_weapons_china_arms_rac
g (14.09.2014)
27 http://www.foreignpolicy.com/articles/2014/05/06/target_boost_glide_hypersonic_weapons_china_arms_rac
g (14.09.2014)
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Nuclear weapons: nuclear proliferation as direct consequence?

The realist doctrine stipulates that although arm races should decrease, nuclear proliferation should increase. (Waltz, 1981) States would want to get their hands on nuclear weapons for a number of reasons: the sole possession of nuclear capability would enable them to counter a nuclear threat from another country; they would not need to rely on others to improve their security; they could face adversaries who were once more powerful than them; they would join the club of the nuclear haves, thereby becoming a de facto important player on the international scene. Nuclear deterrence capability strengthens weak countries by reducing the imbalance in military forces, thereby limiting their vulnerability, enhancing their security and providing bargaining leverage in negotiations with states which are more powerful in terms of conventional forces. (Alagappa, 2008) In other words, nuclear capability is a shortcut to the major powers’ club because once a country has nuclear weapons, others cannot impose their will on it.

However, the records show that horizontal as well as vertical proliferation has decreased over the past decades. As concerns vertical proliferation, the number of warheads has decreased by two-thirds since 1986 and the START II Treaty should result in an even more important decrease of nuclear stockpiles. (Lewis & all., 2014) When it comes to horizontal proliferation, the overwhelming majority of states, 189 out of 195, have signed the Nuclear Non-proliferation treaty and thereby renouncing to acquiring nuclear weapons. (Doyle, 2013) Furthermore, certain states were in the process of developing nuclear weapons and decided to stop their efforts such as South Africa, Brazil and Argentina, and others were in possession of those weapons and decided to give them back to Russia such as Ukraine, Belarus and Kazakhstan. (Quinlan, 1997) The realist theory cannot explain why states would willingly renounce their right to develop nuclear weapons with all the advantages that it should give to its possessor.

Realists would argue that, as a matter of fact, a few states did try to develop their nuclear capability. But because of western anxieties, they were forced to stop their nuclear development and were forced to join the nuclear non-proliferation regime put in place by Western powers. However, there are only a handful of countries that developed, or tried to develop, a nuclear capability. These numbers do not match the expectations of the realist theory which claims that all states have a strong incentive in developing their respective atomic devices.

Nuclear weapons: the international currency of power?

Some claim that nuclear deterrence is out of date with our comprehension of power and the emergence of a normative body putting the emphasize on human rights and the rule of law. (Doyle, 2013) It is certainly true that the acquisition of nuclear weapons makes an important difference in a country's military power, but military power alone does not grant a country the status of great power. (Alagappa, 2008) It does not even alter a state's ranking or the distribution of power in the international system. (Alagappa, 2008) The sources of power are shifting away from military forces that were more determinant in the past. (Nye Jr., 1990) Without a strong economic growth, educational system, technological knowledge and demographic capital, it is difficult for a country to have a say in world affairs. (Alagappa,
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One can argue that despite not having nuclear weapons, Germany exert more influence on the international stage than Pakistan. For example, Germany participates in the P5+1 talks with Iran, it is part of the G7, and in 2011 it was the third largest contributor to the UN. Moreover, the negative humanitarian effects of nuclear weapons are at odds with the political discourse of most democracies that promote Human Rights. This delegitimation, on moral and humanitarian grounds, of nuclear weapons as a tool of foreign policy to advance states' interests, implies that they do not contribute significantly to providing their possessor with symbolic power that enables their voice to be heard by the international community. This negative connotation associated to nuclear weapons renders them useless in the search of soft power. (Nye Jr., 1990) Nuclear weapons are hardly seen as a tool of soft power because they are not of great help for improving a country's attractiveness. (Nye Jr., 1990) The ability to get others to admire you and follow you depends on intangible sources of power such as culture, ideology, and institutions. (Nye Jr., 1990) The notion of power is too subtle to be captured by nuclear weapons, even military power cannot be understood on the basis of nuclear weapons alone. Also, it is difficult to assess the extent to which nuclear weapons can be converted into political leverage. (Gartzke, 2009) Therefore nuclear weapons do not seem to be the most suitable currency of power. However, realists would argue that nuclear weapons provide its holder with a bargaining advantage. But again it is complicated to identify the sources of this bargaining advantage, is it really due to nuclear capability or another factor? (Gartzke, 2009) Actually, nuclear weapons have been given the title of currency of power by misperception. In practice, those weapons are too blunt to serve any real purpose. (Wilson, 2013) Japan has no nuclear weapons, yet it enjoys the status of regional power in South-East Asia. In spite of having nuclear weapons, North Korea gains no significant international support (on the contrary, it suffers from harsh sanctions) nor prestige. India, Pakistan and Israel's nuclear weapons did not substantially increase their influence in international affairs. Nevertheless, it is interesting to note that this misperception favours certain nuclear armed countries, especially the P-5 (the United States, United Kingdom, France, China, and Russia) who have a strong incentive in having nuclear weapons be perceived as the most valuable currency of power. (Santana, 2009) As a matter of fact, Phillip Hammond (former UK defence secretary) agreed that “any surrender of our nuclear deterrent capability would not only leave us vulnerable but also weaken our position as a permanent member of the UN Security Council” (Ritchie, 2014). As long as nuclear weapons will be regarded as an indicator of a country's regional and global standing by the international community, doubts will remain that nuclear weapons is an informal necessary, maybe even sufficient, condition for enjoying a greater political status and being respected on the international stage. However, the international system is experiencing changes such as the increasing importance of non-Western actor; the shift away from western hierarchic gradation of national standings; the decreasing relevance and legitimacy of military capacity; the increasing salience of institutionalized forms of international collaboration to deal with global issues; and the increasing importance of economic and financial power. (Ritchie, 2013) These changes will further undermine the value of nuclear weapons as currency of power. (Ritchie, 2013)

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Nuclear weapons: the most efficient tool for crisis management?

Realists argue that nuclear weapons provide important benefits in crisis management. The idea behind this, is that nuclear weapons provide strategic stability. (Riqiang, 2011) Thus, during a crisis a country without nuclear weapons will have a strategic disadvantage compared to its nuclear opponent who can use its nuclear capability as a coercive leverage. (Riqiang, 2011) As a consequence, non-nuclear countries should avoid upsetting their nuclear counterparts. Another positive point that realists tend to associate to nuclear weapons is that, during crises, nuclear deterrence help avoid miscalculations and misinterpretations, thereby rendering conflict escalation less likely. (Riqiang, 2011) An analysis of military disputes between 1946 and 2007 tends to corroborate this argument by showing that nuclear armed states behave more cautiously with other nuclear armed states. (Grieco, 2012) Following this logic, one could think that nuclear weapons do influence conflict escalation patterns. However, the deterrence literature focuses too much on military aspects and do not provide a clear account of the other non-military incentives and disincentives that play a role in crisis management. (Mueller, 1988) It seems likely that for those conflicts that did not escalate, nuclear weapons did not really matter in the conflict resolution process, whereas non-nuclear factors appear to have had a greater impact. (Mueller, 1988) As for the argument that non-nuclear countries should avoid upsetting their nuclear counterparts because they have a strategic disadvantage, the literature and empirical cases, such as Lebanon and Israel, Taiwan and China, Russia and Chechnya seem to prove that the possession of nuclear weapons does not inhibit the escalatory propensities of non-nuclear countries. (Geller, 1990)

In order to demonstrate the positive effect of nuclear deterrence in crisis management, realists usually refer to the Cuban missile crisis. During this crisis it is believed that nuclear deterrence forced the United States and the Soviet Union to restrain from using military forces and pushed them to find a peaceful solution. (Snider, 2009) Yet, this argument ignores one essential point: would the Cuban missile crisis have happened in a world without nuclear weapons? (Snider, 2009) To say that nuclear weapons helped prevent this crisis from spiralling out of control misses the fact that maybe it is because of nuclear weapons being shipped to Cuba that the crisis occurred. (Snider, 2009) Moreover, in the opinion of President Kennedy's security advisors (Secretary of State Dean Rusk, Secretary of Defense Robert McNamara, and National Security Advisor McGeorge Bundy) the decisive deterrent factor was not the nuclear threat but rather the US naval superiority and the mobilization of conventional forces in the South-eastern United States. (Blechman and Hart, 1984) If we have a look at other crises such as the North Korean and Iranian crises, we can observe that they share certain aspects with the Cuban crisis. Indeed, both crises originate from the development of nuclear capability in both countries. (Snider, 2009) Perhaps these crises would not even exist in a nuclear free world. (Snider, 2009)

However, there is another crisis in human history during which the United States explicitly used the nuclear threat against the Soviet Union. During the Middle East crisis in 1973, the United States did alert their nuclear forces to deter a Soviet intervention in Egypt when the Israeli and Egyptian armies were fighting near Suez. (Lewis & all., 2014) But again, although a nuclear alert can be a fair indicator of how a country perceives the stakes in a given situation and how far it is willing to go, we cannot be sure that the opponent will understand the seriousness of the situation and if it will deem the nuclear threat credible. (Blechman and Hart, 1984) What seems to have played a determining role in deterring the Soviet from intervening in Egypt was the uncertainty about the outcome of both a naval battle in the

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Mediterranean Sea and a limited conventional war in Egypt. (Blechman and Hart, 1984) Actually, orders for alert were given to all components of the US forces, as a result nuclear forces were automatically put in a state of alert. (Blechman and Hart, 1984) Furthermore, the United States’ readiness to start a conventional war sounded genuine, it “fit the historic pattern of US behaviour and reflected long-standing American perceptions of its vital interests” (Blechman and Hart, 1984) in the region. Hence, the nuclear threat seems to have been overemphasized in the literature. It appears that rather than the fear of nuclear destruction, what is likely to deter an adversary from escalating tensions, is if the strategic payoffs gained through war are too meagre. (Kugler, 1984) From this point it follows that nuclear weapons do not significantly affect crisis management. (Gartzke, 2009) Indeed, states cannot rely only upon nuclear weapons to prevent escalatory behaviour by either nuclear or non-nuclear states. (Geller, 1990) Nevertheless, nuclear weapons seem to have a minor influence in crisis management in the way they brought nuclear states to more precisely calibrate their application of force in international crises. (Geller, 1990) This is due to the fact that they raise the provocation threshold, thereby expanding the room for coercive manoeuvre in view of achieving strategic objectives in nuclear disputes. (Osgood and Tucker, 1968)

Nuclear weapons: psychological barrier to new thinking?

Over the past decades, nuclear weapons have remained at the core of states' security paradigm. (Wilson, 2013) The central place that nuclear armed states have subjectively given to the atomic bomb resulted in creating the false perception that nuclear weapons are of considerable value to states. (Ritchie, 2014) In fact, the value of nuclear weaponry is not objectively assessed, instead nuclear weapons have been assigned various beneficial effects, and it is those perceived beneficial effects that are valued. (Ritchie, 2013) In other words, to retain their atomic devices nuclear powers have locked themselves into a set of constructed political and security reasons and invented historical narratives that justify the possession of such weapons. (Ritchie, 2014) For example, nuclear weapons relate to notions of status, prestige, power, influence, and are associated to a source of international order that has ensured the longevity of the post-war peace and stability. (Ritchie, 2013) These beliefs are deeply anchored in decision-makers’ subconscious and cannot be easily dismissed. General George Lee Butler (United States Air Force, retired, former director of strategic plans and policy (89-91) at the Strategic Air Command) observes that “the moment I entered the nuclear arena, I had been thrust into a world beset with tidal forces, towering egos, maddening contradictions, alien constructs and insane risks. (...) It was, in every respect, a modern-day holy war. The stakes were national survival, and the weapons of choice were eminently suited to this scale of malevolence.” As a result, nuclear powers still conceive nuclear weaponry as crucial to their national security and therefore adopt deterring postures by targeting strategic locations with their nuclear weapons. This connection between nuclear weapons and national security is so deeply rooted in decision-makers' mind that before even thinking about developing new security policies, it is necessary to adopt a different mind-set that is liberated from the dominance of old ideas. (Müller, 2013) Indeed, for a nuclear armed state to imagine getting rid of its nuclear arsenals, it would require this state to reframe its conception of national identity around a vision of its history, power, influence and values which do not depend on the possession of nuclear weapons. (Ritchie, 2014) Furthermore, not only are decision-makers blindly convinced of nuclear weapons'

benefits but they also create a vicious circle by indoctrinating new comers in the nuclear arena who will in turn give “rise to a culture of messianic believers infused with a sense of historic mission and schooled in unshakable articles of faith.” As Nick Ritchie argues, nuclear weapons seem to be embedded “in our political and strategic cultures legitimated by a contingent regime of truth that fixes nuclear weapons in a value regime.” (Ritchie, 2013)

Conclusion

This paper does not argue that states will under no circumstances use those weapons. It is likely that nuclear powers have contingency plans for using them in their drawers. Risks of nuclear explosion either on purpose or by accident are not inexistent. However, what this paper aims at pointing out is that the salience of nuclear weapons in world affairs is a myth deeply rooted in decision makers mind. Indeed, after having constructively analysed the realist literature on nuclear weapons, we can conclude that nuclear weapons have practically no relevant impact in the conduct of international affairs. This argument is supported by the fact that nuclear weapons do not seem to have been essential in enhancing states' security through nuclear deterrence and extended nuclear deterrence. In fact, nuclear deterrence only have a potential relevance for an extremely narrow set of purposes (Ritchie, 2014). A country's nuclear capability can only be used to deter a nuclear threat or if vital interests are at risk. (Blechman and Hart, 1984) Actually, even the Final Report of the US Nuclear Policy Review Project of 2008 states that US nuclear weapons are a weapon of last resort that can only be used in case of existential threat. Not only nuclear deterrence seems to be unadapted to face today's security challenges, but also does not seem to play a central role in the conduct of foreign policies. (Doyle, 2013) Nuclear weapons provide limited influence on the international stage and do not automatically grant a country the status of great power. (Alagappa, 2008) In addition to that, those weapons are not of great help to compel another country to comply with one's demands. (Blechman and Hart, 1984) The degree of nuclear weapons-induced peace and stability seems also exaggerated. (Ritchie, 2014) The post WWII period has been characterized by a high level of tension among great powers and numerous peripheral conflicts. Moreover, the absence of a Third World War is more likely due to factors that have nothing to do with nuclear weapons such as increasing security cooperation among states and congruence of policy objectives. (Doyle, 2013) Nuclear weapons also did not put an end to arm races. As a matter of fact, nuclear powers tend to reduce their reliance on nuclear capability and have improved their conventional capabilities. The benefits of nuclear weapons in crisis management have also been questioned. At best, a nuclear threat made during a crisis can send the signal that one perceives a vital interest in the situation, but it cannot be held responsible for forcing the opponent to change its course of actions. (Blechman and Hart, 1984) Other factors do play a role in crisis management and we cannot even be sure that the nuclear threat will be seen as credible by the opponent. (Blechman and Hart, 1984) Moreover, the arguments that made the case for the decreasing importance of alliances and the ever increasing universal trend of nuclear proliferation did not prove to be right. In fact, nuclear weapons can be assimilated to a psychological barrier that impedes states from re-conceptualizing their security and their national power. (Alagappa, 2008) The importance of atomic bombs in national security policies relies on a subjective strategic and political assessment which does not reflect the objective strategical context in which states evolve and the security challenges they face. (Ritchie, 2014)

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Al Qaeda and Its Franchising Strategy: A Success Story?

Ole Kristian Myren

Abstract

In this dissertation I argue that Al Qaeda’s franchising strategy has so far been successful as it has made the organisation more resilient and increased its areas of influence through the affiliates. In the relevant academic discourse there is a lack of detailed analysis on the relationship between Al Qaeda and its affiliates. I hope to contribute to bridge this gap by introducing case studies of two of its most prominent affiliates, Al Qaeda in the Arabian Peninsula and Al Shabaab. I focus especially on the internal dynamics of the affiliates and their communication with Al Qaeda. Even though the strategy of decentralisation has so far been a success, it has also exposed Al Qaeda to new vulnerabilities such as overstretch and the rise of a serious competitor for its prominent position in the jihad movement. Even though the newly emerged threat posed by the Islamic State might seem somewhat overblown in the media, it will no doubt test the resolve of Al Qaeda’s franchising strategy. Retaining the loyalty of its formal affiliates will be a main priority for Al Qaeda as the Islamic State will try its best to lure them away. This may cause drastic changes in the dynamic between Al Qaeda and its affiliates.
Introduction

Al Qaeda was created as a militant Islamist organisation after the end of the Afghan jihad against Soviet occupation in the late 1980s. Following its shockingly effective 9/11 attack on the World Trade Center in 2001 Al Qaeda and its long-time leader Osama bin Laden became a rallying point for radical Islamists globally. It has now arguably been the world’s preeminent terrorist organisation for more than a decade. In this dissertation I will focus on Al Qaeda’s strategy of decentralisation, also known as franchising strategy, which has been gradually pursued by its leadership since 2002. In what resembles a classic franchising operation Al Qaeda lends its name, credibility and advisory expertise to certain militant Islamist groups (i.e. the franchisees or affiliates) and in return the leaders of these groups swear an oath of allegiance (bayat) to Al Qaeda’s leader. In addition to this formal submission it is expected that the affiliates broadly follow the central leadership’s ideological guidance and strategic advice. Accurately gauging the success or failure of such an overarching strategy is complicated as it can potentially involve an endless list of parameters. Consequently, I will limit this dissertation to assess what I deem to be the two main purposes served by the strategy. Namely, the core motivation of securing the survival and resilience of Al Qaeda itself and, secondly, continuously expand the group’s reach and influence and thereby cementing its prominent position in the global jihad movement.\(^1\) Based on translations of primary sources, readings of relevant secondary literature as well as case studies of two affiliates, Al Qaeda in the Arabian Peninsula (AQAP) and Al Shabaab, I will argue that the franchising strategy has indeed been successful in achieving its primary goals but also exposed Al Qaeda to new vulnerabilities. One of these vulnerabilities is the rise to power of the group’s former Iraqi affiliate, the Islamic State of Iraq and al-Sham (ISIS), also known as the Islamic State (IS). It has rapidly seized territory, especially in Iraq, since it was disaffiliated from Al Qaeda in February 2014. On June 28, IS’s leader, Abu Bakr al-Baghdadi, declared the formation of an Islamic caliphate. As a self-styled Caliph he has demanded that all Muslims submit to his authority (Strange 2014). These events have probably taken the Al Qaeda-leadership by great surprise and IS now poses a serious challenge to the role as leader of global jihad. Although this newly emerged competition is too recent for thorough academic scrutiny, I will – based on insights from this dissertation – suggest that Al Qaeda’s strategy of decentralisation has in fact contributed to expose the group to this current challenge from IS. I predict that future competition over the leadership of jihad might affect Al Qaeda’s franchising strategy in one of two ways: it will either demand an increased degree of submission from its affiliates and strongly punish transgressors in order to present a united front against IS or, alternatively, it will show more leniency towards transgressors among the affiliates to prevent itself from defections to IS, which could prove catastrophic. Regardless of future tactics, Al Qaeda-leader Ayman al-Zawahiri’s recent announcement of an official affiliate in the Indian subcontinent indicates that the franchising strategy will remain the group’s preferred strategy for waging jihad (Park 2014).

\(^1\) The ultimate purpose of all Al Qaeda’s operations and strategies is of course the awakening of the Muslim masses and subsequent establishment of a viable and far-reaching Islamic caliphate. However, this is no doubt a long-term project and in assessing the effectiveness of the franchising strategy so far I find it more realistic and analytically purposeful to judge it by how well it has enabled Al Qaeda to retain a prominent role, from which it can continue to pursue its ultimate goal.
Al Qaeda and Its Franchising Strategy: A Success Story?

Literature Review

The academic discourse on Al Qaeda’s franchising strategy tends to focus on the strategy as an ultimate success or failure. Whereas some experts take a position in between the two extremes, this issue has created a polarised academic climate. One academic position views the strategy as a success story that has expanded Al Qaeda’s reach and made it more potent and operationally capable than before 9/11. The other assesses that the group exerts minimal control over its affiliates, and combined with the leadership’s limited operational capability, this indicates that contemporary Al Qaeda is severely weakened and close to decimation. Many of these views lack a precise analysis of the dynamics in the relationship between the leadership and the affiliates. These assessments seldom investigate the actual ties and connections, or lack thereof, in the franchiser-franchisee relation. Rather, pronouncements on the franchising strategy are frequently derived from assessments of Al Qaeda’s capabilities and deemed a success or failure merely to back up arguments for a higher or lower risk rating. This is especially true in analysis relating to Al Qaeda’s capacity to strike the US homeland. Although this bias may make sense from a US perspective it also blurs an objective understanding of Al Qaeda’s strategy. It is important to remember that the fight against the US and its allies, at the end of the day is a stepping stone towards toppling local regimes and establishing a full-fledged Islamic caliphate. This is not to say that targeting the US and its allies does not constitute a key part of Al Qaeda ideology. A new large-scale Al Qaeda-linked attack on the US homeland would certainly provide an enormous boost to the group.

The Abbottabad Documents

A key primary source on Al Qaeda’s franchising strategy are the so-called “Letters from Abbottabad”, which were captured by US special forces during the raid that ultimately killed Osama bin Laden on May 2, 2011. It is believed that huge amounts of valuable electronic documents were discovered but so far only 17 have been released. The so far most thorough translation and interpretation of the released documents have been conducted by the CTC at West Point (Lahoud et al. 2012). Based on these documents Lahoud et al. take a highly sceptical view of Al Qaeda’s capabilities and its franchising strategy. According to their interpretation bin Laden is frustrated by his inability to exercise control over the affiliates’ actions and public statements. In fact bin Laden seems to view the affiliates as a burden that lacks the political acumen to win public support, runs poor media campaigns and conducts operations resulting in the unnecessary death of innocent Muslims due to insufficient planning. All in all, in their view the leadership is out of sync with the affiliates and Al Qaeda seems to be a weak organisation (2012:52). This interpretation of the Abbottabad documents has been heavily criticised by fellow academics. Terrorism expert Bruce Hoffman has perhaps delivered the most comprehensive critique. According to Hoffman a careful reading of the documents show bin Laden as “a leader involved in both Al Qaeda’s day-to-day operations and long-term strategy” (Hoffman 2013:639). He argues that the extent of bin Laden’s influence is clearly displayed in the documents as they reveal that he was able to block the promotion of the late Anwar al-Awlaki within AQAP and kept Al Shabaab at arm length’s as he denied the group formal affiliation with Al Qaeda (2013:639-640.) Hoffman also criticises Lahoud et al. for disregarding reports concerning parts of the not yet released documents. For instance, shortly after the raid an anonymous senior US official described bin Laden as a “micro-manager”, who “(…) was down in the weeds as far as best operatives, best targets, best timing.” (as quoted in Hoffman 2013, p.639). A senior intelligence official gave a more moderate assessment of bin Laden’s role as a “chief executive who is giving fairly
generic, broad instructions and guidance rather than tactical orders” (DeYoung & Miller 2011).

Reference point: “How Al Qaeda Works”

Counter-terrorism expert Leah Farrall’s article “How Al Qaeda Works” (2011) is a point of reference for up-to-date discourse on the franchising strategy. Her main argument is that a decade after 9/11 Al Qaeda is stronger than when it carried out the attacks. She argues that most accounts of Al Qaeda’s capacities so far depict the group as declining but in doing so overlook its success in expanding influence through its affiliates. Farrall calls for an updated conception of Al Qaeda’ strategy that

“(…) will allow for a greater understanding of how and to what degree it exercises command and control over its expanded structure, the goals driving its expansion strategy and its tactics” (Farrall 2011).

Farrall’s article roughly coincided with the outbreak of the Arab Spring and bin Laden’s death. These two events energised Al Qaeda’s franchising strategy and brought a stronger awareness of the strategy into academia. Much recent work has indeed given credit to the franchising strategy, among others for making Al Qaeda more resilient and enabled it successfully, or at least partly successfully, to capitalise on the post-Arab Spring turmoil. Still, there are dissenters. Daniel Byman argues against what he now sees as the “conventional wisdom” on Al Qaeda’s franchising strategy, namely that affiliation is painted “as a tremendous boon to al Qaeda that magnifies the danger of terrorism” (Byman 2014:431). In his view affiliations often represent a net loss:

“Divergent preferences and priorities, branding problems, shirking at the local level, adverse selection, and costly control mechanisms all make affiliates of questionable value to the core organization” (p.431).

Brian Jenkins contends that Al Qaeda’s expansion following the Arab Spring is equally a sign of weakness as of strength:

“(…) a lowering of the bar to membership, evidence of its growing dependence on its affiliates and allies and its inability to impose its will on rebellious and recalcitrant field commanders.” (Jenkins 2014, p.6).

For a more historically grounded critique of the franchising strategy and its evolution see Mendelsohn (2011).

Case Study 1: Al Qaeda in the Arabian Peninsula (AQAP)

In order to understand AQAP, Al Qaeda’s Yemen-based branch, it is helpful first to look closer at the previous failure of Al Qaeda-inspired jihad in Saudi Arabia. This is clearly linked to the establishment of the present AQAP in 2009. In May 2003, Al Qaeda launched its first sustained military campaign in Saudi Arabia when suicide car bombs killed 35 people and wounded hundreds in an area of East Riyadh inhabited by Western expatriates. The decision to launch the attack appears to have come directly from the Al Qaeda leadership but, interestingly, it was to some extent contended by the local leadership who insisted that they were not yet ready (Hegghammer 2013:4). The East Riyadh bombings were followed by stringent government security crackdowns with top leaders killed and many members detained. In the process of reorganisation after this near fatal setback the group started using the name Al Qaeda in the Arabian Peninsula for the first time, and so became the first

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regional group to use “Al Qaeda” as part of its official name. AQAP successfully regrouped, and over the next years Saudi Arabia experienced unprecedented levels of violence as the jihadists continued launching offensive operations. However, by 2006 the group had lost its momentum and the jihadi campaign fizzled out. Simultaneously, Al Qaeda’s local branch in Yemen experienced a boon as 23 experienced Al Qaeda fighters staged a successful prison break from a Yemeni prison (Raghavan 2009). The first generation of Al Qaeda-linked jihadists in Yemen had all but been eliminated already in 2002-2003 but these escapees, led by bin Laden’s former secretary Nasir al-Wuhayshi, formed the basis of the resurrection of a jihad campaign in Yemen over the next two years. In February 2009, it declared a merger with what was left of the Saudi AQAP and took its name. Many analysts see a direct continuity between the former Saudi branch and the now Yemen-based group, as the new AQAP has the same name, mode of operation and belongs to broadly the same ideological discourse as its predecessor. Yet this continuity does not extend to the field level. In terms of personnel, no known members of the Yemen-based AQAP were actively involved in the Saudi namesake during its 2003-2006 high point (Hegghammer 2010:26). This suggests that the often assumed direct continuity is a supposition not backed by empirical evidence.

Two Lines of Operation: Fighting the Far & the Near Enemy

The “new” AQAP has faced an entirely different playing field in Yemen compared to the difficult circumstances in Saudi Arabia. A weak central government that prioritised putting down a secessionist movement in the country’s south created a permissive security environment. This enabled AQAP to quickly launch external operations against Saudi and American targets (Zimmerman 2013b:2). Its first major operation targeted the Saudi deputy interior minister in August 2009, who survived a remotely triggered bomb blast. Later in the same year AQAP became the first Al Qaeda affiliate to launch an attack against the US homeland. On Christmas Day, Umar Farouk Abdulmutallab, the so-called underwear bomber, unsuccessfully tried to detonate an explosive device on-board a flight bound for Detroit (Ariosto & Feyerick 2012). In October 2010 after a tip from Saudi intelligence the so-called “parcel bomb plot” against synagogues in the US was averted. AQAP later claimed responsibility (Schmitt & Shane 2010). More recently, AQAP was most likely responsible – or at least involved – in the threats that led to a temporary closure of 21 American embassies in North Africa and the Middle East in August 2013 (Joscelyn 2013a). Political unrest in winter 2011 opened local opportunities. AQAP seized and held territory in the southern province of Abyan during spring 2011. It briefly governed in these areas and proclaimed an Islamic entity, the “Emirate of Waqar” (Zimmerman 2014). It was in connection with these offensives that AQAP first fielded what can be described as its insurgent force, Ansar al Sharia. Experts have a hard time precisely defining the relationship between AQAP and Ansar al Sharia. Senior AQAP official Abu Zubayr offers the following explanation:

“(…) the name Ansar al-Shari’a is what we use to introduce ourselves in areas where we work, to tell people about our work and goals, and (to show) that we are on the path of Allah” (as quoted in Swift 2012).

AQAP is still present in Abyan province but has not attempted to govern territory since a sustained offensive by government troops and local tribal fighters backed by US airstrikes in spring 2012 that retook control. A May 2012 suicide attack on government soldiers parading in Sanaa’s Al Sabin Square offers a vital glimpse into the parochial aspects of AQAP’s ideology. Ansar al Sharia’s media branch stated that the bombing was a response to attacks launched by the government with support from the US and Saudi Arabia. Crucially, it was
also perpetrated in order to revenge “the demonstrators and all Muslims who tasted the scourge of the Yemeni central security forces” (as quoted in Swift 2012). This referred not only to protestors who suffered violent crackdowns during the Arab Spring demonstrations but also to Muslims who suffered a similar fate during the previous regime (Swift 2012). This statement is an example of a conscious emphasis on the national struggle, the importance of global jihad being left unmentioned. AQAP has – perhaps as a lesson learned from the failed jihad in Saudi Arabia - consciously focused on engaging rather than dominating local tribal structures (Swift 2011:62). It has built its organisation from the bottom up rather than top down. The Ansar al Sharia branch has been used to expand its presence in tribal areas where the Al Qaeda-affiliation remains controversial. AQAP has established networks of dependency by recruiting from, and offering public services to, tribes in return for loyalty. At the same time it has exploited tribal dynamics. By utilising members of one tribe in the area of another, AQAP ensures that attacks against its own fighters will be retaliated against by the victims’ fellow tribesmen (Swift 2012). Furthermore, AQAP’s fighters generally speak the local language, know the local culture and are rooted in the local society. Saudi members are blending in by marrying daughters of local tribesmen.

Internal Dynamics

Even though AQAP demands internal unity, especially with regards to ideology and operations, it is obvious that its various fighters pursue different goals. According to Yemen-expert Christopher Swift there are four main factions inside AQAP (Swift 2012):

1) **The ideological purists** are primarily Saudi nationals, who see jihad as an ethical rather than political struggle.

2) **The political pragmatists** prioritise taking step by step towards winning the national struggle; probably dominated by Yemeni nationals either born or educated in Saudi Arabia.

3) **Yemen’s indigenous Salafists mixed with Yemeni Civil War veterans** comprise a faction.

4) The least discernible wing within AQAP are **the foreign fighters**, who are ideologically unpredictable and in numbers dominated by Somalis.

Even though the leadership so far has been able to accommodate these different factions, recent events suggest that this might become more difficult in the future. In late spring 2014 the government forces once again launched an offensive to drive AQAP out of Abyan and neighbouring Shabwah province. The militants withdrew eastwards to Hadramawt. On August 8, Ansar al Sharia executed 14 government soldiers, who had been sent to Hadramawt in order to reinforce security forces. In Yemen the norm is that captured civilians and soldiers are usually released. Consequently, the brutal executions provoked a strong public backlash and local businessmen in Hadramawt have reportedly offered money for information on AQAP fighters (Knutsen & Zimmerman 2014). Furthermore, a YouTube video allegedly shows the direct aftermath of the executions: militants are taking pictures of the executed soldiers and the Ansar al Sharia-leader, Jalal al-Marqishi, are giving orders (Ibid.). This incident reflects badly on AQAP’s usually carefully calibrated local strategies and could indicate frictions within the leadership. While AQAP-leader al-Wuhayshi clearly continues to support Al Qaeda, it can be assumed that al-Marqishi leads an internal faction that is leaning towards IS. In fact, on August 14 AQAP published a surprising statement on its website that
announced solidarity with IS and offered advice on how to protect against drone attacks (al-Moshki 2014).

Leadership & Communication

A video from January 2009 that announced the establishment of AQAP featured four leaders: al-Wuhayshi and his fellow Yemeni prisoner escapee, Qasim al-Raymi, as well as the former Guantanamo detainees Said al-Shihri and Mohamed al-Awfi (Zimmerman 2013a:1). While al-Raymi is presumably still part of AQAP, al-Awfi allegedly turned himself over to Saudi authorities shortly after the announcement (McEvers 2010) and al-Shihri was killed in a US drone strike in 2013. Hitherto, al-Wuhayshi has been AQAP’s undisputed leader. He is a Yemeni citizen, who earned his jihadist credentials working as an aide-de-camp for bin Laden in Afghanistan. After the Battle of Tora Bora he fled to Iran and was imprisoned before being transferred to Yemen custody, from which he escaped in 2006. In summer 2013 al-Zawahiri appointed him to the role as general manager of Al Qaeda (Cruickshank 2013). The position was previously held by the Libyan national Abu Yahya al Libi until he was killed in a drone strike in Pakistan in 2012. All previous general managers have been based in South Asia and the appointment of al-Wuhayshi may herald a wider shift in Al Qaeda’s strategy – making the organisation less dependent on the core leadership based in northern Pakistan (Joscelyn & Roggio 2013). Duties of the general manager include coordinating military and media activities and communicating with al Qaeda’s affiliates and other allied Islamist groups (Joscelyn 2014). The Abbottabad documents contain a letter presumably authored by bin Laden, which is addressed to al-Wuhayshi (SOCOM-2012-0000016). It is again worth mentioning that the documents so far released only constitute a small amount of the captured information. From a critical perspective it should be taken into account that the documents released from US intelligence might be intended to serve specific purposes. The letter addressed to al-Wuhayshi is thought to be a response to a previous communication from al-Wuhayshi to either bin Laden directly or his then general manager al-Libi (Ibid.:29). This can be traced in the following excerpt:

“We received your letter and our brother’s letter (Abu Hurirah al-San’ani) through our brothers (NFI). We were very happy to receive your letter that answered our questions. The letter provided us with information about you and your situation, and we were following your news very closely through the media (SOCOM-2012-0000016, p.1)”.

Additionally, this shows that the letter was received through middlemen and clearly proves indirect contact between bin Laden and al-Wuahyshi. However, it also reveals that the Al Qaeda-leadership to some extent have to follow news media in order to receive updated information on one of its main affiliates. It seems that al-Wuhayshi’s previous letter asked the leadership’s blessing to launch an offensive in order to establish an Islamic state in Yemen – “If you want Sana’a³, today is the day” (Ibid.:1) – and also asked for a representative from the leadership to be sent to Yemen (Ibid.:4). Bin Laden answers that the timing for establishing an Islamic state in Yemen is not yet ripe and it should rather be preserved as a safe haven (Ibid.:1). A representative from the leadership would not be deployed due to security measures (Ibid.:4). In a separate letter to al-Libi, bin Laden rebukes parts of AQAP’s media strategy (SOCOM-2012-0000019:12-13). In particular he was disappointed with a certain media statement by al-Wuhayshi’s deputy, Said al-Shehri. In the statement al-Shehri demanded an immediate release of a woman who had been arrested in Saudi Arabia, while collecting money for the jihadist cause. What upset bin Laden was not the demand itself but

³ The capital of Yemen
rather that it coincided with – and diverged focus from – the so-called “Freedom Flotilla”, which was moving towards Gaza in order to break Israel’s blockade and bring aid to the Palestinians in Gaza (Lahoud et al. 2012:31). Lahoud et al. has on the basis of bin Laden’s negative reaction to the idea of an Islamic state in Yemen, his decision not to send a leadership representative and his disappoint with AQAP’s PR strategy, argued that as of 2010 bin Laden was highly critical of AQAP and “In fact, with the possible exception of AQI4, none of the other “affiliates” appear to be more of a source of concern for Bin Ladin than AQAP” (2012:29). The alleged discrepancy in the relationship between bin Laden and al-Wuhayshi can further be backed up by the fact that al-Wuhayshi did not follow the leadership’s advice as AQAP launched an offensive in 2011 and even temporarily declared an Islamic emirate (though not an Islamic state). However, there are important arguments that bring nuance to this view. A closer reading of the letter to al-Wuhayshi reveals bin Laden as undoubtedly supportive of AQAP and he offers much detailed strategic advice. For instance, the group should avoid killing anyone from the tribes and base of its leaders in the south (SOCOM-2012-0000016:4). Also, AQAP’s military offensives could obviously be a result of al-Wuhayshi ignoring bin Laden’s advice but another probable explanation would be that the chaos caused by the Arab Spring was a game-changer and presented AQAP with a golden opportunity that it had to grasp within a limited time frame, perhaps not long enough to wait for advice from the leadership. Two letters, from May 2012 and August 2012, which were captured from an abandoned Al Qaeda in the Islamic Maghreb (AQIM) headquarter in Mali suggest that al-Wuhayshi played a crucial role in the Al Qaeda-network also prior to his appointment as general manager. The letters are written by al-Wuhayshi and presumably addresses AQIM-leader, Abdelmalek Droukdel. In the first letter he congratulates AQIM on its progress in Mali and advices the group to provide basic services to the people and implement sharia law slowly (AP 2012). In the second letter he discusses AQAP’s 2011 offensive (Ibid.). Al-Wuhayshi advises Droukdel to engage in media activities, “our most important weapon”, and cautions against declaring an Islamic state – nothing that both AQAP and Al Shabaab refrained from this action on advice from Al Qaeda’s leadership (Roggio 2013). Additionally, he mentions that he has communications from the leadership intended for Droukdel (Zimmerman 2013b:4). Furthermore, the letters from al-Wuhayshi to AQIM-leader Droukdel echo some of the more general advice given by bin Laden such as the emphasis on a sophisticated media strategy and the cautious approach to potentially long-lasting military campaigns (Ruggio 2013). Reportedly, AQAP backed the establishment of an Al Qaeda-linked cell in Egypt led by Mohamed Jamal Abu Ahmed, a jihadist implicated in the attack on the US Embassy in Benghazi, Libya (Zimmerman 2013b:3). In recovered correspondence between Abu Ahmad and al-Zawahiri it is revealed that he knows the AQAP-leaders, al-Wuhayshi, al-Raymi and al-Zubayr, intimately after having been their teacher in 1996, and consciously used their connections to get in touch with al-Zawahiri (Joscelyn 2013b).

**Case Study 2: Al Shabaab**

Constant feuding among tribal warlords in Somalia in the 1990s and their incompetence at governing and providing safety to the population – much as in Afghanistan at the same time – created an opening for Islamist groups to increase their influence. Unlike Taliban’s rapid ascension to national supremacy in Afghanistan, in Somalia this development manifested in a broader, often uneasy coalition called the Islamic Courts Union (ICU). Al Shabaab emerged...
as a splinter group from this coalition around 2005-2006. It is hard to pinpoint an exact starting point for Al Shabaab as an independent organisation as it started out as a loosely connected network inside of the Islamic Courts Union before formalising as a separate group. Noteworthy, Al Shabaab had already in its early stages individuals linked to Al Qaeda’s East Africa operations among its members and fighters with experience from Afghanistan were held in high esteem (Hansen 2012a:1).

Rise and Decline

Al Shabaab experienced a golden era from 2008 to 2010 with rapid territorial and organisational expansion. Thereafter, the group has suffered a number of setbacks. A root cause of Al Shabaab’s decline was the failed high-profile 2010 Ramadan offensive against the African Union Mission in Somalia (AMISON) forces in Mogadishu. The important Rahanweyn clan, which was loyal to senior Al Shabaab commander Mukhtar Robow, suffered the majority of casualties and after internal clan pressure Robow decided to pull his Rahanweyn militiamen out of Mogadishu (Williams 2014:912). In 2011 the simmering dispute between Robow and the group’s leader Ahmed Godane is further intensified over disagreement on how to deal with a drought and famine that hit parts of Somalia, some of which were controlled by Al Shabaab. A large part of Robow’s clan territories were affected, so he was more than willing to facilitate delivery of western-organised humanitarian relief. Godane – fearing western infiltration – banned relief organisations from operating and this caused the famine to have a devastating impact in Al Shabaab-controlled areas. This provoked substantial popular resentment against the group (Williams 2014:912). Godane himself hails from Somaliland – far away from Al Shabaab’s main territories and lacks a strong clan support within the group, which has actually turned out to be to his advantage (Horadam 2011). Moreover, Al Shabaab gradually moved towards a more extremist ideology. Its deliberate targeting of Somali civilians and use of suicide bombers in civilian areas caused further public resentment. This also caused internal divisions, but also made the group more appealing to foreign jihadists (Williams 2014:912-13).

Leadership & Internal Structures

The successful attack on the Westgate shopping mall in Nairobi in September 2013 portrayed Al Shabaab as a potent and united group. However, Godane had already instigated a purge of the Al Shabaab-leadership in June 2013. On his orders two of the group’s co-founders, second-in-command Ibrahim al-Afghani, and Abul Hamid Hashi, were executed. More than a dozen senior officials were put under arrest and perhaps as many as 200 members of Al Shabaab’s secret intelligence group, the Amniyat, were also killed. Leaders such as Mukhtar Robow and Hassan Dahir Aweys had to flee (Williams 2014:909). As a consequence of the internal purge, Al Shabaab is now smaller and controls less territory. An optimistic assessment of this new situation could emphasise that the group made these sacrifices in exchange for internal unity and higher transnational support. However, another way of putting it is that: “Al Shabaab’s steep decline in recent years has made radical reform a matter of survival” (Byrden as quoted in Williams 2014:911). The group has in fact deteriorated from being a severe threat to the existence of Somalia’s government during 2008-2010 to an entity whose main short-term goals are survival and a continued exploitation of clan divisions (Ibid.:911).

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5 Godane was killed in a US drone strike on Sept 1. The immediate consequences of his demise were still highly unclear at the deadline date of this thesis (Sept 15).
Regional Expansion

Predictably, a weakened Al Shabaab has so far in 2014 steadily lost territorial control inside Somalia to the Somali military and its various local, regional and international coalitions. In fact, it might seem that Al Shabaab on Godane’s orders is consciously shifting its focus towards Kenya, which could prove a more conducive operational environment for the group. In May this year senior Al Shabaab commander Fuad Shongole warned that “we have transferred the war to inside Nairobi” (Omar & Sheikh 2014). The successful attack on Westgate shopping mall in Nairobi in September 2013 foreshadowed a recent string of attacks in June and July this year centred on the coastal areas of Lamu and Mpeketoni. On 24 March, UN envoy to Somalia Nicholas Kay warned that Al Shabaab could try to relocate to Kenya due to its setbacks in Somalia. It actually appears that a lawless borderland – akin to the Taliban-held areas in north Pakistan – might be under creation in the area of northeast Kenya and south Somalia. Al Shabaab’s key affiliate in Kenya is Al Hijra, formerly known as the Muslim Youth Centre (MYC). The MYC grew out of Pumwani Riyadha Mosque in Nairobi in 2008 and developed ties to Al Shabaab at an early stage. It generated funds, recruitment and training networks inside Kenya for Al Shabaab and also sent recruits to fight for Al Shabaab in Somalia (Nzes 2014). In 2012 Al Hijra-leader Ahmed Iman Ali pledged allegiance to Al Shabaab-leader Godane. Al Hijra has suffered some setbacks over the past years but now looks increasingly resilient. It assisted Al Shabaab-fighters in executing the Westgate shopping mall attack (Ibid. 2014) and has probably been a key perpetrator in the recent massacres in the Kenyan coastal areas. The affiliation between Al Hijra and Al Shabaab has enabled the latter to claim direct responsibility for the attacks. Somalia’s main affiliate in Tanzania, Ansar Muslim Youth Centre (AMYC), is currently not as active as the Kenyan affiliate but there has recently been several small-scale attacks and there are indications that Al Shabaab’s influence in Tanzania is growing. Al Shabaab-linked militants are also operative inside Ethiopia and Uganda and to a lesser extent in Burundi and Rwanda, although there has not been a major incident in any of these states since the twin bomb attacks in Kampala, Uganda, that killed 74 people in 2010 and was claimed by Al Shabaab.

Ideology & Clan Dynamics

Even though Al Shabaab pursues local and international operations simultaneously, espouses a global jihad rhetoric and maintains considerable ties to Al Qaeda and other international jihadist groups, there is no doubt that its primary focus remains on the local struggle (Hansen 2014). According to Stig Jarle Hansen, expert on terrorism in East Africa, affiliating with Al Qaeda was for a long time a controversial topic inside Al Shabaab – most members being sympathetic towards Al Qaeda yet reluctant (Hansen 2012a:3). Mukhtar Robow stated that “We are not them, but they are our friends, and we will help them as far as possible” (as quoted in Hansen 2012a:3). Following battlefield defeats the internal resistance grew weaker and Godane with his internationalist outlook also became more powerful. Noteworthy, Hansen claims that the nationalist-internationalist divide within the group over affiliation was not as great as generally perceived. Based on interviews with Al Shabaab-leaders he argues that around 2012 the group displayed a surprising ability to reach internal conflict resolutions and while Robow was more internationalist than generally understood, Godane was more locally focused than usually recognised (Hansen 2012a:4). More pressing issues were posed by differences regarding implementation of Sharia law, openness to foreign aid organisations and warfare tactics (Ibid.:4). Somalia is a country fragmented by clan loyalties and even if Al Shabaab itself is not necessarily a clan-based group it has to navigate in this challenging environment. At times the group takes advantage of clans and at other times clans exploit Al
Shabaab. For instance, clan grievances and conflicts provide Al Shabaab with opportunities for growth as the group can offer vital support to one of the sides, and in return demand this clan’s future support. The flipside is that local clans may offer recruits to Al Shabaab as a way of infiltrating the organisation and improve the chances for support in parochial conflicts. Some clans even follow a “hedging strategy”, in which distinguished clan members are put into high positions both in the government and in Al Shabaab (Hansen 2014).

Communication

Among the released Abbottabad documents there is an August 2010 letter from bin Laden addressed to Godane, which is likely a response to a previous letter sent from Godane to the leadership (SOCOM-2012-0000005). It appears that Godane’s previous letter asked bin Laden’s blessing to declare an Islamic emirate in Somalia and also discussed a formal merger between Al Shabaab and Al Qaeda (Ibid.:1). Bin Laden advises that even though “there should be a practical working emirate on the ground” it should not be publicly announced (Ibid.:1). Still, bin Laden leaves the final decision on declaring an emirate to Godane:

“This is my opinion, but you are there on the ground and you see all realities; whatever you see and witness live, the absent does not see. Therefore, you would balance out between the pros and cons on the issue of declaring or not declaring the establishment of the emirate (...)” (Ibid.:1).

On the issue of formal affiliation bin Laden recommends that news are spread to the people of Somalia but that there will be no formal declaration.

“(…) there remains the situation of the brothers on your side and their talking about their relationship with al-Qa’ida, if asked. It would be better for them to say that there is a relationship with al-Qa’ida which is simply a brotherly Islamic connection and nothing more, which would neither deny nor prove” (Ibid.:2)

Bin Laden gives two reasons for not declaring an official merger: firstly, it would make it easier for enemies to mobilise against Al-Shabaab (presumably backed by increased western counter-terrorism support) and secondly, not officially affiliating would more easily enable bin Laden to convince businessmen in the Arabian Peninsula to fund development projects in Somalia (Ibid.:2). In the last part of the letter bin Laden offers detailed advice on how to minimise civilian casualties while fighting the AMISOM forces (Ibid.:2-3). This is rather striking considering Al Shabaab’s later targeting of civilians and the public backlash this provoked. As well as Godane obeyed bin Laden’s advices on declaration of emirate and formal affiliation, he neglected the perhaps ultimately more important strategic guidance. Al Shabaab’s leadership and Godane specifically was publicly criticised on this issue by presumably high-ranking Al Shabaab member and American jihadist Omar Hammami in 2012, when he released a YouTube video that offered criticism “(...) on issues of military strategy, the marginalization of foreign fighters in the organization, Shari’a implementation, and al-Shabab’s general mistreatment of other muslims” (Hansen 2014). This seems to have been a precursor to an internal purge orchestrated by Godane. Hammami himself was killed in September 2013. In March 2013 second-in-command Ibrahim al-Afghani sent an open letter to al-Zawahiri, in which he warned against Godane’s dictatorial leadership and negligence of true Islamic teachings (Williams 2014:910). Reportedly⁶, he called for al-

⁶ Unfortunately, I have not been able to track down an English translation of this letter in order to verify its content.
Zawahiri to intervene and assessed the situation to be “getting worse and nothing is visible on the horizon” (Ahmed 2013).

Network Operatives & Connections with Other Al Qaeda-Linked Groups

A highly plausible theory is that most communication between Al Shabaab and Al Qaeda happens through a network of operatives who does not necessarily take all orders from the Al Qaeda-leadership but serve its general interests (Joscelyn 2013). One such person is an alleged Sudanese national known as “Hassan”, who is referred to in a UN report from 2013. He was tasked by Al Zawahiri with training Somali jihadists unable to travel to Afghanistan and Pakistan and with reaching out to other African jihadists. Reportedly, he also trained Boko Haram-fighters at a camp in South Sudan at the Kenyan border in March 2011 (Joscelyn 2013). Another such operative is the American jihadist Jehad Mostafam, who is believed to have functioned as an emissary for Al Zawahiri and held key roles such as training camp instructor and leader of foreign fighters within Al Shabaab (Roggio 2011). The perhaps most prominent example of such an operative was Fazul Mohammed, the Comoros Island-born jihadist, who orchestrated the attacks on the US Embassies in Kenya and Tanzania in 1998. He was in close contact with the Al Qaeda leadership until the crackdowns following the US-led invasion of Afghanistan in 2001. From 2006 on he was presumably the leader of Al Qaeda’s activities in East Africa and simultaneously a senior commander for Al Shabaab, until he was killed under suspicious circumstances at a military checkpoint in Mogadishu in 2011 (Gettleman 2011). Then US Secretary of State Hillary Clinton stated that: “Fazul’s death is a significant blow to Al Qaeda, its extremist allies and its operations in East Africa” (Ibid.). There are clear links between Al Shabaab and AQAP. Allegedly, more than 300 Somalis fought for AQAP in 2011-2012 when it attempted to establish an emirate in Yemen. According to local eyewitnesses Somalis made up at least half of the foreign fighter contingent (Swift 2012). More Somalis have supposedly followed later. Reportedly, AQAP ideologues have contributed to streamlining Al Shabaab’s ideology and indoctrination (Hansen 2012b:137). Al Shabaab has been involved in the training of Boko Haram fighters and Boko Haram has mimicked certain Al Shabaab methods such as suicide bombings and their use of web forums (2012:136). Boko Haram’s recent abduction of more than 300 school girls also mirror a tactic previously used by Al Shabaab.

Case Studies: Insights

What stands out of as the most interesting aspects of the case study on AQAP are al-Wuhayshi’s promotion to the role as Al Qaeda’s general manager, the group’s sophisticated strategy used to blend into local structures and the simmering tensions within the leadership. Al-Wuhayshi’s promotion to general manager represents a vital shift in Al Qaeda’s franchising strategy. This is the first time that the general manager is based outside South Asia and indicates a greater willingness among the central leadership to devolve executive power to the affiliates. There could be several reasons for this change of strategy. It might be that AQAP’s operational capacity has made it such a crucial part of the Al Qaeda network that al-Zawahiri found it imperative to co-opt this rising force before it became strong enough to directly challenge Al Qaeda’s own leadership role. Another explanation could be that the leadership’s isolation in north Pakistan made it necessary to find a general manager, who could operate from a safer geographic location which in turn would make communication and coordination with the affiliates quicker and more secure. A third explanatory factor could be that this is a conscious effort in order to revitalise the franchising strategy – setting a
precedent for devolving important leadership roles to affiliate leaders. In this way Al Qaeda could acquire greater legitimacy among its affiliates as well as develop stronger interdependence and thus become an even more resilient organisation. AQAP has by means of Ansar al-Sharia successfully integrated itself into Yemen’s tribal structures. The sophistication of this strategy makes Ansar al-Sharia-leader Maqdishi’s recent unpopular execution of government soldiers seem even more surprising and points towards growing internal factions. In the case study on Al Shabaab it is essential to note Godane’s leadership purge, the group’s strategy which exploits but is also constrained by Somalia’s clan structures, and its recent focus on regional expansion. The Al Qaeda-leadership’s inability – despite appeals from senior Al Shabaab-leaders – to stop Godane’s massacre has definitely damaged al-Zawahiri’s reputation. Reasons for his passivity could be that he simply lacked the necessary clout to rein in Godane or perhaps he assessed that a major confrontation inside Al Shabaab was inevitable and decided to back the winning horse. Somalia’s complex clan structures ensure that Al Shabaab needs to spend a lot of focus on the local struggle in order to secure its own survival. The recent emphasis on regional expansion is chiefly due to a more difficult operational environment inside Somalia but could also indicate an increasingly internationalist outlook. Both AQAP and Al Shabaab have been served by their affiliation with Al Qaeda in a number of beneficial ways, such as increased opportunities for funding, achieving greater jihadist legitimacy, attracting more foreign fighters, obtaining access to skilled trainers and training facilities as well as improved conditions for cooperating with other affiliates and Al Qaeda-linked groups. However, it is perhaps even more interesting to look closer at potential liabilities caused by this affiliation. I suggest that so far in the franchising strategy’s history there have been five principal strategic strains on the central-affiliate dynamic:

1) The issue of declaring an Islamic state or emirate.

2) Takfir – killing of “apostate” Muslims (especially Shias).

3) Use of excessive violence against civilians.

4) The near/far enemy balancing act.

5) Increased counter-terrorist operations.

The timing for declaring an Islamic emirate was discussed by bin Laden in letters to both Godane and al-Wuhayshi. In both letters he advised against a formal declaration. He stated that it would be premature and also risk attracting unwanted attention. This brings us to the issue of counter-terrorism. Both groups have experienced strong US counter-terrorism measures and had top leaders killed in drone strikes. The intensity of these CT operations have most likely been increased due to their affiliation with Al Qaeda and is an implicit consequence for anyone linking up with Al Qaeda. The balance between fighting the local regime and waging global jihad has been a topic of controversy within both groups. AQAP has more successfully been able to sustain two parallel lines of operation, while Al Shabaab’s internationalist outlook has mostly been rhetorical. The internationalist-nationalist issue – even if sometimes overemphasised – probably contributed to the schism within the Al Shabaab-leadership. The issue of takfir killings have not so far been particularly prominent in either group but the targeting of civilian Muslims was probably the most disputed issue in the leadership and strongly contributed to Godane’s purge. AQAP has in fact out of strategic considerations refrained from attacking Shias. However, the recent brutal execution of government soldiers hints that excessive violence could soon become an internal topic. In fact based on these case studies it seems that jihadist groups affiliating with Al Qaeda
notwithstanding an array of benefits also expose themselves to a high risk of exacerbating internal tensions and leadership rivalry.

From Al Qaeda’s Perspective

Based on the premises of the franchising strategy, it should be assumed that any affiliate able to expand Al Qaeda’s area of operations, conduct attacks ideally against both the near and the far enemy, broadly follow the leadership’s guidance and retain an impression of unity, is an asset to Al Qaeda. AQAP has often lived up to these criteria, while especially Al Shabaab’s public leadership disputes have made it an affiliate of questionable value to Al Qaeda. The degree to which the affiliates follow the guidance and advice of the leadership is obviously key to the success of the franchising strategy. The case studies give no clear-cut answer to this issue. Bin Laden’s correspondence with Godane and al-Wuhayshi suggests that he wielded considerable authority over the two groups but it is significant that some of his strategic guidance was later ignored by the affiliate leaders – although al-Wuhayshi recently seem to have become more aligned with bin Laden’s thinking. Al-Wuhayshi’s close contact with the leadership as well as Al Shabaab’s contact through “network operators” imply that despite difficulties there exist reasonably well-functioning lines of communication between the centre and the affiliates. According to Jabhat al-Nusra official, Abu Sulayman al-Muhajir, Al Qaeda draws up its strategies based on regions. For each of the regions, al-Zawahiri appoints a leader and there is an additional other leader who oversees all the regions in a role called Masul al-Qalim (which is different from that of the general manager) (Joscelyn 2014). This organisational structure seems to be an understudied issue and Thomas Joscelyn has correctly noted that “Such roles, and what they say about how al Qaeda is actually organized, are generally not reflected in the public discourse” (Ibid.).

Al-Zawahiri and the Franchising Strategy

Many of the strains on the central-affiliate dynamics apply also directly to Al Qaeda and has affected the evolution of its franchising strategy. In fact several of these issues became apparent already during the early days of its affiliation with Al Qaeda in Iraq (AQI). Already in 2005 al-Zawahiri sent a letter to AQI-leader Abu Musab al-Zarqawi in which he recommended Zarqawi to tone down the attacks on Shias (al-Zawahiri 2005:8-9) and the excessive violence (Ibid.:9) as this was hurting the broader jihadist project by alienating potential allies. He reminded Zarqawi that:

“(...) we are in a battle, and more than half of this battle is taking place in the battlefield of the media. (...) we are in a media battle in a race for the hearts and minds of our Umma” (Ibid.:10).”

Whereas Zarqawi was of the opinion that the only way to save the global Muslim community was through purging it, al-Zawahiri believed that deviant Muslims were not the issue but rather that the “apostate” political institutions in Muslim countries needed to be changed (Zelin 2014:3). In September 2013 al-Zawahiri reinforced this gradual approach in a pamphlet called, “General Guidelines for the Work of a Jihadi”. This is a brief codification of rules of engagement for the affiliates in which al-Zawahiri encourages the whole jihadist movement to focus on bleeding the US while noting that this does not exclude a local struggle (al-Zawahiri 2013:3). Furthermore, jihadists should avoid fighting “deviant” sects such as Shias as well as show restraint towards Christians, Hindus and Sikhs when governing territories and be careful to minimise civilian casualties (Ibid.:4-5). The concept of fitna

7 Referring to the global Muslim community
(unity) among Muslims dominates the pamphlet. Al-Zawahiri reminds his fellow jihadists that “Our basic confrontation is with the enemies of Islam and those who hold animosity towards Islam” (Ibid.:5). The fact that Al Zawahiri’s pamphlet was released in public could indicate that his private communications are not properly followed and that he possibly attempted to bypass unresponsive leaders of jihadist groups in order to communicate Al Qaeda guidelines as broadly as possible. Compared to bin Laden’s view of Al Qaeda as a vanguard and instigator of jihad it seems that al-Zawahiri favours a more realist approach. While bin Laden exercised caution with regards to which groups Al Qaeda should formally acknowledge as affiliates, al-Zawahiri has been more active. Since bin Laden’s demise in 2011 Al Qaeda has affiliated with Al Shabaab (2012), created an Al Qaeda-branch in Syria, Jabhat al-Nusra (2012), and recently formed a new affiliate, Al Qaeda in the Indian Subcontinent (Sept 2014). This more aggressive approach may have been caused by al-Zawahiri lack of charisma and stature in the jihad movement and also by an increasingly tough competition over the leadership of Islamist militant groups.

The Arab Spring Expansion and the Rise of the Islamic State

The chaos caused by the Arab Spring in the Middle East (late 2010-mid 2012) – especially the ouster of the democratically elected Muslim Brotherhood in Egypt and the still on-going Syrian Civil War – handed Al Qaeda a golden opportunity to expand and increase its relevance. Among others, territories were seized by affiliates in North Africa and in Yemen,
new Al Qaeda-linked groups were formed in Egypt, Libya and Tunisia and Jabhat al-Nusra, was established in Syria and expanded rapidly. The franchising strategy made it significantly easier to quickly capitalise on the Arab turmoil and represents an impressive strategic success. However, recent events suggest that this strategy also created new vulnerabilities. Much of the territory acquired during the Arab Spring chaos has been lost – suggesting premature military action were undertaken by the affiliates. More importantly to the leadership since its former Iraqi affiliate the Islamic State of Iraq and al-Sham (ISIS), currently known as the Islamic State (IS), was disaffiliated by Al Qaeda in February 2014 it has seized territory in Syria and especially Iraq with surprising ease. The group is now a serious contender to Al Qaeda’s role as leader of the global jihad movement and it can in fact be argued that the franchising strategy has hugely contributed to the current threat from IS. On a ground level Al Qaeda’s decision to affiliate with IS’s predecessor AQI gave the Iraqi affiliate control over the flow of foreign fighters into Iraq and thus it gained the loyalty of many informal networks and the future generation of the jihad movement. These are contacts IS have successfully mobilised for waging jihad in Syria since 2011 (Zelin 2014:3). On a more strategic level it is logical that a decentralised strategy runs the risk of overstretching. It can be argued that al-Zawahiri’s expansionist approach has brought Al Qaeda very close to this point. Bin Laden’s more cautious style would perhaps not have brought the group into a situation in which it was not able to mediate in Al Shabaab’s internal conflict nor mediate the dispute between Jabhat al-Nusra and IS in Syria. However, claims that IS now enjoys a more prominent position than Al Qaeda in the jihad movement seem to be exaggerated. While IS probably has supporters within most of Al Qaeda’s official affiliates, none of the affiliates have so far been close to pledge loyalty to the newly established caliphate. It has also alienated the most influential jihadist ideologues such as Abu Muhammad al-Maqdisi and Abu Qatada (Gartenstein Ross & Joscelyin 2014). A crucial advantage for Al Qaeda in this contest is the bayat – a personal oath of loyalty sworn by leaders of the affiliates to al-Zawahiri. It would be very difficult for any leader to break this oath without losing credibility and reduce the value of oaths sworn to them by members of their own group (Berger 2014). Noteworthy, as the bayat is sworn from leader to leader it means that in the case of the demise of an affiliate leader the new leader will have to swear a new oath to al-Zawahiri. This occurred recently when the new Al Shabaab-leader Abu Ubaidah affirmed his loyalty to al-Zawahiri (Omar & Sheikh 2014). Another aspect of the tradition of bayat is that the death of al-Zawahiri would mean that all affiliates would have to swear a new oath to his successor. This could probably more than anything jeopardise Al Qaeda’s position in the jihad landscape. It should be noted that IS has been endorsed by some minor Islamist militant groups as well as by some notable individuals such as leader of the former Jemaah Islamiyah, Abu Bakar Bashir, and AQAP cleric Mamoun Hatem (Berger 2014). Even though IS might not pose such an immediate existential threat to Al Qaeda as frequently argued, it will affect its franchising strategy by greatly enhancing the costs of disaffiliation or defection.

**Conclusion**

The franchising strategy has so far been successful in making Al Qaeda more resilient and has expanded its geographical reach. The leadership has been in a precarious situation for a long time – its operational capacity restricted by its relative isolation in northern Pakistan as well as aggressive counter-terrorism measures. These restrictions put limits on the leadership’s ability to communicate and interact with the affiliates. Even so the case studies indicate that there exist decent lines of communication between Al Qaeda and its affiliates,
although the exact current conditions are hard to estimate. Furthermore, complex internal and local dynamics would anyway make it impossible for the leadership to micromanage the affiliates. The case studies also confirm that there is extensive communication between different affiliates in the Al Qaeda network. I have further argued that both Al Shabaab and AQAP have suffered intensified internal disputes due to their affiliation with Al Qaeda. In the case of AQAP this is not yet fully out in the open but recent fractioning over the stance towards IS indicates that trouble is ahead. The death of bin Laden and the chaos caused by the Arab Spring re-energised the strategy and it seems likely that al-Zawahiri will continue his more assertive approach to the strategy. Strains in the central-affiliate dynamic has probably moderated Al Qaeda. Targeting of “deviant” Muslims, excessive brutality and disregard for civilian casualties appeared as issues in the jihad community already during the heyday of AQI and damaged Al Qaeda’s brand. Consequently, it has recently favoured a more gradual approach emphasising a sophisticated media strategy, minimal civilian casualties during attacks, postponing the establishment of an Islamic state or emirate. This gradualism is now under direct attack by the brutal and pro-active IS. The franchising strategy has exposed Al Qaeda to this new kind of vulnerability by overstretching its capacities. Al-Zawahiri was not able to stop Godane’s purging of Al Shabaab-leaders nor the disaffiliation of IS. This has damaged his reputation in the jihad movement and it will be interesting to see his response. The promotion of al-Wuhayshi to the position as general manager of Al Qaeda and the recent announcement of a branch on the Indian subcontinent suggest that al-Zawahiri continues to have faith in the franchising strategy. The rise of IS will no doubt test the resolve of this strategy. Future competition over the leadership of jihad will likely change Al Qaeda’s franchising strategy in one of two ways: the leadership will either demand increased submission from its affiliates and strongly punish transgressors in order to present a united front against IS or, alternatively, it will show more leniency towards transgressors among the affiliates to prevent itself from defections to IS. It will be imperative to Al Qaeda to keep the loyalty of these affiliates. An important advantage is the bayat, which binds the affiliate leaders to al-Zawahiri in a personal pledge of allegiance. However, this comes with a caveat as the death of al-Zawahiri would jeopardise the whole foundation of the franchising strategy and of Al Qaeda itself. Likewise, the death of al-Wuhayshi could also prove fatal as factions inside AQAP seem to be supportive of IS. It is by some assumed that the rivalry between Al Qaeda and IS is weakening the broader jihad movement. This might be true but there is also a real risk that “the winner” will be able to unite the various jihadist groups as never before.
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The Elite Bargain and Effects on ICT Policies in Rwanda and Kenya

Naomi Somerville-Large

Abstract

The concept of the political settlement, in understanding what makes a developmental regime, challenges the predominantly neoliberal approaches advocated by international organisations today. However, as Laws observes, (2012:1) there is a lack of empirical evidence to prove the connection between development and the nature of a political settlement. Through comparing Rwanda and Kenya, this paper seeks to inform this debate by providing evidence of the effects of differing political settlements on the content of Information Communication Technology (ICT) for development policies, and crucially how such policies are created.

The main finding is that Rwanda’s political settlement is more conducive to socioeconomic development than Kenya’s, predominantly because of elite commitment to progress to avoid violence, and state owned enterprises centralising rents. This enabled the Rwandan government to make swift policy changes in response to non-performance, whilst committing to follow policies specifically suitable for the country. In contrast, Kenya’s political settlement is characterised by an exclusive control of state resources by particular ethnicities, and a lack of accountability upon elites to ensure egalitarian socioeconomic development. This, alongside the adoption of ineffective neoliberal policies, has resulted in delayed, disorganised and apathetic policy creation, to the detriment of Kenya’s rate of ICT development.
Introduction

“My analysis of the situation in the early 1990s was that Rwanda was about twenty years behind Kenya, the East African leader in Information Communication Technologies (ICT), and falling fast. At the turn of the century, Rwanda seemed only about fifteen years behind Kenya in ICT. Now, in the middle of 2007, Rwanda all of a sudden seems less than ten years behind Kenya. By 2010, if they continue on this trajectory, they should catch up or overtake their neighbour.” (Seed 2007:12)

The above statement was made by a World Bank senior information officer, and captures the essence of what this paper seeks to solve. Why is it that Rwanda has been able to experience such success with ICT, whereas their East African neighbour Kenya has been unable to keep pace? To answer this, we must ask what makes a developmental state. Booth and Golooba-Mutemi answer that a developmental regime is driven by three factors, “economic policy content, the policy-making approach and the nature of the political settlement.” (2014a:2) They emphasise that the political settlement is the most decisive factor as to whether a state is developmental as it is from this that the policy process and policy content is derived. (2014a:2) Acknowledging the political settlement as the most influential factor in effecting a developmental state is in direct contrast to the current neoliberal approaches advocated by international organisations, who instead assert the importance of embracing the free market, government transparency and privatisation of state assets. (Gokgur 2012, World Bank 2011a, 2011b, 2014, Kowalski 2013) The importance of the political settlement for development policies is most lucidly drawn out by Khan who describes it as the “distribution of bargaining power and technical capabilities across the relevant organizations in that society.” (2013:1) Questioning why East Asian policies were only found to be suitable for that particular region, Khan argues that these policies were created being mindful of the configuration of rents received by elites as a result of policy creation, defining rents as incomes higher than the minimum a person or organisation would have accepted. (2013:2,6) Through elites agreeing not to challenge policies in exchange for privileged access to valuable resources, the state can successfully develop industrially as elites see that they have more to lose from challenging the policy making process, breaking the political settlement or exiting the state. (Putzel and Di John 2012:2) This paper seeks to respond to Laws’ call for evidence of the effects of the political settlement on the development process, (2012:1) and will further prove the shortcomings of neoliberalism in encouraging socioeconomic development. The absence of reliable empirical data (Srinivasan 1994:4) and the enormity of conducting a qualitative study on the effects of policy across a state (Hallberg et al 2012:54) has made these two options difficult to engage. Therefore using a comparative study between Rwanda and Kenya at the national strategy level as well as specific instances where the effects of a political settlement is evident, we can clearly draw out the implications of differing settlements on development.

The paper is split into the three sections that Booth and Golooba-Mutemi specified, (2014a:2), exploring first the political settlements in Rwanda and Kenya to provide a basis for the conclusions that will be drawn on development policies in the ICT sector. The chapter will show that Kenya’s settlement is characteristic of an exclusive elite bargain made evident by the control of state resources by ethnic groups. Rwanda’s settlement on the other hand has a unique configuration of rents amongst the elites that has resulted in a genuine commitment to socioeconomic development. The second chapter on Policy Process looks at the effects of the political settlements on how policies are created in the ICT sector. The analysis will prove the Kenyan political settlement resulted in a lack of interest, the adoption of naïve liberalism, (Booth and Golooba-Mutemi 2014a:4) omission of realistic indicators, delays and
disorganisation, as elites are not being held to account on the success of socioeconomic policies but by their efficiency in maintaining rents. In contrast, Rwanda’s policy processes are characterised by swift changes in the case non-performance, low level indicators and a commitment from government to provide financial support. Finally the Policy Content chapter will compare the policies that emerge from the Kenyan and Rwandan ICT ministries, demonstrating that Kenya’s commitment to neoliberal policies to bring ICT services to rural areas was ineffective as the government failed to consider the importance of context and the problems with using neoliberal policies in a late developing country. The Rwandan government in comparison has incorporated investment in learning via state owned enterprises, as recommended by Blankenburg and Khan (2009) in order to perform targeted development, and therefore been able to provide support for projects such as E-soko.

Methodology and Case Studies

Kenya and Rwanda were chosen as candidates for demonstrating the effects of the political settlement on policy due to the contrasting approaches the two governments used in order to achieve similar ends in launching the country into the “information age.” (Government of Rwanda 2011:11, Kenya ICT Authority 2014:6) Booth and Golooba-Mutemi contrasted the two countries by stating,

“On the one hand there are countries where the regime in power has made a qualitative leap in the direction suggested by successful Asian states and is visibly driving forward a process of national development. Examples include Ethiopia and Rwanda. On the other hand are those that might have been expected to host developmental regimes but seem regularly to fall at the last hurdle. Ghana and Kenya would be prime examples.” (2014a:2)

The case study being used to demonstrate Kenya’s ICT policy is the Pasha Centre programme which was commenced in January 2009 by the Kenya ICT Board, after agreeing with the World Bank that Kenya would provide a proof-of-concept for rural centres which house ICT services for use by members of the community (digital village or telecentre). (Cisco 2011:2) The intended aim of the programme was to “enhance business skills in development-devoid rural areas and expose rural communities to world news and trends. In so doing, it hopes to propel job creation and information sharing.” (Kenya ICT Authority 2012) Through encouraging Kenyan entrepreneurs to apply for loans from the Kenyan ICT Board, those chosen to receive a loan were expected to set up a sustainable telecentre business, a “Pasha Centre,” in rural areas in order to drive economic development. The programme has experienced little success to date, according to both the internal monitoring and evaluation teams (Kenya ICT Authority 2013) and the Kenyan media, (The Standard 2013). It is important to note, however, that Kenya has seen successes with ICT (The Guardian 2012, The Economist 2012) However, the Pasha Centre programme offers a clear example of the effects of an elite bargain on ICT policy and therefore has been chosen to demonstrate effects on policy content and creation.

The case study being used to demonstrate Rwanda’s ICT policy is the prizewinning E-soko initiative. This programme has been hailed as a success, with Vrakas claiming that its popularity has been a “force of nature” due to the rapid spread of use across farming populations. (2012:1) As the World Bank explains, the system provides market price information to rural farmers and cooperatives that previously had no way of quickly accessing market price information. A database that in 2011 covered more than sixty agricultural
commodities in Rwanda’s forty-one markets, subscribers text a short code with the name of the commodity and market of interest, to get an SMS back with the product’s price quote of the day, thus allowing the farmer to decide which market to approach and sell their goods. (World Bank 2011a:1)

There are limitations to this approach, namely the criticism that looking at detailed policy creation can be too specific to draw conclusive parallels to the nature of the overall settlement. There is also the danger that the researcher becomes biased in locating evidence, filtering out any information that does not fit the overall argument. This may be the reason for Laws’ call for detailed empirical case studies. (Laws 2012:1) However, with the difficulty of obtaining empirical data (even on population census within late developing countries) (Srinivasan 1994:4) or doing a large scale qualitative study, (Hallberg et al 2012:54) this paper has endeavoured to maintain an unbiased perspective by drawing on case studies that both originated with the World Bank and linking these to national strategies to unearth evidence of the political settlements.

The Political Settlement

North et al’s work on the distribution of limited access orders amongst a nation’s elite in order to maintain peace is a key facet of the political settlement, (2007) and rests on two assumptions, firstly that institutions matter and secondly that elites are affected by non-institutional activities. (Booth and Golooba-Mutemi 2014a:4) By identifying the political settlement as an object of analysis, it is possible to “shed light on the underlying, longer-term political dynamics,” (Laws 2012: 27) of a nation and understand the behaviour of a government in policy creation. For Khan, a political settlement only emerges when the distribution of economic benefits is compatible with the distribution of power in society, (2010:4) therefore it is necessary to take a step further into analysis by looking at both inclusive and exclusive elite bargains. This paper further defines political settlements by understanding them as being predominantly horizontal or vertical, and exclusive or inclusive. Vertical settlements describe the relationship between the state and society, whilst horizontal settlements are made between elites and form an understanding of a common interest in how to organise political powers. (Whaites cited in Laws 2012:11) Horizontal settlements share commonalities with an inclusive elite bargain which integrates broad coalitions of elites giving inclusive access to political powers and state structures. (Lindemann 2008:1) The importance Lindemann draws from this is through looking at the exclusive elite bargain, which involves a narrow coalition of elites who define exclusionary access to state structures and political powers, which he believes is a predominant reason for civil wars in Africa. (Lindemann 2008:1)

There are two dimensions to the creation of a political settlement; 1) the history of the country in question and 2) the character of the elites. (Laws 2012:9) It is the method of managing the configuration of these rents that determines whether an elite bargain is inclusive or exclusive. (Booth 2009:21) Considering the Gini coefficients of both Rwanda and Kenya, (Figure 1) it is clear that both have a very large divide between the rich and the poor, which suggests that an elite bargain is in place. However, is this bargain inclusive or exclusive, and is it conducive to development?
It can be difficult to locate the nature of a political settlement (Khan 2013:28) but by looking at the responses that elites make to incentives, ideas and policies it is possibly to infer the nature of a country’s elite bargain. (Booth and Golooba-Mutemi 2014a:1)

Kenya: Whose Turn is it to “Eat?”

Kenya is often seen as a country that consistently falls short of expectations in economic performance due to a dysfunctional political system. (Booth and Golooba-Mutemi 2014a, SEED 2006, Etta and Elder 2004) An exclusive elite bargain is certainly evident in Wrong’s account of John Githongo’s experience as the Permanent Secretary for Governance and Ethics within former President Kibaki’s government. (2009) The account details Kenya’s “our turn to eat” system, revealing how senior Kikuyu officials believed that Githongo would not challenge their theft of state funds as he too was a Kikuyu. (2009:97) President Moi had tenuously held together a largely exclusive elite bargain through a combination of coercion and keeping potential members of the opposition as ministers. (Branch and Cheeseman 2008:9) The belief that ethnicity meant entitlement to resources was transmitted through to lower levels of society by the KANU elite devolving control over violence to local militias in order to conduct elections with an atmosphere of violence to deflate the opposition’s vote during Moi’s era. (Branch and Cheeseman 2008:13) There is evidence again of the “our turn to eat system,” in the 2007 elections through Luo tenants refusing to pay rents to Kikuyu landlords as the Luo Odinga was expected to win the presidency and thus control access to resources. (Branch and Cheeseman 2008:22) Arguably, electoral violence would not have occurred if individuals did not think they were getting a fair share of the state resources, which is all evidence of an unstable elite bargain. (Wrong 2009:307)

Brown and Sriram develop this by pointing out that there have been numerous political assassinations, graft scandals, and electoral violence and no prosecutions have taken place. (2012:245,250, Branch and Cheeseman 2006:27) Government officials often find reasons to postpone trials until they are forgotten from public memory.(2012:245) This behaviour is echoed with the prosecutions of Uhuru Kenyatta and William Ruto for inciting the 2007 election violence at the International Criminal Court, the trial having been delayed several times until finally the prosecutor requested that the trial be adjourned based on a lack of evidence due to the government “failing to fulfil its obligations to the court to supply information.” (BBC News 2014) This unstable elite bargain is perpetuated by a lack of institutions being set up to counteract these elites (for example, no effort was made to reform the police after the elections in 2007) as “the big fish won’t fry themselves.” (Brown and Sriram 2012) Furthermore, the growing Kenyan middle classes are also not challenging the de facto political system partly in order to maintain peace, but also revealing that with economic

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**Figure 1 - Gini coefficients of East Africa (Burbridge 2014:209)**

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<thead>
<tr>
<th>Country</th>
<th>Gini Index</th>
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<tbody>
<tr>
<td>Rwanda</td>
<td>31</td>
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<tr>
<td>Kenya</td>
<td>48</td>
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<tr>
<td>Uganda</td>
<td>44</td>
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<tr>
<td>Tanzania</td>
<td>38</td>
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<tr>
<td>Ethiopia</td>
<td>34</td>
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<tr>
<td>Burundi</td>
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independence from the state comes political indifference. (Burbridge 2014:223) The vertical ethnic connections with the country’s poorer members of society and alienated middle class allows the “elites to stay elite,” through inciting violence and reforming elite bargains as their family histories have taught them, (Burbridge 2014:221) revealing that Kenya is run by an exclusive and unstable elite bargain.

**Rwanda: A Unique Configuration**

This paper agrees with Booth and Golooba-Mutem when they argue that Rwanda’s political settlement is characterised by “a commitment to power-sharing among (but only among) parties that are firmly aligned against a revival of ethnic sectarianism, and the pursuit of development… as the principal path to national reconciliation.” (2014a:6) The emergence of this political settlement is due to a particularly unique configuration of political, social, economic and institutional elements that have emerged post-genocide, (Baker 2007:63) which is in line with Tolly’s argument that conflict is an impetus for state consolidation. (in Di John and Putzel 2012:44) The Rwandan government has been widely agreed amongst international actors to be making good progress, (Golooba-Mutem 2008:25) with elites pursuing policies that incorporate not only unity between different ethnicities but also vertical cooperation with the lower levels of society. However, the government has also been criticised for secrecy, press censorship and inefficient and potentially corrupt state-owned enterprises. (Gökgür 2012:9)

To look at the criticisms of the Rwandan government, Reyntjens argues that Rwanda experiences tribalism in a not dissimilar way to Kenya, saying that the claim that “there are no Hutu and Tutsi, but only Banyarwanda,” allows the concealment of Tutsi domination. (2011:30) He further points out Rwanda’s creation of essentially a one-party state in the Rwandan Patriotic Front (RPF) with the EU mission observing intimidation, fraud and lack of transparency in elections. (2004:186,209) He also cites the removal of the press as characteristic of a non-developmental regime, with the BBC being removed from Rwanda in 2009. (2011:15) The accusation of tribalism arguably does not bear scrutiny as the Rwandan government is the most ethnically diverse as it ever has been. (Golooba-Mutem 2009:29) Crucially, the Rwandan defence forces and opportunities are shared between ethnicities, incorporating significant elements of the predominantly Hutu Forces Armées Rwandaises (FAR). (Booth and Golooba-Mutem 2014a:7) This is particularly important to the consolidation of a stable political settlement, as security is of utmost importance to citizens, elite groups and external investors post-genocide, without which there can be no development. (Baker 2007:344) There is more truth in the Reyntjen’s accusations that the RPF has created a de facto one-party state, but Baker’s study may shed some light on why this is tolerated. The mutual desire for peace has resulted in a symbiosis between citizens and police where police rely on the public for information, (Baker 2007:346) which feeds a stable vertical settlement with the government. The maintenance of a stable one-party state is preferred by many members of Rwandan society as opposed to the potential of turbulent democracy that could risk the appointment of extremist parties.

President Kagame has echoed this aim to achieve trust between different members of both the elite and maintenance of a stable vertical settlement via centralising rents through state owned enterprises. (Booth and Golooba-Mutem 2012) These serve to secure an inclusive elite bargain, make possibilities of corruption more transparent, and allow the Rwandan government to pursue socioeconomic development without being constrained by ensuring the
private sector is supported. Gökgür’s article challenges the establishment of these state owned enterprises, indicating that they establish power and opportunity in the hands of only a few powerful individuals and that they are able to obtain lucrative government contracts by circumventing competition. (2012:5,20) However, as is characteristic of neoliberal perspectives on development, Gökgür has failed to consider historical influences on what motivates elites of a country to govern. The importance of the vertical settlement is evident through Rwandan policy since 2000 which “has been driven rather exclusively by the view that economic and social development – underpinned by adequate provision of essential public goods by the state – is the only feasible route to overcoming the ethnic divisions and violent conflicts of the past.” (Booth and Golooba-Mutemi 2012:391, Golooba-Mutemi 2008:31, Baker 2007) Furthermore, Kagame is often portrayed as having zero tolerance for corruption within government. (Baker 2007:351, Booth and Golooba-Mutemi 2012:392) It is easy to cite many instances where mere suspicion of financial wrongdoing of senior officials in Kigali have been met with immediate and effective sanctions. (Booth and Golooba-Mutemi 2012:393) Rwanda’s clear commitment to secure peace via socioeconomic development and an inclusive elite bargain with a centralised rent system has created a secure developmental regime as we will see in the following two chapters.

The Policy Process

Booth and Golooba-Mutemi make the argument that a developmental state is one that can change policy approaches when an issue is uncovered, and that policy processes are shaped by aspects of the political settlement. (2014a:5) Andrews’ work explored this concept of governments being willing to explore potentially non-standard approaches to policy making, and called it problem-driven iterative adaptation (PDIA). (in Booth and Golooba-Mutemi 2014a:4) It is possible to assume therefore that an unstable or exclusive elite bargain will derive a slow cumbersome policy creation process as further considerations need to be put in place in order to ensure the excluded elites are appeased. Khan builds on this assumption by arguing that disorganisation in establishing policies, or contractual failures, could be an indicator of an unstable rent system. (2013:3) Therefore with both disorganisation and apathy in policy making being seen as symptoms of an unstable rent system, it follows that an unstable political settlement results in policies that are not necessarily conducive to development.

Kenya’s Inertia and a Relatively Nimble Rwanda

The Kenyan government is characterised by a lack of organised policy making which we can see echoes into their ICT sector where multiple ministries such as the National Communications Secretariat and the Communications Commission of Kenya are established to deal with similar issues. (Etta and Elder 2004:47) The government demonstrated great inertia in setting up ICT policies with the Pasha Centres and instead employed large consultancies like Deloitte (2012) and Cisco (Drury 2011) to provide them with “best practice” advice. Booth and Golooba-Mutemi develop this tendency for late developing countries to simply adopt the “right institutions” and follow best practice, referring to it as “naïve liberalism.” (2014a:2) The Cisco report demonstrates this in the case of the Pasha Centres, stating:

“There was a great deal of pressure on the KICTB to begin rolling out digital villages. The program had been announced prior to Cisco’s involvement, but lack of prior experience with
This mimicry of neoliberal policies (which have dangers for development in itself as shall be explored in the policy content chapter) reveals the Kenyan government to be unwilling or unable to spend time and money investigating ideal policies. An elite bargain can result in policies that do not target socioeconomic development indicators, but act to please donors and other international actors through liberal policies to ensure that the elites continue to receive income, or potentially force the support of elites that are excluded from the elite bargain through demonstrating that the government is following best practice. This results in elites not spending time conceiving of alternative policies to target socioeconomic development, instead moulding their approach to maintain the support of donors. (Booth 2009:2, Blankenburg and Khan 2006)

This inertia for analysis and reliance on the private sector has been seen as a historical trend for Kenya (Booth and Golooba-Mutemi 2014a:15) and perhaps therefore unsurprisingly for Kenyan ICT policy. Etta and Elder state that the Economic Recovery Strategy paper published in 2003 borrowed heavily from the private sector (2004:51) largely because the government ministries were either too distracted by national elections, or because they simply lacked the skillset or interest in putting forward ideas or policies. User ministries, such as the Education Department, did not give any further input to ICT policy beyond stating how many PCs and printers were required. (2004:46) They also stated that in the workshops they participated in, “government seemed to lack the enthusiasm or drive to match the eagerness for results emanating from the private sector and civil society.” (2004:61) The lack of skillset of Kenyan policy makers to understand ICTs has been cited numerous times as a reason for inertia in ICT policy making, (Etta and Elder 2004:37, Drury 2011:2, Tilvala and Myers 2009:6) but what needs to be emphasised is the lack of willingness of these elites to learn about ICT in order to deliver effective policies. Whilst the World Bank has hailed the Rwandan leadership for their commitment to ICT policy creation with President Kagame receiving “Best Head of State in Africa in Support of ICT Award” for 2005 and 2006, (2013:18) Kenyan politicians have demonstrated apathy towards ICT policies with attendance to government classes on ICTs being extremely poor. (Kenyan National Assembly Hansard 2007:2230) The lack of interest amongst elites implies that these politicians are not being held to account by their policies but by potentially the rent configurations associated with their position. Therefore these government elites are able to enlist the services of the private sector to provide “best practice” policies without ensuring that they will work.

In contrast to Kenya, the Rwandan government is “famous—or, more likely, infamous—in the eyes of development agencies and donors for taking only partial advice from the international aid community and developing the rest on its own.” (Vrakas 2012:2) The history of the Rwandan genocide and lack of involvement from the international community in 1994 has also created a unique situation where although there are numerous concerns from international donors and human rights groups with the way government and state-owned enterprises are run, Kagame and his government are able to enjoy continued support and a flow of aid. (Reyntjens 2011:1) Whilst the Kenyan ICT Federation (KIF) advises the government to “make sure our texts are in line with global best practice” (KIF 2008:1), Kagame is quoted in an essay in the book In the River they Swim, saying “we do appreciate support from the outside, but it should be support for what we intend to achieve ourselves…no one can assume that he or she knows better than we what is good for us.” (Kagame, quoted in Vrakas 2012:2) This is reflected in the monthly government policy of
“Umuganda,” where all Rwandans come together in local communities to discuss approaches for socio-economic development. (Buhigiro 2012:125) Tafreyika argues that this activity is “transforming an agrarian society into a sophisticated knowledge-based economy and instilling a sense of national identity and unity in Rwandans.” (2011:18) These commentaries reveal a direct contrast between Rwanda and Kenya in how much politicians are held to account in involving communities and ensuring the policies they implement will result in socioeconomic development.

*Very Small Aperture Terminals (VSATs)*

A more specific example of Kenya’s inertia surrounding ICT policies for development can be seen with the granting of licenses for VSATs, which are considered an ideal and inexpensive development option to bring internet and telecoms services to rural areas. (Etta and Elder 2004:111, Cavalho 2005) As articulated in a World Bank study, they are faster to rollout than national telecoms infrastructure, more reliable as copper wire infrastructure can often get stolen, easy to service and the fastest deployable last-mile solution for wireless broadband. (Cavalho 2005:46) The Rwandan government allowed the rollout of VSATs via the private company African Rural Telecommunications, (ARTEL) which had great success in the implementation of VSATs across the country, Etta and Elder commenting that "by the time of its official launch in October 2002, ARTEL had initially put 40 VSATs in place mainly in rural areas, and by mid-2004, 210 VSATs had been installed all over the country. ARTEL is committed to ensuring that the fruits of the current ICT boom are spread evenly throughout the country." (2004:220) By establishing development driven frameworks for the private company ARTEL to operate, the Rwandan government was able to take full advantage of VSATs to provide ICTs to rural populations in a relatively short space of time.

In contrast, until 2004 the Kenyan government gave exclusivity in 1999 to the Telkom Kenya to sell VSAT licenses, which meant that it was extremely expensive and time consuming to negotiate a license and implement the technology. This exclusivity policy and legislative inertia (two years between 1999 and 2001 when the parliamentary debate occurred) to amend the exclusive rights of Telkom Kenya was challenged by opposition parties in parliament, drawing statements such as:

“Our neighbours next door in Uganda and even the less developed Tanzania allow their internet service providers to access the internet backbone abroad without any problem. I would like to put it to the Assistant Minister that the only reason they are controlling (VSAT licenses), is because they want to have a view of what is going on in the internet! …We want the internet services to be accessible to the majority of Kenyans because that is where the world is going!” (Kenya National Assembly Hansard 2001:1312)

Members of the Kenya ICT Policy Project (KIP) who consisted of ICT professionals from across Kenya also commented on the government’s seeming reluctance to amend Telkom Kenya’s exclusivity, stating,

“The only reason to drive down the cost of Internet Connectivity and develop ICT is to allow service providers (ISPs) to implement their own VSAT gateways. Anything less is simply a political smokescreen.” (Etta and Elder 2004:111)

These comments indicate suspicion in opposition parties and KIP members that the government is behaving in a way that is not beneficial to developing ICT policies. The
The Elite Bargain and Effects on ICT Policies in Rwanda and Kenya

The slowness of the government to amend licensing policies for VSATs is symptomatic of the government’s inability to respond to change, and therefore cannot be a developmental regime. (2014a:4) Whilst conclusive evidence of an elite bargain causing this delay cannot be established beyond reasonable doubt, the extensive delay in changing licensing policies, suspicion from opposition parties and civil society and relative better performance of less developed countries in the region indicates that an exclusive elite bargain has affected Kenya’s VSAT policy.

World Bank Projects and Rural ICT Policy Flexibility

Another clear example of the effectiveness of Andrews’ PDIA can be drawn out where both the Rwandan and Kenyan governments faced the same issue on projects that aimed to bring ICT services to rural populations. Pasha Centre managers in Kenya identified that poorer and more rural members of the communities were unable to access the centre. (Kenya ICT Authority 2013) Hallberg et al’s interview with the Pasha Centre manager in Malindi said that the poorer members of the community were unable to access the services due to its location in the centre of town, saying:

“If I were given the chance, I would like to open one Pasha Centre in their village to cut the transport cost. They have to take two transport cars to come to the centre for around KES200 only to use KES30 at the centre.” (2012:57)

A direct contrast can be seen here with the way ICTs were rolled out in Rwanda to poor rural members of the community. As the Project Manager of the World Bank ERwanda programme stated in this interview (Wold Bank 2011b), the government realised that the fixed location centres were not being accessed by far poorer members of the community who were unable to spend the time or money on the commute. Therefore, funds were diverted in order to provide ICT buses which bring the technology to the communities, which have made the services more accessible. (Rwandan Development Board 2011b) Both programmes were sponsored by the World Bank and both identified that poorer community members could not access the centres. However, the Kenyan managers were unable to act on their knowledge due to the stringent loan policy and setup with the telecentres, which lacked a link back to central government once set up in order to amend policy. (Hallberg et al 2011:262) The Rwandan project on the other hand was able to identify the needs of the people and agree policy in order to find a solution to the issue. This example of PDIA at the this level of policy making shows the strengths of the Rwandan development board (RDB) in comparison to their Kenyan counterpart as the ERwanda project was able to make a swift policy change in order to meet the needs of the community.

The Importance of Indicators

Returning to Andrews’ PDIA theory, it follows that a more granular approach to indicators allows the government to identify a problem more specifically, and therefore be able to make effective policy changes. (in Booth and Golooa-Mutemi 2014a:4) Whilst Kenya’s Pasha Centres measure indicators that are tracking whether the business is setting up sustainably, the ERwanda programme tracks indicators that contribute to socioeconomic development by understanding what the impact is of their programme to the end user, conducting measurement at a very low level, allowing the government to swiftly identify problems.
Considering the two case studies have very similar aims – to empower those in rural communities through ICT, they have very different methods employed to track success. Taking the monitoring and evaluation reports of both ERwanda and the Pasha Centres as well as the Rwandan government’s National Information Communication Infrastructure (NICI) plan and the Kenyan government’s ICT master plan, it is possible to demonstrate that Rwanda’s approach is far more conducive to ICT development.

As demonstrated in figure 2, the ERwanda monitoring and evaluation (M&E) report employs indicators from the end-user perspective. (Byabagambi 2010:10-13) This focus allows the Rwandan development board (RDB) and the project to see what the effects of their policy has been for socioeconomic development. Booth and Golooba-Mutemi’s argument that the Rwandan government is intolerant of failure and corruption (2012:387, Golooba-Mutemi 2008:31) is therefore supported as this makes it easier to monitor success and track whether funding is being used to support the intended goals of government. The ability to adapt processes is clearly of significance for Rwanda, as the government has changed their ICT projects in the third stage of the NICI plan to being executed yearly and biannually as opposed to five year rollouts ensuring easy adaptations to the policy priorities of government. (RDB 2011a:14). Furthermore, the lack of specific outcomes was recognised as a weakness in the NICI II plan by the government themselves, revealing a genuine commitment to socioeconomic development. (RDB 2011a:79)

Figure 2 - Data excerpts from ERwanda M&E team (Byabagambi 2010:10-13)
Looking specifically at the E-soko 2.0 project within the NICI III plan, the government specified outcome indicators that are time-bound, such as E-soko 2.0 being operational by 2013, measurements in the number of users of the system, and also looking at the effects of providing the system on the users by tracking the number of local innovations in the agricultural sector. (RDB 2011a:38)

These targets of the Rwandan government can be directly compared to the Kenyan government’s approach to both the monitoring and evaluation of the Pasha Centres, and the Kenyan 2015 master plan. Analysing the M&E report for the Pasha Centres first, there is a clear mismatch between the stated goals of the Pasha Centre and what the evaluation report tracks for indicators of success. It states the goals of the Pasha Centres are to:

1) To enhance business skills and knowledge in rural areas as well as expose rural communities to world news and trends that may positively enhance their lives;
2) Provide employment for Kenyans both directly through economic activity that the centre will generate and secondarily through the opportunities that the information will provide;
3) To bring online services closer to rural communities (Kenya ICT Authority 2013)

In contrast to the indicators used by the ERwanda M&E report, this report measures indicators such as the Pasha Centre loan data, the Pasha business models, record keeping and accounting, and amount of services offered. (Figure 3) There is also a lack of hard data in the report relative to the ERwanda report, for example using vague statements to justify success such as, “The rural reach of the Pashas is evident and most are located in rural and peri-urban areas that have limited access to service delivery.” (Kenya ICT Authority 2013)
Figure 3 - Data excerpts from Pasha Centre M&E team (Kenya ICT Authority 2013)

<table>
<thead>
<tr>
<th>Business characteristics</th>
<th>Profile</th>
<th>What is working</th>
<th>What is NOT working</th>
<th>Proposed interventions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pasha model (based on procurement)</td>
<td>Most Pashas conform to the standard model consisting of an average of 10 – 20 computers.</td>
<td>The Pashas are able to provide a bouquet of services at the same time i.e. internet services and training</td>
<td>85% of the approved loan goes into purchase of equipment leaving the entrepreneur with very little working capital to operate the centre.</td>
<td>Review proportion of loan for equipment purchase against working capital requirements in order to ensure that Pasha Centre is capable of operating on a day-to-day basis</td>
</tr>
<tr>
<td>Management model</td>
<td>90% of Pashas are owner managed</td>
<td>Most managers have entrepreneurial nous and understand how a business should be run.</td>
<td>The entrepreneurial knowledge needs to be supplemented with business skills which are generally lacking.</td>
<td>Structured and regular training for all Pasha owners/managers such as finance for non-finance managers and entrepreneurship need to be introduced</td>
</tr>
<tr>
<td>Services offered</td>
<td>All Pashas offer at least 3 services/products as provided in the operational guidelines. Some concentrate on office bureau services while others concentrate on training.</td>
<td>The services offered are meeting the needs of the local communities in providing access to ICT services such as data (internet) and e-government services such as HELD loan applications, NHIF and NSSF services, KRA PIN numbers etc.</td>
<td>The designation of the Pasha Centre as a conduit for diffusion of government services has not been exploited fully. The competition is offering the same services as the Pasha Centre.</td>
<td>Leverage on the county government to prop Pasha Centres as the preferred hubs for access to e-government services e.g. business registration and licensing, tax registration and others.</td>
</tr>
<tr>
<td>Record keeping/accounting</td>
<td>Most Pashas keep rudimentary records despite the M&amp;E team sharing a comprehensive financial management template.</td>
<td>The entrepreneurs appreciate the need to maintain some form of records to show sales and expenses. They also appreciate the importance of monitoring performance of the business.</td>
<td>The financial records maintained are inadequate to analyse a trend and therefore make strategic decisions on the future of the enterprise. The training so far provided has not benefited the entrepreneurs as intended.</td>
<td>Structured and regular training for all Pasha owners/managers such as finance for non-finance managers and entrepreneurship need to be introduced</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Majority of the Pashas are struggling to meet operating costs leading to many failing to repay the loans.</td>
<td>The Pashas have been trying to introduce new products and services from the bouquet provided such as money transfer, training and computer accessories. Other Pashas have increased their marketing efforts and conducted analyses to determine the requirements of their local communities.</td>
<td>The lack of business skills to run viable enterprises is a key limiting factor for many Pashas. Competition is also offering the same products and services using superior equipment and as such customers are more likely to go to the competition. Pashas Centre’s have no competitive advantage.</td>
<td>Other than developing a revenue model as proposed above, there is an urgent need to identify strategic partnerships that would give Pashas a competitive advantage to ensure sustainability e.g. government services such as education and health in partnership with the private sector.</td>
</tr>
</tbody>
</table>

The Kenyan ICT Master Plan is more effective at pulling out measurable and time bound indicators than the M&E report for Pasha Centres, but arguably does not present the same extent of rigour that the NICI III Plan lays out. The Master Plan’s high level targets include an eight percent ICT contribution to GDP, creation of 180,000 direct jobs and 37 successfully commercialized ICT applications. (Kenya ICT Master Plan 2014: 14) These high level goals create problems in tracking success and therefore limits government abilities to change unsuccessful policies. It also makes establishing government accountability for reaching these goals very difficult, both for opposition parties and the Kenyan people via a vertical political settlement. Furthermore, when policies are created, they are characterised by a heavy top down approach and do not translate succinctly to the local level. (Etta and Elder 2004:143) which is where the success of a policy is realised. (Okigbo and Eribo 2004:172)
Therefore we see that the Rwandan government’s genuine commitment to socioeconomic development is reflected in the low level indicators it has incorporated into the national strategy as well as within the case study. On the other hand, Kenya’s Pasha Centre indicators lack focus on the end user and the high level goals in the national strategy has the dual effect of protecting an exclusive elite bargain from interrogation, thus demonstrating that the government has less control over policy.

**Policy Content**

**Problems with Neoliberal Policies**

We have already mentioned naïve liberalism, and the possibility that governments with unstable political settlements may lean towards adopting best practice as proposed by international organisations in order to force support of excluded elites, or to avoid spending time and money pursuing country specific policies when that time may be needed to manage rents. However, what was not mentioned is the potential threats in adopting neoliberal policies that are often suitable in developed countries, but not late developing countries. (Vrakas, 2013:1) Blankenburg and Khan develop this argument by stating that late developing countries need to employ rapid catch-up policies involving targeted technology acquisition that the private sector may not find a viable investment, but one that the state needs to make in order to “catch-up” with more developed countries. (2009:1) Late developing countries may struggle to absorb new technologies such as ICTs due to a lack of organizational capacity, which requires a significant amount of effort to be invested into learning. (Blankenburg and Khan 2009:5) To ensure socioeconomic development, firms have to be prepared to finance the learning period to ensure competitiveness, which is likely to be when the organisation has low or negative profits. (Khan 2013:12) Therefore governments may need to provide assistance to these firms to ensure that the learning takes place, which neoliberal policies would not permit.

**Pasha Centres and Privatisation**

Kenya’s Pasha Centres are a good example of naïve liberalism and “big push” macroeconomic policies that Putzel and Di John warn about, as opposed to targeted production strategies. (Putzel and Di John 2012:xii) As mentioned previously, the Kenyan government employed Cisco to undertake an initial analysis and design the approach that the policy should adopt. The questions that Cisco initially raised demonstrates how the company appeared to be leaning towards targeted development, querying what villagers need most, how would they use new services and what level of capability was needed by villages. (2011:2) However, the requirement for a scalable single business model, instigated by both the World Bank and the KICTB meant that this was where the focus lay, thus the report developed into ways that Pasha Centre manages can manage their businesses to ensure profitability. Instead of creating methods to ensure that the local populations were able to use ICT services as ways of improving their skills and thus providing targeted development, Cisco instead recommended numerous business management tools such as the one in figure 4. It is this focus on profitability, as opposed to what the programme is trying to achieve through socioeconomic goals that is a fundamental problem with the model, as can be demonstrated in the review that Kenya’s Monitoring and Evaluation (M&E) team did in 2013:
“Rather than offer a bouquet of services as provided in the procurement guidelines, some Pasha Centres have decided to concentrate on only one of the highest revenue generators and forsake the other services. It is necessary to reinforce the goals and objectives of the Pasha owners/managers and remind them of their obligation and role in assisting KICTB and the GOK (Government of Kenya) in bridging the digital divide by offering a bouquet of services rather than specializing on one.” (Kenya ICT Authority 2013)

Figure 4 - Example of business management tool for Pasha Centres (Drury 2011:5)

The marriage of attempting to provide ICT access to rural poor communities and enabling the Pasha Centre to be a profit-making business is a fundamental flaw of neoliberal market based policies, which were arguably employed because those in government needed to appease donors, force agreement from excluded elites and maintain legitimacy for their elite bargain. The M&E team suggests in the above quotation that it is the fault of the individual managers that they are not fulfilling their obligations in bridging the digital divide. However, when owners are monitored with business profitability tools, and targeted only on loan repayments, (Kenya ICT Authority 2013) it is highly likely that Pasha Centres would target richer clientele, and focus on providing services that gain the highest revenue.

Providing proof of this fact, Hallberg et al’s study of Kenyan Pasha Centres reveals that most of the users of Pasha Centres are either from wealthy families, or are university students studying IT. (2011:270) Using the private sector to provide developmental goals is problematic, with Dwyer commenting that it has the tendency to “put profits before people,”
The Elite Bargain and Effects on ICT Policies in Rwanda and Kenya

(in Farlam 2005:6) as has been demonstrated here with the Pasha Centres. The widely adopted view of using partnerships with the private sector to achieve sustainable development is clearly flawed (Hoering 2003:2) as the onus on the managers to pay back the loan has the effect of drawing the Pasha Centres away from their goal to “bridge the digital divide” and towards finding profitable activities. Therefore we see that the use of neoliberal privatisation techniques to rollout ICT services to the rural poor distracts from socioeconomic goals, instead focussing the government on getting returns on loans and blaming the lack of functionality of the Pasha Centres on a lack of business acumen.

Context critical policies

As previously mentioned, the World Bank, Kenya ICT Board and Cisco all leaned towards being able to provide a model that was scalable and transferrable, and therefore a blueprint that could be used no matter the location, which is an inherent problem with neoliberalism – the lack of awareness of context. (Cisco 2011:7) As the qualitative studies that Hallberg et al performed shows, there was wide variety in the areas that the Pasha Centres were set up in, from the Pasha Centre in Meru which has largely a rural farming community, to Malindi, where most of the population earns money through the tourist trade and has a severe public health issues with STIs. (Hallberg et al 2011:262) The Pasha Centre that was set up in an extremely poor area in Mukuru, Nairobi was only made available to females due to the security issues within the local communities. (Hallberg et al 2011:263) When looking at the different industries surrounding these centres, it is clear to see that the contextual surroundings of local industries and populations would provide different opportunities to use ICTs. The use of such a blueprint model is very inflexible in its approach to communities, and as Atieno and Moturi found in their analysis of Pasha Centres, “…there were services that were required by the community and were not being offered.” (Atieno and Moturi 2014:800) Walker argues that flexibility when starting a project for ICT is critical to success, highlighting the importance of learning on the project such as developing knowledge of community structures to achieve the best results. (Walker 2008:2714) Instead of a blueprint model being used for all telecentres, funds may be better spent in assessing the specific needs of the community and tailoring ICT programmes accordingly. This inflexibility of approach not only shows that the Kenyan government is unable to respond to community needs in the most efficient way possible, but also that the Kenyan policy failed to take into account the context into which the policy was being delivered.

Traditional languages were also largely ignored in Pasha Centre design, which led to a lack of confidence in the poorer and less educated members of communities as they feel that the computers are not “meant for them.” Managers were unprepared for this diversity, Hallberg et al commenting that “managers are not accustomed to users with a diverse background in terms of language and in need of special education, which shuts out a large group of users.” (2011:270) Women in particular are affected, with statistics showing that there are particularly poor literacy rates among African women which in turn limits their ability to use ICT services (Oyedemi 2003:100). However, as Peterson, (2005) Mohanty and Miraglia (2012) have argued, it is not just literacy rates that affect women’s ability to access ICT services, but also the attitude of society towards them that affects their ability to use the Pashas. As one Pasha manager said,

"In general, women or girls are not interested in the centre...older women of the age bracket 35-50 feel technology is too much for them and it is for young people ... most women feel the centre is a "man's world" and women play a little role" (Hallberg et al 2011:262)
The perception that women are the homemaker for the “hegemonic economic man,” (Mohanty and Miraglia 2012:120) conceals deep seated economic and social injustices and in this instance has resulted in unequal access to technology in the case of the Pashas. Hallberg et al.’s interviews (2011,2012) prove that the context into which Pashas are deployed must be considered if they are truly to reach the poorer, rural, and more disadvantaged members of a community, and that a blueprint model is less appropriate to reach the diverse members of the rural population.

Furthermore, in studies conducted by Mercer on Tanzanian telecentres (2005) and Hallberg et al in Kenya, (2012) it was found that users predominantly used the telecentre services to communicate with friends, read news websites, and follow international popular culture rather than the stated aims of the centres to provide wealth creation, employment and poverty reduction. (Hallberg et al 2011:256) Far from being used industrially, the services provided by the telecentres were largely being seen and used as a leisure activity, as demonstrated in figure 5. Some were able to use the centres to apply for jobs, but without local businesses also being set up online, the jobs to apply for were scarce and more often advertised elsewhere. If the majority of people do not have the right educational background in order use an online business, then there is no relevance in starting a business. Pejova argues that the failure of ICTs to meet development goals such as unforeseen leisure usage of telecentres represents a critical opportunity cost to the investment that the government has made which may have serious repercussions. (in Tilvala and Myers 2002:1) Thus, drawing on Blankenburg and Khan, (2009) until a country reaches a certain level of development to ensure productive use of ICTs, continuing to ignore the context into which an ICT policy is being delivered may result in severe waste of government resources.

Figure 5 - Type of information accessed via the Internet in telecentres DSM and S’rema (Mercer 2005:252)

<table>
<thead>
<tr>
<th>Type of information accessed</th>
<th>DSM (%)</th>
<th>S’rema (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>News</td>
<td>19</td>
<td>16</td>
</tr>
<tr>
<td>Sport</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>Music</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Science</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Study opportunities/sponsorship</td>
<td>8</td>
<td>19</td>
</tr>
<tr>
<td>Jobs</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Business news</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Politics</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>General browsing</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Religious</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Social (friends)</td>
<td>11</td>
<td>6</td>
</tr>
<tr>
<td>Fun/entertainment</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
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E-soko and Education

E-soko is hailed for its successes, but it hasn’t been without issues, as qualitative studies have shown, experiencing some similar problems on education as the Pasha Centres. (Akinyemi 2013, Bizimana 2013, Niyongabo 2011) However, the Rwandan government’s
heavy focus on education and socioeconomic development, combined with a more flexible approach to policy allowed the programme to achieve success. Furthermore, unlike Kenya’s Pasha Centres, the Rwandan government via MINAGRI gave financial support to E-soko once the World Bank funding was depleted, removing the development constraints experienced by the Pasha Centres of having to ensure the business was sustainable. (Niyongabo 2011: 25) The challenges that E-soko experienced were largely surrounding issues of illiteracy and affordability of maintaining a mobile phone alongside electricity costs. Opening up the issue of illiteracy, Akinyemi points out in his study on E-soko,

"Almost all agricultural traders E-soko has dealt with have mobile phones and have access to phones, but only a few know how to use the phones apart from making and receiving calls. During the field work, it was discovered that reading and writing text messages is a major problem amongst the farmers and traders because majority do not have beyond a primary 6 level of education." (2013:7)

Only 2.6% of the farmers had never been to school, (figure 6) (Akinyemi 2013:7) yet Niyongabo argues that because mobile phones are often programmed with either French or English, farmers whose primary language is Kinyarwanda struggle to use them. (2011:33) However, the struggles that the E-soko project has faced with education are dispelled as there is an obviously increasing number of farmers using the E-soko platform (figure 7). Furthermore, the government is making great strides forward with ICT in education as one of the core pillars of the country’s NICI plan. Significant progress can be demonstrated through Rwanda being the first country in East Africa, and third in Africa to adopt the one laptop per child initiative. (Rwandan Development Board 2011a: 10) Farrell shows the positive effects of this initiative as in 2000 only one school had a computer, but six years on, over half of all schools own computers and 2000 teachers have been through ICT training. (Farrell, cited in Buhigiro 2012:12 messages). In addition, Rwanda’s literacy rates have been steadily rising in the past few years, in comparison to falling literacy rates in Kenya. (Figure 8)

More of an issue for farmers was the lack of infrastructure and expense to maintain a mobile phone. Niyongabo’s fieldwork demonstrates that the further away a farmer’s plot is from electrical infrastructure and markets, the more expensive and time consuming it is for farmers to maintain a phone, ensure that it is charged and use E-soko, and all of these expenses are widening the digital divide. (2011:32) However, the Rwandan government continues to fund improvements in infrastructure through the combined goals of the ERwanda project, (World Bank 2006:3) which draws a stark contrast with Kenya’s singular focus on profitability. Furthermore, the increased use of E-soko proves that farmers are increasingly able to afford to use mobile phones. (Figure 7) Whilst this qualitative study has revealed that farmers have struggled to participate fully with E-soko, the government’s continued backing of multipurpose project instead of relying on the private sector to reach these poorer regions gives more stability to the rollout of these policies than the use of neoliberal policy as Kenya has done.
The Elite Bargain and Effects on ICT Policies in Rwanda and Kenya

Figure 6 - Educational levels of farmers using E-soko from Qualitative study (Akinyemi 2013:7)

Figure 7 - E-soko Impact Assessment (Akinyemi 2013:5)

Figure 8 - Literacy rates over time for Kenya and Rwanda (UNESCO Institute for statistics)
Relative Education Policies

The emphasis from both the Pasha and E-soko case studies has been on the people’s need for education in order to make full use of the technologies provided, which provides empirical evidence to lend support to Blankenburg and Khan’s arguments that governments or firms need to invest in learning in order to ensure industrial progress. (2009) Heeks looks into this further and adds another class dimension to this, arguing that information is only relevant if the source and provider “…share a common culture, status, and the same set of priorities. Unequal class status or incompatible cultures make a huge difference in finding common ground in communication.” (Heeks, quoted in Melkote and Steves 2004:170) Therefore in order to provide information that is relevant to those from a poorer background, information needs to be provided from people of a similar background in order for it to be successful, as without that connection and common understanding, the information is likely to flow one direction only, without necessarily being of much use to the reader. Academics like Walker (2008:2710) and NGOs such as the Reaching the Unreached Project (2002) agree with this view, stating that with a lack of information literacy in the regions where ICT is deployed, very little can be gained through the rollout of ICTs. Furthermore, Y’au argues that Africa’s lack of presence in cyberspace has left it open to imperial domination in the information age via knowledge dependence, (2004:12) and through figures such as the amount of international news and culture that is accessed online in Mercer’s report (2006) it is evident that this is the case. Therefore, readdressing the arguments that the World Bank adopts as to why ICTs should be used in developing countries – in order for people to “learn where best to fish,” “trace cattle from pastures to supermarkets” and “report illegal logging” (2012:v), it can be concluded that people can achieve little with ICTs until they learn how to use them.

Rwanda’s approach to ICT policy was driven by enhancing human capacity, being “acutely aware of the limitations,” of the skillset of their population. (Etta and Elder 2004:217) The government’s drive to ensure socioeconomic development has led politicians to identify the education needs of the population, and establish the Kigali Institute of Science and Technology (KIST) in 1997 whose courses all had strong practical components with a market driven orientation in a “bid to address the development needs of the country and satisfy the new requirements.” (Etta and Elder 2004:214) In contrast, Kenya has faced criticism from academics such as Tilvala and Myers who state that there is a low level of importance placed on information literacy within the country. (2009:9) This could potentially be linked to the government’s senior politicians not understanding ICTs themselves, which as demonstrated in the Policy Process chapter is due to a lack of interest from senior politicians because the configuration of rents in government fails to hold ministers to account for their policies. The Kenyan government has recently shown improvements though, with the 2014 Master Plan stating,

“…there has… been little investment in the human resources required to design, develop and operate this infrastructure and the associated e-applications... The local universities and tertiary colleges continue to develop ICT human capital that is neither guided by a human resource developmental policy nor well aligned to industry needs...” (Kenya ICT Authority 2014)
The fact that Rwanda was able to implement a human resource developmental policy guide through KIST in 1997 in a post genocide environment, whilst Kenya has taken an additional seventeen years to provide a similar directing policy focussing on education is symptomatic of the elite bargain potentially causing delays in policy creation.

Conclusion

Through examining the nature of the political settlements in Kenya and Rwanda and directly comparing outcome of these elite bargains to development policies in the ICT sector, it is clear that Rwanda has seen more success than Kenya. Rwanda’s use of state owned enterprises to centralise rents amongst the elites thus making corruption unnecessary and strictly constrained by government has served to strengthen relationships across a society that has emerged from the 1994 genocide with a genuine commitment to socioeconomic development. Furthermore, these state owned enterprises have allowed the government to perform targeted learning policies for the population as Blankenburg and Khan (2009) recommend, with a clear example of this being when the Rwandan government continued to fund the ERwanda project when the World Bank pulled out. Rwanda is certainly unique in its’ post-genocide configuration of rents however as there is a shared commitment to peace across both vertical hierarchies with poorer members of the populace and across ethnic boundaries. This is demonstrated through the support of community security, and a community commitment to socioeconomic development through programmes such as Umuganda. It is this commitment to peace and establishment of trust across different groups that has allowed the Rwandan state to act in a secretive and intimidating manner during elections, as there are few individuals either amongst the elite or the people who want to risk the return of an extremist party to power or inciting hate speech via the media. Kenya, on the other hand, has witnessed the creation of an exclusive elite bargain that has become more unstable since President Moi stepped down. Scandals regarding theft of state funds and incitation of ethnic violence have served to heighten tribal tensions, creating a system of rents widely believed across the country to represent a monopoly over state resources for whichever tribe is in power.

Rwanda’s inclusive elite bargain has led to a strong commitment from senior officials to socioeconomic development, and this is clear upon analysis of ICT policy and the interest elites have placed on ensuring its success. Through establishing low level socioeconomic indicators to track progress both at the national strategic level and at the project level, the Rwandan government is able to abort projects that are not showing results, as is clearly demonstrated by the ICT buses on the ERwanda project. These low level indicators also provide transparency both within government to fellow elites and to the Rwandan public of their government’s commitment to unity through socioeconomic development. The E-soko project has drawn criticism on the grounds of a lack of education and infrastructure to support farmers, but it is clear that it is succeeding overall with evidence for increased uptake of the system on a daily basis. Furthermore, an inclusive elite bargain has given Rwanda the confidence to create policies that are suitable to its own development path, allowing it to avoid the difficulties that Kenya has experienced with deploying ineffective neoliberal blueprint policies, whilst also being able to perform iterative changes to policies that are not delivering results.

Kenya’s exclusive elite bargain on the other hand has resulted in a government that is not primarily interested in socioeconomic development, since this is not necessarily what they are
being held accountable for. This lack of interest is reflected in ICT policies: with elites not attending seminars on the uses of ICT, failing to contribute meaningful debate in ICT policy creation, and outsourcing analysis to large external companies such as Cisco. The naïve liberalism that Kenya employs is arguably as a result of multiple factors; it allows government elites to not have to spend time and money developing policies specific to their regions, enforces legitimacy amongst elites excluded from the elite bargain as they cannot be criticised for their policies, and ensures that the elites in power have a continued flow of income from international donors. The resulting policies from Kenya’s naïve liberalism are evidenced by the failed Pasha centres, focussed on establishing sustainable businesses rather than targeted socioeconomic indicators as in Rwanda. The blueprinted policy for the Pasha centres also meant that the services did not cater optimally for the local economies which varied greatly and resulted in wasted government resources as people were only functionally able to use the ICT services for leisure activities as was outlined in detail in Mercer’s report. (2006) Furthermore, women and those using traditional languages were not necessarily able to access the services. Combining privatisation with development had its own difficulties. Pasha managers were charged with providing services to the poorest members of the communities whilst repaying loans to the government, which resulted in the Pasha centres not targeting the communities that needed the services, but those that would be able to provide profits in order to repay government loans. The exclusive elite bargain also resulted in the Kenyan government using very high level indicators which meant the government was unable to track where policies were not delivering effectively. These high level indicators also protect the exclusive elite bargain through not providing transparency to opposing elites or the public. The inability to perform quick policy changes and Kenyan government’s delays to implement policies conducive to development such as with the VSATs and a targeted ICT education policy is also symptomatic of an unstable political settlement, adding weight to Khan’s claims.

This paper attempts to add to the body of work surrounding the political settlement and provide evidence of the effects on development policy in response to Laws’ call for further evidence. (2012:1) To conclude, there is a clear connection between the nature of the political settlement on development policy and Rwanda’s inclusive elite bargain, born out of a unique historical situation that is far more conducive to development than Kenya’s.
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**Newspapers and Periodicals**


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The Bangladeshi Solar Home System (SHS) Programme: 
Relevance and Development of the Supply Side

Silvana Tiedemann

Abstract

The Bangladeshi Solar Home System (SHS) programme is the largest off-grid electrification programme in the world and provides useful insights for replication in other regions. This dissertation analyses to what extent the programme led to a development of a viable solar industry in Bangladesh. Furthermore, it highlights the role of both companies delivering services to rural households and domestic assemblers and producers of SHS components, and asks to what extent their development changes an impact assessment of the programme. The dissertation finds that the specific rents created by the governance mechanism enabled companies to start operating before becoming competitive and acquire some capabilities. For the solar industry to be viable in the long run and to have a positive impact on the long-term economic development of Bangladesh, however, implicit incentives should be made explicit to better monitor and enforce capability development. The results provide useful insights on both how to design off-grid electrification programmes and how programmes such as this could serve as a policy for developing countries to acquire production capabilities.
Introduction

1.3 billion people are living without access to the electricity grid. Grid extension takes a long time and requires huge investments that are particularly difficult to organise in developing countries. Stand-alone off-grid generation units can be a solution to provide at least moderate electricity access for about 300 million people (OECD/IEA 2011). Solar Home Systems (SHS) that consist of a small solar panel, a battery, a charge controller and several appliances (see appendix 8.1) are a proven off-grid electrification technology that can provide moderate electricity access.

Since the early 1990s, several Asian countries started promoting SHS with varying success.\(^1\) In 2002, Bangladesh set up an SHS programme governed by the Infrastructure Development Company Limited (IDCOL). IDCOL provides concessionary subsidised finances to pre-selected companies, so called Partner Organisations (POs). As the Bangladeshi SHS programme (hereafter the “Programme”) is the most successful off-grid electrification programme, it serves as a valuable case study to identify lessons for successful replication.

A small number of studies analyse the use of SHS in Bangladesh. The first studies in the early 2000s found that weather conditions are feasible for SHS and rural households are willing to buy SHS yet to overcome the budget constraints, consumer loans are necessary (Barua 2001; Martinot et al. 2001; Alam et al. 2003). As installation figures increased, studies mainly analysed the business model of Grameen Shakti, the company that first sold SHS on consumer loans. The success of the whole Programme was explained by Grameen Shakti’s innovative business model that made SHS affordable to rural households (Asif and Barua 2011; Siegel and Strong 2011; Siegel and Rahman 2011; Sovacool and Drupady 2011; Wimmer 2012).

Other studies discuss the impact of SHS in the context of poverty alleviation and socio-economic development. SHS increase the welfare of households and contribute to health improvements as well as environmental and climate protection (Komatsu et al. 2011; Sovacool and Drupady 2011; Samad et al. 2013). SHS do not in general lead to new income generating activities (Mondal and Klein, 2011; Asaduzzaman et al. 2013). As Bimesdoerfer et al. (2011) highlight, the impact assessments are often very narrow in focus: they only assess consequences from owning SHS and exclude any supply-side considerations. One focus of this dissertation is therefore to contribute to this ongoing discussion by highlighting benefits from the development of the supply side.

The most recent studies analyse the Programme as a whole and try to identify success factors (Sovacool and Drupady 2011; Urmee and Harries 2011; Cabraal 2012; Palit 2013; Sadeque et al. 2014). All studies agree on three main points: (i) The Programme relies on local companies with a high rural outreach, i.e. the POs. (ii) The Programme follows a ‘market based approach’: the POs are responsible for procurement of SHS and the subsidies

are constantly and reliably decreasing. (iii) IDCOL is a strong and dedicated implementing agency that works in a transparent manner, is free from corruption, and operates without governmental interference.

For a successful replication of the Programme in other countries, the author of this dissertation agrees that the role of the POs is crucial. However, the literature underemphasizes the development of the POs and the complexity of the supply side: the solar industry consists of the POs and – the often forgotten – suppliers that partly import, partly assemble and manufacture in Bangladesh. As this dissertation will show, the POs and the domestic producers are dependent on each other and the development of the former cannot be understood without reference to the latter.

Hence, the questions that guide the following research on the Programme are:

(1) What is the role of the supply side in the Programme, including the role of both POs and domestic producers, as well as the interactions within the solar industry?
(2) How did the financial mechanism under IDCOL enable the development of the supply side?

In order to answer these questions, it is helpful to understand the problem of off-grid electrification as a specific case of the more general problem of technology acquisition in developing countries. This allows drawing on the insights of industrial policy analysis in general and Khan’s work as outlined in Technology Policies and Learning with Imperfect Governance (2013) in specific. By analysing the allocation of the rents and the impact of the compulsions, the dissertation aims at a better understanding of the development of the Bangladeshi solar industry and assesses its viability. The findings help to understand if the Programme and programmes such as this can serve as an implicit industrial policy to develop production capabilities.

To do so, the author conducted 21 semi-structured interviews with 24 pre-selected stakeholders in August 2014 (see Appendix 0). To reduce the unavoidable bias, the author (i) cross-checked responses with minutes from the Operations Committee of IDCOL, (ii) evaluated the plausibility of the responses in terms of background knowledge on the political economy of Bangladesh, and to the extent that was possible (iii) triangulated responses so that the responses of one individual could be cross-checked against those of others in the industry. The results reported are the evaluation of the author and differences between the author’s evaluation and the opinion of interviewees will be indicated whenever relevant.

The dissertation proceeds as follows: Chapter 0 introduces the Programme as well as the solar industry. The discussion deepens the understanding of the supply side by highlighting the complex interaction between POs and domestic producers and proposes an answer for question (1). Chapter 0 outlines the analytical framework that is then applied in Chapter 0 to discuss question (2). Chapter 0 considers to what extent the outlined discussion of the supply side may change the evaluation of the impact of the Programme. Chapter 0 concludes.
The Bangladeshi Solar Home System Programme

The Solar Home System (SHS) Programme is implemented by the Bangladeshi Infrastructure Development Company Limited (IDCOL). IDCOL is a government-owned non-banking financial institution with both the public obligation to finance infrastructure projects and the right to provide finances to the private sector at non-market conditions (IDCOL 2014). IDCOL indirectly receives subsidised finances from international donor organisations through the Government of Bangladesh as well as some direct grants funds (World Bank 2013; Sadeque et al. 2014). By August 2014, 3.2 million SHS have been installed and IDCOL aims to finance at total of 4 million systems by 2015 (Figure 1). According to estimates of the author, 20.6% of rural off-grid households use SHS today.3

The stakeholder constellation

The stakeholder constellation of the Programme is shown in Figure 2. IDCOL provides concessionary subsidised finance to the Partner Organisations (POs). All services to the households are provided by POs: A PO installs the system after the household paid a down payment of 10-15%. For the remaining price of the SHS, the PO provides a consumer loan. The loan usually has as a flat interest rate of 12-16% and is paid back in 36 monthly instalments. During the collection of the instalments, the PO provides maintenance and repairs or replaces the system if needed. The Programme is designed to make the business model of the POs work as it has important benefits for SHS programmes: (i) monthly instalments make SHS affordable; (ii) the consumer is more likely to take care of the basic and necessary maintenance as the consumer owns the SHS; and (iii) when collecting the monthly instalments, the PO simultaneously provides maintenance and on-going training (Barua 2001; Komatsu et al. 2011; Siegel and Rahman 2011; Sovacool and Drupady 2011; Wimmer 2012; Palit 2013).

The number of POs increased from 6 in 2002 to 47 active POs in July 2014 (Word Bank 2002, OC minutes). In 1996, Grameen Shakti invented this business model. As a spin-off of the well-known Grameen Bank, it could rely on the Bank’s experience with micro credit schemes. Furthermore, Grameen Bank’s employees in the villages helped the newly set up Shakti branch offices to identify potential customers even though the target group for SHS and micro credits differ substantially (Wimmer 2012). Today, Grameen Shakti is still the market leader followed by the Rural Service Foundation (see Figure 1).

3 Estimate based on Census (2011) for SHS penetration and installation figures for March 2011 and August 2014
Figure 1: Cumulative SHS installations in Bangladesh. Data provided by IDCOL, Rural Service Foundation and Grameen Shakti.

Figure 2: Stakeholder constellation of the Programme (adapted from Haque 2013).
To be able to access the subsidised finance by IDCOL, POs are only allowed to purchase “IDCOL certified” components from suppliers. Suppliers partly import, partly manufacture and assemble SHS in Bangladesh. In 2002, some batteries and fluorescent lamps where produced in Bangladesh albeit in very small quantity (World Bank 2002). In 2014, 22 local battery producers exist, out of which four dominate the market. Four domestic panel assembly plants started their operations recently, yet solar panels are still mostly imported. In 2012, seven suppliers domestically assembled 90% of the charge controller and lamp circuits (Aziz and Chowdhury 2012; Chowdhury in review). As of August 2014, there are 55 charge controller and 26 lamp circuit assembly plants.

The interactions between Partner Organisations and suppliers

Even thought the Programme is designed around the POs, the suppliers play an important role for the success of the business model of the POs and therefore of the Programme. Drawing partly on the literature, partly on the conducted interviews, the following highlights the role of the suppliers, especially of domestic producers, by discussing the different services provided to the POs (see Figure 3).

First, suppliers increase the liquidity of POs. Suppliers allow the PO to defer the payment for up to three months (Sadeque et al. 2014), which is about the time it takes for IDCOL to process refinancing applications. The supplier credits reduce the required working capital for POs, which Kebir et al. (2013) found to be a major impediment for growth of small and medium size enterprises providing energy services to consumers in emerging and developing countries.

Second, the supply chain improves. If the domestic market is small, the supply chain is not well developed and the import is often a bottleneck of off-grid electrification (Sovacool and Drupady 2011; Urmee and Harries 2011). Domestic producers face a similar problem as they import components for assembling or raw materials for manufacturing, but it is not the PO that bears the full burden of guaranteeing a continuous supply.

Third, transaction costs decrease. A long warranty for batteries is often cited as crucial to success factor of the Programme (Sovacool and Drupady 2011; Urmee and Harries 2011; Palit 2013; Sadeque et al. 2014). The warranty, however, is only meaningful if enforceable. If
the supplier is an international company, enforcing the warranty involves high transaction costs as exporting a faulty product requires an export permit. Interviewees referred to incidences where the PO preferred not to claim the warranty from an international supplier because getting the official permit was too costly.

Fourth, domestic producers are more likely to adjust the products to the specific needs of the POs. As the domestic producers have a low productivity they are unable to export and are therefore dependent on the domestic market. According to Chowdhury (in review), domestic producers reconfigured their products so that they better fit to the Bangladeshi climate and to the customers’ electricity load profile.

This chapter introduced the stakeholder constellation of the Programme. It is designed around the POs that provide the services to the customers. However, the suppliers too make up an integral part of the solar industry and domestic producers provide important services to the POs. To identify success factor for replication, it is important to not only describe the Programme’s set-up but to understand how the supply side could develop. The following chapter outlines the theoretical framework for this analysis.

The Problem of the Development of the Supply Side

The Problem of off-grid electrification is often considered in isolation rather than as a specific case of more general problems of technology acquisition in developing countries. To analyse the development and viability of the supply side it is therefore helpful to draw on the literature on industrial policy. The purpose of the remaining discussion will be to use insights from a specific industrial policy approach by Khan (2013b) to better understand the development of the supply side and its relevance for long-term economic development. This chapter starts the discussion by introducing Khan’s approach (0) and the related analytical framework (0), as well as some additional challenges for SHS programmes to also serve as implicit industrial policies (0).

The problem of capability development

According to Khan, the lower productivity of industries in developing countries as compared to industries in advanced countries results from a lack of capabilities. In order to raise their productivity and be able to compete internationally, countries need to acquire organisational capabilities that allow employees to be able to “work effectively as a team” and technology capabilities to “use machines and technologies properly” (Khan 2013b:81). As advanced countries acquired such capabilities over years, firms are able to provide higher quality products at a similar or even lower price even if the factors of production in advanced countries are more costly e.g. due to higher labour costs.

The lower labour costs in labour abundant developing countries could potentially allow for a comparative advantage in a product or product category that is labour intensive (Lin and Monga 2013). However, the problem is that capabilities are not inherent but rather embedded in routines. Such tacit knowledge can only be acquired through ‘learning-by-doing’ and on the job training (Lall 1992). Therefore, the company has to engage in production before being competitive. This means that there has to be some loss-financing for the period during which the company tries to acquire capabilities (Khan 2013b).
This loss-financing is unlikely to be available from private investors as capability
development requires high levels of effort and private investors may find it difficult to enforce
high levels of effort, especially if they are foreign. In order to overcome this contracting
failure, industrial policy needs to address a twin challenge. A governance mechanism needs to
create a rent, defined as an incremental addition to the companies’ return on investment, that
allows the company to start its operations before becoming competitive, and at the same time
provide the regulatory mechanism to enforce high-effort-learning (ibid.). The latter is
especially challenging as companies may find it more profitable to engage in rent seeking
activities (Krueger 1974). For instance, they may prefer to invest their time and money in
activities to preserve the rents, especially if it is easier to protect the rent compared to the
effort required to make the business profitable by increasing productivity, or to deploy the
subsidies in other more profitable activities by avoiding the regulatory framework (Khan
2013b).

The problem of rent management in SHS programmes

The specific mechanisms through which rents are allocated, their allocation to the
different stakeholders, as well as the effectiveness of the regulatory mechanisms to enforce
high levels of effort matter greatly for the success of complex business models like an off-grid
electrification programme. The interplay between incentives (rents) and regulatory
mechanisms is here called the rent management of a SHS programme, a terminology based on
(Khan 2013a). The specific questions that will guide the analysis of the Bangladeshi SHS
Programme are shown in Table 1. Rents can be directly or indirectly allocated. In the former
case the intended beneficiary directly receives a rent, in the latter through another stakeholder.
Furthermore, rents can be explicit i.e. intended by the programme, or implicit i.e. not intended
or not taken into account in the programme design. In the same way, regulatory mechanisms
can be direct and indirect. However, by definition they cannot be implicit as the programme
defines regulatory mechanisms.

<table>
<thead>
<tr>
<th>Incentives and rents</th>
<th>Regulatory mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Which rents (direct and indirect, implicit and explicit) are created by the financing mechanism?</td>
<td>• What are the entry-requirements for firms?</td>
</tr>
<tr>
<td>• Do they allow production to start before becoming competitive?</td>
<td>• How is compliance monitored over time?</td>
</tr>
<tr>
<td>• How are rents allocated to the different players (service providers, consumers, producers etc)?</td>
<td>• How are exit conditions defined?</td>
</tr>
<tr>
<td>• When do companies receive the rent, before or after delivering the product/service?</td>
<td>• How is compliance enforced?</td>
</tr>
<tr>
<td>• Which other non-monetary incentives exist?</td>
<td>• What other mechanisms exist to induce effort in achieving competitiveness?</td>
</tr>
<tr>
<td>• Where is the risk of satisficing behaviour greatest?</td>
<td></td>
</tr>
</tbody>
</table>

Table 1: Questions guiding the analysis of the rent management
At the beginning of a programme, neither suppliers that produce domestically nor companies providing services to rural households (here: POs) are likely to be competitive. The former have to acquire technological and organisational capabilities as defined above, the latter service capabilities. The author identified four categories that are relevant for a PO to successfully operate:

(i) **Organisational capabilities** that allow the POs to manage effective operations in off-grid, mostly rural areas;
(ii) **Technological capabilities** that allow employees to correctly handle SHS (installation and maintenance);
(iii) **Financial capabilities** that allow the company to identify creditworthy customers and collect instalments; and
(iv) **Marketing and educational capabilities** that allow employees to overcome the initial mistrust by the population, sell their products, and instruct the consumer to properly operate the SHS.

**Additional challenges for SHS programmes to serve as an implicit industrial policies**

Finding the right governance mechanism and the right allocation of subsidies so that the Bangladeshi SHS programme and programmes such as this could also serve as implicit industrial policy to upgrade production capabilities in a developing country is complicated by several issues:

First, raising the competitiveness of the POs has a short term conflict with involving domestic manufactures and assemblers because their low productivity may further affect the competitiveness of the POs. Especially in the beginning of a programme, POs do neither want to compromise with quality nor accept higher prices for SHS. Rural customers are rather sceptical about SHS if they are first confronted with the technology. In a country with high population density, reports on faulty equipment spread fast and to regain the trust of potential consumers, POs have to allocate even more resources for marketing and education (Siegel and Rahman 2011; Chowdhury in review). Furthermore, POs need to provide their services at a low cost. If the price of SHS exceeds the budget constraints of too many off-grid households, POs cannot reach economies of scale which are, however, important to become viable (Martinot et al. 2001). For the reasons outlined by the theory, domestic producers cannot produce the same quality at the same or lower cost than international suppliers. Eventually, the PO may benefit from domestic production if lower labour costs allow the producer to produce at lower costs and for the benefits described in part 0, but in the short run the PO has a higher interest to purchase from an international supplier.

Second, inherent in an SHS programme are subsidies that are not justified on the ground of capability development but of achieving social goals and overcoming other market failures e.g. anti-poverty measures and environmental externalities. In contrast to the subsidies that are meant for the development of the supply side, these subsidies may be permanent. Therefore, the regulatory mechanism has to make sure that the consumer benefits from these subsidies and that the rent is not captured by the companies.

This chapter outlined the problem of capability development and rent management, as well as additional challenges for SHS programmes that complicate finding the right allocation of subsidies and the design of a regulatory mechanism. The findings will guide the following
The Bangladesh Solar Home System (SHS) Programme: Relevance and Development of the Supply Side

analysis of the development of the solar industry in Bangladesh under the IDCOL governance mechanism.

The Development of the Solar Industry

The following discusses the rent management of the Programme and asks how the governance mechanism under IDCOL allowed POs and suppliers to start operations and to what extent they could acquire capabilities. The discussion also highlights how the additional challenges discussed in 0 affect this process.

Incentives and compulsions affecting Partner Organisations

As outlined in chapter 0, the Programme is designed around the business model of the POs that provide consumer loans for SHS to rural households. In order to become a PO, an SHS service company has to apply to the PO Selection Committee that checks if the company meets the entry criteria (see Figure 5). Criteria are quite vague to start with, and if a PO does not fully comply it may still be admitted. That explains the large number of POs. A less rigorous screening process (as compared to SHS components from suppliers) is reasonable as setting up a PO is less capital intensive than setting up an assembly or manufacturing plant. Due to the lower entry barriers, competition is more likely to materialise which introduces an automatic control mechanism. Hence, market protection does not play a role as an indirect subsidy.

![Figure 4: Incentives for suppliers and POs under IDCOL.](image)

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4 E.g. only the potential to run a viable SHS business needs to be proven (World Bank 2002).
5 E.g. Grameen Shakti was accepted despite failing to comply with every criterion (World Bank 2002).
After a PO claims to have installed a SHS, IDCOL verifies the installation. If the system was correctly installed (or if IDCOL decides not to monitor the system), the PO is eligible to receive a refinancing loan and an institutional development grant. Furthermore, IDCOL disburse a capital buy down grant that is meant to directly benefit the consumer but is allocated indirectly through the POs (see Figure 4 and Table 2).

![Diagram](image.png)

*Figure 5: Regulatory mechanism under IDCOL.*

The refinancing loan covers 70-80% of the total consumer loan at an interest rate that is significantly lower than the average commercial interest rate in Bangladesh (see Table 2). Upon receiving the refinancing loan and the capital buy down grant, the PO uses the funds to repay the supplier (see part 0). The author suggests that out of the above-mentioned financial incentives, the refinancing loan is the main subsidy allowing POs to start operations as it provides the necessary *liquidity* for POs. Without this loan the POs could not provide consumer credits that last for three years and therefore budget constraints of the rural households would not allow POs to reach economies of scale. Even though the capital buy down grant has the same effect of lowering capital costs, the effect of the refinancing loan is likely to be more important. A simple calculation illustrates this fact.

<table>
<thead>
<tr>
<th>Date</th>
<th>Annual installations</th>
<th>Refinancing (loan)**</th>
<th>Grant (US$/system installed)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Amount (%)</td>
<td>Annual interest rate***</td>
</tr>
<tr>
<td>2003</td>
<td>11,697</td>
<td>80%</td>
<td>6%</td>
</tr>
<tr>
<td>2004</td>
<td>20,635</td>
<td>80%</td>
<td>6%</td>
</tr>
<tr>
<td>2005</td>
<td>27,579</td>
<td>80%</td>
<td>6%</td>
</tr>
</tbody>
</table>
The Bangladeshi Solar Home System (SHS) Programme: Relevance and Development of the Supply Side

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Systems</th>
<th>% Offtake</th>
<th>% G/W</th>
<th>Maturity</th>
<th>Interest</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>37,151</td>
<td>80%</td>
<td>6%</td>
<td>10</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>2007</td>
<td>69,562</td>
<td>80%</td>
<td>6%</td>
<td>10</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>2008</td>
<td>103,301</td>
<td>80%</td>
<td>6%</td>
<td>10</td>
<td>5</td>
<td>40</td>
</tr>
<tr>
<td>2009*</td>
<td>169,916</td>
<td>80%</td>
<td>6-8%</td>
<td>5-10</td>
<td>5</td>
<td>40</td>
</tr>
<tr>
<td>2010</td>
<td>324,775</td>
<td>80%</td>
<td>6-8%</td>
<td>6-8</td>
<td>3</td>
<td>25</td>
</tr>
<tr>
<td>2011</td>
<td>469,572</td>
<td>80%</td>
<td>6-8%</td>
<td>6-8</td>
<td>3</td>
<td>25</td>
</tr>
<tr>
<td>2012</td>
<td>643,812</td>
<td>70-80%</td>
<td>6-9%</td>
<td>5-7</td>
<td>-</td>
<td>25</td>
</tr>
<tr>
<td>2013</td>
<td>852,388</td>
<td>70%</td>
<td>6-9%</td>
<td>5-7</td>
<td>-</td>
<td>20*</td>
</tr>
</tbody>
</table>

Table 2: Conditional financing provided by IDCOL to POs (Haque, 2013). *2 years grace period; semi-annual loan servicing; **as % of consumer loan; ***calculated on outstanding balance; *differential lending with better conditions for smaller POs; *only for systems ≤ 30Wp.

Assume that the price of a 40Wp SHS is 550$ (approximately the price as of 2002 (World Bank 2002)). In 2002, IDCOL provided a capital buy down grant of 70$/system (Table 2). The customer had to pay 15% of the remaining 480$ as a down payment (72$) and the PO provided a consumer loan for three years at a flat 12% annual interest rate. Interest (147$) and principle (408$) were split into 36 monthly instalments (Wimmer 2012). Hence, the consumer paid about 15.50$ per month. Everything else being equal, the consumer would have paid 17.70$/month if the capital buy down grant had not been available. The consumer would have to pay 38.10$/month if the capital buy down grant were available but the consumer loan would only have lasted for one year (at otherwise similar conditions).

Even though this calculation is only an approximation, it becomes clear that the effect of the refinancing loan on the price is much larger than the effect of the capital buy down grant (see also Figure 7). An incremental change of the monthly instalments does not affect the operations of the POs as the demand of SHS is on average inelastic (Asaduzzaman et al. 2013). The large effect of a change in the maturity of the loan does, as the history of Grameen Shakti highlights.

In 1998, two years after Grameen Shakti (GS) started to sell SHS, GS was only able to offer consumer loans for one year. The monthly instalments exceeded the budget constraints of the households and GS could only sell 20 systems per month (Martinot et al. 2001; Wimmer 2012). GS could not reach economies of scale and its return on equity was -27% (World Bank 2002:67; Martinot et al. 2001). GS only had access to loan from Grameen Bank that had a maturity of one year. Other financing sources were unavailable as commercial banks classified non productive loans and a new business model as a high risk venture (World Bank 2002). Sells only started increasing (see Figure 1) after the company received a subsidised loan from the IFC/GEF Small and Medium Scale Enterprise Program that made loans with a three year loan period possible (Martinot et al. 2001). In 2002, IDCOL transformed the IFC/GEF support to one company for a limited period of time into a support scheme for the whole emerging PO industry by providing subsidised finances to all POs, including those that had a lower international profile than GS and therefore less access to additional subsidised finances.
Hence, the refinancing loan allows the POs to start operations. At the same time, it provides the incentive to maintain high collection efficiency\(^6\) i.e. provides an incentive to increase the performance and invest into acquiring financial and organisational capabilities. The POs make money from the maturity and interest spread between the refinancing loan by IDCOL and the consumer loan. The collected interest covers part of the operational costs and the collected principle is used to finance the 20% equity part that is required for new consumer loans i.e. to set up revolving funds. Furthermore, the POs may deposit collected principle at commercial banks which is profitable given the difference between the high commercial interest rate and the interest rate of the refinancing loan. According to interviews, the profit from the latter is required to finance the operations of the PO. Hence, part of the subsidy only becomes effective after the PO recovered the consumer loan. That creates an additional incentive to perform.

Even though POs have a genuine interest to collect the instalments, IDCOL too inspects the performance of the PO’s branch offices and requires the head office to send in monthly performance reports. If the collection efficiency of a particular branch falls below 50%, IDCOL temporarily suspends the disbursements of funds to this particular branch. Sometimes the literature claims that not a single customer ever defaulted and not a single branch ever dropped below 50% (e.g. Sovacool and Drupady 2011) which was also occasionally claimed by interviewees. The OC minutes show that customers default in the classical sense but POs refuse to write off loans, the reason being that they cannot be known for “giving up” as other customers might refuse to service their loan as well. As for the collection efficiency, according to OC minutes, there are numerous cases in which the collection efficiency did drop below 50%. In these cases the control mechanism became effective and IDCOL stopped disbursing funds until a follow-up visit by IDCOL monitors found that the collection efficiency exceeds 50%.

Another purpose of the monitoring by IDCOL is to check both if the system has actually been sold and installed by the PO and if the customer is satisfied with the service quality. The first World Bank guidelines required IDCOL to inspect a sample of 25 systems per PO only (World Bank 2002:48) but “before reaching the 50,000 target in 2005, IDCOL monitors visited every SHS at least once” (Sadeque et al. 2014). The first CEO made sure that head office staff, too, personally travelled to villages to monitor SHS, regardless of the remoteness of the villages. This was to make sure that the monitoring is credible and POs were not allowed to simply bank the money and make a margin on the spread. As monitoring every SHS was not feasible after reaching cumulative installations of 50,000 SHS, IDCOL now monitors a random sample and employs about 100 inspectors to do so (Sadeque et al. 2014).

The third financial incentive, the institutional development grant is explicitly meant for and captured by the PO. To make sure that the PO utilise the funds to invest in capability development, IDCOL provides additional incentives. From donors, IDCOL receives a technical assistant grant that is used to co-finance trainings, promotional campaigns, and software and hardware purchases (e.g. motorbikes, computers, etc.) at a ratio of 70(IDCOL)/30(POs) (80/20 for larger POs). Parts of the funds are allocated directly to

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\(^6\)Defined as collected installments and principle in a given month over the total installment and principle due during this month
employees of the PO who receive per-diems after successfully participating in the training sessions. According to interviewees, these direct monetary incentives are more effective than making the trainings obligatory as employees are less likely to cancel their participation, perceive the training as an opportunity instead of an enforced and unwelcome obligation, and are therefore motivated to learn, all necessary conditions for successful learning. POs seem to allocate resources to accelerate the process of capability development; 80% of the employees in branch offices receive targeted trainings, regardless of their formal education (Asaduzzaman et al. 2013). Hence, the rent is used for its indented purpose.

**Financial incentives meant for the consumer**

The consumer is the explicit beneficiary of the *capital buy-down grant*. Its intention is to increase the total number of rural households that may afford a SHS and thereby to include relatively poorer households in the target group. The absolute amount per system is fixed, which means that smaller systems receive a relatively higher grant portion. As poorer households are more likely to purchase a smaller system, the subsidy is aimed to decrease inequality. To become effective, the grant needs to reach the consumer. As the demand is inelastic however, “POs selling SHS ... will have a tendency to raise price if there is an opportunity” (Asaduzzaman et al. 2013:95). The buy-down grant may therefore be captured by the PO and not have the intended effect.

Asaduzzaman et al. argue that competition among POs is necessary for the subsidy to be used as intended. In the beginning Grameen Shakti had a quasi monopoly (see Figure 1). To induce competition, differential lending terms with better lending terms for POs with lower cumulative installations were introduced from 2009 onwards (see Table 2). A survey by the Bangladesh Institute of Developing Studies revealed that the mechanism seems to have had its intended effect as the cost for consumer decreased from 2009 onwards (see Figure 6). Asaduzzaman et al. conclude that competition makes sure that the subsidy “trickles down” (2013:120).
Figure 6: Change in price and subsidy per Wp (above) and the subsidy as % of price (below) over time (Source: Samad et al. 2013)

Capability development of POs

So far, the discussion outlined the importance of the different financial incentives. The following now analyses to what extent POs managed to acquire organisational, technological, financial, and marketing and educational capabilities.
The branch staff acquired some **technological capabilities**. According to a field survey of installed systems by Chowdhury et al. (2011), SHS installations comply with the most important guidelines even though they could be improved. The trainings that focus mostly on technical issues seem to be effective but as employees change, technological capabilities need to be constantly acquired anew.

In 2002, the World Bank highlighted that POs lack effective **marketing capabilities** (World Bank 2002) and the high costs of marketing were one of the main impediments for growth (Martinot et al. 2001; Barua 2001). Today, the identification of the right target group and marketing is very effective (e.g. about 80-85% of the directly targeted consumers eventually purchase a SHS (Asaduzzaman et al. 2013)), which decreases operational expenditures. The two largest POs put high effort into **consumer education**. Other POs surveyed by Asaduzzaman et al. (2013) neglect this issue, which explains why the majority of reported problems with SHS (55%) result from mishandling by the consumer.

Analysing the **financial and organisational capabilities** is more difficult. The high installation figures indicate that POs are able to manage operations in rural and remote areas. But as the massive scale-up of the Programme happened only recently 2 out of 3 consumer loans are still on-going and the installation figures could be misleading. According to Asaduzzaman et al. (2013) incidences of delayed payments and delinquencies increased both in recent years and in newer branch offices (Asaduzzaman et al. 2013). Interviewees and the literature (Asaduzzaman et al. 2013, KfW report) warn of an increasing credit risk that might endanger the viability of the Programme and the sector as a whole.

Increasing incidences of worse performance may be explained by a combination of (i) competition among POs; (ii) market saturation of the upper market segment, (iii) increased competition with companies that are not regulated by any quality control mechanism, and (iv) increased incidences of political interference at the local level (Asaduzzaman et al. 2013 and interviews by the author). A discussion of (iii) and (iv) goes beyond this discussion but should be explored in further studies. The following discusses the impact of (i) and (ii).

As mentioned above, competition among POs increased since 2009 and the upper market segment is by now saturated which means that branch offices have to target less affluent customers in a more competitive environment. The head offices set sales targets for the branch officers that are impossible to meet (Asaduzzaman et al. 2013), which creates an incentive for the branch officers to spend less time on consumer education, verifying the credit worthiness of customers, after-sales services, and loan collection. Instead of competing on quality, POs compete on price (Asaduzzaman et al. 2010; Chowdhury in review). Employees are hired away and the POs constantly have to invest into the formation of their employees and the skilled rural labour force is too small to meet the demand. The gap between the required capabilities and the formal education of new applicants constantly increases. Furthermore, the head offices struggle to get an adequate picture of the problems that are faced by the branch officers as the organisation of POs is highly hierarchically and problems are not reported (according to an informal report by the Bangladesh Solar and Renewable Energy Association, a lobby group of POs).

In summary, the author suggests that the POs managed to acquire financial and organisational capabilities to operate in a less competitive market that targets the most affluent of the rural poor. However, they need to readjust their business practices to a new
market environment. As mentioned above, some reasons for the changed environment are external to the Programme but one point deserves further attention.

As mentioned above, differential lending terms were set up in 2009 to actively encourage competition. Several interviewees urged IDCOL to continue this practice as POs are “social businesses” and therefore especially smaller POs are eligible to continuous subsidised financing. This dissertation suggests, however, that the differential lending distorts the market to an extent and at a time that is both unnecessary and may be against the objective of a viable development of POs. Simulations by Asaduzzaman et al. highlight the impact of a change in the specific conditions of the refinancing loan (see Figure 7). It shows that the rate of return for a PO changes significantly, if the refinancing portion changes from 80% to 60% and the PO wants to simultaneously maintain the same price level for consumers. Hence, smaller POs receive much better conditions than larger POs.

![Figure 7: The impact of changing subsidies on the total cost for consumers of an average SHS and impact on the rate of return for POs](image)

The financial incentives should make sure that companies can start operating even though they are not yet competitive if there is no domestic company that already acquired sufficient capabilities or if the number of companies need to be increased to regulate the market. The financial mechanism should not distort the market so that relatively mature companies that provide a better consumer service (as mentioned above) need to compete with higher subsidised newcomers. The resulting price competition is ultimately at the expense of the consumer and the economic development impact.

**Incentives and compulsions affecting suppliers**

So far, the discussion analysed the effect of the rent management on POs. As shown in chapter 0, suppliers form an integral part of the solar industry, especially those producing in Bangladesh. Even though suppliers receive no direct financial incentive, indirect rents enabled domestic producers to start manufacturing and assembly (see Figure 4). As the author of this dissertation could not gather enough information on the recently set up solar assembly plants, the following only focuses on battery, and charge controls and lamp circuits (hereafter ‘components’) producers.

Suppliers are only allowed to use the label “IDCOL certified” for components if the Technical Standard Committee (TSC) approved that the product complies with the IDCOL Technical Standard. According to interviewees, members of the founding TSC found that
other SHS programmes had problems with the quality of the batteries and found it difficult to enforce the warranty. These findings were explicitly taken into account in the design of the standard (World Bank 2002; Palit 2013). Furthermore, involved stakeholders were of the opinion that domestic production is inherently good for the economic development of the country. It is here argued that two requirements in the standard enable domestic production to start.

**First**, there is a five years warranty for batteries. Even though such a warranty was not available on the market in the early 2000s, the TSC insisted on such a warranty. Only one domestic battery producer was willing to provide such a warranty. Therefore, this producer had a monopoly and could set prices. According to OC minutes from 2003, POs complained about unjustified price increases due to the monopoly (see below). What is important here is the impact of the specific design of the battery standard. It protected the battery market and created an indirect rent. Further studies should analyse to what extent the domestic production required this rent. **Second**, the standard distinguishes between required and recommended specifications for components. Specifications that are “critical for the performance of an SHS” are required but others are only recommended (Chowdhury in review). This distinction was introduced to make sure that local producers that are not able to meet the higher international quality standards are still able to participate in the scheme. However, these specifications only allow the participation of domestic producers. Component producers did not receive a rent from protection, at least not to the same extent that battery producers did.

Another indirect and so far neglected incentive makes sure that component producers may engage in production: the possibility of profit sharing between POs and suppliers (see Figure 4). The required capital costs to start assembling components is lower than for batteries which means that entry barriers are equally lower. The POs are not-for-profit companies and the upper management receives a lower salary than in comparative positions in the production industry. That creates an incentive for POs to start production to access the rent from profit sharing.

As for the TSC, the risk of satisficing behaviour is twofold: **first**, approved suppliers could lobby the TSC to deny entry to prospective applicants (or significantly delay the application process). Initially only one producer supplied batteries and this supplier therefore had a high incentive to invest into preserving its monopoly rent. To break the monopoly, IDCOL tried convincing other car battery producers to start producing solar batteries as well. Hence, when other battery suppliers applied to the TSC they had the official support by IDCOL which decreased the likelihood that applications were unduly declined or delayed.

**Second**, instead of investing effort to meet the already moderate standard, prospective applicants could have lobbied the TSC to accept their products without complying with the standard. The IDCOL programme is known for transparent and non-corrupt procedures and it is often cited as one crucial success factor (Sovacool and Drupady 2011; Cabraal 2012; Sadeque et al. 2014). However, interviewees referred to incidences of intense lobbying that targeted the TSC to certify products that do not comply with the standard. As far as the author is able to judge, these incidences seem to be unsuccessful. Officially, the TSC is independent of IDCOL. Interviewees agreed that this separation takes away the pressure from IDCOL but leaves it with the TSC. The latter seems to be able to repel rent seeking behaviour because its members are mostly from academia and do not want to “loose credibility” on an international level. Furthermore, several stakeholders highlighted the personal integrity of the TSC
members which was the initial selection criterion for its members. It is convincing that personal integrity is the most important factor to explain the absence of successful attempts to circumvent the standard. However, this is also a weak point of the system. As the personal integrity counts most, very limited funds had to be allocated to remunerate members of the TSC. A high remuneration of employees does not automatically lead to non-corrupt procedures (Khan 2006) but very low remuneration equally lowers the incentives of correct behaviour, as IDCOL itself cites as a reason for the higher salaries for its employees.

In summary, battery and component producers have been able to start production because of indirect rents from market protection and profit sharing. There is a risk that suppliers invest into rent seeking behaviour at the stage of approval but corresponding attempts seem to have been unsuccessful. This leaves the questions of how compliance is monitored over time and if suppliers developed capabilities. The latter is especially important because the standard was explicitly moderate to allow for domestic component producers to enter the market. Lower quality comes at the expense of the consumer and the producer need to ultimately be able to reach international quality standards. Hence, the arrangement should not be a permanent.

Capability development of domestic producers

The monitoring unit of IDCOL controls if the installed SHS has an IDCOL label but the field staff of IDCOL cannot assess if the components really comply with the standard; sophisticated technical equipment is needed to do so. So far, the monitoring works as follows (see Figure 5): In case POs suspect that the SHS does not comply with the standard, they report their findings to the Operations Committee (OC), which then notified the TSC. In case the TSC confirms the non-compliance, it may penalise suppliers. Several interviewees consistently referred to two incidences in the beginning of the Programme, which increased the credibility of the TSC: In one case, the TSC enforced high penalties on a battery producer after POs found that the batteries became “lighter” and the TSC found that the supplier provided batteries of a lower capacity than indicated. In another case, a foreign panel manufacturer supplied panels of such low quality that the households complained about the performance. As a consequence, the TSC forced the domestic distributor to take back the panels. Besides this indirect monitoring, however, no systematic assessment of the quality of SHS happened before 2013/14, when the United International University was contracted with a comprehensive quality control assessment.

The 2014 study by Chowdhury (in review) compares products from domestic and international companies with the IDCOL standard and international quality standards. The authors find that two out of the four domestic battery producers supply products of “inferior quality”. None of the five leading lamp circuit companies meets international quality standards but two comply with the less stringent IDCOL standard. Hence, domestic production grew in absolute terms but little in terms of domestic value added, and, most importantly, battery and component producers compromise with the quality, which is a sign for either low capability development or rent capture, or both.

As for component producers, a study by Aziz and Chowdhury (2012) finds that the assembly factories are relatively small (less than 200 employees). They do not invest in formal trainings of their employees and workers have to acquire all knowledge through learning-by-doing. The latter is not enough to compensate the lack of formal education of the
available workforce. As a consequence some factories operate below capacity. According to the authors, the companies lack the working capital to invest in formal trainings. Therefore, the companies are stuck in a vicious cycle: Firms have to operate below capacity because of a lack of skilled workers; and do not have the working capital to invest in trainings due to low productivity. The authors recommend subsidising training courses to overcome this deadlock. While increased formal education is desirable, there is an additional explanation for the lack of investment in capability development.

As mentioned above, the assembly of components was able to start because of profit sharing between POs and assemblers. Consequentially, the managers of the component production do not have to invest to increase the productivity as the demand is secured and the profit from personally capturing the rent is likely to be higher. Therefore, even if the companies had the working capital to invest into capability development, they do not have to do so.

This analysis highlights the problem of implicit and indirect rents. The implicit and indirect rent was not formally intended and therefore neither monitoring nor additional incentives to invest in capability development exist (as it is the case for POs). The rent gets captured and capability development does not happen. As the market develops and the POs start competing on the price, it is plausible that assemblers increasingly compromise with quality, which would equally explain the observations by Aziz and Chowdhury.

As for battery producers, another explanation is more plausible. Some companies started to export, which indicates that they acquired the capabilities to produce a product of a quality and price that is able to compete internationally. There is limited price competition as international companies do not participate in the domestic market and several interviewees referred to incidences of price fixing under the well organised Bangladesh Accumulator and Battery Manufacturers’ Association (BABMA). The most plausible reason to explain the low quality of batteries is therefore that battery producers are not forced to provide better quality products as there is just no effective quality monitoring (see also Chowdhury in review). Compared to component producer, there are less personal ties between POs and battery producers. As batteries are more complex then other components, neither the POs nor IDCOL field staff can assess the quality of the battery which leads to an information asymmetry. As the Programme is not recognised as an industrial policy, no funds were allocated to conduct systematic and regular quality monitoring before the 2014 study by the UIU. In the absence of formal quality controls, the quality standard is not credible anymore and battery producers may compromise with the quality.

In summary, suppliers initially met the standard. The TSC successfully enforced compliances in the early beginning which gave the control mechanism its necessary credibility. This explains why initially high quality products were used in Bangladesh (Chowdhury et al. 2011). As the market grew, price competition increased. As component producers did not sufficiently invested into capability development, they had to compromise with quality to still capture the rent from profit sharing. At the same time, the battery producers found ways to compromise with the quality that are more difficult to recognise. It is likely that domestic producers acquired some production capabilities yet they do not need to invest any further. In the long run this is not a viable development and endangers the success of the whole Programme.
The Relevance of the Supply Side for Economic Development

So far, the author showed that the solar industry and the complex interactions between firms are necessary for the Programme to work in Bangladesh. The analysis of the rent management explained why POs and domestic producers could start operations and develop some yet insufficient capabilities. Finally, the remaining discusses to what extent the discussion and the Programme are relevant for both the impact assessment of the Programme and the long-term economic development of Bangladesh.

It is out of scope of this short study to assess if the Programme is socially beneficial but the following gives an overview on the welfare benefits of the Programme. The most comprehensive impact assessment was conducted by the Bangladesh Institute of Development Studies (Asaduzzaman et al. 2013). The authors find that a SHS leads to energy cost savings in the long run, but to higher monthly energy expenditures during the loan period (3 year) (ibid.:61–63). Komatsu et al. (2011:4027) confirm these findings. Since its inception SHS replaced an estimated 220 million l of kerosene (Asaduzzaman et al. 2013) which corresponded to approx. 580,000 tCO2e and annual subsidy savings in the range of BDT tens of millions. The environmental benefits may be diminished if old lead-acid batteries are disposed in the environment and not properly recycled (Batteiger 2014).

Statistically significant non-monetary benefits are educational (the time spent by children on their studies increases by 12.1 min/day for girls and 8.5 min/day for boys) and health related (disease prevalence decreases as the indoor air quality improves). Furthermore, a television that is part of approx. 50% of SHS leads to benefits in terms of health and population control (the recent fertility decreases) and gender equality (women empowerment increases, women are able to spend more time for leisure and social activities, and their sense of security after dark increases) (Asaduzzaman et al. 2013:53–85). Results by Komatsu et al. (2010) and Urmee and Harries (2011) confirm these findings. Both studies put an additional emphasis on the time and effort saved by being able to charge mobile phones at home.

Even though the above highlighted important benefits from SHS, the impact of SHS programmes on the economic development of a country is controversially discussed. First, Bhattacharyya (2012) shows that other livelihood improvements including other energy services such as clean cooking have much larger welfare impacts, which means that SHS have high opportunity costs. Second, SHS reduced the inequality between on-grid and off-grid households i.e. generally speaking between urban and rural areas but increased the inequality between rural households. SHS are purchased by households that are better “endowed with assets and income as well as education” before purchasing the SHS (Asaduzzaman et al. 2013:xii). Hence, the Bangladeshi households that so far benefited were already better off, even though they may be poor in absolute terms. As the upper market segment is saturated and prices continue to fall, however, the inequality may decrease in the future. Third, SHS are

7 If the costs are levelised over the lifetime of the SHS
8 Not counting life cycle emissions (production, transport, etc.), assuming 2.63 kg CO2e/l (Pode and Diouf 2011: 183)
closer to an investment satisfying consumer demand than to a traditional infrastructure investment. Investments into the electricity grid trigger new economic activity in a region (Cabraal et al. 2005) but SHS do not in general lead to new income generating activities (Mondal and Klein 2011; Asaduzzaman et al. 2013).

However, impact evaluations are often very narrow in focus: they only assess consequences from owning SHS and exclude any supply-side considerations (Bimesdoerfer et al. 2011). This dissertation argues that this narrow focus neglects important potential benefits of SHS programmes. First, the development of a solar industry in Bangladesh is desirable in its own terms. The solar industry in Bangladesh employs 70,000-80,000 people out of which around 24,200 are employed by the POs.10 Non-agricultural employment is a necessary contribution to alleviate poverty, especially in rural areas (Altenburg 2011), and the solar industry therefore contribute to the economic development of Bangladesh (Bimesdoerfer et al. 2011; Varma 2010). Second, and most importantly, economic development is easier by moving from the production of one good to a related one because “they require similar institutions, infrastructure, physical factors, technology, or some combination thereof” (Hidalgo et al. 2007:482) but “large jump” are what “generate subsequent structural transformation, convergence, and growth.” (ibid.:487). Assembly and manufacturing of solar products is likely to be a “large jump” from the dominating industry in Bangladesh, garments. Hence, if Bangladesh acquires production capabilities in the solar industry it could lead to spill-overs to similar industries which would then allow the country to “move up the quality ladder across product categories” (Khan 2013b:84).

In summary, owning an SHS may not trigger new economic activity; producing an SHS will. Against this background, it is even more important to make incentives explicit and improve the monitoring of domestic producers. Only then can capability development be enforced.

Conclusions

In order to design policies that could provide electricity access to off-grid households it is necessary to learn from and better understand successful off-grid electrification programmes such as the Bangladeshi SHS programme. As the literature on the Programme highlights, POs play an important role to provide the services to the households but this dissertation found that suppliers equally contribute to the success of the Programme. They provide necessary services to the POs e.g. they provide supplier credit which overcomes the problem of a lack of working capital of POs, issue an enforceable warranty, and adapt products to local needs. Hence, POs depend on domestic suppliers and an analysis of the development of the solar industry must include suppliers.

Against this background, the dissertation proceeded to better understand how the governance mechanism under the Infrastructure Development Company Limited (IDCOL) facilitated the development of the solar industry. To do so, it is helpful to perceive the Programme as an industrial policy. This allows applying a theoretical framework based on the

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10 According to IDCOL, 5650 branch offices currently exist throughout rural Bangladesh. The average employment per branch is: Managers 0.97, accountant 0.07, technician 1 0.80, technician 2 0.38, field assistant 0.60 (Asaduzzaman et al. 2013). Including an overhead of +12.3% (Aziz and Chowdhury 2012)
insights from Khan’s work on technology acquisition and capability development. Accordingly, an industrial policy has to get the financing mechanism right. It needs to allow companies to start operating (producing or delivering services) before becoming competitive so that they can develop capabilities that are inherent and can only be acquired through learning-by-doing. At the same time, adequate regulatory mechanisms have to enforce that companies put high levels of effort in developing capabilities so that the companies are ultimately able to operate without subsidies and compete internationally.

The dissertation found that the IDCOL governance mechanism allowed the POs to start delivering services by providing a subsidised refinancing loan. This subsidy enabled POs to offer consumer credits with monthly instalments that match the budget constraints of a sufficient number of rural households so that POs could start to benefit from economies of scale. Furthermore, additional incentives explicitly aimed at the capability development of POs. Therefore, the POs managed to acquire organisational, financial, marketing, and technological capabilities even though they currently have to adapt to a new market environment.

Even though suppliers could not benefit from a direct subsidy, indirect subsidies allowed suppliers to start producing batteries and assembling other components. As for the production of batteries, the Technical Standard of IDCOL protected the market which created a rent. As for the assembly of other components, the standard did not protect the market but allowed domestic producers to participate despite not being able to provide the same quality as international competitors. The assemblers could start producing because of profit sharing with the POs. The domestic battery and component producers acquired some capabilities, but recently they were found to compromise with quality. As the subsidy to the suppliers is implicit, the governance mechanism does not sufficiently monitor compliance with the standard over time to enforce capability development. If the incentives were made explicit, the likelihood of successful capability development would increase. The dissertation finally showed that the development of the solar industry has positive effects on the economic development of Bangladesh beyond welfare benefits from the SHS: The solar industry generates non-agricultural employment, may lead to the development of production capabilities and spill-overs, and allows Bangladesh to diversify its economy.

In conclusion, this discussion of the Bangladeshi SHS programme showed that the Programme and programmes such as this do not only lead to consumer benefits but also have the potential to trigger long-term economic development. SHS programmes may serve as an industrial policy as they can allow domestic production to start and SHS programmes could become successful programmes if the governance mechanism enforces capabilities development within the industry.

Production may start even if incentives are indirect and implicit. In this case, however, capability development may not take place to the extent that is possible, as the case of the Bangladeshi battery and component producers shows. Implicit incentives should be made explicit to be able to monitor and enforce capability development better. Such policies are likely to pay off in terms of high installation figures and economic development.

Finding the right allocation of subsidies and effective regulatory mechanisms to address all interrelated problems requires experimentation and learning and cannot possibly be achieved with a blueprint approach. The Bangladeshi SHS Programme explicitly allowed
for experimenting and learning that resulted in the emergence of an acceptable fit to some parts of the puzzle. The political economy of the Programme provides equally important learning and should be analysed in further studies.
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Appendix

Components and configuration of a typical solar home system

Figure 8: Components and configuration of a typical SHS (Mondal, 2010)

List of Interviews

I. Solar sector
   a. Suppliers
      • Syed Ishtiaque Ahmed (Rahimafroz Solar, Head of Sales)
      • Didar Islam (Solaric, Founder and CEO)
   b. POs
      • Md. RuhulQuddus (Rural Service Foundation (RSF), Executive Director; former employee of Grameen Shakti)
      • Dipal C. Barua (Bright Green Energy Foundation (BGEF), Founder and Chairman; Co-Founder and former Deputy Managing Director of Grameen Shakti)
      • ShantanuBarua (BGEF, Director)
      • Dr.MostaqAhmmed (Green Housing and Energy Limited (GHEL), Managing Director)
      • M. NasirUddin (UpokulioBiddutayan O MohilaUnnayanSamity (UBOMUS), Executive Director)
      • Abser Kamal (Grameen Shakti, Managing Director)
      • Bikash Das (Grameen Shakti, Manager (Technical))
      • Md. MahmodulHasan (Grameen Shakti, Manager)

II. Regulatory institutions
   a. Infrastructure Development Company Limited (IDCOL)
      • FarzanaRahman (IDCOL, Unit Head (Investment) Renewable Energy)
      • S.M. Monirul Islam (IDCOL, Chief Financial Officer and Head of Operations)
- Enamul Karim Pavel (IDCOL, Head of Renewable Energy)
- Nazmul Haque (IDCOL, Director (Investment) and Head of Advisory)
- Fozul Kabir Khan (former IDCOL, 1st CEO and founder of SHS programme)
- Islam Sharif (former IDCOL, 3rd CEO (2009-2012))

b. Sustainable and Renewable Energy Development Authority (SREDA)
- Siddique Zobair (Power Division of the Ministry of Power, Energy and Mineral Resources, Joint Secretary; responsible for the foundation of SREDA)

III. Academia and consultancy
- Prof. Dr. M. Rezwan Khan (United International University, Vice Chancellor; Chairmen of IDCOL’s Technical Standards Committee)
- Shahriar Ahmed Chowdhury (United International University, Director of the Centre for Energy Research)
- Asma Haque (Prokaushali Sangsad Ltd. (PSL), Managing Director)
- Dr. M. Asaduzzaman (Bangladesh Institute of Development Studies (BISD), Research Director; former Chairmen of the PO Selection Committee)

IV. International financial institutions
- Zubair K.M. Sadeque (World Bank Bangladesh, team leader of the Rural Electrification and Renewable Energy Development project)
- Tazmilur Rahman (KfW, Senior Sector Specialist Energy)
- Chandrasekar Govindarajalu (IFC, Sr. Energy Specialist)
Trends in Peacebuilding: Critiquing Barnett et al (2007) and understanding international actors’ contemporary conceptions of peacebuilding

Simon Vickers

Abstract

This dissertation explores the dominant contemporary conceptions of post-conflict peacebuilding amongst significant international actors. It does this by critiquing an influential 2007 study by Barnett el al, ‘Peacebuilding: What is in a name?’ and arguing that there are some methodological flaws which lead them to underestimate the focus that international actors give to activities that seek to build the degree of state in post-conflict countries relative to efforts to build a particular kind of liberal democratic state. It argues that this trend is inconsistent with liberal peacebuilding and is better explained by the growing prominence of ‘realist peacebuilding’ amongst Western actors and, what I term, ‘national ownership’ peacebuilding amongst increasingly influential developing country actors.
Introduction

This dissertation will seek to explore what the dominant contemporary conceptions and motivations for post-conflict peacebuilding are amongst influential international actors. The culmination of the Cold War led peacebuilding to become what some authors have called a ‘growth industry’ (Paris 2009; 3). Most commentators interpreted the motivation and practice of peacebuilding in the post-Cold War period as ‘liberal peacebuilding’. This dissertation will seek to explore whether this has remained the case over the last ten years and is likely to continue in the future.

In order to do this I will critique an influential study by Barnett el al (2007;35-58), ‘Peacebuilding: What is in a name?’, which seeks to examine what activities international peacebuilders have prioritised by looking at the stated aims of (what they deem to be) the 24 most influential peacebuilding organisations. Barnett et al’s conclusions correspond with a thesis that conceptions of liberal peacebuilding continue to drive key policymakers in the 21st Century. However, I will argue that there are methodological flaws which lead Barnett et al to underestimate the focus that international actors give to activities that seek to build the degree of state in post-conflict countries relative to efforts to build a particular kind of liberal democratic state. In other words, they fail to fully acknowledge a trend that is less consistent with liberal peacebuilding: that Western actors are placing more emphasis on building strong, functioning and stable states with less absolute attachment to liberal ideals of what a state, and state-society relationships, should be. Additionally, I will argue that the sample of organisations that Barnett et al use to inform their conclusions is not fully reflective of the array of international actors now involved, and increasingly likely to be involved, in peacebuilding. In particular, they fail to draw attention to the rising influence of developing country actors who often have alternative views on peacebuilding and usually place more importance upon norms of state sovereignty and non-interference in the domestic affairs of other states.

I will argue that there are alternative theories to liberal peacebuilding that conform to my critique of Barnett et al and which provide a more complete picture as to why and how international actors continue to support peacebuilding missions. In particular, whilst not discounting liberal peacebuilding as a motivator for some actors, I will argue that the practice of peacebuilding reveals ‘realist peacebuilding’ motivations for some Western actors, who are driven more by a concern for international peace and security rather than a liberal cosmopolitan concern for the recipient’s domestic peace and security. Additionally, I will highlight the growth of a new cadre of peacebuilders from developing countries who are more sensitive to the norms of state sovereignty and non-intervention and conform to what I term a ‘national ownership’ model of peacebuilding. Both realist and national ownership peacebuilding are consistent with my critique of Barnett et al reveals which reveals an increased focus on building the degree of state relative to the kind of state.

I begin in Chapter One by situating the Barnett et al article amongst peacebuilding scholarship. I will put forward a definition of peacebuilding, describe how peacebuilding has evolved in practice and discuss liberal peacebuilding theory. I will then highlight some of the critiques to liberal peacebuilding and alternative peacebuilding models, before briefly describing the methodology and conclusions of Barnett et al. In Chapter Two, I will critique Barnett et al’s methodology and suggest how this has led them to conclusions that overplay the continued adherence of international actors to liberal peacebuilding and underplay the extent to which actors are now focusing more on efforts to build the degree of state relative to
efforts to build a particular liberal kind of state. In Chapter Three, I will put forward alternative models of peacebuilding that may better explain this trend.

**Situating Barnett et al**

To be able to explore what the dominant conceptions of peacebuilding are amongst international actors, we first need to explore the definitional boundaries of peacebuilding. We also need to provide a short account of the evolution of peacebuilding in practice, as this has often led to its definition and reinterpretation. Lastly, we will discuss the dominant theory of peacebuilding, liberal peacebuilding, and alternative critical approaches. Later chapters will explore whether these theories succeed in representing what can be seen in the practice of international peacebuilding actors over the last ten years and what is likely to be seen in the future.

**The definition of Peacebuilding**

Peacebuilding is an increasingly commonly used and institutionalised phrase but there are many interpretations and ambiguities to its meaning (Berdal 2009a;17). Many see this ambiguity, which masks differences in interpretations, as being the key as to why the term has been able to be adopted by the international community and in particular the United Nations (UN) (Jenkins 2013;11). Indeed, one of the aims of this dissertation is to reveal the motivations and understandings of peacebuilding that may lie beneath this broad term.

I will define peacebuilding as ‘interventions by outside actors aimed at building sustainable peace within post-conflict societies’. There are two elements to my definition of peacebuilding that are worthy of particular note. First, is the phrase ‘sustainable peace’, which indicates that peacebuilding is an attempt to not only address what Galtung called ‘negative peace’ goals (the cessation of direct violence) but to also work towards ‘positive peace’, which addresses the conditions that lead to structural as well as direct violence (Galtung 1969; 167-91). This allows us to distinguish peacebuilding from the narrower concept of peacekeeping, which only seeks to build ‘negative peace’. Second, is the focus on post-conflict peacebuilding. Some academics stretch the term peacebuilding to be applied to other parts of the cycle of violence, in particular conflict prevention (Jenkins 2013;23). I do concur with Newman (2009;28) that in practice it is hard to delineate between conflict prevention, peacekeeping and (post-conflict) peacebuilding, however, most policymakers and analysts prefer the narrow focus on post-conflict. For example, the UN Peacebuilding Commission (UNPBC) was created ‘to advise on and propose integrated strategies for post-conflict peacebuilding and recovery’ (UNSC 1645).

There are numerous definitions of peacebuilding, most notably by UN Secretary-General Boutros Boutros-Ghali, Michael Doyle and Nicholas Sambanis, and Lakhdar Brahimi but most would agree with the key elements that I have used in my definition\(^1\). It is important for our later discussion to note that I, consistent with these scholars, have not clarified whether it is an international or domestic peace that is being sought. This distinction is worthy of further study (which I contribute to in Chapter Three) as it is fundamental to understanding motivations for peacebuilding.

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\(^1\) For discussions on the definition of peacebuilding, see Jenkins (2013; 18-22)
The evolution of peacebuilding in practice

In practice, peacebuilding only became part of the vernacular and practice of international politics in the post-Cold War period. It was first used as official lexicon in UN Secretary-General Boutros Boutros-Ghali’s 1992 ‘An Agenda for Peace’, although can be seen retrospectively in UN peace operations since 1989 (Boutros Boutros-Ghali 1992). Up to this point there had been few, if any, international efforts at what we now call peacebuilding. The UN had confined itself to peacekeeping missions with narrowly defined mandates and interventionist measures (Paris 2004; 13-16). The UN was highly respectful of Westphalian norms of state sovereignty and non-interference in the domestic affairs of states.

However, once the Cold War ended, many structural measures that had restricted the ability of the UN to play a broader role in supporting states’ recovery from internal conflict were removed and peacebuilding emerged as an operational concept. Most notably, the effective stalemate between the USSR and United States within the UN Security Council (UNSC) ended (Paris 2004;16-18). Furthermore, there was a sense of triumphalism about the liberal democratic model amongst policymakers and academics alike, with unbounded optimism about the potential to spread peace and democracy (Fukuyama 1989). Thus international politics and the ideological dominance of liberal democracy combined to increase the potential supply of peacebuilding actors.

As well as the supply, many authors point to the rise in demand for peacebuilding. Mary Kaldor (1999) describes how ‘New Wars’ arose due to a combination of reasons associated with the end of the Cold War. The ‘newness’ of these wars has been much debated (see Berdal (2003), Duffield (2001), Kalyvas (2001) and Cramer (2006)) but it is undeniable that there was a plentiful number of intra-state conflicts where peacebuilding could be applied.

Hence the demand and supply conditions led to (what would later be called) peacebuilding to become common practice. There were a plethora of international peacebuilding missions from 1989 and during the 1990’s including in Namibia, El Salvador, Cambodia, Angola, Mozambique, Rwanda, Liberia, Bosnia, Croatia, Guatemala, Kosovo, East Timor and Sierra Leone (Berdal 2004;3). Unlike before 1989, most UN peace operations after 1989 were responses to intra-state conflict rather than conflicts between sovereign states and involved much more intrusion into the domestic affairs of states as opposed to solely monitoring ceasefires. International authorities now conducted fundamental and intrusive activities such as constitution writing and the construction of new law and order systems and institutions. As Jenkins (2013;7-8) notes, these international responses were improvised by practitioners rather than carefully designed by technical experts. This was because there were few relevant historical precedents and no accessible theoretical models upon which to draw. Indeed the very term ‘peacebuilding’ only became used after peacebuilding was being carried out. What essentially emerged was the transfer of a blueprint of liberal democracy which began to transcend the fields of development and security and became known as liberal peacebuilding (see below) (Jenkins 2013;25).

Peacebuilding took on renewed importance for leading international actors after the September 11th 2001 attacks on the United States. There was a fear that ungoverned spaces, common in conflict and post-conflict environments, represented sources of contagious instability and transnational threats (Jenkins 2013;10-11). Peacebuilding’s prominence was institutionalised within the UN system when the UNSC and UN General Assembly made a decision in 2005 to create the UNPBC (UNSC 1645). Few would now challenge Jenkins’
assertion that ‘a consensus has emerged on the necessity of sustained and coordinated external support to….peacebuilding efforts’ (Jenkins 2013;1).

Peacebuilding theories - liberal peacebuilding and critical approaches

The important aspect for this dissertation is to understand the motivations behind international actor’s involvement in peacebuilding. As mentioned above, Cold War structural impediments were withdrawn which allowed for international peacebuilding missions to occur, but what motivated actors to invest time, effort, money and troops to these efforts, and what were they trying to achieve?

Peacebuilding has been an under-theorised concept but there is consensus that the dominant theory of peacebuilding, both in practice and in scholarly work, has been ‘liberal peacebuilding’. Indeed, some definitions of peacebuilding refer implicitly to the goal of building a democratic order in post-conflict states (Call and Cousens 2007). Liberal peacebuilding deems that liberal governance (electoral assistance, democracy promotion, statebuilding support, constitutional advice etc.) and liberal markets are necessary to achieve sustainable peace. It is driven by the ideas of liberal peace theory which state that liberal, multi-party electoral democracies are inherently more peaceful both in terms of interstate and intrastate conflict. This theory, built on the ideas of Locke (and others), became popular again in academic and then policy circles in the 1980’s and the end of the Cold War injected even more enthusiasm into these concepts.

The interpretations and motivations of peacebuilders during the 1990’s have been notably studied by Roland Paris (2004) in ‘At War’s End’. He observed that all 14 major peacebuilding missions launched between 1989 and 1999 shared a common strategy for consolidating peace after internal conflicts: immediate democratization and marketization; in other words, liberal peacebuilding. This was articulated not only in actions but in words. Boutros-Ghali, who termed the word peacebuilding, stated that the legitimacy provided by democracy meant that democratic states ‘were less likely to have domestic conflicts’ as well as being less inclined towards interstate war (cited in Jenkins 2013;35). It is hard not to agree with Jenkins’ (2013; 35) assertion that ‘the democratic peace thesis was, during the 1990’s, effectively extended from the international to the intra-national plane’.

Until recently, much of the academic debate about peacebuilding has been centred on liberal peacebuilding and perfecting this model, rather than starting anew. Mac Ginty and Richmond (2013; 766) call this the ‘problem solving’ school. Paris’s ‘At War’s End’ is a seminal work from this school and criticises liberal peacebuilding for its hasty nature and ignorance of the importance of having an effective state in place before liberalisation occurs (Paris 2004; 47). He does not challenge the overall intentions of liberal peacebuilding and the priority of building a liberal kind of state, but merely advocates changes in the sequencing of actions by putting forward his model of ‘institutions before liberalisation’. However, for our purposes, the scholarly debate about the effectiveness (or not) of liberal peacebuilding is only important insofar as it may have changed policymakers belief in liberal peacebuilding as an effective model to achieve sustainable peace.

\[2\] Please see Doyle (1983) for liberal peace theory in an international context, and Barkawi & Laffey (1999) as a sample of the debate as to whether the findings of liberal peace theorists are indeed accurate
As well as the ‘problem-solving’ paradigm, the other broad scholarly approach to peacebuilding has been the ‘critical school’ (Richmond 2010; 26-33). Academics of this persuasion, often influenced by critical and post-structural theory and postcolonial scholarship have sort to challenge the assumptions (overt and covert) upon which liberal peacebuilding has been built (Mac Ginty and Richmond 2013;763). Criticisms include its ‘top-down’ approach; its simplistic imagination of ‘the international’ as an apolitical, benevolent force and ‘the domestic’ as corrupt and inept and in need of salvation; and its neo-colonial overtones (Pugh 2005). Many emphasise the importance of the ‘local’ and the need to engage local actors and customs in order to build a sustainable peace (Mac Ginty and Richmond 2013; 763-783). Newman (2009; 46-51) brackets variants of this local approach in his term ‘transformatory peacebuilding’ which I shall discuss in more detail in Chapter 3. Compared to liberal peacebuilding, it is relativist (as opposed to universal), and has a ‘bottom-up’ (rather than ‘top down’) approach in how to deliver peace.

Whilst proponents of transformatory peacebuilding acknowledge that liberal peacebuilding has been the dominant theory amongst influential international actors, they claim that it is now the ‘local turn’ and that their theories are beginning to influence policymakers (Mac Ginty and Richmond 2013; 763-783). This dissertation will explore whether this has been the case, whether liberal peacebuilding remains dominant, and/or whether other theories can better explain the behaviours of international actors.


Whilst there is a consensus that international peacebuilding actors in the 1990’s were driven by a belief in liberal peace theory and liberal peacebuilding, this dissertation is focused on what has driven them over the last 10 years and whether this trend is likely to continue. One of the most influential recent studies on what peacebuilding actually means to significant international actors is Barnett et al’s (2007) article ‘Peacebuilding: What is in a name?’.

In this paper, they investigated the differences in how (what they deemed to be) the most significant actors in post-conflict peacebuilding conceptualised and operationalised peacebuilding. Like Paris (2004), they looked at peacebuilding strategies in order to understand what aspects of peacebuilding were prioritised by international actors and, in turn, what drove their strategies. Unlike Paris, however, they studied the stated priorities of what were deemed to be the most influential peacebuilding actors, rather than measures taken in peacebuilding missions. They conducted this investigation by surveying 24 governmental and inter-governmental organisations and made the following conclusions of relevance to this dissertation: First, that whilst there is consensus that building peace is a good thing and is ‘more than stability promotion’, there were indeed differences in how various actors thought peacebuilding should be achieved (Barnett et al 2007;36). Second, international actors emphasised both the immediate and underlying (long-term) causes of conflict, to the relative neglect of measures to ensure medium-term state stability. They claimed that more focus was being given to the kind of state being built rather than the degree of state. Hence they implicitly suggest that peacebuilding remains dominated by a liberal peacebuilding paradigm. In the next chapter I will critique the Barnett et al (2007) article and suggest that some aspects of their methodology led them to miss further evidence of a shift towards prioritising measures to build the degree of state and away from an uncritical belief in liberal peace theories.
Critiquing Barnett et al

In this chapter I will analyse some of the methodologies used by Barnett et al (2007) and argue that their conclusions on how peacebuilding is operationalised and conceptualised by policymakers is undermined by (a) the liberal democratic bias of their sample of organisations; (b) the focus on how individual agencies, as opposed to national governments, interpret peacebuilding; (c) the use of a methodology that focuses on rhetoric and does not try and weight the importance of activities either by material spend or political capital; and (d) the use of only three subjective ‘dimensions’ of peacebuilding as an analytical tool. These features of their study all instil a liberal bias, combine to limit the opportunity for alternative interpretations of peacebuilding to become apparent, and undermine the validity of their conclusions.

In particular, the conclusion that all actors think that building peace is ‘more than stability promotion’, and emphasise the kind of state being built (associated with the liberal peacebuilding paradigm) rather than the degree of state, is worthy of challenge (Barnett et al 2007;36). This distinction between degree and kind of state is worth clarifying as it forms a critical part of my analysis. Activities to build the degree of state focus on (re)building the capabilities of the state and its institutions so that they can maintain order and provide key public goods and services. In Barnett et al’s (2007;50) own words, ‘Attention is directed to the monopolization of the means of coercion and the development of a bureaucratic apparatus organized around rational-legal principles with the capacity to regulate, control, and extract from society’. Whilst not mutually exclusive, activities to build a [liberal] kind of state, which Barnett et al maintain is the emphasis amongst most actors, focus on the ‘organising principles that structure the state’s rule over society’. They manifest themselves in measures that seek to build vibrant civil societies, democratic institutions, and liberal forms of justice and rule of law’ (Barnett et al 2007;50). Methodological deficiencies (which I outline below) meant that Barnett et al underplayed the significance of activities that seek to build the degree of state relative to kind of state. I argue that this has hidden the emergence of alternative conceptions to liberal peacebuilding by international actors.

The four main criticisms of Barnett et al (2007) relevant to our study of the trends in conceptions of peacebuilding are explored below.

(The liberal democratic bias of the sample)

Barnett et al (2007;36) claim that they studied were the 24 largest funders and implementers of international peacebuilding assistance programmes. They identified them by looking at the top donors to 10 countries with on-going UN peacekeeping missions, as well as the states with the highest assessed contributions to UN peacekeeping. They chose to do this as they deemed that these states were the most influential within international peacebuilding and were the likely participants of the future UNPBC.

Notwithstanding the fact that both these measures of identification are explicitly linked to peacekeeping rather than peacebuilding missions, there are other issues with this methodology. When looking at the top donors, Barnett et al used The Organisation for Economic Co-operation and Development’s (OECD) definition and statistics of official development assistance (ODA). Whilst the difficulty of accessing relevant data from non-OECD regimes that are often less transparent should be recognised, one should be careful of relying on the ODA definition and data as the only determinant of influential peacebuilders as
it leads to some notable omissions. For example, Barnett et al failed to include the People’s Republic of China (PRC) in their sample as ‘few of China’s foreign aid activities fit the OECD’s definition of ODA’ (Congressional Research Service 2009;1). Even if one were to classify most Chinese foreign assistance as foreign investment and not aid (as the OECD does), one could still make a case for including this assistance in calculations on contributions to peacebuilding as it contributes to reconstruction and economic development (activities commonly associated with peacebuilding). The omission of China is significant as even conservative figures put Chinese annual aid as $970 million (China Statistical Yearbook 2003-2006) and others, such as a NYU Wagner School study, put it as high as $25 billion in 2007 (Congressional Research Service 2009;3). The figure one places on Chinese foreign aid is subjective and hard to find consensus on but even the former, more conservative, figure puts the PRC as the third largest state provider of aid when compared to the OECD list, and therefore its omission in Barnett et al’s study is significant. Thus, by not mitigating for the narrowness of the OECD ODA definition, the results do not reflect the reality of the relative importance of international actors (often with less liberal worldviews) who are not OECD members.

When identifying the top donors, Barnett et al also used 2004 emergency relief spending figures collated by the Office for the Coordination of Humanitarian Affairs (OCHA). This is also a questionable method of assessing who the top contributors to peacebuilding are as emergency relief typically provides short-term measures that do not address positive peace goals and are often in response to natural disasters. Neither of these are typically associated with peacebuilding.

More significantly, the final measurement used is the assessed contributions to the UN peacekeeping budget. This does seem a judicious inclusion in that these countries do have an influence over how their funds are spent. However, it is notable that this list is not used in conjunction with the top personnel contributors to UN peacekeeping. None of the top 10 personnel contributors of 2005 (the year Barnett et al used to assess budget contributions) were included in their sample. Significantly, these were all developing countries (as they were in the latest UN statistics (UN 2014)).

The fact the sample was biased against non-Western, liberal states is significant both for the veracity of Barnett et al’s conclusions at the time and for the fact that they forecast that the states that they included were the ones ‘likely to participate in a future UNPBC’ (Barnett et al 2007;36), a body they foresaw clarifying ‘profound differences…regarding priorities, mandates, strategies and trade-offs’ (Barnett et al 2007:53). In reality, the personnel contributors have played a significant role in the UNPBC due to the top 5 contributors having UNPBC membership. Moreover, developing countries are further represented in the UNPBC through the seven members elected by the General Assembly.

By focusing only on OECD countries Barnett et al effectively ignore the role of power in the way peacebuilding has evolved (and is evolving) and how liberal peacebuilding can be seen as a result of a specific balance of power within the state system after the Cold War (Mac Ginty & Richmond 2013;768). If we are to understand trends in peacebuilding, contrary to Barnett et al’s orientalist approach, we need to recognise the growing influence of developing states, which are often not liberal or democratic, and understand how they conceptualise peacebuilding.
The focus on individual agencies

The second criticism of Barnett et al.’s study is that they focus too much on how individual agencies interpret peacebuilding rather than how overall states view peacebuilding and prioritise its activities. As Barnett et al (2007;45) recognise, there are bureaucratic incentives for each agency to stress issues relating to its own mandate and/or where they have a comparative advantage: ‘organisations are likely to claim that their core competencies and mandates are critical to peacebuilding’. For example, within the UN, the Department of Political Affairs emphasises political-diplomatic aspects whereas the UN Development Programme emphasises socioeconomic ones (Barnett et al 2007;48). Berdal (2009b; 144-145) also highlights ‘departmentalism’ within national governments. In order to understand how peacebuilding is conceived at the state level, it would be more prescient to focus on how national governments prioritise between agencies and peacebuilding issues, rather than focusing on the agencies themselves.

Failure to weight the importance of activities

Barnett et al’s ability to claim that their study accurately reflects the key trends in how peacebuilding is operationalised and conceptualised is also undermined by the lack of relativity in how they assess the importance of various peacebuilding activities to agencies (Jenkins 2013;35). They list a number of peacebuilding activities and look at the frequency of these activities being either ‘core organisational competencies’ or ‘named activities’ of the agencies. Any mention of an activity gives it a single point that forms a frequency chart used to draw conclusions. As Barnett et al (2007;50) admit, this does not reflect the relative expense of each activity: ‘we suspect that if we weighted indicators or financial data we would see a more discriminatory pattern’. It also does not provide any relative weighting to those which are considered higher or lesser priorities. For instance, an agency may ‘pay lip service’ to issues such as human rights whilst using most of its political capital and influence to focus on restoring the rule of law (see later examples in Chapter Three (p.26) on the United States’ prioritising of security issues in Afghanistan over human rights and gender issues).

Liberal democratic bias of the three ‘dimensions’

In the next stage of their analysis, Barnett et al group the various peacebuilding activities into what they call dimensions of peacebuilding. These groupings are necessarily subjective but have an unnecessarily strong liberal bias which undermines their conclusions. This may well be due to the epistemological dominance of liberal peacebuilding rather than any deliberate liberal bias, as Barnett (2006) has elsewhere criticised liberal peacebuilding. They identify three dimensions of post-conflict peacebuilding loosely based on what Secretary General Kofi Annan called ‘the stages of recovery’: stability creation, restoration of state institutions, and addressing the socioeconomic dimensions of conflict (cited in Barnett et al 2007; 49). The latter two fail to accurately reflect the varying conceptions of peacebuilding present among the international community (which I shall discuss in Chapter Three) and give a liberal bias to the analysis.

The second dimension is called ‘restoration of state institutions’, but actually reflects the vision of a particular kind of state being built – a liberal, democratic one. It includes measures that specifically promote a liberal democratic vision of a state, such as ‘good governance’, ‘decentralisation’ and ‘election assistance’, alongside more generic activities that build a state’s capabilities and ability to provide basic public goods, such as ‘financial
assistance’ or ‘rule of law’. This may suit a particular liberal peacebuilding vision of a liberal, democratic state but the failure to demarcate activities that build a particular liberal kind of state from those that build the degree of state takes away the opportunity to observe if there are agencies that prioritise one and not the other. Barnett et al (2007;50) do in fact recognise the distinction between activities to build the degree of state and those that address the kind of state being built. On the one hand, they discuss measures that seek to build, restore or provide key state functions that can generate key public goods (the degree of state). On the other, they highlight measures that seek to build legitimacy and address the question of ‘how states and societies negotiate their relationship’ (the kind of state). However, they do not give this distinction the importance that it deserves by creating separate analytical categories which would enable one to more easily determine whether measures to build the degree of state are more or less important than measures to build the kind of state. This distinction between kind and degree of state may have been less significant in Barnett et al’s study given the liberal bias of their sample of organisational bodies but, if the sample was more fairly reflective, then these distinctions would be even more important.

The second liberal bias in their choice of analytical dimensions is in the third dimension: ‘socioeconomic’. This combines interventionist social measures together with economic and thereby fails to allow for interpretations of peacebuilding that may support one and not the other. A more nuanced understanding of how peacebuilding is conceived would be achieved by dividing the socioeconomic dimension into its social and economic constituents. Again, it is a liberal peace perspective that automatically combines these two. However, some states and forms of peacebuilding simply stress the importance of economic development and would distance themselves from interventionist social measures included in this dimension such as ‘NGO capacity building’ and ‘human rights’ (Barnett et al 2007;50).

The liberal bias in Barnett et al’s choice of dimensions may be due to their own liberal persuasions or the aforementioned dominance of liberal peacebuilding within peacebuilding scholarship leading them to treat the two sets of measures as concomitant activities. The influential of liberal peacebuilding is evident not only in their choice of dimensions and sample but elsewhere in the article with statements such as ‘an effective state is not enough… [it needs to be] ‘democratic, transparent, accountable, and responsive to local needs – that is legitimate’ (Barnett et al 2007;49).

In summary, a study that more accurately reflects the actors involved (and likely to be involved) in peacebuilding, controls for the bureaucratic bias acknowledged by Barnett et al, reflects the relative importance placed on various peacebuilding activities, and allows for alternative theories of peacebuilding through more analytical dimensions will more accurately inform us as to what the trends in peacebuilding are within the international community. Barnett et al’s choice of sample, methodology and analytical categories call into question the veracity of their conclusions.

In particular, the conclusion that there has been an emphasis on immediate and underlying (long-term) causes of conflict to the relative neglect of measures to ensure a stable state ‘during the critical five-year period when the state is still weak and its authority contested’ may be challenged (Barnett et al 2007;45). The former is associated more with ‘liberal peacebuilding’ and concerned with the kind of state being built, whilst the latter is more concerned with the degree of state and may be better represented by alternative forms of peacebuilding which we will discuss in the next chapter. The latter was downplayed due to the liberal bias of both the sample and choice of analytical dimensions. One would need to
use more dimensions and open up the sample to include influential non-liberal states to warrant a surer set of conclusions.

It is worth noting that Barnett et al did in fact recognise the early signs of a shift in emphasis from kind to degree of state (although the evidence for this is not cited beyond noting the 2005 decision at the World Summit to create the UNPBC and the fear by some states that weak states threaten international stability (Barnett et al 2007;52)). The liberal bias we have uncovered suggests that this trend towards measures building the degree of state relative to kind of state was even greater than Barnett et al recognised. The next chapter will explore what alternative models of peacebuilding may explain this.

Alternatives to Barnett et al

This chapter seeks to put forward alternative models to liberal peacebuilding which can explain the greater relative emphasis on measures to build the degree of state compared to measures addressing the kind of state that Barnett et al largely missed. It will also put forward some additional evidence to support the notion that this trend has occurred and is likely to continue.

There are two explanations that I will put forward for the increased focus on building the degree of state. First, many Western actors have a ‘realist peacebuilding’ approach, rather than a liberal peacebuilding approach in the Wilsonian sense. In this view, states are primarily concerned with how peacebuilding can be used as a tool to maintain international peace and order. They increasingly prioritise building the degree of state due to the realisation that liberal peacebuilding has only achieved mixed results in terms of delivering a peaceful international environment and because of the increasing securitisation of peacebuilding as a concept due to the growing fear of failed states being a source of international insecurity.

The second explanation is the growing importance of non-Western, non-liberal countries in the international system as a whole, and peacebuilding in particular, who have different interpretations, motivations, and reservations about peacebuilding. Their predominant view on peacebuilding, which I term ‘national ownership’ peacebuilding, is partly driven by, or at least limited by, the primacy that they place on the Westphalian norms of state sovereignty and non-interference in the domestic affairs of other states. I contend that this is not the same as the ‘transformatory’ models that we described in Chapter One as the ‘national ownership’ approach is not intended to be emancipatory and is often ‘top-down’, allowing pre-existing elites to determine the peacebuilding path.

Importantly, it should be noted that the realist and national ownership models of peacebuilding have some common policy prescriptions, most notably in advocating further attempts to build the degree of state in post-conflict societies. Allowing for the prominence of these models therefore helps us to account for the trends that Barnett et al largely missed. I will explore these two alternative models to liberal peacebuilding below.

Realist peacebuilding

As has been discussed, most scholars agree that peacebuilding in the 1990's took the form of liberal peacebuilding. The relative shift to a form of peacebuilding that places less emphasis
on liberal measures to build a particular kind of state and more to one that builds the degree of state (irrespective of its liberal qualities) suggests a shift in interpretations of and motivations for peacebuilding.

I contend that one of the reasons for this is that many Western states make their calculations vis-à-vis peacebuilding based less on Wilsonian-inspired liberal peacebuilding, which stresses free markets and democracy for their intrinsic value, and more on realpolitik calculations. I will use Newman’s (2009;46-51) taxonomy of peacebuilding to call this ‘realist peacebuilding’. (Newman identified three ideal-types of peacebuilding (realist, liberal and transformative) which he claims reflect competing pressures and interests and can be seen, often in conjunction with one another, in contemporary peacebuilding operations.) If one removes oneself from the epistemological dominance that liberal peacebuilding has3, then one can observe states that are less focused on the interests of the ‘recipients’ of peacebuilding and more on ‘good enough’ interventions that aim to achieve international peace and security. These international actors are interested in building peace and security within post-conflict states only insofar as this helps achieve their ultimate goal of a peaceful international order. Newman (2009;48) writes that, ‘although it may use the language of peace, this approach is primarily concerned with international systemic stability and addressing international threats to security inherent in civil war and state failure’. Pugh (2004;39-41), asserts that whilst the language of liberal peace may be used to placate domestic and international audiences, realist peacebuilding operations are essentially ‘riot control’ which aim to ‘sustain a particular order of world politics that privileges the rich and powerful states’.

The realist model of peacebuilding tallies with our critique of Barnett et al. Unlike transformative or liberal peacebuilding, realist peacebuilding explicitly prioritises building a strong state, the degree of state, rather than a liberal kind of state, so that conflict is contained in the interests of a peaceful international system. It applies a Hobbesian vision of the state to peacebuilding, emphasising the state and order. It takes a top-down approach, recognising the ‘facts on the ground’ of local power holders and engages with them as the most efficient way to ensure international peace and stability. Measures that address the liberal nature of the state ‘are pursued only insofar as they are relevant to maintaining stability’ through providing legitimacy (Newman 2009;48). Stable state-society relations and legitimacy are important in this model but may be acquired not only through democratic procedures but also international recognition, performance, ideology and traditional authority, as the UK’s Department for International Development (DFID) explicitly recognises (DFID 2010;16). Building the degree of state or ‘capacity building’ is seen as a method to satisfy public expectations for the supply of public goods and jobs. Revealingly, one of DFID’s four objectives for building peaceful states is to ‘develop core state functions’ (DFID 2010;7-9).

Renewed interest in peacebuilding and the increased prominence of realist peacebuilding also reflect what Newman (2009;26) calls the ‘significant shift in how threats to security are perceived, and in particular the idea that failed and conflict-prone states represent a threat to international security’. Since the September 11th 2001 attacks there has been a Western preoccupation with ‘new’ threats to international peace. This securitisation of the development and peacebuilding agendas is well noted amongst scholars such as Krasner and Pascual (2005).

3 Paris (2010;357) for instance claims that ‘there seems to be no viable alternative to some version of liberal peacebuilding’
Trends in Peacebuilding: Critiquing Barnett et al (2007) and understanding international actors’ contemporary conceptions of peacebuilding

In my definition of realist peacebuilding I also include what Newman (2009;39) calls ‘hegemonic neo-liberal peacebuilding’. For Newman, this is a subcategory of liberal peacebuilding, along with its Wilsonian variant. The latter is the classical liberal model we discussed earlier which promotes free markets and democracy in order to achieve international as well as intranational peace. Whilst sometimes ‘top-down’ in how it delivers change, it prioritises the welfare and needs of the individual and does not involve coercion as it is assumed that all people will embrace liberalism. However, the fact that many of the criticisms of liberal peacebuilding are directed against non-liberal facets that are often hegemonic or coercive suggests that there is in fact another form of liberal peacebuilding that is not Wilsonian: hegemonic neo-liberal peacebuilding. Like Wilsonian liberal peacebuilding, hegemonic neo-liberal peacebuilding promotes economic and political liberalism, but on the basis of promoting or imposing political and economic values that conform to the interests of the hegemon, rather than of individuals within conflict-affected states. For instance, genuinely open political discourse will be discouraged if this threatens stability. Mac Ginty and Richmond (2013;773) highlight the conditionality of many World Bank and IMF peacebuilding efforts as evidence for this projection of Western hegemony which maintains the existing global hierarchy and inequality. Where ‘bottom-up’ and civil society engagement initiatives occur, this is only superficial and to give the appearance of local ownership in order to legitimise external control, marginalise opposition and thereby achieve the goal of international peace and security. This is consistent with more general hegemonic theories in international relations whereby the hegemon seeks to instil the belief in other states that the hegemon’s interest represents the interests of all (Gramsci (1971; 406).

I combine hegemonic neo-liberal peacebuilding with realist peacebuilding as it simply reflects the particular realist concerns that a hegemon, which has been the United States over the last 10 years, has over the international system. From a practical and policy perspective it is very similar to realist peacebuilding. Both models can account for much of the rhetoric of peacebuilding remaining on Wilsonian liberal goals but with the main focus of efforts being on building the degree of state in order to contain the effects of domestic conflict on the international system. As Franks (2009;269) writes, ‘the liberal peace model becomes by default a camouflaged version of the victor’s peace, where the primary objective is security, state-building and the maintenance of the international status quo, to the clear detriment of principles of liberal peace’.

I agree with Newman (2009;50) who says that whilst transformatory and Wilsonian liberal peacebuilding may be virtuous, in reality, ‘contemporary peacebuilding is characterised more by realist and liberal – of the hegemonic variety….approaches’. This view is supported not only by our critique of Barnett et al and the observation of the increasing prominence of measures to build the degree of state relative to kind of state but by a number of academics. For example, Bellamy and Williams (2004) and Pugh (2004) implicitly or explicitly emphasise peacebuilding being driven by realist, hegemonic or even imperialist interests more focused on ensuring a stable international order beneficial to their interests rather than the recipients’.

The dominance of realist motivations over Wilsonian liberal ones can be also seen in recent peacebuilding efforts. For instance, Western states often work with non-liberal elites in recipient countries in order to achieve stable states. They thereby operate a statist, top-down approach to peacebuilding, rather than taking the liberal peace model to its final degree. This was evident in Afghanistan when former warlords were given amnesties for human rights
abuses and co-opted into power-sharing governments (Newman 2009:33), and when the United States’ emphasis on gender issues, which was consistent with liberal peacebuilding, was eventually subsumed in favour of security priorities. Similarly in Burundi, Curtis (2012:75) finds that ‘at key junctures, international peacebuilders largely turned a blind eye to governance abuses, human rights violations, and militarism... as long as Burundi remained generally stable’. This emphasis on getting local ‘buy-in’ from key stakeholders was also a key theme in ‘Winning the Peace’, an influential US policy paper edited by Robert Orr, now a senior UN official (Orr 2004).

The prevalence of international peace agreements which involve partitions or constitutional arrangements that embed ethnic divisions also suggests that realist concerns override liberal peacebuilding ones which see partition as defeatist and failing to address the underlying causes of tensions. From a realist perspective, partition makes sense if it is the most efficient option to contain differences. For example, the Dayton agreement in Bosnia accepted the ‘reality’ of separate Croat, Serb and Bosnian Muslim communities (Newman 2009:34). Furthermore, the Western-backed Rambouillet Accords called for the administration of Kosovo as an autonomous province by an Albanian majority (UN 2009). Similarly, in Burundi, power-sharing or national unity governments were formed which rewarded former violent actors in what Curtis (2012:77) called a ‘stabilisation-first’ approach.

Whilst not the focus of this dissertation, it is also possible to argue that realist motivations and the focus on international, as opposed to intra-national, peace and security could also explain peacebuilding in the 1990’s. Practices of so-called liberal peacebuilding may have been driven less by Wilsonian liberal and humanitarian ideals and more about the belief in democratic peace theories and how democracy can ensure peace at the international level. It may simply be that the motivations of international actors have remained the same (to maximise their security within the international system) but that the mixed record of success of liberal peacebuilding has led to a reappraisal of how to achieve this goal. Hence, where once the moral obligations of liberal peacebuilding and the practical incentives of realist peacebuilding combined on policy prescriptions, these now often diverge as the limits of liberal peacebuilding as a method to deliver a peaceful international system are recognised. The wealth of literature that emerged during the 2000’s that criticised the effectiveness of liberal peacebuilding (and noted earlier) as well as examples of liberal interventions that exacerbated instability, such as the 1993 Burundi elections, would support this view (Curtis 2012:80).

This is not to say that the ‘liberal impulse’ does not exist. I concur with Newman (2009:51) that it does exist, especially amongst practitioners of peacebuilding. However, there is strong evidence that the prime motivation for many Western policymakers comes from concerns about their own state’s security within the international system. This is consistent with the securitisation of peacebuilding we noted earlier and the relative shift in activities that we have identified in the previous chapter. Whereas during the 1990’s liberal peace and realist/peace motivations translated into similar practical approaches, namely the methods associated with liberal peacebuilding, now realist concerns are often leading to peacebuilding approaches that place less emphasis on liberal measures (kind of state) but more on the degree of state.
National ownership peacebuilding

The second model that helps explain the trend towards prioritising the degree of state relative to the kind of state is what I call the ‘national ownership model’. There are three important pillars to this: first, the primacy it places on the norms of state sovereignty and non-interference; second, its top-down approach; and third, its focus on economic development. This model is now more prominent in peacebuilding as it is held by many developing countries which, although omitted by Barnett et al’s study, are increasingly influential.

The first pillar of the national ownership model is the importance developing countries place on the Westphalian norms of sovereignty and non-intervention. These concerns became particularly prominent after Western interventions, at least partially justified on humanitarian grounds, in Kosovo and Iraq and the articulation of the United States’ doctrine of pre-emption in the 2002 and 2006 National Security Strategies (Berdal 2009b; 152). However, the growth of the Non-Aligned Movement (NAM) and G-77 and their neo-colonial fears suggests that this view has been around for a while. A scepticism towards new concepts, such as ‘Responsibility to Protect’ (R2P), that suspend the traditional Westphalian norms of international relations is directly expressed in the opening statement of the Ministerial Meeting of the NAM Coordinating Bureau in May 2006: ‘All of these pose a challenge to traditional and universally accepted concepts enshrined in the UN charter…We should strongly oppose any attempts at eroding them’ (cited in Berdal 2009b; 167). The importance developing countries continue to place on the norms of sovereignty and non-intervention undermine the assumption of liberal peacebuilding that we live in a post-Westphalian world in which international interventions are accepted.

The de facto or de jure suspension of sovereignty often involved in liberal peacebuilding when transitional authorities are set-up (for example in Cambodia, Bosnia, East Timor, and Kosovo) is seen as a threatening concept to developing countries as they are most often the targets of intervention. Whilst the UN ‘try to depoliticise peacebuilding and present it as a technical task’ that is ‘value free’ (Newman 2009;42), many developing countries see peacebuilding as political both at the domestic level of powerbrokers and the international level with powerful states. The presence of non-liberal peacebuilding views is supported by Benner et al (2007;13) who argue that in ‘the UN context, the term peacebuilding clearly won the competition against the terms “statebuilding” and “nation-building”’, as it conveyed less intrusiveness and a narrower political mandate. The conviction that Western powers are moulding multilateral institutions and interventions to serve the strategic and other interests of major powers is supported by academics such as Duffield (2003 cited in Newman 2009; 43) who argue that peacebuilding has seen ‘intervention and regulation unprecedented since the colonial period’ and Jabri (2010) who notes how liberal peacebuilding reinforces, ‘a hierarchical conception of subjectivities premised on the primacy of the European liberal self’. The concern about the subjectivity inherent in peacebuilding which could be used to impede state sovereignty can also be seen in the form of R2P accepted by the World Summit in 2005, which omitted all references to one of the three original components of R2P suggested by the International Commission on Intervention and State Sovereignty: the responsibility to rebuild (World Summit). Developing countries in effect see the realist motivations of peacebuilding that we articulated earlier and respond with their own defensive ‘national ownership’ model.

The second pillar of the national ownership model is its ‘top-down’ approach. Whilst many scholars, such as Richmond and Mac Ginty (2013), associate a rise in the influence of developing countries with a rise in the support for transformatory peacebuilding due to a
shared focus on local ownership and cultural relativism, this misses a crucial distinction between the two models. The transformatory model is emancipatory and uses ‘bottom-up community initiatives’ to empower civil society (Newman 2009:47-48) whilst the national ownership model allows existing local elites to determine the peacebuilding strategy and prioritises strong government over governance. The latter accepts and adheres to the pre-existing balance of power amongst local elites and does not try and interfere in determining the kind of state being built. Hence, unlike the transformatory model, it is consistent with the observations we have made so far on the relative shift towards activities that seek to build the degree of state.

Paris (2010;358) comes closest to formulating a national ownership model of peacebuilding when he puts forward the idea of a ‘strongman’ approach to peacebuilding. This contains the ‘top-down’ component just discussed, by identifying local leaders who could rule over their society. However, unlike the national ownership model, Paris continues to take an orientalist view and gives the agency of identifying who these local leaders are to the international community rather than the recipients of peacebuilding.

The third pillar of the national ownership model is a focus on economic development. Compared to liberal peacebuilding, it is more focused on stability and providing the administrative functions and public services necessary for economic growth than on providing liberal political or social reforms. In other words, consistent with our critique of Barnett et al, it focuses on building the degree of state relative to the kind of state. China is a leading exponent of this view. Looking at public statements to the UN by Chinese representatives, Lei (2011;352) concludes that China consistently stresses that ‘the primary task of peacebuilding is to restore the administrative functions of state organs’. This is consistent with the first and foremost element of China’s grand strategy: ‘economic development to enhance domestic stability and legitimacy’ (Lei 2011;344). Many other developing countries emulate this approach, termed the ‘Beijing Consensus’ by Joshua Ramo (2004), and increasingly do so after the 2008 global recession further discredited Western liberal economic policies.

The national ownership model is increasingly critical to understanding trends in peacebuilding due to the growing prominence of developing countries as actors. Barnett et al’s omission of developing countries in their sample did not reflect the situation in 2007 (when Barnett et al conducted their study), and their influence has grown even more since then. There is plenty of evidence to support this assertion: the increase in the relative economic power of developing countries since the 2008 global recession; the institutionalisation of their role within peacebuilding through the creation of the UNPBC; a 2008 OECD report which recognised the significant role played by ‘India in Afghanistan, China in Timor Leste, South Africa in Sudan, Brazil in Haiti’ (OECD 2008); and the increase in aid contributions from larger developing countries, such as the PRC which increased its aid from $1,482 million in 2003 to $25,098 million in 2007 (Congressional Research Service 2009;6).

The expression of a national ownership model can be seen in how developing countries prevented the UNPBC being mandated with an early-warning system for states that ‘risk sliding towards State collapse’, as originally envisaged. It can also be seen in the formation of the g7+, an association of conflict-affected states that seek to set their own peacebuilding goals and paths (De Coning 2014). It is further supported by examining recent UNSC debates on post-conflict peacebuilding. The 2013 meeting records show developing
countries declaring that ‘national ownership is at the core of peacebuilding’ and ‘peacebuilding remain[ing], first and foremost, the responsibility of the State concerned’ (quotes by representatives from Azerbaijan and Togo respectively; UNSC 2013;9). Moreover, the Chinese representative stated that ‘respect for the ownership of relevant States should be one of the principles underlying all peacebuilding’ and implicitly criticised liberal peacebuilding by saying, ‘the international community has long tended to focus on human rights, the rule of law and security sector reform, perhaps without granting sufficient attention to economic and social development’ (UNSC 2013;10). The slow progress in arriving at consensus and driving UNPBC programmes may also be seen as evidence of the divergence of views between Western and developing countries on peacebuilding (Berdal 2009b).

The dominance of liberal peacebuilding in the 1990’s may reflect less a universal belief of liberal peace ideology amongst states and more the reflection of the distribution of power within the international system at the time, which favoured those that held the liberal ideology. Jenkins (2013;35) speculates that the prominence given to the importance of democratic measures in peacebuilding by Boutros-Ghali may itself have been because of the need to appeal to national legislatures of the main donor countries to ensure the UN’s development assistance budgets. Now we are seeing changes to the international order, away from a unipolar one, we are hearing new voices and interpretations on peacebuilding that may have existed before but were not heard (Bremmer 2012). The assumption that efforts to rebuild a state will entail the construction of institutions resembling the Western secular notion of the state based upon liberal values is likely to be increasingly challenged (Newman 2009;30).

This is not to say that liberal peacebuilding approaches are not apparent or that each state only holds one view. I agree with Newman (2009;50), who writes that, ‘it is difficult to accept that there is a (single) “philosophy underpinning contemporary peace operations”, as some of the critical literature implies’. The different actors involved, whether this be states, multilateral organisations, or departments, reflect multiple approaches and interests. For example, as China’s global interests have increased, so have their realist concerns to maintain a peaceful international system which ensures stable overseas markets and thereby supports their own sustainable economic development path which they deem critical to their own stability (Lei 2011;348).

In summary, we are seeing a trend towards efforts to build the degree of state relative to kind of state for two reasons. First, many liberal democratic countries have a realist approach to peacebuilding and no longer always see liberal peacebuilding methodologies as the best way to achieve international peace and stability. Second, non-liberal, non-Western actors that hold a ‘national ownership’ model of peacebuilding which places more emphasis on the norms of state sovereignty and non-intervention and strengthening the state to enable economic development are now influential.

Conclusion

Conceptions of peacebuilding amongst international actors over the last ten years have been dominated not only by liberal peacebuilding, but also ‘realist’, and ‘national ownership’ peacebuilding. I have come to this conclusion by critiquing Barnett et al’s influential article, ‘Peacebuilding: What is in a Name’, and showing how, contrary to their conclusions, there has been a relative shift in peacebuilding activities towards those that seek to build the degree
of state and away from those seeking to build a particular kind of liberal state. The liberal bias in their methodology hid this trend for traditional Western international peacebuilding actors, whilst Barnett et al.’s failure to acknowledge the growing prominence of developing country actors by including them in their sample hid this further.

Two additional models of peacebuilding explain the relative shift to peacebuilding activities that focus on building the degree of state: ‘realist peacebuilding’ for Western states, and ‘national ownership peacebuilding’ for many developing countries. The former describes a focus on maintaining international, systemic peace and security. This motivation for peacebuilding may have been present through the 1990’s but hidden by the belief that the methods of liberal peacebuilding could achieve this goal. The questionable performance of liberal peacebuilding methods in achieving this goal has led to a divergence between the two models and realist peacebuilding becoming more apparent.

The latter, national ownership model, reflects a concern about the realist intentions of Western peacebuilding actors and developing countries defensive determination to ensure the preservation of the norms of state sovereignty and non-intervention. These views are likely to have existed before but are now more prominent due to changes in the distribution of power within the international system that now favour developing countries relatively more. The trend we are seeing towards less liberal and intrusive versions of peacebuilding may be seen as an equilibrium point between the extremes of no international peacebuilding during the Cold War and the intrusive and particular form of liberal peacebuilding of the 1990’s driven by the triumphalism of liberal democracy and the unipolar order of international politics.

The conclusion that the dominant contemporary views on peacebuilding are a blend of realist, national ownership and liberal may prove dispiriting reading for proponents of transformatory approaches such as Richmond and Mac Ginty. Unfortunately for them, the tendency to build the degree of state through top-down measures and engagements with pre-existing local elites is the dominant approach we have seen and is inconsistent with the transformatory model. In defence of the applicability of their model, advocates may criticise my analysis by arguing that my conclusions were preordained to deliver top-down peacebuilding approaches as trends due to my own focus on states’ views on peacebuilding. This observation has some validity to it. However, I would respond that this is an appropriate methodology given that the ultimate decisions about international peacebuilding missions are taken by states, either directly, or through their role in multilateral institutions. Moreover, this dissertation is focused on what the dominant conceptions for peacebuilding are amongst influential international actors, and the evidence does not suggest that the transformatory model is that influential at this level. Transformatory models may well be the most effective way to rebuild long-term peace at the intrastate level, but it seems likely that it will only be employed by international actors if policymakers can be convinced that this is the most efficient way to achieve international peace and security. The fact that many Western policymakers moved away from pure liberal peacebuilding models partly on the basis of the ineffectiveness of past liberal peacebuilding measures may provide some hope for the proponents of transformatory peacebuilding. Peacebuilding remains donor driven and therefore, if advocates of transformatory peacebuilding can continue to build their case for the effectiveness of local ‘bottom-up’ approaches to peacebuilding then they may be able to win the argument with policymakers and a future study of the trends in the practice of peacebuilding may find more evidence of transformatory being used.
This dissertation has been largely limited to critiquing Barnett et al’s study and highlighting some anecdotal evidence that supports the findings that Barnett et al underestimated the shift towards international actors focusing more on building the degree of state rather than building a liberal kind of state. There are a myriad of further areas of investigation that would contribute to the debate on how international actors conceive peacebuilding and what motivates them to take part in peacebuilding activities but three areas seem particularly worthwhile. The first would be to further examine the rhetoric used by international actors in the UN, as it remains the dominant actor in peacebuilding. Specifically, one could look at the UNSC and General Assembly meetings on post-conflict peacebuilding and the actions and priorities outlined in the Annual Reports and Country-Specific configurations of the UNPBC. The second would be to update Barnett et al’s investigation using 2014 data and building on my critique of their methodology, in particular by including developing countries and adding more dimensions of analysis that allow for alternative theories of peacebuilding. Lastly, one could examine not only the rhetoric of international peacebuilders but how they prioritise activities by monetary spend. This could be done either by looking at individual donors, or individual peacebuilding missions.
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Trends in Peacebuilding: Critiquing Barnett et al (2007) and understanding international actors’ contemporary conceptions of peacebuilding


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Abstract

The aim of this study is to analyse the relational construct in the languages of international relations and politics between ‘Islam’ and ‘violence’ through perceptions of the state. I will explore the varying ideologies of the state as a common denominator for simultaneous analysis of the local reformist vision of an Islamic state (caliphate), and the internationally conceived view of a state as defined by western political and theoretical discourses. This analysis will not explore the particular institutions of the state but rather the state as a construct, and how it is defined both locally and internationally. I propose to use these perceptions, and the notion of the state under threat, as the foundation for an interdisciplinary approach to the discourse surrounding Islam and its association with violence. By establishing this focus on the state at stake as the point of departure for analysis, I seek to avoid embarking on a quest to define the essence of Islam but rather to challenge the association between Islam and violence by presenting Islam as a foil for the struggle for and protection of a perception of the state.
Introduction

Indeed, it is the State. Indeed, it is the khalifah. It is time for you to end this abhorrent partisanship, dispersion, and division, for this condition is not from the religion of Allah at all. And if you forsake the State or wage war against it, you will not harm it. You will only harm yourselves. It is the State – the state for the Muslims.”

The recent insurgence of the Islamist militant group, the Islamic State (IS), and its claim to re-establish a caliphate stretching from Diyala province in Iraq to Aleppo in Syria (Al Jazeera: 2014), has positioned Islam and statehood ideology at the centre of international and local discourses. The widespread conflict in the Middle East, which has weakened the authority of formal powers, has provided fertile ground for the emergence of militant Islamist groups seeking state power (Burke 2014). IS, which has profited from the weakness of the Iraqi state, has ignited international and regional concerns as it demonstrates threatening new dimensions of militant Islamism while employing state ideology as the foundation for greater expansion (Burke 2014). Its violent political campaign, rejected by the notorious militant Islamist group al-Qaeda as too radical (Robins-Early: 2014), threatens to depose the institution of the state and its colonial legacies. Depicting themselves as authentic representatives of Islamic religious doctrine, the group’s violent presence on the international scene propagates a relationship between Islam and violence that adds credence to popular western perceptions of Islam as a religion that inspires violence in its followers and poses a threat to western society.

While IS represents an immediate threat to the Iraqi state, and a significant concern for the international community, the group’s frequent invocation of ‘Islam’ and Islamic dogma as the motivation for its violent political campaign obscures perceptions of the threat as one that stems from interpretations of the religion rather than from its position as a competing authority. IS gains popular appeal from disenfranchised Sunni Muslims in the region who have faced discrimination from Shi’a governments (Hassan 2014), highlighting the failure of the state to create national consciousness and produce social cohesion. Its individualised ideology of the state, which rejects the current institutions of the state as symbols of modernity and secularism, aligns itself with the popular Islamist militant discourse that seeks to challenge western hegemony and resist global capitalism through the establishment of a caliphate. This narrative justifies manifestations of violence as a reaction to the threat posed by the secular ‘West’ to the Muslim community (ummah), which comprise the local ideology of the state. It does little, therefore, to illuminate the character of the religion but rather to

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2 Translation found at: https://ia902505.us.archive.org/28/items/poa_25984/EN.pdf
position ‘Islam’ as an empty signifier within this political struggle, while highlighting the centrality of perceptions of the state to current events in international politics.

The recent conflict in Gaza (BBC 2014) highlights further the importance of perceptions of the state as a theme running through international politics. Israel’s bombardment of Gaza in response to rocket attacks by the Palestinian movement, Hamas, (BBC 2014) demonstrates a crushing reaction to a threat against the state, and the powerful effect of the concept of the state on perceptions of a just cause. The apologetic stance of the American government in support of Israel (BBC 2014) is grounded in recognition of the legitimate body of the state in opposition to non-state actors, Hamas. The question of the Palestinian state is absent from the discussions concerning the justification for Israel’s military incursions into Gaza; however, recognition of Israel’s right to self-defence resounds as a legitimate reason for forceful action (Hauser 2014). Hamas’ terms for a ceasefire with Israel largely focus on relief from Israeli occupation and greater freedom for the people of Gaza (BBC 2014). However, without the legitimacy of the state, and with international law almost entirely confined to interstate matters, Hamas’ demands have limited clout. The restraint exercised by the international community in relation to Israel despite popular outrage reflects the centrality of the state and confirms Benedict Anderson’s view that ‘nation-ness is the most universally legitimate value in the political life of our time’ (Anderson 2006: 3).

This brief analysis of IS and the Gaza conflict provides two topical examples which introduce the concept of the state and its perception. The traditional concept of the state can be defined as an ‘independent and autonomous political structure over a specific territory with a comprehensive legal system’ (Rejai and Enloe 1969: 143). I explore the varying ideologies of the state as a common denominator for a simultaneous analysis of the local reformist vision of an Islamic state, and the internationally conceived view of a state, western society, as defined by western political and theoretical discourses. I use these individualised ideologies of the state and the notion of this ideology under threat as the foundations for an interventionist approach to the discourses in which Islam is assumed to be organically associated with violence. Interdisciplinary approaches are crucial at this point especially with the recent ‘cultural turn’ (Jackson 2008: 157) in the social sciences. The nuances of cultural knowledge and the articulation of local culture have been recognised as important sources for understanding international politics (Jackson 2008: 155). This bears on the theoretical paradigms of the social sciences but provides valuable context for political expression in the international arena.

This study begins with a literature review of scholarly contributions to the discourse surrounding Islam, which have inspired my focus on perceptions of the state as a means of delineating attitudes towards the Islamic religion, and its perceived association with violence. It will proceed with a close reading of the novel, The Reluctant Fundamentalist, a quote from which forms the title of this study. The phrase, ‘Focus on the Fundamentals’ (Hamid 2007: 98), is taken from the context of corporate discourse between the narrator and his superior. The phrase plays with the religious connotations of ‘fundamentalism’, a term which is frequently deployed in the discourse surrounding Islam while being raised within the context of the capitalist system as the key to evaluating the financial value of a business. The dual connotations of the word demonstrate a deliberate rhetorical overlap of two subjects considered broadly to be entirely incompatible: Islamic traditionalism and global capitalism.

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This ambiguity is carried throughout the novel; the narrator’s experiences reveal the contradictions in the ready typologising of the individual as ‘the figure of the militant’ or the essentialising of a religion as one of ‘violence’. This provides the foundations for a parallel analysis of the rhetoric of both local and international discourses which have led to the coupling of ‘Islam’ and ‘violence’. I begin with an examination of the figure of the militant Islamist to inform an understanding of what it means to relate Islam with violence. This will consider the way in which the violence of militant Islamism is deployed within a quest to establish and protect a perception of the state and how this obscures an understanding of Islam. The second part of this analysis will consider the interplay of ‘Islam’ and ‘violence’ within international or western discourses. It will examine how generalisations and the notion of the ‘Other’ have shaped attitudes towards the religion which are conceived better within the framework of perceptions of the state and the notion of threat. The study concludes by confirming that an analysis which ignores the label ‘Islam’ and focuses instead on the root of the problem, perceptions of the state, provides a more critically engaged approach to political events that are currently perceived to be a product of Islamic religious doctrine. In this way, I hope to contribute to a more constructive approach to Islam and its reception.

The Terrorist in Search of Humanity

My study began with a view to analyzing and challenging the relational construct between ‘Islam’ and ‘violence’. This review will trace the development of my analysis by critically examining strategically elected figures that gave me the parameters of the current cultural encounter with Islam. It will consider aspects of the discourse that feed into uncritical thought about Islamic cultural practice, which have informed my approach and confirmed the value of an alternative perspective that intervenes in the discourse, to examine the association between ‘Islam’ and ‘violence’.

Edward Said’s *Covering Islam* was influential in shaping my approach by highlighting the weaknesses and trends found in popular analyses of Islam. Said’s condemnation of scholars seeking to define Islam by formulating broad stereotypes and generalisations that ignore ‘the concrete detail of human experience’ (Said 1997: lxx) and ‘demonise and dehumanise Muslims’ (Said 1997: xxvii) encouraged me to find a way of analyzing Islam without relying on a conceived model of the religion, while warning against attempting to construct my own definition. Said questions the usefulness of employing ‘Islam’ as a concept for defining patterns of behaviour, since it prescribes a single paradigm with which to approach a multitude of political and social phenomena (Said 1997: lix); this acts to ‘hide, distort, deflect and ideologise more than it actually says’ (Said 1997: 62). He suggests that ‘Islam’ is understood better as an ‘abstraction’ (Said 1997: 12) with its use in discourse ‘an act of will and interpretation’ (Said 1997: 45).

Bernard Lewis, who features as one of Said’s most critiqued scholars for his presentation of Islam, illustrates the tendency to produce simplified presentations of the Islamic religion and the Muslim community. In his essay, “The Roots of Muslim Rage”, a title which in itself sets the parameters for a one-sided analysis, Lewis emphasises the inherent divide between Muslims and the rest of mankind, based on a fundamental split between the ‘House of Islam’
and the ‘House of War/Unbelief’ (Lewis 1990: 49). This division motivates what he describes as a Muslim ‘rejection of Western civilization’ (Lewis 1990: 48), which is based upon ‘their’ perception of western values and principles being innately evil. He describes it as ‘our misfortune’ that the hatred and violence inspired in certain followers of Islam ‘is directed against us’ (Lewis 1990: 48). He states, however, that the historic rivalry that exists between ‘Islam’ and the ‘West’, combined with the apparent military roots of the religion, are conducive to a situation of conflict and hostility (Lewis 1990: 49).

Lewis continues his limited observations of Islamic cultural practices with an analysis of individual Muslim sentiment, an antipathy towards the ‘West’ grounded in what he believes to be an ‘awareness of the weakness, poverty, and backwardness of the Islamic world’ (Lewis 1990: 58-9). He psychologizes Muslim society as a whole, stating that the hostility aimed at western society is a product of admiration gone bad, stemming from an innate sense of inferiority followed by the experience of ‘successive stages of defeat’ (Lewis 1990: 49) by the ‘West’. Demonstrating the extent to which this inferior ‘civilization’ is inclined towards violence, Lewis reflects that this rage towards the ‘West’ compels ‘even the spokesman of a great spiritual and ethical religion to espouse kidnapping and assassination’ (Lewis 1990: 59).

Bernard Lewis’ presentation of Islam in this essay exemplifies the limitations and inadequacy of the discourse surrounding Islam. It captures a trend in the literature: the temptation to essentialise the ‘Other’ and its relationship to ‘us’. Lewis’ analysis illustrates the way in which ‘Islam’ has become a symbol for something that extends well beyond what is religious (Said 1997: 57), prescribing Islam as the answer to the complex relationship between the ‘East’ and the ‘West’, which has produced what he notoriously describes as a ‘clash of civilizations’ (Lewis 1990: 60). It lays out a generalised view of historic attitudes towards Islam, which has influenced other scholars such as Samuel Huntingdon. Huntingdon adopts Lewis’ ‘clash of civilizations’ as both the title of his essay and his approach to Islam-West relations (Said 1997: 43). He indorses the ‘us’ ‘them’ divide (Huntingdon 1993: 29), arguing from a position of western hegemony and superiority, thus displaying the very characteristics which Lewis argues is at the heart of Muslim rage towards ‘us’.

The attacks on the World Trade Centre and Pentagon on 11 September 2001 have provided fertile ground for a revival of the Lewis-Huntingdon attitudes towards Islam (Mamdani 2004: 169). John Esposito’s Islam: The Straight Path recognises the resurgence of such attitudes post-9/11 (Esposito 2005: x), and the temptation to judge ‘the mainstream majority by the acts of the minority’ (Esposito 2005: x). The prevalence of this attitude in response to the 9/11 attacks is illustrated in Hamid Mohsin’s The Reluctant Fundamentalist, a fictional account of the experience of the Pakistani narrator Changez’s subjection to the sense of the threat predominant amongst western, or in this case American, attitudes following the attacks, towards anyone perceived to be remotely affiliated to the attackers. The perspective of the narrator as he suffers the popular propensity to characterise an individual as a ‘potential’ terrorist, provides literary insight into the reactionary attitudes in America during this period, and the readiness to essentialise a religion as one of ‘violence’. It is these attitudes that consolidate the ‘otherness’ of Islam and its followers, obscuring perceptions of the religion and acting as a buttress to the perceived association between Islam and violence.

4A similar oppositionary framework can be found in Pope Urban II’s call to arms in the First Crusade 1095. This highlights the way in which geographic imaginaries usually have roots in ideological rather than religious positions. For its contemporary significance see James Carroll, 2007. House of War: The Pentagon and the Disastrous Rise of American Power. New York: Houghton Mifflin Company.
In *Islam & the Myth of Confrontation* Fred Halliday considers the collective sense of threat from Islamic extremism and terrorism, and its influence over western attitudes towards Islam. He suggests that such attitudes are based on ‘historic anxiety’ (Halliday 1996: 109) from the conflict between the Christian and Muslim worlds, which has experienced a revival following the Cold War, as a result of the need for western society to construct a ‘menacing but subordinated ‘Other’’ (Halliday 1996: 109). He defines the ‘Islamic threat’, with which the international community has been fixated since the Iranian revolution of the late 1970s, as part of ‘the rhetorical baggage of political struggle’ (Halliday 1996: 6), and power play of state leaders, who seek to typify Islam as an explanation for certain political or social activity. Halliday’s analysis is effective in highlighting the exploitation of Islam in international rhetoric, in which it is used as a symbol of threat against a perception of the state, which is embodied in the discourse by western society. It demonstrates how perceptions of the state and the notion of the state under threat shape popular attitudes towards Islam and its association with violence.

The relational construct between Islam and violence also appears within a local context. Faisel Devji’s visionist work, *The Terrorist in Search of Humanity*, considers what it means to associate Islam with violence within a local context through an examination of the figure of the Islamist militant. Devji suggests that it is a vision of humanity, defined by the *ummah*, which motivates militant expressions of violence (Devji 2008: x), characterizing militancy as a form of global activism. He claims that for Osama Bin Laden, and those roused by the goals of Al-Qaeda, Muslim suffering represents a ‘humanitarian cause’, such that ‘Muslims are not members of a religious group so much as contemporary representatives of human suffering’ (Devji 2008: 7). Devji defines the violence of Islamist militancy as closely intertwined with the search for and defence of this community (Devji 2008: 28), in which violence is not a product of incorrect religious beliefs, but rather a reaction to their enemies for threatening the human rights of their community (Devji 2008: 7). The quest, Devji describes, of the Islamist militant is to protect his image of humanity (Devji 2008: 7); this is embodied by the *ummah* and rooted in the vision of the caliphate, which is threatened by those not sharing this ideology. This approach to Islamist militancy and its motivation provides the basis on which to consider Islam within local perceptions of the state and its association with violence; it highlights the role of ‘Islam’ as a foil for an ideological struggle that is rooted in the vision of a global community.

Olivier Roy provides a similarly global view of the ideological struggle of the local Islamist militant for the state. Roy characterises Islamist militancy today as a form of ‘neofundamentalism’ whose goal is ‘to reconstruct the universal *ummah*’ (Roy 2004: 2). Like Devji, Roy’s analysis grounds the association between Islam and violence within the context of a communal goal. He considers the figure of the neofundamentalist, whose ‘belonging to a universal *ummah*’ (Roy 2004: ix), overrides an attachment to the nation state, and is based around the ‘concept of deterritorialisation’ (Roy 2004: 3); this rejects ‘statist and nationalist dimensions in favor of the *ummah* with sharia’ (Roy 2004: 1), while providing a framework which justifies violence and opposition to the ‘West’ in the name of ‘Islam’.

The extensive literature that covers ‘Islam’ varies in its capacity to facilitate to any meaningful understanding of the political, social and cultural realities which exist behind the name. An interdisciplinary approach, which focuses on varying ideologies of the state and the notion of this ideology at stake, provides a means of critically engaging in both the
international and local discourses in which Islam has been associated with violence without relying on a master narrative.

The Reluctant Fundamentalist

Mohsin Hamid’s *The Reluctant Fundamentalist* relays, in the form of a fictional monologue by the narrator Changez, a Pakistani’s experience of being educated and employed in America in the period leading up to and following the 9/11 attacks. Changez’s account provides experiential insight into the prevalence of social constructions, which foster a divide between the ‘West’ and the ‘East’, and encourage an association between Islam and violence. The utility of employing a fictional account to uncover the social and cultural realities of contemporary society has been acknowledged as affording key insights beyond that of political discourse. Frederick Jameson propagates the importance of political analysis of literary sources, advocating their social and historical significance for elucidating complex realities (Jameson 2002: 1). *The Reluctant Fundamentalist* arguably represents one of such useful literary sources, a close reading of which is constructive in elucidating the complex dimensions that construct attitudes towards Islam and its association with violence, in a context outside international political rhetoric. The narrator’s insightful account of struggling to find his place of belonging in a period when cultural and ethnic divides are becoming more prolific, and events in international politics are forcing individuals to choose sides, paints a realistic picture of the tensions predominant during that period, while showing the error in assuming an individual inherently conforms to a particular attitude based on an ethnic or religious connection. In this way, the novel provides a framework for considering the contradictions that occur in the discourse that essentialises a religion such as Islam as violent, by depicting the complexity of forces within an individual whose identity has been similarly reduced and charged with the role of a ‘potential’ terrorist.

From the beginning of Changez’s dialogue with the American, he establishes presumptions made of himself based on his beard, and that of his subject, whose appearance is ‘typical of a certain type of American’ (Hamid 2007: 2), but moreover, whose ‘bearing’ (Hamid 2007: 2), revealed the man’s identity as an American. The opening of the conversation in which Changez identifies the presence of his beard as a source of alarm and a symbol of hostility for the American, urging him not ‘to be frightened by my beard: I am a lover of America’ (Hamid 2007: 1), immediately conveys his acknowledgment of the popular propensity to categorise an individual with such ethnic or religious affiliation as one that represents violence and anti-American sentiment. Despite establishing the distinction between himself and the American, Changez proceeds to demonstrate his insider knowledge of America, having been educated at Princeton University and having successfully acquired a position in a prestigious American firm. Changez’ vacillation between awareness of his diversity within the American corporate environment of Underwood Samson & Company, and a desire to fit in with his American counterparts, highlights the tension at the heart of the novel and Changez’s own uncertainty over the identity with which he associates himself. He describes the yearly admission of potential employers, as the University raising ‘her skirt for corporate recruiters who came onto campus’, and of himself, ‘a perfect breast, if you will - tan, succulent, seemingly defiant of gravity’ (Hamid 2007: 5). The narrator’s graphic language is not only inconsistent with the typically conservative values of his Pakistani heritage, but it notes the willingness with which the American university welcomes the takeover of the corporate world, while also firmly identifying himself, prepped and ready for employment.
into it. Changez’s embrace of America and western culture continues as he assumes a more liberal approach to women. He expresses vocal admiration of the western women passing the café, encouraging his American guest to partake (Hamid 2007: 16), and proceeds to describe his infatuation with Erica and his appreciation of her body (Hamid 2007: 24), with language noticeably at odds with that of the traditional Pakistani culture. He expresses his delight at arriving into the multicultural environment of New York and being ‘immediately a New Yorker’ (Hamid 2007: 33). He readily adopts the role of a ‘western-educated urbanite’ (Hamid 2007: 54), staggering ‘out into the street around Midnight’ (Hamid 2007: 39), after drinking with his colleagues, and attempting to use an American Express card to pay at a local Pakistani deli, which is refused with bemusement by the Pakistani owner. Nevertheless, Changez is persistently reminded that he is ‘out of place’ (Hamid 2007: 43). This manifests itself in the stereotypes impressed upon him by others of his nationality and cultural affiliation. Erica’s father confronts him with a stream of typically American perceptions of the ‘East’, summarizing Pakistan as rife with ‘corruption, dictatorship’ and ‘fundamentalism. You guys have got some serious problems with fundamentalism’ (Hamid 2007: 55). Erica’s father’s regurgitation of popular perceptions of Pakistan and the Middle East, combined with the ‘typically American undercurrent of condescension’ (Hamid 2007: 55), highlights the uniformity of American attitudes towards Muslim countries which increasingly impose themselves on Changez’s own identity, and his capacity to resist conforming to the American perception of a fundamentalist.

Post 9/11 these stereotypes become more pronounced. Changez notices the change in public sentiment as, in an act of solidarity in response to the attacks, American patriotism soars, and is closely accompanied by an increasing willingness to typologise those who might represent a source of threat. His description of the invasion of New York by the American flag, each seeming to proclaim ‘We are America’, ‘the mightiest civilization the world has ever known; you have slighted us; beware our wrath’ (Hamid 2007: 79), captures the threatening nature of the American response, while insightfully depicting, through this fictional narrative, the presence of a divide, resemblant of contemporary reality, between Americans and anyone with cultural or ethnic connection with the perpetrators of the attacks. Changez ‘hears talks of the discrimination Muslims were beginning to experience in the business world, rescinded job offers and groundless discrimination’ (Hamid 2007: 120). He describes himself as ‘aware of being under suspicion’, ‘uncomfortable in his own face’ (Hamid 2007: 74), and being of a ‘suspect race’, ‘quarantined and subjected to additional inspection’ (Hamid 2007: 157), unlike his American colleagues with whom he was flying. Changez’s reception as a ‘potential’ terrorist and subjection to the prevalent western social construction which associates individuals of his ethnicity and religious affiliation with violence, seems at odds with the relaxed manner of his narrative and the account of his earlier embrace and enjoyment of the American lifestyle. Nevertheless, the novel encourages recognition of this potential in Changez, hinting at the emergence of an anti-American ‘fundamentalist’. He describes his reaction to the Twin Tower attacks as one ‘remarkably pleased’ (Hamid 2007: 72), being ‘caught up with the symbolism of it all, the fact that someone had so visibly brought America to her knees’, and comparing his joy to that which an American might feel seeing ‘American munitions laying waste the structures of your enemies’ (Hamid 2007: 73). This manifestation of an attitude perceived in western opinion to be common among Muslims possessing anti-western sentiment, encourages uncertainty over Changez’s affiliation. His apparent satisfaction in conforming to this stereotype, however, when recounting his reaction to the American, acknowledging that it would not have ‘entirely surprised you’ (Hamid 2007: 75), since ‘you might have drawn certain conclusions from my appearance, my lustrous beard’ (Hamid 2007: 75), acts to highlight the superficiality of such stereotypes and the
triviality of the popular propensity to typologise according to appearance. Nevertheless, his use of the beard as ‘a form of protest’ (Hamid 2007: 130) following America’s invasion of Afghanistan, demonstrates his awareness of the disturbing effect ‘a beard worn by a man of my complexion has on your fellow countrymen’, reaffirming, through its thematic referral, the role it plays throughout the novel as a means of bringing up western stereotypes associated with Muslims and the beard.

Changez’s depiction of his struggle against an environment increasingly hostile to Muslims and those with any connection to them provides experiential insight into the dominant social tensions from one at the heart of them. While he attempts to ignore the rumours that ‘Pakistani cab drivers were being beaten to within an inch of their lives; the FBI was raiding mosques’, and ‘Muslim men were disappearing’ (Hamid 2007: 94), his outrage and fury at seeing America overwhelm Afghanistan (Hamid 2007: 100) quickly brings to the forefront the loyalty he maintains to his Pakistani identity and initiates his gradual disenchantment with America. He reflects that he is no longer able to ‘concentrate on pursuit – at which I was normally so capable – of fundamentals’ (Hamid 2007: 100). The phrase ‘focus on the fundamentals’ runs through the novel as a source of ambiguity. Given as advice on how to tease out the value of a company, while having connotations of Islamic traditionalism, Changez employs the phrase in the context of resisting his natural reaction to America’s bombardment of a ‘country with kinship to mine’ (Hamid 2007: 152), and maintaining his job within American capitalist culture by quashing this reaction. This play on the word ‘fundamentals’ acts to highlight the ease at which such incendiary terms can be co-opted and deployed within an environment entirely at odds with their popular association.

Towards the end of his narrative, Changez’s total disenchantment with America becomes clear as he voices the claims of those contemptuous of American global hegemony and behaviour in the international arena. He denounces America’s retreat, following the attacks, ‘into myths of your own difference, assumptions of your own superiority’, accusing the nation of acting ‘out these beliefs on the world stage, so that the entire planet was rocked by the repercussions of your tantrums’ (Hamid 2007: 168). His description of his new job as a university lecturer with a ‘mission on campus to advocate a disengagement from your country by mine’, inspiring protests which were labeled ‘anti-American’, conspire to justify his American guest’s growing sense of alarm. Changez’s advice to his companion, that ‘you should not imagine that we Pakistani’s are all potential terrorists, just as we should not imagine that you Americans are all under-cover assassins’ (Hamid 2007: 183), finally clarifies the roles of the pair as the American reaches into his jacket revealing ‘a glint of metal’ (Hamid 2007: 184). This image finally confirms what the entirety of the novel has alluded to, as Changez implicitly declares himself a ‘potential terrorist’.

*The Reluctant Fundamentalist* provides, through a fictional account, experiential insight into the complex social and cultural dimensions of a period in which typologising and essentialising were dominant in forming public opinion. While the conclusion of the novel supports what could be perceived as a one-dimensional narrative of an individual drawn into violence and hatred of America, the title of the novel, and the account of Changez’s struggle to resist conforming to the violent stereotypes formed of individuals with whom he is ethnically affiliated, prevent the novel concluding with a simplistic image of Changez as a violent ‘fundamentalist’ as is implied. Instead, the novel offers a lesson, relevant to contemporary reality and to this study of the association between Islam and violence, in the complexity of individuals who are made up of forces which are not served by popular stereotypes and generalisations.
The Islamic Militant and Perceptions of the State

The discourse surrounding militant Islamism within both an international and local context encourages an association between Islam and violence. The perceived nexus between Islamist militant groups such as IS and notoriously violent terrorist organizations such as al-Qaeda propounds this relationship and nurtures the assumption that Islamic religious doctrine inspires in certain followers a propensity for violence and intolerance. The discourse of IS, in which Islam and state ideology occupy central positions, exemplifies the way in which ideological forces become abbreviated in institutions of power. The religious rhetoric, which frames their violent political campaign, reveals the way in which Islamic religious doctrine lends itself to power practices by being a religion without a central authority, in which the practice of ‘independent reasoning’ (ijtihad) leaves it open to interpretation and up for grabs by political players. This chapter examines what it means to associate ‘Islam’ with ‘violence’ through an interventionist approach to the discourse surrounding Islamist militancy. I unpack the rhetoric within a local context to reveal the power practices at the heart of militant Islamist discourse in which religious doctrine has become construed within a quest to realise and protect an individualised notion of the state. This individualised ideology of the state represents an impulse response to international forces, framed by religious terminology, which challenges the modern definition of the state as a ‘geographically contained structure whose agents claim ultimate authority within their domain’ (Biersteker and Weber 1996: 2). Manifestations of violence in this context, which are readily assumed to be organically related to Islamic religious practices, thus become more constructively perceived as part of an ideological struggle against political powers. This chapter forms the first part of a parallel analysis of local and international discourses, which seeks to illustrate how an alternative perspective, namely perceptions of the state, could contribute to a more critically engaged approach to political events that are currently perceived to be a product of the religion.

Sayyid Jamal ad-Din al-Afghani was a prominent Muslim ideologist of the 19th century whose ideas of pan-Islam and Islamic reform (Keddie 1968: vii) endorsed the necessity of the caliphate for the sanctity of the Islamic faith and the solidarity (ta’assub) of the ummah (Hourani 1983: 117). Hailed by ‘contemporary movements of ‘political Islam’ as their founder’ (Alaoui 2001: 95), his ideas, which rejected both ‘pure traditionalism and pure Westernism’ (Keddie 1968: 3), established an influential narrative through which Islamic tradition became construed within a modern and nationalist model (Keddie 1968: 3). He combined ‘more modern ideas of political opposition’ with ‘the traditional ideas of the Muslim philosophers’ (Tibi 2012: 1) that formed the backdrop of his mission to strengthen of the Muslim community against the colonizing powers. Al-Afghani’s ideas show effectively how the complexity of historical and political forces arising from western imperialism and the colonial legacies embodied by ‘weak or defective Islamic regimes’ (Alaoui 2001: 97), have produced a rhetoric in which religious discourse has become entwined in institutions of power and historical situation. While al-Afghani propagated his own interpretation of ‘true Islam’ (Hourani 1983: 109), his ideas do not

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6 Ali Abdel Razeq disputes the origins of the caliphate in Islamic religious doctrine. In his controversial work *Islam and the Foundations of Political Power*, he acknowledges the secular traditions and finds that there is no ‘evidence that the institution of the caliphate is a matter of religious dogma or that it is entailed by religious belief’, cited pp. 52.
provide a model for reconsidering Islamic doctrine (Keddie 1968: 44), but rather highlight the way in which it lends itself to power practices. Al-Afghani recognised that the ‘appeal for purifying religion and preserving it’, was a ‘subtle and effective way of waging a successful political struggle’ (Alaoui 2001:96). His ideas effectively demonstrate the way in which power practices construct their own history while bringing to light a trend, found within the discourse of contemporary militant Islamist groups, of deploying religious traditionalism \(^7\) to legitimise local struggle and strengthen political objectives (Esposito 1997: 3).

Al-Afghani highlights a practice, with roots in the history of early Islam, of harnessing religion to mobilise support and unify opposition (Esposito 1998: 31). \(^8\) The presence of al-Afghani’s ideas of Muslim solidarity and Islamic reform can be found in the prominent Muslim ideologist Sayyid Qutb. Leader of Egypt’s Muslim Brotherhood and prominent theorist of radical Islamism, he sought to establish a political program, based on the first generation of Muslims that would restore the unity of the Muslim world and oppose the secular institution of the state (Atran 2010: 99). Like al-Afghani, Qutb railed against western domination of the Muslim territories, similarly showing a desire to challenge western hegemony while recognizing the power of Islam as an effective source of unanimity in waging opposition (Lawrence 1998: 66). His rhetoric reduces Islam ‘to a single platform of protest against the dominant forces and modern world system’ (Lawrence 1998: 22), in which a mission for religious purity becomes a cover for ideological forces that do not have their roots in theology. Qutb demonstrates the ‘dynamic of power’ (Abou El Fadl 2007: 462) at the heart of the movement, seeking to ‘to re-create a true Islamic society’ (Roy 1996: 58) while further highlighting the ease at which Islamic religious doctrine can be co-opted in a struggle for power. The quest to re-assert Muslim power, displayed in the ideas of al-Afghani and Qutb, represents a similar dynamic in contemporary Islamist movements for whom establishing a caliphate represents a means of working against international forces regionally using ‘Islam’ as a unifying force.

While appreciation of Islam as representative of much more than a religion is concurrent among many scholars on the subject, recognition of its malleable role within the discourse surrounding an Islamist agenda also demonstrates the ease at which it can become associated with the violence that might accompany that political goal. As exemplified by IS, who preach religious intolerance and violence, the quest to realise an individualised vision of the state often finds its expression in manifestations of violence. The rhetoric of Ayman Zawahiri, the leader of al-Qaeda, who propagates the popular militant narrative of western expulsion from the Middle East and rejection of western imperialism, advocates violence, which he justifies as a religious obligation to defend the purity and integrity of Islam (Mansfield 2006: 254). He employs ‘apocalyptic visions of nuclear weapons’, imploring ‘jihadis everywhere to inflict greatest possible damage and cause maximum casualties on the West’ (Atran 2010: 101), thus creating an incendiary rhetoric that frames bellicose imagery with claims of fundamentalist purity. This co-option of religious rhetoric provides an effective means of mobilizing extremist Islamist groups within the fraught context of fundamentalism (Abou El Fadl 2007: 18). It propounds the inflammatory view that ‘Islam itself is under attack’ (Esposito and Mogahed 2008: 54) while providing an effective ‘reservoir of symbolic

\(^7\)See Hourani, 1983, for further reference on the practice of framing traditionalism in religious terms.

dissent’ that is ‘available to marginalised groups’ (Lawrence 1998: 24). In this way, ‘Islam’ becomes a cover for a complexity of social realities, hijacked by political players for whom violence, despite being cloaked in religious rhetoric, represents the parameters of a political exercise rather than a symbol of religious authenticity (Roy 2004: 257).

Al-Qaeda’s popular portrayal of themselves as a religious institution with a combined enemy, Israel and the ‘West’, defined by religious difference (Kepel 2008: 95), is effective in gaining support from the Muslim community while permitting them to lay claim to ‘the mantle of defender of the faith’ (Kingston 1999: 699). Their self-conceived role as a ‘militant vanguard institution’ (Lincoln 2006: 15) that acts ‘on behalf of a broader religious community (the Islamic ummah)’ (Lincoln 2006: 8), against attack by the ‘West’ and its culture, cloaks their cause with religious legitimacy while effectively creating an enemy against whom they claim to defend their people (Juergensmeyer 2000: 12). This community, which comes to embody the local ideology of the state, is described by Roy as ‘some sort of imagined world’ (Roy 1996: 288), ‘without territory’, which is defended in the name of ‘Islam’. The militant rhetoric of defence, which encourages the view that they are not defending a territory but rather a broader community, shares in that of international discourse in which western society is presented as the body to be protected from the threat of radical Islamists. The notion of threat perceived against a community, or rather an individualised ideology of the state, therefore represents a common denominator in the rhetoric of two clashing ‘civilizations’, which does not rely on a complex and abstract construct such as ‘Islam’.

In The Terrorist in Search of Humanity, Faisel Devji promotes the similarity between the militant and ‘his foes’ (Devji 2008: x). He positions militant rhetoric firmly ‘within the world of their enemies’ through shared themes of ‘humanism, humanitarianism and human rights’ (Devji 2008: x), likening terrorism to a form of global activism such as environmentalism (Devji 2008: 6). He depicts militancy as a humanitarian mission with a global, community-driven agenda (Devji 2008: 6), to relieve Muslim suffering and come to the aid of a ‘global victim’ (Devji 2008: 33). For the militants, he suggests, the vision of the ummah is representative of humanity, whose suffering has become a ‘global cause’ (Devji 2008: 33), driving terrorism and Islamist militancy in a quest to make this suffering known. Devji’s analysis is constructive in removing Islam from the approach and pointing to the similarities between militant objectives and ‘the shared values and common destiny of mankind’ (Devji 2008: x). This approach is effective in reducing the wicked otherness associated with Islamist militancy while challenging the association between Islam and violence by presenting militant violence as the product of a cause which occupies a similarly central position in the international community, that of human suffering. He states that ‘for those who adopt the brand name al-Qaeda, non-Muslims, who identify with Muslim victims, become human and Muslim at the same time’ (Devji 2008: 32). This encourages reconsideration of the religious element driving even such notoriously extremist groups as al-Qaeda, while highlighting the centrality of an envisioned community to their actions. The ‘imagined political community’ (Anderson 2006: 6), which comprises the local ideology of the state, thus becomes intrinsically linked to expressions of Islamist militant violence. This presents a dynamic in which political expression is dissolved of religious imperative, serving instead an ideology of the state in which Islam has become a foil for the realization and defence of that vision. The hostility towards the ‘West’ and ‘western’ culture becomes more constructively perceived therefore ‘politically rather than theologically’ (Rahnenema 2008: 484), such that the notion of the state drives political expression rather than an absolute intolerance inherent to Islam or a particular predisposition to violence. Thus, rather than proliferating a conflict between
‘Islam’ and the ‘West’, a more constructive approach could be to consider it a struggle ‘between the West and many non-Western leaders’ (Roy 1996: 334). This conveys the centrality of ‘power politics’ to political Islam (Volpi 2010: 8), as Islamist leaders seek to establish and protect an ideology of the state against western encroachment, while highlighting the utility of an approach which considers political realities rather than relying on Islamic religious doctrine as the source of violence and conflict manifested in the international arena.

Robert Pape, in his analysis of suicide terrorism, supports the importance of considering the ‘dynamic of power’ (El Fadl 2007: 462) when approaching the association between Islam and violence at a local level. He argues, based on a compilation of data taken from suicide terrorist groups, that a common motivation among suicide bombers is the desire to remove military forces of western countries from their territory (Pape 2005: 4). He propounds this as the primary incentive for violence rather than any imperative conceived from religion, defining it instead as a tool ‘in service of the broader strategic objective’ (Pape 2005: 4). His analysis supports the centrality of the state to manifestations of violence by showing that it is the struggle to retain authority and the dynamic of threat within international politics that motivates militants rather than the currently perceived compulsion of Islamic dogma. This conclusion provides common ground for considering the ‘opposing camp’, the ‘West’ and its perception of Islam, which conveys, within an international context, the way in which the notion of threat against a community, in this case against western society, generates an attitude that associates Islam with violence.

The role of Islam within the campaigns of prominent Islamists and militant groups is constructive in challenging the association between Islam and violence. It demonstrates, through its use as a potent and legitimizing force in political campaigns, the ease at which it can be invoked to justify and advance an ideology. Al-Afghani, whose ideas were influential in establishing a ‘national imaginary’ defined by the ummah, highlights a trend in the rhetoric and actions of contemporary Islamist groups, who claim religious authenticity in their quest to challenge western hegemony and establish authority. Manifestations of violence in this context, while readily perceived to be a product of Islam thus become more constructively understood as part of a struggle to realise and retain that authority which is embodied in the ideology of the state.

**International Perceptions of Islam**

The wealth of literature seeking to examine and define Islam provides an influential source for international perceptions of Islam. Following the devastating events of 9/11, the compulsion to present an overview of the religion and the Muslim community has generated a variety of analyses with a common theme nevertheless, of seeking to capture the ‘essence’ of Islam in order to find rationale for the increasing manifestations of violence committed by non-state actors in its name. This discourse falls short not only by seeking to explain a mass of social, political and historical complexities under the umbrella term ‘Islam’, but also by amplifying the perceived difference between Muslim and western cultures (Said 1997: 129). The ‘binary logic of opposition’ (Quereshi and Sells 2003: 5) in the discourse, which establishes a divide between the ‘West’ and the ‘East’, has the detrimental effect of fostering stereotypes and generalisations, which sustain a perceived association between Islam and violence (Quereshi and Sells 2003: 5). Acknowledgement of these discursive limitations is
recognised and expressed by a range of scholars; the popular propensity to broach analyses of international events surrounding Muslims and expressions of violence from the starting point of ‘Islam’, however, immediately attributes to what could be perceived as an empty signifier, a weight of influence that hinders an approach to the complex realities beyond the name. This chapter will consider international or western perceptions of Islam and its presentation of the cultural ‘Other’. It will look at the way in which western interpretations have propounded an association between Islam and violence which hinges on a specific picture of Islam that has been supplied based on stereotypes and essentialisations. This will show the value of an approach which concentrates instead on how the notion of threat, posed by Islamic extremism and the cultural menace it represents against an ideology of the state, has contributed to the western perception of an association between Islam and violence.

Within the discourse and literature of earlier western scholars of Islam, its negative portrayal and subjection to damning generalisations is clearly apparent. Bernard Lewis, a well-known scholar of the Middle East and advisor to the US on its Iraq policy (Esposito 2011: xxv), occupies a pinnacle role in this inherently limited tendency to present Islam and its followers as ridden with resentment and actively on a path to bring down the ‘West’ which they charge with the cause of all their problems. Lewis defines the Muslim-West dynamic within the framework of rivalry (Said 1997: xxxi), depicting Muslims as aware of having ‘a genuine rival’ in ‘a competing world religion’, Christendom (Lewis 1990: 49). He describes Muslims as seeing ‘the innocence of Non-Western Adam and Eve ruined by the Western serpent’ (Lewis 1990: 52), employing religious imagery to accentuate the intrinsically religious roots of Muslim hostility towards the ‘West’ which stresses both the primitivism of this western opponent and the irrationality of its hostility. He defines Muslim hostility as a ‘war against modernity’ (Lewis 1990: 59), ‘directed against the whole process of change’, which draws on the ‘instinct of the masses’, yet represents the ‘historic reaction of an ancient rival against our Judeo-Christian heritage’ (Lewis 1990: 60). This analysis propounds a view of historic enmity between the ‘West’ and ‘Islam’ while prophesizing continuation of hostilities based on an innate Muslim resistance to change and modernization (Quereshi 2003: 6). Pursuing a similar theme of analysis, Samuel Huntingdon, promulgates the intrinsic difference between Muslim and western culture based on what he describes as a ‘clash of civilizations’ (Huntingdon 1993: 29). This conflict, which he describes as one defined fundamentally by ‘cultural difference’ (Huntingdon 1993: 33), yet influenced by the ‘revival of religion’ (Huntingdon 1993: 26) as a source of identity and allegiance, thus shares in Lewis’ endorsement of religion as the root of the divide between Muslims and the ‘West’. His West-centric analysis, in which he prescribes ‘the paramount axis of world politics’ as ‘the relations between ‘the West and the Rest’’ (Huntingdon 1993: 48), consolidates the ‘us’ ‘them’ divide in a way that contributes little but an egotistical western view, whose derogatory presentation of the ‘Other’ justifiably possesses the means to fuel Muslim resentment of the ‘West’.

This ‘oppositional framework’ (Kalin 2011: 12) is frequently employed in both scholarly and media analyses of Islam and the Muslim world. The ominous phrase, ‘clash of civilizations’, comes to define the perceived conflict between western society and the Muslim world (Said 1997: 143). Its western reference thus details the perception of Islam as in essence, ‘antipathetic to the fundamental core values of the West’ (Quereshi 2003: 2). Said is consistent in his condemnation of scholars such as Lewis and Huntingdon, recognizing the uniformity of their analyses of Islam as they assume ‘civilizations are monolithic and homogenous’, and promulgate the ‘unchanging character of the duality between ‘us’ and ‘them’’ (Said 2003: 14). This perspective, combined with the media tendency to
disproportionately portray conflict specifically taking place in the Muslim world (Kalin 2011: 14), is effective in fueling public perception of a violent ‘Other’ and a ‘uniformly hostile Islam’ (Quereshi 2003: 12). In this way, the association between Islam and violence is consolidated, with Islam and its followers perceived as a hostile force to western society with a propensity for violence and an instinctive desire to target the ‘West’.

The creation of the ‘Other’ is not unique to those propounding western superiority and Muslim primitivism. The variety of literature seeking to present the essence of Islam has the contradictory effect of depicting a complex society as available for uniform analysis in a way that would not be attempted of western society (Said 1997: 42). This practice, which seeks to redefine Islam and Muslim society, so that it is not the foreign hostile force presented by earlier scholars, has the paradoxical result of positioning Islam once more in the role of the ‘Other’, freely employing ‘Islam’ as a term which in itself does little to provide any genuine encounter with the social and political realities on the ground (Said 1997: lix). As Said stresses in Covering Islam, interpretive positionalities predominate representations of Islam (Said 1997: 44) in a way that accomplishes little by way of delineating ‘what moves people and society’ (Said 1997: lix), and provides limited scope for western consideration of the motives behind violence committed in this context. An agenda of counter-essentialisations, which nevertheless holds ‘Islam’ as the root thus does little to recondition attitudes and raise awareness of the sensationalizing discourse which occupies popular discussions of Islam.

The tendency in popular media to popularise terms such as ‘fundamentalism and fanaticism’ (Quereshi 2003: 28) in association with ‘Islam’ have propounded a western sense of threat and encouraged the typification of Islam as a religion of violence. The sensational deployment of such words (Mottadeh 2003: 141), fuels the perception of a cultural menace posed against western society. This sense of threat, which is mirrored in Islamist militant rhetoric on the grounds of a threat posed by the secular ‘West’ to the Muslim community, highlights the centrality of the national imaginary to popular attitudes. The fear predominating western sentiment towards Islam and its relationship with violence thus becomes conceived of an international perception of the state which fundamentalism and radical Islamism threaten to undermine. Documentaries such as Obsession: Radical Islam’s War against the West highlight examples of the ‘rhetoric run wild’ (Coolsaet 2005: 8), effectively animating the sense of threat through provocative images of Muslims carrying weapons and proclaiming ‘Death to the West’. While this crude presentation inevitably forms a parallel with the limited discourse of scholars such as Bernard Lewis it nevertheless highlights the contemporary significance of the notion of the state under threat in shaping public attitudes towards Islam. It demonstrates, through consistent reference to the danger faced by western society by radical Islamists, the way in which a perception of the state at stake informs the association between Islam and violence. This, in turn, supports an angle of analysis which considers the parallel sense of threat within both a local and international context through the common ground of varying ideologies of the state.

The association between Islam and violence is fueled by discourse which posits Muslim society as an oppositional force to the ‘West’. The popular propensity to essentialise and typify Islam in an attempt to present its essence further consolidates the divide between western society and the Muslim world. The popularizing of the threat posed by Islamic fundamentalists and extremists is instrumental in consolidating the perception of an association between Islam and violence, for which the ‘us’ ‘them’ dichotomy established in earlier discourse, provides fertile grounds. An approach which focuses on this notion of threat against an ideology of the state, defined by the western community, provides a critical lens.
through which to consider the attitudes which associate between Islam and violence. It further offers a constructive approach for considering the issue of escalating violence in the Middle East which does not rely on generalisations formulated of an abstract construct such as ‘Islam’.

**Conclusion**

The crisis concerning IS and the current conflict in Gaza with which I began this study highlights the centrality of perceptions of the state to events in international politics. IS’s violent campaign, which seeks to depose formal authority and establish an individualised ideology of the state, uses Islam as a motivational and legitimizing force for the realization of that vision. Their campaign, which has profited from regional instability and a weak Iraqi state, employs an incendiary combination of violence and religious rhetoric that is effective in mobilizing support while appealing to disenchanted Muslims who have lost faith in state authority. While undoubtedly fueling negative public perceptions of Islamic religious doctrine and its propensity to inspire violence, IS’s presence on the international scene is most effective in confirming the fundamental role of state ideology within international politics. As events in Gaza have also shown, the concept of the state occupies a powerful position in the international establishment and an influential factor in perceptions of a just cause.

This study sought to present perceptions of the state and the notion of an ideology of the state under threat as a means of challenging the assumption that Islamic religious doctrine is organically associated with violence. Using varying ideologies of the state as a common denominator for a parallel analysis of local Islamist militant rhetoric and Euro-American discourse, it has shown the limitations of relying on ‘Islam’ as an explanation for a complex of political and social realities. The narrative of the Islamist militant highlights the way in which Islamic religious doctrine lends itself to political practices as a political tool for uniting opposition against a perceived threat posed by the secular ‘West’. Forming part of a struggle to realise an individualised ideology of the state, ‘Islam’ loses any religious significance but rather represents a foil for the unification and protection of a community which is perceived to be under attack. Manifestations of violence in this context thus become less defined by religious imperative than by ideologies of power and the dynamic of threat which come to frame the militant Islamist’s vision of the state.

The wealth of literature surrounding Islam has contributed to the relational construct between ‘Islam’ and ‘violence’. Attempts to define Islam through generalisations and stereotypes has detracted from any genuine encounter with the political and social realities surrounding the religion. The East-West dichotomy has fostered such simplifications, firmly establishing Islam and Muslims as the cultural ‘Other’, and encouraging the typologising of individuals based on their ethnic or religious affiliation. The propensity to sensationalise terms in association with Islam exacerbates fear of the religion and encourages a sense of threat which is fundamental to the association of Islam with violence. Studies, which seek to redefine the religion through counter-essentialisations, fall into the trap of crediting the term ‘Islam’ with a weight of influence which detracts from any genuine encounter and hinders a critical approach to realities which cannot be simplified within a single and abstract term.
The aim of this study was not to redefine Islam but rather to provide an interdisciplinary approach which intervenes in the discourse that associates Islam with ‘violence’. While challenging the value of the term ‘Islam’ for any meaningful examination, my study seeks to prescribe a more critically engaged approach to political events that are currently perceived to be a product of the religion. Using individualised ideologies of the state as a significant component within political expression and attitudes towards Islam, I hope to offer a more nuanced approach to Islam and its reception.
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