

DEAD AS A DOHA

By Guy de Jonquières: world trade editor of the Financial Times.

The Doha world trade round has had a remarkable resurrection only a year after many observers were tempted to give it up for dead. Its recovery keeps alive hopes of a fresh assault on trade barriers that could inject hundreds of billions of dollars into the global economy. It also gives a badly-needed boost to the nine-year-old World Trade Organisation (WTO), whose reputation has been battered by a series of setbacks that seriously undermined international confidence in its effectiveness. The trade talks received the kiss-of-life in the early hours of August 1, when sleep-deprived ministers and officials emerged from five days of almost non-stop bargaining at the WTO's lakeside headquarters in Geneva and announced that they had finally agreed a plan to take the negotiations forward. It was, according to WTO director-general Supachai Panitchpakdi, "a historic moment for the organisation". Well... up to a point. Judged strictly by the contents of the agreement, Supachai's claim invites charges of exaggeration. The deal involves no immediate liberalisation: it simply sets a framework and broad objectives for further negotiations to come. Although it marks an advance in some areas (particularly proposed reductions in agricultural subsidies), it is vague or ambiguous in others (such as the extent and speed of future moves to open markets). And it was reached almost a year behind schedule. Yet more was at stake in Geneva than agreement on a few pages of dry, technical and jargon-riddled prose. The meeting was a crucial test of whether the WTO could fulfil its pivotal institutional role in promoting global economic integration and keeping order on world markets – or whether it would be marginalised by continued drift, indecision and acrimonious divisions among its 147 members.

Recent history provides discouraging precedents. The first attempt to launch the Doha round, in Seattle in November 1999, collapsed amid chaotic street violence and angry recriminations between governments. Two years later, talks got under way largely in response to collective shock at the September 11 terrorist attacks in the US. But a first attempt to craft a negotiating framework foundered disastrously last September in Cancún. Stubborn conflicts between the negotiating positions of governments have previously provoked crises but many veteran negotiators feared that reverses in Seattle and Cancún also reflected more fundamental institutional and political problems that called into question the WTO's capacity to reach decisions. During most of its 57-year history, the multilateral trade system has been dominated by the US and Europe. Most other governments took a backseat role, reaping the benefits of trade liberalisation while exerting little influence on policy decisions. Since the WTO was established as the successor to the General Agreement on Tariffs and Trade, the balance of power has shifted. Not only has the WTO's membership grown rapidly to embrace around 50 more, mostly poorer, economies, but the developing countries that comprise more than three-quarters of that membership have become far more determined to assert their rights and make their weight felt in its deliberations. One result has been the formation of the influential Group of 20 agriculture-exporting developing nations, led by Brazil, which joined forces shortly before Cancún to fight for the elimination of farm subsidies in rich nations. Another has been the emergence of the Group of 90, a coalition of mostly least developed countries that precipitated the Cancún collapse by walking out in protest at demands by the European Union and Japan for negotiations on new trade rules.

Meanwhile, attitudes in the West have changed, too. More than 50 years of multilateral tariff-cutting in industrial goods and rapid deregulation of many services have left the US and EU with relatively few barriers to bargain away except in agricultural trade, long the most politically sensitive obstacle and the most obstinately resistant to reform. With their home markets largely open to each others' exports and investments – and China obliged by its WTO commitments to continue lowering trade barriers – many US and European companies seem to have much of what they want. Furthermore, the end of the Cold War has eroded once-solid US support for bold new trade initiatives by removing its over-arching geopolitical rationale, the promotion of democracy and free-market principles. Although pressure in Congress and in its business community to erect new trade barriers remains muted, there is limited enthusiasm for the effort required to pull down existing ones. Some participants argued after Cancún that all of this, coupled with the growing difficulty of managing a cumbersome organisation that takes all decisions by consensus, were a recipe for indefinite gridlock. US trade representative Robert Zoellick complained that the WTO was falling victim to the empty political posturing that plagued the United Nations General Assembly, while EU trade commissioner Pascal Lamy railed against its "jurassic" procedures. So how and why did the world come together in Geneva to break the stalemate? One reason was US and European leadership, which is still essential to making progress in the WTO. After several months pondering the fall-out from Cancún, Zoellick and Lamy launched a drive to talk other ministers into making one more attempt to rescue the round. One of their most telling arguments was that if the talks remained in limbo until after the US presidential elections and the installation of a new European Commission in November, they might never be revived. Other governments became gripped by an equally powerful collective fear of the likely consequences of another failure. What if WTO members gave up trying to settle their differences through negotiation and turned to litigation, swamping the organisation's disputes settlement tribunals with a torrent of legal challenges? Or the US – where Congress must extend next year the president's authority to negotiate trade agreements – reacted to a failure by losing all appetite for multilateral liberalisation and gradually disengaging from active involvement in the WTO? In addition, many experts warned of a further worldwide surge in bilateral and regional trade arrangements that might weaken the principles underlying multilateral rules. Often described as free trade agreements, such deals discriminate against third parties and create a patchwork of different regulations, fragmenting the global market and increasing the costs of doing business across borders. In sum, governments were apparently inspired in Geneva as much by anxiety about losing the advantages they already have – the stability and predictability provided by the global trade system's rules and disciplines – as by their hunger for new economic gains. Nonetheless, the talks did yield some advances, even though many participants complained that they had not won everything they wanted.

The main achievement was to lock in the EU's commitment to eliminate its agricultural export subsidies, which have been widely blamed for driving farmers elsewhere out of business by artificially depressing world commodity prices. The US yielded to pressure for curbs on its food aid and export credit programmes, which have a similar impact, and it and other rich countries also committed themselves to negotiate reductions in the lavish domestic farm spending used to prop up their producers. In addition, African cotton-growing countries were promised that their complaints about the economic damage they suffer from US subsidies would be treated as a priority in future negotiations. Yet, no dates have been set for ending or reducing farm subsidies and only outline agreement was reached on plans for lowering agricultural tariffs and relaxing quotas. The blueprint for cutting industrial tariffs is sketchy, partly because many governments balked at serious discussions until differences over agriculture had been settled, and the roadmap for liberalising trade in services consists of little more than an injunction to negotiators to try harder. That leaves a lot of ground still to be covered when negotiations resume, with no guarantee of eventual success. The talks were originally supposed to be completed at the end of this year, a deadline that has now been formally dropped. Some trade diplomats think they can be

wound up by the end of next year but others think they may drag on until 2007, when US trade negotiating authority finally expires.

What are the chances of further progress? At the least, Geneva creates a platform and a focus for the next phase of the negotiations. In addition, the sense of achievement and generally upbeat atmosphere it has generated is in sharp contrast to the sour and rancorous mood that set in after Seattle and Cancún. There also appears to be a change of attitude among the very poorest countries. After years of adopting a largely negative stance and insisting that perceived injustices in past multilateral trade agreements must be corrected before new negotiations can proceed, some have begun to engage more actively and to define clearer agendas. Under pressure from the G20, the US and EU have begun to realise that there is more to making decisions in the WTO than clinching a deal between themselves. They are also becoming aware that the least developed countries, whose negotiating flexibility is often constrained by a severe lack of skills and resources, require sensitive and patient diplomatic handling. Brazil's legal challenges to US cotton subsidies and the EU's highly protectionist sugar regime (and possibly similar WTO cases to come) should provide impetus to future negotiations by placing Washington and Brussels on the spot. If the WTO rules definitively against the measures and they remain unchanged, the two trade powers could face trade retaliation. Set against those positive factors, there are many uncertainties. Zoellick and Lamy, whose personal ambition was a powerful driving force behind the Geneva deal, step down in the next few months. Their departure will not only remove two men who have striven to maintain close US-EU cooperation on trade, despite severe transatlantic strains over the Iraq war; it will also unravel a wider network of relationships and mutual trust that has developed between a group of key negotiators over several years.

Future political commitment to trade liberalisation in Washington and Brussels is an open question. The EU is likely to be preoccupied with integrating new members and sorting out its own governance for the next few years, and it is unclear how high the Doha round will be on the White House agenda should Senator John Kerry win the US presidential election.

Furthermore, while the Geneva agreement may have smoothed over some long-standing stumbling blocks, it has by no means removed them all. From the US perspective, the Doha round can only succeed if other countries decisively lower their barriers to goods and services. Yet calls for the US to lower its high tariffs on imports such as textiles, reform its anti-dumping laws and open its highly-protected shipping industry to international competition will meet with strong domestic opposition. The EU, Japan, Switzerland and other rich nations are under equally strong pressure from powerful domestic lobbies not to open their markets to "sensitive" agricultural imports, such as sugar, rice and dairy products. And some more advanced developing countries, such as India, are reluctant to cut many of their tariffs sharply and to let foreign companies compete more freely in services such as banking and insurance.

Future talks are likely to be complicated by sharp differences between developing countries. Although sometimes portrayed by non-governmental organisation activists as a single grouping, they are a far-from-cohesive bloc and include economies at widely different levels of development. In Singapore, for example, income per head is higher than in many so-called industrialised nations. At the opposite end of the spectrum are African states where families struggle to survive on a few dollars a day.

Developing countries are also deeply split about the benefits of trade liberalisation by wealthy ones. Some such as Argentina and Brazil, which are highly efficient agricultural producers, are all in favour. Less enamoured are the poorer countries that currently enjoy preferential access to western markets under programmes such as the EU's Cotonou convention and the US Africa Growth and Opportunity Act, which allow them to pay zero or

reduced tariffs on their exports. These countries fear a reduction in global import barriers that will leave them worse off by exposing them to tougher international competition on foreign markets.

These conflicts and contradictions make it much harder to assemble a final package that will live up to the promises of rich countries in Doha to make the negotiations a “development” round – a term that continues to defy any clear agreed definition.

Wrangling over such issues is likely to occupy many more long and sleepless nights once talks resume. The outcome will ultimately depend less on the thrashing out of accommodations and compromises in Geneva than on the strength of governments’ determination to overcome resistance by recalcitrant – and often politically influential – constituencies at home. In the much-quoted words of Winston Churchill, the Geneva agreement marked only the end of the beginning. The beginning of the end for the Doha trade round is still some way away.

ANALYSIS

EUROPE: EYES WIDE SHUT?

Presenter: Martin JACQUES Producer: Ingrid Hassler Editor: Nicola Meyrick

Taking part in order of appearance:

Dr Martin Wolf: Chief Economics Commentator and Associate Editor 'The Financial Times', London.

Dr Minxin Pei: Director of the China Programme, Carnegie Endowment for International Peace, Washington DC.

John Gray: Professor of European Thought, London School of Economics.

Niall Ferguson: Professor of History, Harvard University.

Dr Heather Grabbe: Deputy Director of the Centre for European Reform, London.

Dr Robert Cooper: Director General for External Affairs at the Council Secretariat of the European Union, Brussels.

Dr Esther Brimmer: Deputy Director of the Centre for Transatlantic Relations, Johns Hopkins University, Washington DC.

TRANSCRIPT OF A RECORDED DOCUMENTARY - RADIO 4 - CURRENT AFFAIRS

JACQUES: Europe's bequest to the world is quite extraordinary.

WOLF: For a period of four or five hundred years, Europe became the cockpit of the world intellectually, artistically, economically, and ultimately as the centre of power: ideas spewed out, writers, artists, everything you could possibly imagine. And what happened in Europe over those centuries of endless upheaval and violence and chaos and progress completely transformed the world.

JACQUES: But how does our venerable old continent look when viewed from the world's most expansive and dynamic region, East Asia?

PEI: Europe always appears to be that of an elitist image – exquisite taste, high cuisine, gourmet cuisine; it's an image of a glorious but past culture, but not relevant to the daily aspirations, especially material aspirations of the man in the street. Only really elitist people would look up to Europe.

JACQUES: Europe, a museum piece, consigned to the margins of the present, cast in the role of a bit player, God forbid, surely not! Afraid so, argues, John Gray, Professor of European Thought at the London School of Economics. The problem is - we haven't clocked it.

GRAY: Europeans still see themselves as the centre of the world and they haven't grasped that with the end of colonialism in Africa, the Middle East, and above all in Asia, not only has that direct form of imperial power and the global reach that it gave Europe gone, but also these countries – notably China and India – have industrialized very rapidly. They've acquired a significant middle class with wealth and aspirations and they're

becoming, and have become really, fundamentally new forces in the world which Europe hasn't grasped, hasn't perceived clearly.

JACQUES: When Europeans first visit cities like Shanghai, Kuala Lumpur, Shenzhen or Seoul, they get a big shock. The expectations and assumptions about ourselves and others, about our modernity and their backwardness, are utterly confounded. If John Gray is right, that Europe tends to imagine the world, and its own place in it, as it was, rather than as it is, then is Europe becoming increasingly peripheral to world events? And if so, what does it mean, does it matter - and do we care? Minxin Pei, who runs the China Programme at Carnegie Endowment for International Peace in Washington DC, believes that East Asians don't aspire to be European.

PEI: The masses in East Asia tend to look to the United States, largely because they identify more with the US in terms of lifestyle because the American lifestyle, this unlimited consumerism, really appeals to the instincts of the people on the street. If you administer a survey to the Chinese public, what you will find is that they know far more about American pop culture than about European elite culture. The way China is trying to develop its own governing institutions, they are looking to the United States. They, for example, have established a central banking system which is very similar to the Federal Reserve; and more intriguingly, all the top leaders have sent their children to the United States to study. For example, former President Jiang Zemin's son received his Phd in physics at university in Philadelphia, and the current President Hu Jintao's daughter received her degree from an American institution that is being kept a secret.

JACQUES: The American model may be more appealing, but it's not that Europe doesn't count economically. Niall Ferguson, Professor of History at Harvard University.

FERGUSON: The European Union matters as much as the United States in terms of trade. In economic terms, it is the only entity in the world that is the equal of the United States and so in all trade negotiations, the European Union is clearly an equal. But in other respects, it's no contest. In military terms, the European Union is insignificant, marginal.

There is no will in Europe to exercise power through force. So in that sense, the European Union is a conundrum. It's something which has enormous economic leverage, but its political leverage is greatly hampered by the reluctance of European governments, individually or collectively, to use force in negotiation.

JACQUES: This begs the question, of course, as to why Europe is so reluctant to throw its weight around. Martin Wolf from the Financial Times.

WOLF: I think what happened is in essence that the imperial powers fought each other to the point of moral exhaustion. I think that's more important than physical and material exhaustion – to the point of moral exhaustion – and I believe that in the post-war era in essence the European consensus has been that the business of being a great power is intolerable in terms of its consequences, morally disreputable and to be avoided at all cost. I think Europe has chosen its passivity and weakness because it finds the alternative too painful to contemplate and too close to the sorts of attitudes and views that were expressed by European imperial powers before. I think that's one of the reasons that the reaction to Bush's America is so violent – because they see, I think rightly in many ways, in the ideology of Bush's America echoes of the ideologies of the European nation states of a century ago and they find that very frightening. So I think it's a willed impotence.

JACQUES: The abstinence of Europe from the use of military power – with the exception of Britain, of course, and to a lesser extent France - has meant that Europe has depended on other ways of exercising its influence. Heather Grabbe, Deputy Director of the Centre for European Reform in London.

GRABBE: The EU manages to exert influence by its power of attraction, by encouraging countries to try to adopt its norms and behave as its members do. So, for example, Turkey has completely reformed its penal code – done things like abolishing torture, improving human rights, treating ethnic minorities better. Also, you see in North Africa countries like Morocco aspiring to join the European Union and saying we want to take on European standards. You see for example in Georgia, the new President, Mikhail Saakashvili saying very soon after his election, “we want to meet European standards”. That brings EU influence to the heart of policy making in those countries in a way that military power wouldn’t. It means that these countries are easier neighbours for the EU to deal with. They’re countries that seek to trade with the EU rather than to rival it in military terms. That’s a kind of power in itself, that kind of soft power, which is quite different from the power to invade a country. But the example effect is very powerful and it makes the EU more powerful than the US. The US cannot boast that any country in the world has tried so hard to take on its rules, its regulations, its norms, its values, as have the countries surrounding the European Union. So it’s a sort of voluntaristic foreign policy.

JACQUES: The striking thing about all these examples, however, is that they lie around the edges of Europe. They define Europe as a regional rather than as a global power. And even that has its limitations. The Middle East lies on Europe’s borders and yet the latter’s influence in the region is very limited compared to that of the United States.

But Robert Cooper, Policy Advisor to Javier Solana, the EU’s foreign minister in waiting, remains optimistic.

COOPER: If you think about European foreign policy historically, the heart of foreign policy was always about European internal quarrels. If now we are getting rid of those internal quarrels – and that’s what we’ve been doing over the last fifty years – that gives us the possibility of beginning to exercise external influence, which I think is going to be increasingly necessary in a globalised world. And you see the beginnings of that. Now, first of all, it’s in the region. Europe is actually the big influence in the Balkans. The fact that the Balkan Wars have calmed down, although the situation remains fragile - United States action was absolutely necessary, but at the heart of it is European influence. In the Middle East, the United States is still the big player, but Europe is not negligible. If you look at what’s happening in Iran, for example, it’s clear that the European Union has quite an important influence there.

JACQUES: You said that Europe was reaching greater levels of agreement, but actually on the biggest foreign policy issue since the end of the Cold War – namely Iraq – Europe was split down the middle.

COOPER: Europe was split down the middle for quite a long time on Iraq. The point about Europe, as far as I’m concerned, is not that it’s perfect; it’s that it’s learning, it’s that it’s getting better.

JACQUES: The deal that Europe has just brokered with Iran on its nuclear programme shows that the EU, when unified, is certainly not without influence. But when Europe is divided, as on Iraq, then it’s impotent. The latter was an abiding reminder that the European Union consists of sovereign nation-states, which, when it comes to foreign policy, jealously guard their independence, whatever the talk about a common foreign and defence policy. The historian Niall Ferguson.

FERGUSON: There is an increasing discrepancy between the aspirations of many Europeans, their delusions of grandeur, and the realities of what the EU is capable of delivering. The more cheap rhetoric there is about the European Union as a counterweight to the United States, as a kind of non-America, anti-America, the more frustrated I think ordinary

Europeans will become when it turns out that that means nothing in practice or very little indeed. It's not really a stable situation to create an aspiration for a common foreign policy and then to fail to deliver it.

JACQUES: Do you think Europe has any aspiration to be a strong power?

FERGUSON: There's no question that some European leaders have been talking the talk for years now, even decades, about the need for the European Union to punch at least somewhere close to its weight at the realm of foreign policy, and particularly in the military realm. But it has been all talk. They cannot walk the walk until they have something resembling a credible military capability, and we are decades away from that.

JACQUES: Niall Ferguson is a strong supporter of a new American Empire. But is there anything wrong with Europe's reticence about the use of military force? Heather Grabbe from the Centre of European Reform.

GRABBE: The EU has a choice. It can be a really powerful regional actor and basically shape its neighbourhood for its own benefit by creating a ring of countries which trade with it, which don't threaten it, and which are basically very amenable to EU interests. It can do that and devote a lot of resources to that, or it can aspire to look globally and try and build up the military assets and the foreign policy assets influencing China, Latin America and so on. And so far it's chosen to do the first rather than the second. There are a lot of people in the Union who now would like it to be able to do both, but it's very hard to persuade the public that you can pursue both of those goals at the same time and that it's worth spending money and time and attention on them. And the public is much less interested in foreign policy than it used to be and it's not particularly interested in global power for the European Union. What they want is a comfortable neighbourhood.

JACQUES: The quiet life and a comfortable neighbourhood would appear to have won the day. One of the objectives of European integration, of course, was to enable the diminished nation-states to exercise greater power and influence internationally. Paradoxically, Niall Ferguson thinks the opposite has happened.

FERGUSON: I've tried to suggest that Europe is the opposite of an expanding entity. It's one that is in a sense sucking energy into itself. That's why I called it an impire rather than an empire in my book 'Colossus'. Empires project their power outwards, whereas the European Union has a tendency to suck resources into the middle where they disappear.

That's really what Brussels is: it's a kind of political hole, which absorbs energy rather than exporting it.

JACQUES: Integration, instead of turning Europe outwards, has directed its attentions inwards, thereby reinforcing Eurocentrism, Europe's age-old preoccupation with itself, though now in a very different global context. Martin Wolf believes this introspection and self-absorption have intensified.

WOLF: What is certainly the case is that the European Union has become extraordinarily introspective in the last twenty-five years in its institution building process. Constitutional conventions, treaty revisions, new constitutional treaties – can we ratify this, can we adjust this clause – and the endless negotiation over minor bits of language in treaties has been in large measure the European focus in the last ten years. We're engaged in

this process, which I once called permanent revolution, and I do think we are subject massively to the laws of diminishing returns in these exercises. We made, I think the institutional aspects of integration a focus in and of their own right, an end in and of their own right. We have made treaties an end in and of their own right – whether or not they really bear on anything important in the life of the continent, in the life of the world, and I think that's become almost ludicrous.

JACQUES: It doesn't feel as if Europe is limbering up for a new kind of global presence, is on the verge of becoming Prometheus Unbound. The population of the European Union may have grown to over 450 million, and the number of its member-states to 25, but the recent enlargement poses huge problems of diversity and digestion. Of course, the EU has always had to contend with the centrifugal dynamic posed by the interests of the individual nation-states, but this tendency has been greatly accentuated by enlargement. Far from the EU intervening on the world stage with a new sense of purpose and coherence, the very opposite seems likely to happen.

BRIMMER: From my perspective in the US, there is a real concern that the difficulty of completing the enlargement and even after the enlargement, the fuller integration, and the energy required to pass the Constitution will mean that European attention will be directed inward rather than outward, and we really need it to be directed outward and there is concern that it won't be.

BRIMMER: There's always been a concern amongst Americans to what extent would the Europeans support America's global engagement, and this has been an issue in NATO for decades where the United States has been involved around the globe, whether you know in controversies such as Vietnam or in dealing with, maybe you recall the issue of Libya not now but you know in the 80s, and it wasn't clear that European allies were going to support US actions. There's always been, always been a concern. Now the concern is that, whether it's Iraq or Afghanistan or other places, that the United States wonders will they have support and engagement by Europeans who will talk about the importance of European strategy but may not be there to help out, and the rest of us are going to ... well I'm sure the rest of us are going to get disappointed as we turn to the EU for support on a variety of issues, political and otherwise.

JACQUES: Well, that's not quite the whole picture. It fails to take account of a fundamental shift in US foreign policy. During the Cold War, the United States and Western Europe enjoyed an organic alliance, in opposition to communism. Since 9/11, however, the United States has opted for a unilateralist foreign policy. As a result, Europe has found itself marginalized in two senses. Firstly, Europe's importance was dramatised by the fact that the fault-line of the Cold War bisected it, but clearly that is no longer the case. And secondly, the United States is now the sole superpower, free to pursue its global interests, unencumbered by the interests and sensibilities of its erstwhile European allies. But, says Minxin Pei, American unilateralism could have unintended consequences.

PEI: The US, through their influence in East Asia, have been trying to cultivate this sense that America is the future, Europe is the past.

JACQUES: Do you think that that can be changed, or do you think it's now set in concrete?

PEI: I think it can be changed – largely not as a result of European efforts but as a result of the collapse of the American model. I think George Bush is probably doing much more than anybody else in reversing this image of the US as a benevolent hegemon, as a magnanimous country, and as a source of inspiration.

JACQUES: The key global relationship over the next few decades is likely to be that between the existing hyper-power, the US, and the emergent superpower, China. While, since 9/11, everyone's gaze in the west has been focused on the twin issues of terrorism and Iraq, an extraordinarily rapid, and so far uncontested, shift of power has been taking place in East Asia from the United States to China.

PEI: I think for China, Europe is a key player in the global power game, if you will, because China's goal is to have a more multi-polar world. China does not want to put all its eggs in the American basket because the US-China relationship has been very, very unpredictable. And even in other countries, you see there's a general warming up to Europe. And I must say European leaders have become increasingly aware of the need to engage East Asia even though the US will remain the dominant power.

JACQUES: But how far is Europe prepared to go down this road? It has felt comfortable enjoying an intimate relationship with the United States because it shares many values and institutions, much history and culture, not to mention race. China – or India – is a different matter altogether. Most Europeans are probably not that bothered about our military impotence. But as the world becomes increasingly unfamiliar – less and less European, less and less reflective of our own values – and as wealth shifts remorselessly eastwards – then Europe will be confronted with its own decline in a very different way, as if our very way of life is threatened, or just irrelevant.

PEI: My personal plans are that I will stay in the States for a long time, but I always want to retire to Tuscany, Italy, and become Italian. So that will, at that moment I do, will show that Europe has done its job.

JACQUES: Well, not exactly. More like, Europe makes a good retirement home, which only serves to underline another of Europe's problems – the fact that its population is ageing faster than virtually anywhere else in the world, apart from Japan. Generally, East Asians hold a pretty dim view of our continent.

WOLF: The general perception in Asia is that Europe is a dying continent of flabby, flaccid welfare states – this is what people think, I promise you – where people don't work very hard, where lots of people don't work at all, where the hours are short, the effort meagre and the growth trivial. And therefore they basically think that Europe is a wonderful place to be a tourist in, you can get some nice fashion items if you want to get Gucci and all the other things, they admire French fashion and Italian fashion, they get capital goods from Germany, they send their children to English schools if they're very wealthy, but they don't really take it seriously.

GRAY: I can't envisage a plausible scenario in which Europe does not become more marginal over the next fifty years. This is partly because in Asia and other parts of the world which have been under the influence of European ideologies, such as Marxism, they no longer are and they're drawing on the resources of their own culture mixed with a variety of pragmatic borrowings from all parts of the world to develop themselves. Even countries that were founded in a sense on the basis of European ideas, like the United States, are drifting away from Europe in their attitudes and, paradoxically, the collapse of communism, which some people thought would bring Europe back as a major power because it had the effect of reunifying Europe - that has not happened. The

European inheritance to the world of ideas remains, but its political and cultural leverage is steadily diminishing in Asia, in the Middle East and also, and crucially, in the United States.

JACQUES: Though not the intellectual force it was, Europe has, since the Second World War, spawned a big idea, namely integration, the pooling of national sovereignty, the creation of the European Union. It is widely believed that the nation-state – an earlier European invention, of course – is an inherently inadequate mode of governance for tackling many of the world's problems. So perhaps, notwithstanding Europe's own decline, its model of integration will become an exemplar for other parts of the world, even the new template. Robert Cooper in Brussels thinks the signs are already there.

COOPER: The European Union has had a big worldwide influence. I do think that Europe is a model in the sense that the nation-state proved to be an enormous dynamic force in history and we've found a way now, I believe, of acquiring both the security and the dynamism of the national community but putting that within a wider legal framework which enables the national communities to exist together without getting themselves into the wars which destroyed us. That seems to me to be a very interesting model indeed and that I think is what other parts of the world – the medium-sized countries of Asia and Latin America and Africa – are looking at and asking if they can imitate. In the case of the African Union, they've actually copied the institutions of the European Union and indeed Colonel Gaddafi told me so personally at one point. You know, who knows, the next century may be the century of Europe.

JACQUES: It's difficult to imagine how one might describe the next century in vaguely those terms. Sure, for small and medium-sized nations, especially in economically weaker regions, the European Union is a persuasive model, as Asean in South East Asia illustrates. But this century will not be defined by such agglomerations: rather it will be dominated by huge nation-states, the United States and, in due course, new kinds of gargantuan ones in the form of China and later India. Martin Wolf is worried about this prospect.

WOLF: I think I increasingly am of the view that we are now moving into an era for humanity in which traditional nation-state power politics among the great powers will fail utterly to provide the basic conditions for a tolerably secure existence for humanity. This European model of dealing between states under a shared legal system is a very attractive alternative. I think, however, that because of the extremely divergent nature of the cultures, attitudes, levels of development, everything else, of all the other significant powers, because of the fact that there is now a very large zone of the world which has essentially fallen out of modernity almost completely – that, however attractive, this European model cannot be made to travel. The world we're going to live in is going to be much more the world of traditional great powers jockeying with one another and I think China will be just the same as the US and India will be just the same as the US. They're all going to play that game. So in the end the model is desirable but I think infeasible. It is the model for a tired continent, which doesn't have the will really to be a great power itself in that sense. It has the capacity, but not the will, and it will therefore be a bystander.

JACQUES: This is a bleak view of the future – a world dominated by continental-sized nation-states, which have learnt little or nothing from the chastening experience of Europe in two World Wars. However successful or unsuccessful the European Union turns out to be, at the very least it's an attempt at doing things differently. The danger, though, is that Europe is caught in an historic trend that it can do little about. And if that's true, it will come to resemble an old Italian city – beautiful, nay magnificent, but nevertheless a monument to the past.

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NATO AND THE EU: A GOOD PERFORMANCE BUT COULD DO BETTER

Europe Section

Editor's Note: The article is an Opinion Piece for E!Sharp Perspectives Column and offers a suggestion for the future development of the relationship between the two international institutions.

It is written in a very nice, easy-going but at the same time elegant and thought provoking style.

Jamie Shea: Deputy Assistant Secretary General for External Relations, Public Diplomacy Division, NATO.

My old headmaster used to tell me at the end of every term that I had done well, but could do a lot better. This could be said today of the relationship between NATO and the EU, two institutions living in the same city, but which for too many decades seemed to occupy different planets. This may have made sense in the past when the EU existed primarily to promote economic integration and NATO stood for the collective territorial defence of its members. But it makes no sense today when the EU is rapidly developing its common foreign security policy, backed up by a defence component, and NATO has troops in Afghanistan and is about to embark on the training of Iraqi security forces in Baghdad. As both institutions look increasingly outwards and aspire to project stability not only on the margins of Europe but on a global scale, it makes more and more sense for them to work together.

This is all the more obvious as the rise of the EU does not imply the eclipse of NATO, contrary to what some pundits seem to think. Indeed both institutions are experiencing a simultaneous growth in members and responsibilities. Today virtually no one questions the need for the EU to have a security dimension and very few would argue that the transatlantic security cooperation that NATO alone guarantees has become obsolete. Indeed it is precisely the offer of cooperation from NATO that has facilitated the EU taking on its first military missions. This began when NATO supported the deployment of an EU monitoring force in Macedonia. It will reach a new level this December when the EU will take over NATO's SFOR mission in Bosnia. These so called "Berlin Plus" arrangements allow the EU to have access to NATO's planning and command structures, as well as reinforcement and extraction capabilities.

In short, both the EU and NATO have every reason to be self-confident. Ambassadors and military staffs are meeting frequently. The EU flag is flying at SHAPE and in NATO's regional southern command in Naples. The days when NATO and EU officials had to meet secretly in the dark corners of Brussels's cafés are thankfully over. And yet, when it comes to developing the NATO-EU relationship, we are not showing enough of this self-confidence. Instead of celebrating the overcoming of past divisions, what we need to do is focus on the considerable untapped potential of having NATO and the EU work more closely together. NATO-EU cooperation has to become more political and to be broadened beyond areas where NATO and the EU are already acting jointly together. We should cooperate in all those areas where our interests coincide and where both institutions can complement each other.

Look at Afghanistan. NATO plays a key role as a military stabiliser in this country. The EU, for its part, is the biggest financial donor. Both our organisations are critical to the long-term future of Afghanistan. And the long-term future of Afghanistan is critical to the future of all our nations if we do not wish Al-Qaeda training camps to appear there again. So coordination of efforts between NATO and the EU makes eminent sense. Another example is Darfur where the EU has taken action already in response to the mounting humanitarian crisis. NATO and the EU could have a dialogue to think creatively how they could assist the African Union in its endeavours to provide a minimum of security to the hundreds of thousands who are suffering, for example in the field of planning, logistics and transport support.

NATO and the EU are cooperating on the ground in the Balkans but it is important that both organisations have a strategic dialogue on the political future of this region. For instance, next year there is due to be a review of the status question in Kosovo and there is the issue of how Serbia and Montenegro can be brought into NATO's Partnership for Peace and into a Stabilisation And Association Agreement with the EU. We need to see what we can do together to ensure the long-term economic revitalisation of this entire region.

Combating terrorism is another longer-term challenge. Terrorism blurs the distinction between a foreign and a domestic threat. A range of instruments is needed to combat it – national and international, financial, economic and military. Again, given the different instruments that NATO and the EU can bring to bear, is it unreasonable to suggest that closer coordination between us will offer important synergies?

Proliferation is a defining security challenge of the early 21st century, and it needs to be tackled with a sense of urgency. About a decade ago, NATO put the proliferation challenge on its agenda. The EU's strategy against proliferation is more recent, but it is a priority area for the Dutch EU Presidency. So what are we to lose if we establish closer contacts at staff level, and conduct a critical dialogue between the relevant committees in each of our institutions?

Another critical area for NATO-EU cooperation is improving military capabilities. Each one of our nations has only one set of forces and not one of us can afford duplication. So we must exchange information about our capability efforts to keep them broadly in line and ensure that both NATO and the EU have access to sufficient useable forces when crises come calling. In this respect it is particularly important that the EU's Battle Group concept be closely harmonised with NATO's Rapid Response Force as both concepts involve the same elite forces in our nations.

Finally, there is the broader Middle East region. Building bridges between Europe and the world of Islam is the crucial security challenge in the years ahead. Security has to go hand in hand with development and the building of pluralist democratic societies. The EU's Barcelona Process and NATO's new Istanbul Cooperation Initiative show that both institutions are aware of this challenge but neither will succeed in isolation from the other.

My old headmaster eventually told me when I left school that I had ultimately done better. Let's hope the same can be said in a few years time about the NATO-EU relationship.

THE BIG DEBATE:
ARE IMMIGRANTS TO WESTERN EUROPE
LOOKING FOR AN EASY RIDE?

Editor's Note: The debate is published in the October edition of the EasyJet In-flight magazine and the authors kindly agreed their views to appear online in the IAS Journal. We would especially like to thank Steven Watson for his great help and support.

The motion of the debate is a topic constantly discussed in the media, and as every debate it is highly controversial. Both the Yes and the No views though represent coherent arguments and are backed up by sensible examples.

YES says Karen Rose: contributor to the *Daily Express* and *Financial Times*.

Not everybody trying to "get into" Europe, whether legally or illegally is planning to help themselves to a free house, unemployment benefit and free health and education for their children. Many simply want a chance to work or to set up a business and to share in the capitalist dream.

But an open-door (or slightly ajar door depending on which EU state you're in) policy means that besides the hard workers and net contributors, we're getting the work-shy and the free ride brigade.

The problem is that the EU offers such a lot to both groups. While many immigrants are attracted by its wealth and business-friendliness (let's not get into the red tape issue here), the work-shy are also attracted by the EU's promise to support anyone who cannot work or does not work.

TEMPTATION

If you've got a bad back, can't work and have a family to support, you'll be paid an income and will qualify for free housing—your rent or mortgage will be paid—and you won't have to pay anything towards your own or your family's dental and medical care. The state will educate your children and it'll pay you money just for having them in the first place.

And the support goes on — should you find yourself in a bit of hot water, never fear. The state will provide you with a decent enough lawyer to fight for your rights for free. And if you have entered the EU illegally, there will be no shortage of lawyers willing to fight your case and keep battling on (at the taxpayer's expense of course, not yours) until every last tiny hope has been extinguished. This is particularly true in the UK where hundreds of law firms specialise in the lucrative areas of immigration and legal aid cases.

To anyone living in near poverty in a state outside the EU, it all adds up to an unbeatable package. Certainly worth considering if you're a bit lazy or discriminated against in your own country. What have you got to lose when there's so much to gain? This logic lay behind the widespread fear that gypsies from eastern Europe would arrive en masse to claim their right to live a life of near luxury (as far as they were concerned) without feeling any need to earn a living once the gates to the EU's 10 newest member states were opened on 1 May this year.

Health tourists are another drain on Europe's resources. Some EU states, such as the UK, do not screen for diseases such as TB and HIV. In the past few years, treating HIV positive patients from abroad has cost the UK's free National Health Service in excess of £3bn (€4.4bn).

PICKING UP THE BILL

Even in the case of genuinely hard working immigrants, the cost to taxpayers can be considerable. Each immigrant may have several dependants who cannot work and will cost their new home nation far more than any contribution in taxes by the sole worker.

Educating their children and providing extra teachers who speak the children's language is one such cost. If the immigrant's business fails, for example, the EU super-safety net provides support until he gets back on his feet. Unfortunately that can take considerably longer for a worker with poor language skills (i.e. they don't speak English/ French/German).

Their chances of employment fall further if the immigrant group tends not to assimilate but retains instead a distinct identity. Think tank MigrationWatch rounded on UK government officials recently when they awarded an extra 10,000 visas to Bangladeshis when more than 40% of all Bangladeshis in the UK are unemployed.

Pressure for a change to the rules is mounting as the financial burden on the EU grows. The EU's need for workers is limited—unemployment is rising and hundreds of thousands of jobs are being outsourced to much cheaper labour centres around the world. And yet the scale of immigration towers over any real gaps in the labour force. An extra three million people are expected to arrive in Britain over the next few years according to MigrationWatch—and this at a time of almost full employment.

It estimates that every year a quarter of a million people come to live in the UK from outside the EU's borders. Arrivals on this scale make assimilation very difficult and pile pressure on already stretched health, housing, transport and education services. Britain's soft laws on immigration and generous benefits make it the most popular EU destination for asylum seekers and economic migrants. Unfortunately the fact is that the country with the most generous benefits package is the prime destination for immigrants, a convincing sign that lots of people are indeed after that free ride.

NO says Stephen Spurdon¹

People coming into European countries fall in to a number of categories: visitors/holidaymakers, businesspeople, migrant workers, asylum seekers, bogus asylum seekers, legal immigrants, illegal immigrants and invaders.

Just so there's no confusion, the focus of this argument is upon legal immigrants. Whatever category of migrant is chosen, though, the prevailing sentiment in Western Europe is that they are all coming here to take our social

¹ The author writes for *The Independent* and *The Sunday Telegraph*, among others

security benefits. It would be absurd to say that this is never the case, but to assert that the dice are heavily loaded against indigenous populations when it comes to immigration is wrong.

It is difficult to establish the exact number of people being referred to, but the latest, most comprehensive survey on the issue was conducted by the European Commission. The EC conducted research into immigration in the EU in preparation for a new directive on the matter that is to be submitted to the Council of Ministers next year. This research revealed that there are close to five million employees or self-employed third-country nationals working in the EU (Source: European Commission, 2003).

The term “third country nationals” refers to people from outside the EU. Intra-EU migration is not considered to be immigration in the classic sense, now that all EU “citizens” have the right to seek work in any other member state.

BEYOND THE PREJUDICE

The UK has witnessed a particularly fierce debate on immigration in recent times. Isolated situations such as the use of illegal migrant labour from China to collect cockles from Morecambe Bay—and the tragedy that resulted in a number of deaths—overshadow the contribution of legal migrants.

However, a report issued following a meeting of the United Nations Human Rights Convention in 2001 was illuminating for separating fact from fiction. The report “Migration Workers: Who Benefits?” included a number of interesting facts.

In 2001, for instance, net migration in to the UK stood at 172,000. Some 18% of these people were educated to degree level, compared with 13% of the indigenous population. The report also showed that nearly half (47%) of nurses in London are migrant workers and 70% of catering posts in London are filled by migrant workers. Surely not even the most dedicated alarmist could argue that these workers are providing anything other than a valuable service in their adopted home.

But perhaps the killer statistic came from the Home Office’s research into the issue. A 2001 Home Office paper entitled “The Migrant Population in the UK: Fiscal Effects” states that “Migrants in the UK contributed £31.2 billion in taxes and consumed £28.8 billion in benefits and state services, a net fiscal contribution of approximately £2.5 billion (1999/2000 estimate)”.

A BLESSING NOT A BLIGHT

The assumption that migrants are a drain on the state is clearly not borne out by these figures. There are pressing needs within Europe that mean controlled migration can be a blessing rather than a blight. Europe needs immigration to prevent an imbalance in its population from becoming a problem. For the fact is that Europeans are not having enough children to replace the workforce, leaving the prospect of a massive overhang of older, retired people.

There is some divergence in fertility rates between EU members. At the low end there are 1.2 births per couple in Italy and Spain, rising to 1.9 in France, while the UK has 1.65. The actual replacement rate is 2.1, so most countries fall well short of this (Source: Eurostat 2003).

In its 2000 report the United Nations Population Division estimated that for Europe to maintain the same demographic ratio between the active workforce and the retired in 2050 as today, Europe would need to start admitting about ten million people a year.

If all the arguments on immigration appear to be one-way, it is intriguing to note that business across Europe is beginning to make noises about the need for more labour. A recent example of this came in a statement from Italy's Interior Minister, Giuseppe Pisanu.

Italy has quotas for legal immigration, and Pisanu wants to let in more. He explained (in a report in *The Independent* on 24 August 2004) that low paid immigrants from beyond the EU had become an essential part of the Italian economy. He said: "If it wasn't for immigrants we couldn't pick apples in Trentino, tomatoes in Campania, or bring in the grape harvest. Neither could we milk a single fanatical Northern League cow." In fact, around 900,000 immigrants work in Italian agriculture.

Unfortunately large numbers of Italian citizens refuse to recognise this important role, and the same is true across the rest of Europe. If such attitudes prevail, those seeking to improve their lot by migration may look to other territories more welcoming to immigrants. And Europe may find that the benefits it seeks to keep to itself are no longer enough to attract the workers it needs.

TEN YEARS OF WAR: THE PLIGHT OF THE ZAPATISTAS IN MEXICO

Daniel Newman: Masters student in Social and Cultural Theory and has a Bachelor's degree in sociology from Bristol University.

We should first note the origin of the Zapatista movement, and for this we need to look to the first quarter of the last century. Emiliano Zapata, a farmer's son from the south of Mexico, was the most famous leader of the Mexican Revolution of 1910, which overthrew the dictator Porfirio Díaz, who had elected himself President-for-Life and ruled as such for half a century. Zapata differed from his fellow revolutionaries in that he sought greater reform and had far more anarchist ideas, and he soon began fighting against the various individuals who made up the new Mexican government, from Madero, to Huerta, to Carranza, all of whom had come to power under the general climate of the social revolt, but had not the revolutionary and reformist ideals of Zapata. Instead they followed conservative policies that merely entrenched the general order of society to the exclusion of the mass of 'real' Mexican people. Zapata and his followers, the Zapatistas, demanded 'tierra y libertad' - land and freedom - for their people. His anarchist ideals included the socialisation of the land and the right for Mexican people to genuinely control their own lives; this included the fair treatment of the indigenous population of Mexico. Zapata was a champion of the downtrodden in Mexico, and though he was not of native stock, he held much significance to these groups in his championing of the excluded and his demands for common ownership of communities over their own lands. He even spoke Náhuatl, his local indigenous language. The government forces eventually killed Zapata in 1919 and by the 1920s the dreams of revolt that he and the revolution had promised had disappeared. There followed depression, a growth in the gap between rich and poor, and a continuation of the disenfranchisement of the indigenous Mexicans from their land, all under a climate of strict government political domination, by the *Institutional Revolutionary Party* or PRI, through much of the twentieth century. More than a million people lost their lives in the revolution for very little real gain. The Mexico of the second half of the twentieth century has just continued the pattern. While for many it began to be seen as an example of a burgeoning developing economy in the 1970s and 1980s, by the 1990s it was clear to anyone who cared to look closer that this was not a stable situation and was not one which benefited the majority of the population. This Mexican economic and political progress of the twentieth century, was one clearly for the benefit of the few against the good of many other forgotten and ignored groups. In 1995 more than a million workers lost their jobs and the minimum wage now buys less than 40 percent what it did in 1982. This situation set the scene for the reignition in the 1990s of the revolutionary spark that had been held in the hands of Zapata. In the early hours of the first day of January in 1994, the *Zapatista Liberation Army* came abruptly and unexpectedly onto the scene, claiming to give voice to the passionate protest of the indigenous peoples of the Southern state of Chiapas.

This was the birth of the current Zapatista movement, different to the original, but inspired by its revolutionary zeal and the socialist ideals of land right, of communitarian rights, and in particular concentrating on how these ideas can be applied to the most disadvantaged group in all of Mexico, the indigenous people. Their aim then, as now, is simply a better deal for all the nation's 11,000,000 indigenous people

Indigenas still occupy the lowest rung of Mexico's social structure. As well as being in such a poor economic position compared to the rest of Mexican society, they face further problems in that they are being pushed into

abandoning their culture and community in order to exist in Mexican society. The Mexican poet Octavio Paz bemoaned 'the perversion and destruction of traditional culture' that is pushed onto the indigenous people in order to just continue existing in their own country. The state of life for these groups is appalling and the trend is worryingly negative as conditions get worse, and their voice becomes less and less audible. It seems that the indigenous community of Mexico may soon be lost, be it through the economic and social conditions that so degrades their lives, or through the destruction of their culture and traditional ways of life under American and European-influenced notions of the Mexican national state.

It was in the southern Mexican state of Chiapas, with the greatest natural resources in Mexico and yet some of the worst levels of poverty and most degraded infrastructure system of schools and hospitals, that the new Zapatista movement was born. The other important point to mention about this state of Chiapas is that it has a very large indigenous population, and this for many, including the Zapatistas is the key to understanding the apparent discrepancy between natural abundance and popular wantonness. The figurehead of this Zapatista movement, Subcomandante Marcos, is a learned lecturer from Mexico City, who moved to the jungle of Chiapas in the 1980s, whereupon he became involved in and took up the cause of the indigenous people of this area, as one that needed to be fought for. He saw the disgusting position these indigenous groups had been pushed into, the repression they suffered at the hands of the government, and he became a part of this society, with the intention of giving them the freedom and rights they believed in and dreamed of. These rights included the freedom for communities to control their own land, their people being able to benefit from the immense natural resources upon which they sit (instead of it being privatised and sold off to transnational, largely American, companies) and the right to preserve their culture and heritage. This desire to promote the long-suppressed cause of indigenous people of Chiapas led to the establishment of the new Zapatista movement and the declaration of war at the very start of 1994. In the original declaration of war, the Zapatistas set out their struggle as for the following eleven points: work, land, housing, food, health care, education, independence, liberty, democracy, justice, and peace. The war's aim is not to dominate the country or take over the government, nor is it to repress other groups the way that the indigenous have been repressed; rather, it is a war of recognition. A struggle to show that these people exist, to show the degraded state in which they have been pushed to exist by the governing powers for so many years, to show that they should have rights in their own country.

There followed the initial bloody confrontations of two weeks in January 1994, where the Zapatistas clashed with the army and pro-government militias. Initially the Zapatistas made gains and won the town of San Cristobal de las Casas, through utilising a Trojan Horse strategy of infiltrating the army ranks. This was put down by the army, easily dominant in numbers, training and weapons; yet not before the Zapatistas had utilised one of the features that made them so unique and interesting a revolutionary force, their utilisation of modern technology. They had sent out a fax, which meant that the whole world knew about their cause and the war. This put the Mexican government in an awkward position where they could not just brutally repress the insurgents. They had to actually deal with them and negotiate in order to save face and so as not to scare off foreign and American business investments in Mexico, particularly in this rich resource-exploited area of Chiapas. A tense truce from fighting, and attempts at peace talks, punctuated only by violence and attacks against the Zapatistas by paramilitary groups backed by the government, has been the reality ever since. In place of the fighting, words and legislative actions have sought to make the difference. This reinforces the point that the Zapatistas are not after domination or control, but merely the recognition and and confrontation of the violations of indigenous rights that are still perpetrated. The movement is enjoying considerable success: the Mexican government is having to confront the issue of the rights of its indigenous people, an issue so long ignored. When President Vicente Fox came into power in 2000, thus breaking the domination of the PRI party that had held office since the generation

of our original Zapatistas, in a single party rule of 71 years, he faced up to this demand. Held up as one of his key issues to be confronted in government was that of indigenous rights, and overtures were made between the two sides of Zapatistas and government. The Zapatistas were invited to Mexico City and Congress, with hopes high that their demands for constitutional rights would be honoured. They became the first rebel movement to enter the capital since 1914 and since Zapata rode in on horse-back, so this was truly an historic occasion and this boded well for the hope that the claims of the Zapatistas would be taken seriously. A crowd of well over 100,000 people welcomed them, a huge number by any standards, and the Zapatistas were widely hailed as heroes fighting for the rights of the ordinary Mexican, whether they were indigenous or not. This was seen by the signs proclaiming peace, justice and dignity that met their welcome, there truly was expectation that something would happen, and that this event would bring about some greater change and liberalisation, something that gave more rights to the Mexican people and may even begin to address the squalid conditions that so many ordinary Mexicans found themselves living in, at the expense of those who both ruled and dominated them.

Marcos used this unique opportunity to push for the legal demands of the Zapatistas. This included the package of laws they wanted Congress to pass, giving Indigenous communities a degree of self-determination, including the right to set up local administrations based on traditional systems of government. Marcos also asked for radio stations in Indian languages, bilingual schools and proportional representation in legislatures. There were legal measures to recognise and enshrine the rights of the indigenous people, to make sure their way of life was allowed to exist in their own country. To set out the place in modern Mexican society that had been denied them. These are the set of demands that the Zapatistas hoped would be met, and which President Fox had made motions toward meeting.

These demands must be seen as existing in a set of three more general demands issued by the Zapatistas to the government. These were that the government would remove its armed troops from bases in Chiapas and also that they would release Zapatista prisoners from jail, and had both been largely met by Fox. However it was this legal package of rights to find a place for the indigenous population in the Mexican constitution, to enshrine their existence and ensure their rights, that still proved a problem despite all the warm overtures of the visit to Mexico City.

The bill containing the package of demands eventually passed through Congress; however it was heavily watered down, and no real gains were made for the Indigenous peoples, so that it was rejected by Mexican Indian groups including the Zapatistas, just as it was damned by the Mexican press for not going any way to meeting the concessions that the Zapatistas had made by engaging in peaceful dialogue with the government.

Subcomandante Marcos, said that the changes to the bill left indigenous people worse off than before; instead of representing their rights, the bill represented the rights of the landowners and those who dominated them. So for the Zapatistas the war would continue, until the government adequately gave them rights in the constitution, rights to their own land and to live by their own cultural rules. The Zapatistas' dream of having their way of life enshrined in the constitution of their own country, and thus the autonomous ability to govern the lives of their communities, still goes on. In the three years since the watered down bill was passed the Zapatistas have been largely quiet, but for the setting up of local councils in those regions of Chiapas where they dominate. These mark the first step towards reaching the local autonomy and control they desire, although there have been problems in the opposition raised from other indigenous groups who do not agree with the Zapatista way. This marks the strange period of transition that the Zapatista movement seems to find itself in, as it changes from a military guerrilla group into a more political social group, which is more in line with its real nature. The military

element of the Zapatista movement has always been considered by its members to be a necessary evil that would be sidelined as soon as less violent means of communicating their message became available.

The governor of Chiapas says that the Zapatistas are clearly moving away from war and entering the political arena, which is true on some levels, such as that the armed struggle is formally secondary to the need to win over the congress to provide the rights demanded. But on a deeper level this is not so true, as the whole point of the war was not to slaughter or to win power, but to show up the social and political cause of the indigenous peoples, so ignored and beaten down by the ruling society.

To think of the Zapatistas as regular guerrillas is to miss the point of what they represent. They are not real fighters in the stereotyped terrorist guerrilla sense. The faces behind the black ski-masks belong to humble Indians with families and farms so beaten down by the political system which has left them so destitute and without control over their own lives that they have no choice but to declare war, and make their point however they can.

This *is* a time of transition though, as the Zapatistas adjust to acting more as a political force for change, rather than relying on the largely unused and empty military threat that they never really posed. It is a transition both for the Zapatistas and for those trying to understand them. The next five years will be crucial in the cause that they preach and how the political and social landscape will both influence them and be influenced by them. Perhaps in some ways phase one of their struggle has been achieved, in that they have highlighted the cause of the indigenous Mexicans and their legitimate demands to have their voices heard. Therefore the real transition is not the superficial and supposed obvious one of war to politics, but of statement to practice, that is following up this awareness and consciousness with concrete political reforms. Passing the legislature that Marcos deems necessary to grant the indigenous peoples cultural rights in the constitutions, and to lead to them reaching the economic status they deserve, having real use and influence in their own land with their own culture. This is a significant time in the Zapatista movement, it is a time of quiet and readjustment, and the results will be well worth the wait.

As a footnote it should perhaps be emphasised that the situation in Chiapas and the plight of the Zapatista movement have implications far beyond the jungles of Southern Mexico where they hid in armed self-defence, or the stone structures of Zocalo in Mexico City where they argued their case. There are hopes that must surely arise from the struggle of the Zapatistas which could prove to be a model for people exploited and abused by rampant capitalism and its method of expression, globalisation, all across the world.

The wider cause that can be taken from this highly localised expression is that of an indigenous movement, fighting for a way of life challenged by the onslaught of capitalism. This is the fear that their own culture may die in a world dominated by globalisation, market forces and some sort of American hegemony as regards material culture. What the Zapatistas represent is a model and a hope for those across the world who fear the effects that the success of capitalism will have on individuality, on local culture, on distinguishable community. It offers a counter to the Ford factory model of global development that shows how, as capitalism becomes more efficient, the cultures it controls become more alike. Understanding the Zapatista plight in Mexico can give us an insight into the potential effects of capitalism on other indigenous populations, and the success of their cause may prove to be the first step on the path away from global hegemony, towards a world where cultural differences are celebrated and equal opportunities do not need to be fought for.

IS THE MEDIA DOING THE RESIDENTS OF FALLUJAH A DISSERVICE?

By G Fysh-Foskett

The battle for control of central Iraqi city Fallujah has entered its second week. According to the US forces, 38 of their troops have died so far, with a further 275 wounded. They claim to have taken at least 80% of the insurgent's stronghold areas, progressing quickly and efficiently despite the growing intensity of urban street warfare and the increasingly well equipped and resolute terrorists. To quote Major Gen. Richard Natonski; "We've seen flak jackets on some of them and I think they're probably willing to lay down their lives in the fight. But we're more determined and we're gonna wipe them out." Thus far, all accords with the BBC's radio news broadcast throughout last week. It seems pretty scary out there, and the troops are undoubtedly facing their toughest opposition yet, but the overwhelming tone of coverage implies a slow, inexorable and reassuring path towards freedom and democracy for the Iraqi people, in advance of the planned elections in January.

But does this reflect the reality of war-torn Fallujah? Many of us students rely on the radio for information on current affairs; a trip to the TV room, or the fortunate mate with a television – unwarranted for a simple update on what's going on in the world. And, if we're honest, the majority won't be tuning in to hear John Humphrys' systematic probing on radio 4's 'Today' programme, with minutes to spare cramming in shower and breakfast before the first sleepy lectures of the day. Taking in several of the hourly news reports on BBC radio 1, 2, 3 and 4 a day should surely suffice to inform the future bastions of society of the issues shaping the world they will soon be running?

And yet, a cursory glance at the news pages of the Internet is enough to reveal the gaping disparity between what the world hears on the FM band, and what seems to be the reality of the same story. Fallujah is proving to be a humanitarian catastrophe; the city's biggest hospital was the first 'strategic point' to be commandeered by our troops, and since then medical supplies and treatment, water, and electricity have all been cut off. There are reports of dozens of bullet ridden corpses lining the streets, gnawed upon by the stray and now ownerless animals of the population. It is estimated that at least 50,000 Iraqi people remained in their homes during the aerial bombardment, and with no-one counting civilian casualties, it remains unclear how many of these innocent people have become victims of this 'war for peace'.

The American forces have denied Iraqi aid support groups entry to the city, aiming to provide vitally needed food, water and medical supplies, on the grounds that 'they've got it covered'. And now there are reports of gross war crimes on both sides, with the latest news appearing to show an American soldier needlessly murdering an injured Iraqi attempting to help his friend.

A BBC correspondent who reported on the previous conflict in the city from the perspective of the 'civilians and guerrillas' has declared that the BBC is failing in its duty to inform objectively. The chaotic and desperate conditions of a town ravaged by the huge military might of the West and the increasingly suicidal determination of those who stand against them are absolutely atrocious, and the lack of consideration and coverage on mainstream radio for those within the city is less than satisfactory. The fact that most of this information came from the BBC website ironically underlines the lack of perspective offered to listeners with little time or access to more balanced sources.

LIBERATION OR THE LESSER OF TWO EVILS?

By Juliette Hirst

Anyone who has studied politics could be forgiven for blinking twice at the 'liberal democracy' that has been imposed on Iraq. Saddam Hussein was a dictator. Fact. George Bush is a liberator. A contestable fact. The majority of people in the world today would take pleasure in knowing that the Iraqi people are free from Saddam Hussein and his brutal dictatorship. He was not democratically elected when he took up position as leader of Iraq in 1979, he executed 21 leading officials for supposedly plotting against him, he restricted liberty in many senses by controlling the media and threatening anyone who questioned him with death, he apparently had the potential to terrorize the rest of the world with his weapons of mass destruction (using chemical weapons on Iran – supplied by the U.S.A - and so apparently threatening the Western world as well), he tortured and murdered victims without trial and it is estimated, from the discovery of mass graves, that 60,000 to 100,000 Shi'ite Muslims and dissidents died under his rule (excluding war deaths).

Surely nothing can be worse than 'a homicidal dictator who is addicted to weapons of mass destruction,' as stated by Bush in October of 2002. I shall endeavor, in this article, to question whether the Iraqi people are better off without Saddam and with the 'liberal democracy' that the coalition has tried to give them. Is it a case of the Bush administration's involvement being the lesser of two evils or is Bush, in fact, a liberator?

March 19, 2003 and the coalition forces (made up mainly of America, Britain, Australia and a few other countries with much less involvement) enter Iraq and begin dropping bombs on Baghdad. Apparently, "the security of the world requires disarming Saddam Hussein now": were these the last words cried out by the 100,000 estimated Iraqis who have died since that date? If you just nodded your head at that question then please have a cold shower, take no more of those 'prescribed' pills and check your sources!

As Bush spoke those famous words in his war speech did he firmly believe that he was invading Iraq because he'd lost sleep over masses of innocent Iraqis dying under Saddam, or did he have ulterior motives that were kept hidden from the rest of the world? Let me make a few suggestions. Perhaps he sought to secure oil supply for America? Or did he wish to gain favour in the Middle East to eliminate the ominous threat of terrorism? Or perhaps he wanted to be rid of Saddam who obviously sided with the Palestinians rather than Bush's team, the Israelis? Or maybe it was because Saddam defied UN resolutions? (Can the UN not peacefully sort that out?). No, actually I think he must have invaded because of the weapons of mass destruction and the 45 minute threat. Oh, no, wait, that wasn't quite right, was it?

For the sake of human compassion I'd like to give him credit and assume it was all about regime change and the liberalisation of the Iraqis. In that case, during the invasion, did he really think he was imposing 'liberal democracy' on Iraq? Is the way to impose democracy by causing shock and fear? And what's more, isn't a liberal democracy about toleration and peace? Perhaps he really did believe he was giving them a liberal democracy, in which case I must ask if 100,000 (estimated) innocent Iraqi deaths, imprisonment without trial, starvation, live burials, expansionist foreign policy, and the rejection of tolerance of another regime and replacing it with our own is the true definition of the term 'liberal democracy'. If so then the Bush administration deserves a big, no, wait, massive, medal for successfully achieving their goal.

However, for those of us wishing to stick to the conventional definition of a liberal democracy, the one promised to the Iraqis, comprising values such as liberty and tolerance, it may be worthy of note, and somewhat upsetting, to discover why the Iraqis have such a different interpretation of it to us. Democracy is government for the people by the people and, I believe, that if we are attempting to spread such an ideal then we should lead by example. Giving it to the Iraqis, according to the Bush administration, was about allowing them dignity, peace, self-respect, liberty and responsibility. Thus if Bush made promises to Iraq in order for them to trust him to invade their (their being the operative word) country then he should keep to those promises, just as if one wishes to be elected and remain popular one must keep to ones manifesto.

Since arriving in Iraq, the Bush administration has sacked the majority of the Iraqi military officers, letting them retain their weapons, and filling the jobs with coalition soldiers? This was one of the Bush administrations biggest mistakes. The Iraqi military speak the language of the locals and know their culture and religion. They are more likely to be trusted than foreign invaders. Would we not expect outcry if we were to enter a mosque and not remove our shoes? It is easy to offend another culture if one is ignorant about it, and I don't imagine there was time in the preparation for war to educate the soldiers on Iraqi customs.

And may we all please take a moment to lend a thought to the poor thousands of prisoners that were tortured under Saddam? Now can we please think of the Iraqi prisoners in the 'liberal democratic' American dungeons being incarcerated and coerced into unbearable sexual acts, and all the Iraqis being tortured, starved of drinking water, bombed and buried alive under the rubble of their homes, maimed and killed? I haven't been drinking tonight or taken any hallucinogenic drugs, but those two sentences sound disturbingly similar. How is that possible as terror by fear is surely the opposite of liberal democracy? Bush wouldn't stoop as low as those in his 'axis of evil' would he?

My assumption as to why these Iraqis are suffering in the dungeons must be that they were somehow involved with the Hussein government and that the American forces hope to extract information from them, or that they have rebelled against the coalition forces. I firstly oppose the morality of the latter as it seems that those who opposed Saddam Hussein were treated in a comparable fashion. And my second resistance to this is that liberal democracy is based on human rights, tolerance and freedom of speech. Detaining people indefinitely, without trial would not be accepted in the Western world on a Western person (unless considered a terrorist – do not get me started on that!) and so it should neither be inflicted upon Iraqis. Are we not all human beings, do we not all deserve human rights? I am tempted to compare this to fascism in that the Bush administration, in allowing these atrocities to happen to Iraqis but not to their own people, seem to consider them a different race, or even species! If imprisonment is a real necessity, can these people not be guaranteed fairness and dignity? The appalling photos that appeared in the newspaper a few months ago of stripped Iraqi prisoners being humiliated by American soldiers shocked me to the core. Not only may they be innocent, but their culture makes it hideously shameful to be coercively naked, especially in front of women soldiers. And this is the example of a liberal democracy we are giving them. Is it such a wonder that they resist our regime change?

Press freedom is muzzled by the new 'government' and directives are issued to the media to follow the interim-government line on Falluja, or else. In Falluja the two main pan-Arab television channels, al-Jazeera and al-Arabiya, were unable to broadcast as much as before from inside the city as only embedded journalists were allowed in, thus only allowing Iraqis and the world to see what the US chooses them to see. Does this sound like freedom to you? George Bush made many speeches about winning the hearts and minds of the Iraqis, but why

then do they name their attacks in such ways that can only create alarm and mistrust, the attack on Falluja, for example was called 'Phantom Fury'! None of the above would make me, if I were an Iraqi, trust or want 'liberal democracy'. Many of those still alive will have lost a loved one during the bombings, how can they view this as a positive thing?

However, let's hop on to the other side of the ocean for a moment. Whatever wrongs the Bush administration may have done or still be doing, I cannot deny that I still get a buzz out of knowing that Iraq is free of the torturous Saddam leadership and that there is hope for the future. And an argument as to why some rebels are locked up may be that they are slowing down process towards freedom and peace. Freedom in Iraq, despite not being perfect, has improved since the invasion. Political plurality is encouraged, and so far over 70 small parties have registered for the up and coming elections, hopefully occurring in January – a massive leap in progress for Iraq. And the very recent gathering, in the Egyptian resort of Sharm-el-Sheikh, of Iraq's six neighbouring countries, G8 members, the EU, the Arab league, the Organisation of Islamic conferences and the UN to discuss and improve the situation leaves me with hope that there is a light at the end of the tunnel for the Iraqis. Once troops leave Iraq and a government, justly elected by the people of Iraq, takes over, be it theocratic or democratic, we shall truly know whether the war could have long-term beneficial effects. To give the American administration credit, being a superpower it is called on in times of crisis and slated for acting upon it. It is decisive and acts fast rather than, as could be argued, the UN, which hasn't accomplished that much for the Iraqis over the last decades (given that approximately 500,000 Iraqi children have died because of international trade sanctions introduced following the Gulf War).

Whether Iraq is better off with the supposed 'liberal democracy' or the dictatorship they've suffered for so long only time will tell. I refuse to give the American administration much credit as the reason given for going to war (WMDs and the 45 minute threat) was false, therefore so was much of the support Bush and Blair received. I will never be able to say that Bush and Blair took the right action as lying to ones country is never acceptable, especially when 100,000 Iraqi lives are at stake. It may be that the Iraqis simply cannot agree and unite under one leader and that a civil war could break out amongst themselves. At least Saddam Hussein, with his rule by terror, restricted the various divisions (such as the Shi'ites, Sunnis and the Kurds) from fighting each other. Right now in Iraq they do not have a liberal democracy and I contend that it may be out of Bush's power to deliver such an ideal, given the example we have set the Iraqis so far.

The Emergence of China's Stockmarket: The Politics and Economics Behind It

Guy Morrison: GDL Candidate at BPP Law School.

There are many facets of China's economic reform that fascinate, but none have been as powerfully symbolic as China's stock market. The paradox of a stock market, that most capitalist of institutions, in a country run by a communist party, has puzzled many observers of China's economic reform. Indeed, the old stock market was the apotheosis of the speculative capitalism that Mao Zedong had vowed to destroy, and it was on his personal orders that the old Shanghai exchange was closed by the Red Army on June 10th 1949. But it was on the orders of his successor, Deng Xiaoping, that it gained new life on December 19th 1990.

The establishment of China's bourse signalled a sea change in the economic, political and social landscape of the Middle Kingdom; and has been the centre of huge policy battles between reformers pushing for more capitalism and conservatives wanting to preserve social controls.

To fully understand the significance of how China's stock market came into existence one must first comprehend the reforms that set in motion China's transition from a plan economy to one based on market principles.

***Gaige kaifang* - Reform and opening up**

In 1979 Deng Xiaoping, China's paramount leader, initiated limited rural land reform that allowed farmers to lease plots of land for extended periods and sell their produce at local markets. This quiet dismantling of the commune system enabled farming households to accumulate funds to invest in small-scale industry and buy the consumer goods that these new factories produced². Local governments, suddenly able to keep a portion of the tax revenues they levied on these new businesses, became interested in investing in and supporting the concerns that fell within their fiefs. Tens of thousands of government and party officials jumped into business, rejecting Maoist dogmas even if they donned the 'red hat' in public³. So began the *Chinese economic miracle*.

Shareholding reforms, 1984-88

As part of their experiments in turning their companies into shareholding firms, many urban enterprises (invariably collective firms) issued securities to the public, corporate friends and employees. This led to black markets in these securities, as well as Treasury and local government bonds, developing on curbsides in cities across the country. The eagerness of the employees of State-owned enterprises (SOE) and collectives to trade the shares they received in lieu of wages, encouraged the municipal authorities in Shenyang and Shanghai to set up formal exchanges where they could assert official control over the trading of securities. The initial institutionalisation of securities trading took the form of over-the-counter (OTC) exchanges in public banks.

The OTC markets had strong political support among high ranking party officials including Jiang Zemin, then mayor of Shanghai, and Zhao Ziyang, China's premier between 1980-1987 and then party secretary until 1989

² Naughton B. (1995) *Growing out of the plan (Chinese Economic Reform 1978-1993)*. Cambridge: Cambridge University Press

³ Green S. (2003) *China's Stockmarket (A guide to its Progress, Players and Prospects)*. London: The Economist in association with Profile Books.

(when he was forced out of the party for siding with the students during the Tiananmen protests). Encouraged by the fervent support of the party elite, young policy turks at the State Commission for Restructuring and Economic Structure (SCORES), and the Peoples Bank of China (PBOC) began drawing up plans for a share market. However, even the policy wonks in the vanguard of market reforms in the mid-1980s did not envision a share market open to the masses, rather it was to be restricted to institutions, like SOEs⁴.

This rapid change to the governance and shareholding structures of SOEs and the emergence of OTC markets across the country created an ideological problem for party theoreticians. Sophisticated arguments had to be crafted showing that shareholding did not represent a break with socialism but was simply a means of improving economic efficiency while retaining Marxist principles. In 1990, Huang Shao'an, an economist explained the new orthodoxy in a leading journal, *Economic Research*. Huang asserted that privatisation in China was not workable since, as every socialist worth his salt knows, public ownership was "the key to productive forces"⁵. The real problem with the plan economy, Huang claimed, was that the government interfered in company management too much, paralysing the underlying productive forces. What was needed, he argued, was a modern corporation, limited by shares, while "not negating the original nature of ownership"⁶. This was a revelation and it presaged a nationwide conversion of shareholding structures. Huang's ideological gymnastics was the antecedent to the concept of the 'socialist economy with Chinese characteristics'.

Local government (*difang*) support for the new agenda was strong because they were to be the main beneficiaries of reform since SOEs that financed themselves through share issuance would rely less on local government for funds. Informal markets in company shares flourished leading to worries in the central government (*Xitong*) that the pace of investment through non-official channels was diminishing their control over the economy and rising inflation. Beijing attempted to impose quotas on local PBOC officials (who were more beholden to local rather than central party officials in the patronage system) as a way of curbing the credit explosion.

The limited number of official OTC markets was one reason for the central governments lack of control, only Shanghai and Shenzhen had authorised OTC operations. Moreover, these OTC markets were inconvenient to use, deeply corrupt and difficult for local officials to regulate. It became increasingly clear that stock exchanges, with their central registration of stocks and market pricing systems, would be the only way to reassert central control and continue shareholding and governance reforms.

Setting up the stock exchanges, and 'share fever', 1988-1992

As for securities and the stock market, are they finally good or bad? Are they dangerous? Are they things that only capitalism has or can socialism also make use of them? To decide whether they can be used we must experiment first.

Deng Xiaoping, 1992

In September 1988, a number of Beijing reformists and Wall Street returnees including Gao Qing, who would later become deputy chairman of the stock market regulator, presented a report of the Finance and Economic

⁴ Green S. (2003) *China's Stockmarket (A guide to its Progress, Players and Prospects)*. London: The Economist/Profile Books.

⁵ *Ibid*

⁶ *Ibid*

Leading Group, the top authority on economic affairs. Two months later its representatives heard the report and Yao Yilin, a senior neo-conservative leader, provisionally authorised setting up a stock exchange⁷. Then something happened that would throw all the economic developments of the past decade into doubt – the Tiananmen Square protests.

Indeed, the events of May and June 1989 would impact upon the development of China's stock market in a way that no-one witnessing the events of Tiananmen could ever have imagined. In the aftermath of Tiananmen one would have expected the stock market proposals would have been shelved, or even scraped altogether, with the resurgence of conservative politics in Zhongnanhai. The fact that the opposite occurred is due to a few members of the Beijing elite, senior officials in Shanghai and Shenzhen and Deng Xiaoping.

In Shanghai Zhu Rongji, then party secretary and mayor of Shanghai, identified the stock market as a way of developing Pudong, Shanghai's new investment zone. Zhu put the idea to Deng shortly after Tiananmen and the paramount leader gave his support. Deng's support did not come from his enthusiasm for capital markets, but from his desire to continue the path of reform and opening up; and curb the growing influence of his hard-line rivals. The stock market in Shanghai began life as a political tool, not an economic one.

The story in Shenzhen is very different and is symbolic of the continuing differences the capital of Guangdong, China's rebellious province bordering Hong Kong, and cosmopolitan Shanghai. Shenzhen's ignored Beijing and went ahead with opening their stock market when nothing was heard from the PBOC concerning their application. The Shanghai and Shenzhen exchanges both began trading in December 1990. However, Shenzhen did not receive PBOC approval until March 1991; and this accounts for both exchanges claim to being China's first.

After all the excitement and political intrigue that surrounded the opening of the two exchanges, few companies actually listed their shares until 1992. Public suspicions of the stock market remained until Deng's famous 'southern tour', which settled the intense struggle that had been raging in Beijing over the future direction of economic reform and the role of capital markets. Deng's used his 'holiday' in the south of China to make a series of high-profile calls for rapid economic growth, increased investments and experiments with shares⁸. Conservative factions in Beijing tried to stifle coverage of Deng's pronouncements in the press but news leaked out and people rushed to buy shares.

Share fever (*gupiao re*) broke out as people discovered that fortunes could be made (and lost) by trading in shares⁹. The sudden appetite for shares among ordinary Chinese caught the regulatory authorities by surprise. The two exchanges were established as *de jure* self-regulatory organs, but were overseen by the Shanghai and Shenzhen municipal governments. This initial regulatory system was rudimentary, fragile and highly localised¹⁰. *Gupiao re* exposed these shortcomings and initiated a battle for control of the stock market that shaped the next phase of the stock markets development.

⁷ A. Green S. (2003) *China's Stockmarket (A guide to its Progress, Players and Prospects)*. London: The Economist/Profile Books.

⁸ Baum, R. (1994) *Burying Mao: Chinese politics in the age of Deng Xiaoping*. Princeton: Princeton University Press.

⁹ Hertz E. (1998) *The Trading Crowd (An Ethnography of the Shanghai Stock Market)*. Cambridge: Cambridge University Press.

¹⁰ Green, S. (2004) *Equity politics and market institutions: the development of stock exchange governance in China, 1984-2003*. London: Chatham House

Local vs. Central: The battle for control, 1992-1996

Share fever not only gripped individual Chinese investors, but also triggered another round of massive share issuance. Officially, the central headquarters of the PBOC had to authorise all new share issuance. However, local governments, eager to maximise their investment funds, circumvented the official channel and instructed local PBOC staff to authorise share issuance themselves. Indeed, in the absence of any *de facto* regulator operating from the centre, local officials captured the issuance process on both the primary and secondary markets.

The problem with this set-up was that local leaders had powerful incentives for rapidly developing the market and listing their most desperate firms. By listing the worst performers in their jurisdiction, local governments were able to unburden themselves from the huge drain these barely solvent SOEs were placing on the local purse. In addition, they were also isolated from any damaging effects that the rapid development that the capital markets might have on the wider macro economy, because in the event of a financial crisis the Ministry of Finance (MOF) and PBOC would have to step in¹¹. Furthermore, good *guanxi* (relationships and influence) with leaders in Beijing could protect local political leaders from any political or legal trouble. Therefore, local leaders lacked the incentive to ensure that regulation developed at a suitable pace and as a result the two exchanges grew quickly but suffered from poor regulation.

Local government's capture of the issuance process resulted in the listing of hundreds of poor-quality firms that continue to drain investor's commitments and prevent the most dynamic sector of the economy, privately-owned companies, from accessing the capital they so badly need to expand. The listing of SOEs was designed to resolve their inefficiencies after the earlier failure of shareholding and profit-retention schemes. Perversely, listing had the opposite effect on these companies as a result of the short-sightedness of local leaders wanting to maximise their investment funds. Listing did not harden the soft budget constraints that open credit lines had effected upon SOEs; rather, the stock market listing provided another source of capital when the local branch of the PBOC refused any new loans. The soft budget constraints that prevented SOEs from improving their performance was further compounded by the next phase of development, determined this time by the central government.

A useful supplementary finance tool, 1996-2000

The stock exchange serves the construction of a socialist economy.

Li Peng, Shanghai, 1991

Although he may not have meant it at the time, Li Peng's inscription commemorating his visit to the Shanghai stock exchange was a curiously prophetic statement of government policy towards the stock market at the end of the 1990s. The SOE sector was not reforming despite several attempts at engineering change through limited responsibility and profit-retention schemes.

¹¹ Comerford-Cooper, M. (2003) Local Governments and the Chinese Stock Market. *Institute for International Studies/Stanford University*.

Bank lending in the 1990s mushroomed, almost all of it going – against economic logic – to SOEs. It grew at above 15% in most years, when economic growth was running at 8-10%; and most loans were not called in¹². The four big commercial banks were in danger of becoming insolvent (which they later did in the late 1990s) under the weight of their bad loans. By 1996 the policy elite in Beijing identified a new idea: to use the stock market on a much larger scale as a supplementary financing mechanism¹³. Quotas for Initial Public Offerings (IPO) were enlarged and many large national SOEs were earmarked for eventual listing. This movement signalled a new positive attitude towards the stock market by the central government and the wider market was quick to catch on to this. Trading volumes at both exchanges exploded as regulation on bank lending to listed companies for share trading was eased and both institutional and individuals poured into the market. Trading volume at the Shanghai stock exchange went from Rmb382.4m (\$46m) to Rmb4.9bn in 1996¹⁴. This new investment was based solely on the prevailing political mind-set in Beijing and had nothing to do with the underlying assets traded on the exchanges. Even the *People's Daily* newspaper, the party's mouthpiece, spoke of share prices being "abnormal and irrational".

The subordination of the stock market to industrial policy during this period has had a profound and lasting effect on the stock markets in China. The massive inflow of new capital vastly inflated share prices; with some listed company's shares trading at a price earnings multiple of 80 (US firms average between 18-22). Fundamental market pricing models and risk assessments formed no part of investment decisions as investors of all colours sought to ride the rising market. Speculation was rife during this period, led by shadowy figures nicknamed *dahu* (big players) or *zhuangjia* (a derogatory term, used in Imperial times to denote the landlords). The *dahu* buy low and manipulate the asymmetries of information between company and investors to ride the shares until jumping off at the peak, leaving small investors to cover the differential between the manipulated and market price. The *dahu* have no need to worry about the legal consequences of their actions as they usually have the *guanxi* needed with the elite to escape investigation of prosecution. Speculation, or *Chao gupiao* (stir-frying shares) as the Chinese euphemistically call it, has made it almost impossible for long-term investors such as pension or insurance funds to use the capital markets to efficiently deploy the capital they have under management, because they cannot accurately predict the risks that are vital in informing investment decisions. The lack of long-term investors makes the market very unstable, and does not exert the pressure needed for SOEs to properly reform and restructure. The combination of these factors renders the capital markets impotent as an efficient allocator of capital, the sole reason for its existence.

The regulator gets its teeth, 1998

As discussed above, local governments were primarily responsible for the regulation of local share issuance and governance of the listed companies that fell within their jurisdiction; with central organs such as the China Securities and Regulatory Committee (CSRC), the State Planning Commission (SPC) and PBOC responsible for the formulation and implementation of policy decisions. With so many government organs charged with regulating the stock markets policy battles and turf wars meant little was done to enforce regulations. The CSRC, the primary organ of stock market regulation, was understaffed and overstretched, making it easy for provincial officials to undermine it at every turn.

¹² A. Green S. (2003) *China's Stockmarket (A guide to its Progress, Players and Prospects)*. London: The Economist/Profile Books.

¹³ *Ibid*

¹⁴ *Ibid*

After the massive share issuance of 1996/1997 that destabilised the market and undermined the wider financial system, and the Asian financial crisis of 1997, Beijing took action. The CSRC's funding was increased so that it could properly staff its offices in Shanghai and Shenzhen, and set up provincial monitoring posts. The Power to appoint stock market officials was taken away from the municipal governments and given to the CSRC, thereby reducing the risk of complicity between the exchanges and the municipal governments seeking to maximise their stamp tax revenues from new share issues¹⁵. The concentration of powers in the CSRC has allowed it to concentrate on regulation rather than competing with other organs for control over the stock markets.

Since it assumed its new position as ultimate regulator, the CSRC has done a fine job in putting right the damage done by provincial governments, and should be commended for its efforts in this area. CSRC staff, many of whom have been educated at western universities and are more acutely aware of the positive benefits that a functioning stock market could have on economic reform, are now formulating policies that will expand the services that the exchanges will offer, e.g., a corporate bond market and a futures market. The actions of the CSRC have led to the current optimism among investors in China that the stock markets will soon fulfil their function as efficient allocators of capital.

Current policy and the future role of the Chinese stock market, 2000-

China's stock market is worse than a casino. At least in a casino there are rules.

Wu Jinglian, 2001

China's stock market remains unpredictable, but to say it still resembles a casino would be unfair to those that have worked so hard since 1998 to bring some discipline and control to the exchanges. Although the stock markets are still used to supplement bank financing to SOEs, however, new policy priorities will give the stock market an increasingly important role in the reform of state-owned firms and the financial sector. The central government is now faced with three pressing priorities: creating a modern pensions system; getting rid of government debt; and privatisation. A stable market with long-term investors is vital if the government is to achieve its aims in these areas.

Foreign investment banks should play an increasingly important role as they will not only bring in new capital, but also have a stabilising effect as long-term investors. In addition, their expertise in financial management and risk assessment should bring the skills needed for China's securities to efficiently manage the increasing share of the national pension pot that the government plans to allocate to the capital markets.

It is too early to judge how the new policies implemented from 2000-2002 have impacted upon the market. However, the short-term pain these policies caused (in 2001 the market lost 45.6% of its value over 2000) seems to have been widely accepted among investors as a necessary step in reforming China's two stock markets. There is good reason to believe that the capital markets in China will become a useful economic tool in China's development, in that the political will is there to see genuine reform and development. One must also remember that the fact China has had a stock market for nearly fifteen years is quite remarkable. It is also worth reminding ourselves that China is still a developing economy, albeit one with a stock market capitalisation similar to Italy's

¹⁵ Green S. (2003) *China's Stockmarket (A guide to its Progress, Players and Prospects)*. London: The Economist/Profile Books.

bourses, and it is just a question of time before the institutions and infrastructure are in place that will allow the stock market to fulfil its undoubted potential.

Regional Security in Northeast Asia:
Continued Bilateral Deterrence or Moving Towards a Multilateral Security Regime?

Masters' Dissertation: Is the current US-Japan and US-ROK bilateral alliance system the most effective mechanism to ensure state security and stability in Northeast Asia?

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SYNOPSIS:

The first chapter deals with the scope of the problem and analyses the current bilateral security alliances Washington has with Tokyo and Seoul. A brief overview will be followed by an assessment of the benefits and shortcomings of maintaining US military presence in the region. Benefits will focus mainly on, but will not entirely be confined to, US interests in Northeast Asia, while problems that have occurred because of the bilateral treaties, including rising nationalist sentiments in the host countries as well as the costs involved, will also be identified. The future of US military presence in the region will be assessed in relation to the current Northeast Asian security environment.

Chapter I – The Bilateral System

Assessing the US-Japan and US-ROK Alliances

Alliances are one of the primary means by which states seek the cooperation of other states in order to enhance their power to protect and advance their interests.¹⁶ Although the US has traditionally rejected the creation of alliances, pointing to the alliance system as the main causes for both World Wars, this has changed since the end of WWII, where America has since adopted the concept of alliance formation as a deterrent to Soviet expansionism.¹⁷

Washington has maintained a network of bilateral alliances since the late 1940s, a strategy in which Christopher Layne has labeled as a policy of “preponderance.”¹⁸ The key elements of such a strategy are based on a network of alliances in order to perpetuate a US-led world order based on preeminent American political, military and economic power; the maximization of US control over the international system by preventing the emergence of regional hegemonic powers; and the maintenance of economic interdependence as a vital American security interest.¹⁹

Regional stability is the prerequisite to promoting interdependence. By maintaining a network of alliances that provides extended deterrence, the threat to instability is reduced.²⁰ This “threat” to instability refers to regional powers with hegemonic ambitions that have the potential to rise up and challenge the status quo, thus hampering American prospects for maximizing its vital economic and security interests.

Deterrence theory holds that extended deterrence is strengthened when the guarantor deploys its own military forces on the protected state’s territory. On the 8th of September, 1951, amidst communist aggression

¹⁶ Robert E. Osgood, *Alliances and American Foreign Policy* (Baltimore: The Johns Hopkins Press, 1968), p. 17.

¹⁷ Osgood, *Alliances and American Foreign Policy*, p. 33.

¹⁸ Christopher Layne, “From Preponderance to Offshore Balancing: America’s Future Grand Strategy”, in G. John Ikenberry (ed.), *American Foreign Policy: Theoretical Essays*, 3rd edition (New York: Longman, 1999), p. 563.

¹⁹ *Ibid.*, p. 564.

²⁰ *Ibid.*

on the Korean Peninsula, the San Francisco Peace Treaty was signed between the governments of Japan and the US. It marked the beginning of the US-Japan security alliance, a strategic partnership to prevent, among other things, the remilitarization of Japan by allowing US troops to be based on Japanese soil and entailed an American commitment to defend its former enemy.²¹

Following the Korean War armistice, the Republic of Korea signed a Mutual Defense Treaty with the US on the 1st of October, 1953, authorizing American troops to be stationed in South Korea as a defensive deterrent force against the North Korean communist military.²² These two bilateral security alliances with Japan and South Korea have since formed the pillars of American deterrence strategy in Northeast Asia.

The American deterrence provided a military umbrella over noncommunist states, permitting them to focus on economic development and the control of domestic insurgencies.²³ Donald S. Zagoria maintains that the US presence, or Pax Americana, since the end of the Vietnam War in 1975 has definitely provided the regional stability necessary for Asian economies to prosper, which in turn has thwarted the communist threat and has promoted an increasing trend towards regionalism and economic integration, as exemplified by the establishments of the Association of Southeast Asian Nations (ASEAN) in 1967 and the Asia-Pacific Economic Cooperation (APEC) in 1989.²⁴

Despite the military assistance from America towards its Asian allies during the Cold War and the regional stability it created, the collapse of the Soviet Union led many to question the degree of relevance US forces had in the region. In fact, as far back as 1968, Robert E. Osgood insightfully remarked the following:

The most general observation one can safely make is that the period in which alliances were largely a vehicle for the extension of American military deterrence, and in which the dominant role in its alliances was defined and determined by the military necessities of containment, has passed and is not likely to be repeated.²⁵

The reduced communist threat was acknowledged by the Defense Department's April 1990 East Asia Strategy Initiative, which, while claiming to sustain all previous alliance commitments to its Asian allies, announced a personnel cut from 143,000 forward deployed forces in the region to approximately 100,000 by 1993.²⁶ The US completely withdrew its military personnel from the Philippines in 1992.

Yet today the amount of troops in the region are still maintained at 100,000, with 47,000 in Japan, 37,000 in South Korea and the majority of the remaining troops on bases in Guam.²⁷ Despite the Clinton administration's insistence on the need to diminish US military commitments abroad and various anti-US protests launched by citizens of the host nations, little attempt was made to decrease the US forward presence. The main shift, rather, was to reduce the number of troops permanently stationed for long periods overseas by deploying troops more frequently but for shorter stays.²⁸ Moreover, since the September 11th terrorist attacks, the trend, if

²¹ Akira Iriye, "The American Experience in East Asia", in Mary Brown Bullock and Robert S. Litwak, *The United States and the Pacific Basin: Changing Economic and Security Relationships* (Washington D.C.: Woodrow Wilson Center Press, 1991), p. 14.

²² "Joint Statement of the 31st Republic of Korea-United States Security Consultative Meeting", *DefenseLINK News*, 23rd November, 1999, URL: http://www.fas.org/news/skorea/1999/b11231999_bt545-99.htm (last accessed 26th April, 2004).

²³ Sheldon W. Simon (ed.), *East Asian Security in the Post-Cold War Era* (New York: M. E. Sharpe Inc., 1993), p. 4.

²⁴ Donald S. Zagoria, "The Changing U.S. Role in Asian Security in the 1990s", in Simon, *East Asian Security in the Post-Cold War Era*, pp. 45-49.

²⁵ Osgood, *Alliances and American Foreign Policy*, p. 158.

²⁶ Simon (ed.) *East Asian Security in the Post-Cold War Era*, p. 13.

²⁷ Van Vranken Hickey, *The Armies of East Asia*, pp. 9-10.

²⁸ "U.S. Military Bases and Empire", Editors, *Monthly Review*, Vol. 53, No. 10, March 2002, URL: <http://www.monthlyreview.org/0302editr.htm> (last accessed 26th April, 2004).

anything, has shifted towards increasing US presence abroad for the purpose of rapid deployment to fight the global war on terror.

The current Bush administration's strategy of a "new world order" and the Clinton administration's "engagement and enlargement" approach signify that, despite the end of the Cold War, Washington remains wedded to the notion of military power projection through force deployments and the continued aspirations to maintain an international system shaped by American power and values.²⁹ While the US foreign policy community understands that little can be done to prevent the emergence of China as an emerging great power outside the American sphere of influence, Washington remains determined to continue its deterrence posture while at the same time attempting to embed China firmly into a US-dominated security and economic framework.

Nonetheless, it is important to acknowledge that the US does take into consideration the constantly changing international scenario, and has modified its bilateral security alliances with its Asian allies accordingly, most notably the September 1997 revised security agreements with Japan, granting a more active, albeit largely supportive role, to Japanese forces in case regional hostilities erupt.³⁰ In December 2002, Japan sent an Aegis warship to the Indian Ocean to support the US in case of any conflict with Iraq, representing the first time since WWII that Japanese forces have been deployed overseas for anything other than peacekeeping.³¹ Japan has also agreed to send up to 1,000 noncombatant ground troops as well as navy and air force personnel to assist in the postwar reconstruction of Iraq, further strengthening its bilateral security ties with the US.³²

Washington and Seoul have constantly been engaged in talks of gradually reducing the number of US military installations in South Korea, although no commitment has yet been made to reduce the number of troops.³³ Most recently, an agreement has been made to relocate all 7,000 American troops from the Seoul metropolitan area to a new base in Pyeongtaek (seventy kilometres south of the capital) by the end of 2007.³⁴ While this move has been welcomed by the Roh administration in efforts to relieve anti-US sentiment, it has been fiercely contested by the conservatives and opposition parties, who fear a "security vacuum" that will increase Seoul's vulnerability to DPRK artillery units.³⁵

The contentions made by the conservatives and opposition parties in South Korea lie at the heart of the debate on US military deployments. How would a withdrawal of American forces affect the regional security environment? Would it create a security vacuum and cause an arms race that could destabilize the region? What are the costs of maintaining a military presence in the Pacific, and do the benefits outweigh the costs? In order to accurately address these questions, one must first look at the goals and interests the US maintains in the region as well as the costs of sustaining a military presence in Northeast Asia.

American Objectives in the Asia-Pacific

The Asia-Pacific is the most important region for America with regards to commerce and trade. States of this region account for more than \$500 billion in annual two-way trade with the US, which is more than any other

²⁹ Layne, "From Preponderance to Offshore Balancing: America's Future Grand Strategy", p. 566.

³⁰ Van Vranken Hickey, *The Armies of East Asia*, pp. 44-45.

³¹ Rebecca MacKinnon, "Japanese Warship heads for Indian Ocean", *CNN*, 16th December, 2002, URL: <http://www.cnn.com/2002/WORLD/asiapcf/east/12/15/japan.terrorism/> (last accessed 26th April, 2004).

³² Justin McCurry, "Japan to Send Troops to Iraq", *The Guardian Unlimited*, 27th January, 2004, URL: <http://www.guardian.co.uk/Iraq/Story/0,2763,1131873,00.html> (last accessed 26th April, 2004).

³³ Robert Burns, "US May Cut Forces Abroad", *Associated Press*, 12th February, 2003, URL: <http://idsnews.com/story.php?id=14716> (last accessed 26th April, 2004).

³⁴ "US to Pull Troops Out of Seoul", *AFP*, 19th January, 2004, URL: <http://www.abc.net.au/news/newsitems/s1027552.htm> (last accessed 26th April, 2004).

³⁵ Ibid.

region in the world.³⁶ In addition, over 3 million American jobs are directly related to trade and investment in Asia.³⁷ Such economic interaction can only be promoted through regional stability and peace. Thus, the traditional goals of US security strategy in East Asia have been to foster political stability, maintain access to regional markets, ensure freedom of navigation, promote democracy and prevent the rise of a hegemonic power,³⁸ while at the same time encouraging the development of a regional multilateral cooperative security framework that will benefit all parties, including the US.³⁹

To achieve these goals, the US maintains a large military force that is capable of deterring any aggressor and preventing the rise of potential regional hegemonic powers. In addition to troop deployments, US military might in the region is also projected through the US Navy's 7th Fleet. With 50 warships, 200 aircraft and approximately 20,000 personnel, the 7th Fleet is the largest forward-deployed American fleet.⁴⁰ Engaging an area of responsibility stretching from the Western Pacific to the Indian Ocean to the Persian Gulf, the US 7th Fleet, along with troops based in Japan, South Korea and Guam, epitomizes the cornerstones that govern traditional US strategic policy towards the Asia-Pacific region.

Over the past two decades, the Northeast Asian region has experienced a period of relatively sustained peace. This tranquility is attributable primarily to the fact that most Asian states were concentrating on economic development, which would not have been feasible without US financial and military support.⁴¹ From this reasoning, stability in Northeast Asia can be partially, if not directly, attributed to the American military presence in the region.

Through the aforementioned objectives of US strategic policies toward the region, American interests are also served. This includes access to the world's most lucrative markets as well as the world's most vital shipping lanes in the South China Sea. Since at least 98 percent of the commerce between the US and Asia passes through the sea,⁴² and due to the fact that American military might has traditionally been exerted through its naval forces, the prevention of any single hegemonic power dominating the sea routes becomes a key factor in US strategic policy towards the region.

Nevertheless, the US has not succeeded in its last objective, that is, to promote a multilateral cooperative security framework that will benefit all players in the region. To this end, China has been prevented from fully exerting its power in the regional arena, resulting in heightened tensions with America over Taiwan, while North Korea, under the current Bush administration's stringent policies, has been entirely alienated from the picture. These two issues will be dealt with in detail in the following two chapters. For now, we shall further deal with the issue of troop deployments, focusing on the costs of maintaining American forces on Japanese and South Korean soil.

Costs of US Troop Deployments in Japan and South Korea

The costs of maintaining American military presence and, as a corollary, achieving US objectives, come at no small price. The total costs of stationing troops in Japan are estimated at \$35 billion every year, while US

³⁶ Evan S. Medeiros and Jing-dong Yuan, "A US Military Presence in Asia: Offshore Balancer or Local Sheriff", *Jane's Intelligence Review*, January 2001, p. 32, URL: <http://cns.miis.edu/pubs/eap/sheriff.pdf> (last accessed 26th April, 2004).

³⁷ "The Region", *United States Seventh Fleet*, URL: <http://www.c7f.navy.mil/compo.html> (last accessed 26th April, 2004).

³⁸ Van Vranken Hickey, *The Armies of East Asia*, p. 8.

³⁹ Zalmay M. Khalilzad et al., *The United States and a Rising China: Strategic and Military Implications* (Washington D.C.: RAND, 1999), p. 73.

⁴⁰ "Forward Presence", *United States Seventh Fleet*, URL: <http://www.c7f.navy.mil/fwdpres.html> (last accessed 26th April, 2004).

⁴¹ Zalmay M. Khalilzad et al., *The United States and Asia: Toward a New U.S. Strategy and Force Posture* (Santa Monica, CA: RAND, 2001), p. 4.

⁴² "The Region", *United States Seventh Fleet*, URL: <http://www.c7f.navy.mil/New/Pages/the%20region.html> (last accessed 26th April, 2004).

forces in South Korea require approximately \$13 billion per annum to sustain.⁴³ Despite the fact that Japan, in accordance with the terms of the host nation support role under the revised 1997 alliance agreement, financially assists Washington by covering up to \$5 billion (about as much as the financial assistance given to the US by its other allies combined)⁴⁴, the American government still has to sacrifice a hefty sum from its defense budget to cover the remaining costs. The South Korean government, for its part, gives approximately \$200-300 million, again leaving the bulk of the financial burden to the US.⁴⁵

Critics have argued that the US could save vast sums of money by withdrawing its troops from the region. By pulling US forces out of Europe and South Korea, for instance, America could reduce overall troop levels by 10 percent and save at least \$4 billion a year. A substantially more ambitious drawdown could save enough to sustain the military budget at today's level for at least a decade.⁴⁶ By one measure, nearly 50% of America's 1995 military budget was primarily for the benefit of other nations.⁴⁷

Nor can costs be measured in monetary and financial terms alone. The occasional criminal acts committed by US troops against the local citizens in Japan and South Korea have raised nationalistic sentiments that further undermine America's case to station troops in Asia. Anti-base protests broke out in Okinawa, which hosts the bulk of US forces in the region, following the gang rape of a twelve-year-old girl by three US servicemen. More recently, in June 2001, Japanese prosecutors charged a US serviceman with the rape of a 20-year-old Okinawan woman.

Nationalistic sentiments are even stronger in South Korea, where throughout history Koreans have come to despise foreign invaders, specifically the Chinese, Russians and Japanese, who have tried to take advantage of the peninsula's strategic position. An anti-American attitude has developed along with South Korea's economic prosperity, as many feel increasingly confident in the country's assertion of national independence and sovereignty. Moreover, according to recent comments from US Defense Secretary Donald Rumsfeld, the South Korean military is now competent enough to conduct a strong defense of its territories.⁴⁸ With President Roh Moo-hyun having rode an anti-American tide into office, South Korean expectations of a relationship in which Washington treats Seoul as an equal as opposed to a dependent have been raised even further.

This anti-American resentment is more apparent among the younger generation of South Koreans who did not live through the Korean War years, and is demonstrated in the destructive protests held by South Korean college students, who have burned US flags on the streets of Seoul as well as attacked the United States Informational Service (USIS) several times, bombing, storming and defacing buildings with anti-American graffiti.⁴⁹ Furthermore, a survey of young Koreans by the Korea Economic Institute completed in 1993 reported that from 1987 to 1993 favourable attitudes toward the US have drastically decreased from 70 percent to 24 percent.⁵⁰ Such strong nationalist sentiments in South Korea provide a significant factor that may pressure US troops out of the country.

⁴³ Medeiros and Yuan, "A US Military Presence in Asia: Offshore Balancer or Local Sheriff", *Jane's Intelligence Review*, January 2001, p. 33, URL: <http://cns.miis.edu/pubs/eapn/sheriff.pdf> (last accessed 26th April, 2004).

⁴⁴ Colin Powell, "Remarks at Ceremony Commemorating the Signing of the U.S.-Japan Security Treaty", *U.S. Department of State*, 8th September, 2001, URL: <http://www.state.gov/secretary/rm/2001/5164.htm> (last accessed 26th April, 2004).

⁴⁵ Medeiros and Yuan, "A US Military Presence in Asia: Offshore Balancer or Local Sheriff", *Jane's Intelligence Review*, January 2001, p. 33, URL: <http://cns.miis.edu/pubs/eapn/sheriff.pdf> (last accessed 26th April, 2004).

⁴⁶ Cindy Williams, ed., *Holding the Line: U.S. Defense Initiatives for the Early 21st Century* (Cambridge, MA: The MIT Press, 2001), p. 255.

⁴⁷ Doug Bandow, *Tripwire: Korea and U.S. Foreign Policy in a Changed World* (Washington D. C.: Cato Institute, 1996), p. 47.

⁴⁸ Jamie McIntyre and David Ensor, "U.S. Reviews Korean, German Bases", *CNN*, 7th March, 2003, URL: <http://edition.cnn.com/2003/US/03/06/us.troops.korea.germany/> (last accessed 26th April, 2004).

⁴⁹ Jojo Liu and Richard Hughes, "Growing Resentment", *Harvard International Review*, Vol. 17, Issue 4, Fall 1995, pp. 60-62, URL: <http://search.epnet.com/direct.asp?an=9510254000&db=afh> (last accessed 26th April, 2004).

⁵⁰ *Ibid.*

To be sure, apart from training to maintain preparedness to deter against any aggressor, American forces are also engaged in various joint military exercises and operations that range from peacekeeping to humanitarian efforts such as medical assistance, disaster relief and civic action projects.⁵¹ Furthermore, Victor D. Cha has convincingly pointed out that one of the biggest problems with regard to civil-military tensions is the asymmetrical reporting that takes place with regard to American forces' activities. Anything positive that the troops might do is under-reported in the Korean press and media, while the negative aspects are heavily written about, and often carry with it a strong nationalist bias.⁵² More even-handed reporting from both sides is thus crucial in creating a balanced debate on relations between US troops and the civilians of the host nation.

Nevertheless, the ultimate costs that deploying troops abroad incur is the potential loss of American lives. Despite the fact that the war against terrorism has somewhat reduced the effects of the "Vietnam Syndrome", the steadily increasing number of casualties to US troops in Iraq (officially reported at 719 deaths towards the end of April 2004)⁵³ and the constant public outcry indicates that Americans are not prepared to tolerate a large number of fatalities overseas.

As the demarcation line that separates the two Koreas constitutes the largest concentration of military forces in the world, including a proportion of the 37,000 American forces on the Korean Peninsula, concentrating forces along the DMZ and around the Seoul metropolitan area (40 kilometres from the borderline) is a particularly perilous foreign policy. A conflagration on the Peninsula could very well inflict heavy casualties on American forces (given the options that North Korea has through its possession of nuclear, ballistic, biological and chemical weapons), leading to calls back home for a substantial or complete withdrawal from the area. As such, the Korean Peninsula provides the most hazardous flashpoint for Washington, and will be dealt with at length in the third chapter. For the time being, a short term and long term approach for American strategy in Northeast Asia will be specified.

Maintain Military Presence or Disengagement?

Short-Term Approach: Maintain Deployments

Despite the contentions on costs and anti-American sentiment, the ultimate question boils down to the ramifications of force withdrawal by the US. Potential flashpoints still loom large in the region, namely over the South China Sea, across the Taiwan Straits and on the Korean Peninsula. The most immediate of these concerns is North Korea, which is headed by an unpredictable regime with potential nuclear weapons capabilities.

Since Pyongyang's admission in October 2002 that it possesses nuclear weapons, tensions have once again heightened on the Korean Peninsula.⁵⁴ Although an impoverished North Korea is facing a plethora of internal socio-economic problems such as a massive famine and an acute lack of energy resources, Kim Jong-Il's armed forces, one of the largest militaries in the world, are still formidable enough to inflict heavy damage on the Peninsula and thereby creating severe regional instability.⁵⁵ It appears that under present circumstances, the US must stay put until the Peninsula stabilizes and the two Koreas reunified.⁵⁶

⁵¹ *DeploymentLINK*, URL: http://deploymentlink.osd.mil/deploy/info/current_pacific.shtml (last accessed 26th April, 2004).

⁵² Victor D. Cha, "Forward Presence, Anti-Americanism and the U.S.-Korea Alliance's Future", *Korea Observer*, Seoul: Winter 2002, Vol. 33, Issue 4, pp. 507-539.

⁵³ Bassem Mroue, "Iraq Boat Attack Kills Two U.S. Sailors, 25th April, 2004, URL: http://news.yahoo.com/news?tmpl=story&u=/ap/20040425/ap_on_re_mi_ea/iraq_16 (last accessed 26th April, 2004).

⁵⁴ Andrea Koppel and John King, "U.S.: North Korea Admits Nuke Program", *CNN*, 17th October, 2002, URL: <http://www.cnn.com/2002/US/10/16/us.nkorea/> (last accessed 26th April, 2004).

⁵⁵ Van Vranken Hickey, *The Armies of East Asia*, p. 211.

⁵⁶ Thomas H. Buchanan, "The Coming Decade of Change on the Korean Peninsula: Implications for Northeast Asia and the United States", *East Asia: An International Quarterly*, Winter 1999, Vol. 17, Issue 4, pp. 7-29, URL: <http://search.epnet.com/direct.asp?an=2984156&db=afh> (last accessed January 29th, 2004).

Japan's capacity to remilitarize raises further apprehension in Korea and China. There is little doubt among neighboring countries that Japan will be able to transform its economic power, currently the second largest in the world, into advanced military power with sophisticated weapons capabilities. The recent revelations of North Korea's missile threat as well as the inclusion of Japan into America's TMD program did little help alleviate such concerns from Japan's traditional rivals.

Even though the current Japanese constitution prevents the arbitrary use of force, the country does maintain a formidable conventional military in the form of Self Defense Forces. According to the CIA World Factbook 2003, with a defense budget of nearly \$40 billion annually, Japan is third only to the US and China in terms of military spending.⁵⁷ Furthermore, the Japanese government appears reluctant to come to terms with its 20th Century colonial and WWII legacies.

Regional rivalry is thus likely to continue, with nationalist sentiments fueled by resentment over past injustices of the war years coming to the fore. The experience in Europe, in which Germany arrived at a *rapprochement* with France, forming the basis of a European institutional framework for cooperation that has led to the establishment of the EU, is, at least in the foreseeable future, unlikely to occur in Northeast Asia.⁵⁸

To be sure, even without its forward presence, the US would still remain the dominant economic and political power in the region. However, as Richard H. Solomon and William M. Drennan argue, US economic and political influence ultimately rests on the sense of security and "psychological reassurance" that American troop deployments create.⁵⁹ Therefore, an abrupt US withdrawal would create a security vacuum that would spark a sense of uncertainty and anxiety among the traditional rivals in the region, potentially leading to a devastating arms race. As Joseph Nye has famously remarked, "Security is like oxygen, you tend to not notice it until you begin to lose it, but once that occurs there is nothing else that you will think about."⁶⁰

Under the current realities of Northeast Asian politics, an abrupt disengagement from the region would certainly not be a prudent course of action for American policy-makers. A premature withdrawal at this point in time would effectively destabilize the entire region, causing capricious and volatile consequences that would be detrimental not only to US interests, but to the interests of all Northeast Asian states. For the time being, American military deployments must be maintained in order to mitigate the effects of regional rivalries for which a power void resulting from disengagement may bring about. At least in the short-run, the benefits for stationing US troops in the region outweigh the costs they incur.

Long-term Strategy: Gradual Disengagement?

Looking towards the long-term future, however, there have been increasing assertions that the US cannot resume its current policy of a maintaining military presence in the region, as it may well become a major source of conflict and tension. Paul Bracken, in particular, questions the long-term viability of American military deployments, arguing that proliferation of ballistic missiles and other precision technologies to Chinese armed forces could increase the probability of a conflagration over Taiwan if Beijing feels that Washington could be deterred.⁶¹

A massive Chinese missile build-up would force the US into a costly defensive posture, as America tries to counter with theatre missile defenses, an expenditure and commitment which the US may

⁵⁷ "Japan", *CIA World Factbook 2003*, URL: <http://www.cia.gov/cia/publications/factbook/geos/ja.html> (last accessed 26th April, 2004).

⁵⁸ Khalilzad et al., *The United States and Asia*, p. 5.

⁵⁹ Richard H. Solomon and William M. Drennan, in Simon (ed.), *The Many Faces of Asian Security*, p. 233.

⁶⁰ Joseph Nye, quoted in Medeiros and Yuan, "A US Military Presence in Asia: Offshore Balancer or Local Sheriff", *Jane's Intelligence Review*, January 2001, p. 32, URL: <http://cns.miis.edu/pubs/eapn/sheriff.pdf> (last accessed 26th April, 2004).

⁶¹ Paul Bracken, "Technology and the Military Face of Asian Security", in Simon, (ed.), *The Many Faces of Asian Security*, p. 5.

eventually back down from.⁶² The logic behind this reasoning is that it is cheaper and easier to acquire offensive missiles than it is to defend against them. Thus, if American chooses to remain in Japan and South Korea, it will have to develop land, air, sea and submersible missile launchers as well as sophisticated underwater mines, a cost that is considerably more than current Pentagon budget projections.⁶³

Chalmers Johnson contends that already the US cannot afford its various ongoing global military deployments and interventions, and has begun extracting ever growing amounts of “host-nation support” from its clients or even direct subsidies from its allies.⁶⁴ In addition, he claims that the large American expeditionary force stationed within striking distance of Chinese borders portends major conflict.⁶⁵

Christopher Layne has succinctly pointed out that while American interests lie in maintaining stability and promoting economic interdependence, the need to rely on extended deterrence to sustain such conditions in which interdependence can take root inevitably leads to strategic overextension.⁶⁶ The synergy between credibility concerns and threat inflation causes the US to ever expand its scope of security commitments.⁶⁷

In addition, Layne suggests that the international system’s polarity affects the efficacy of the extended deterrence system.⁶⁸ During the Cold War, the world was separated into US and Soviet spheres of influence, and both superpowers knew that they courted disaster if they challenged each other’s sphere. In the early 21st Century, however, the international system has tendencies to become increasingly multipolar⁶⁹ and, arguably, less stable and more conflict prone than the bipolar Cold War system.⁷⁰ Therefore, a continued strategy of military deterrence may not be the most effective policy for America in Northeast Asia.

Indeed, US forces could constitute the worst kind of trip wire – one that confronts rather than deters potential challengers⁷¹ – and thus creating enemies in a “self-fulfilling prophecy” manner. In the contexts of China and North Korea, this connotes the increase of threat levels generated from both states, whereas previously the dangers may have been significantly reduced had the US pursued a different strategy.

Is gradual disengagement from the region a more feasible option for the future of both America and Northeast Asian states? What are the available options? How can we ensure that the most effective mechanism for Northeast Asian stability will be in place to tackle the set of problems that will emerge in the impending future? How can these tensions be diffused? Ultimately, how can we prevent major conflagration from occurring in the region? The following three chapters will examine the Northeast Asian security scenario in detail, focusing on potential flashpoints and the sources of these frictions and disputes.

⁶² Ibid., pp. 72, 86.

⁶³ Ibid., p. 5.

⁶⁴ Chalmers Johnson, *Blowback: The Costs and Consequences of American Empire* (New York: Henry Holt and Company, 2000), p. 221.

⁶⁵ Ibid., p. 222.

⁶⁶ Layne, “From Preponderance to Offshore Balancing: America’s Future Grand Strategy”, in Ikenberry (ed.), *American Foreign Policy*, p. 570.

⁶⁷ Ibid.

⁶⁸ Ibid., p. 575.

⁶⁹ At least in economic terms, although the US still maintains unipolarity in military terms

⁷⁰ Layne, “From Preponderance to Offshore Balancing: America’s Future Grand Strategy”, in Ikenberry (ed.), *American Foreign Policy*, p. 575.

⁷¹ Ibid., p. 577.