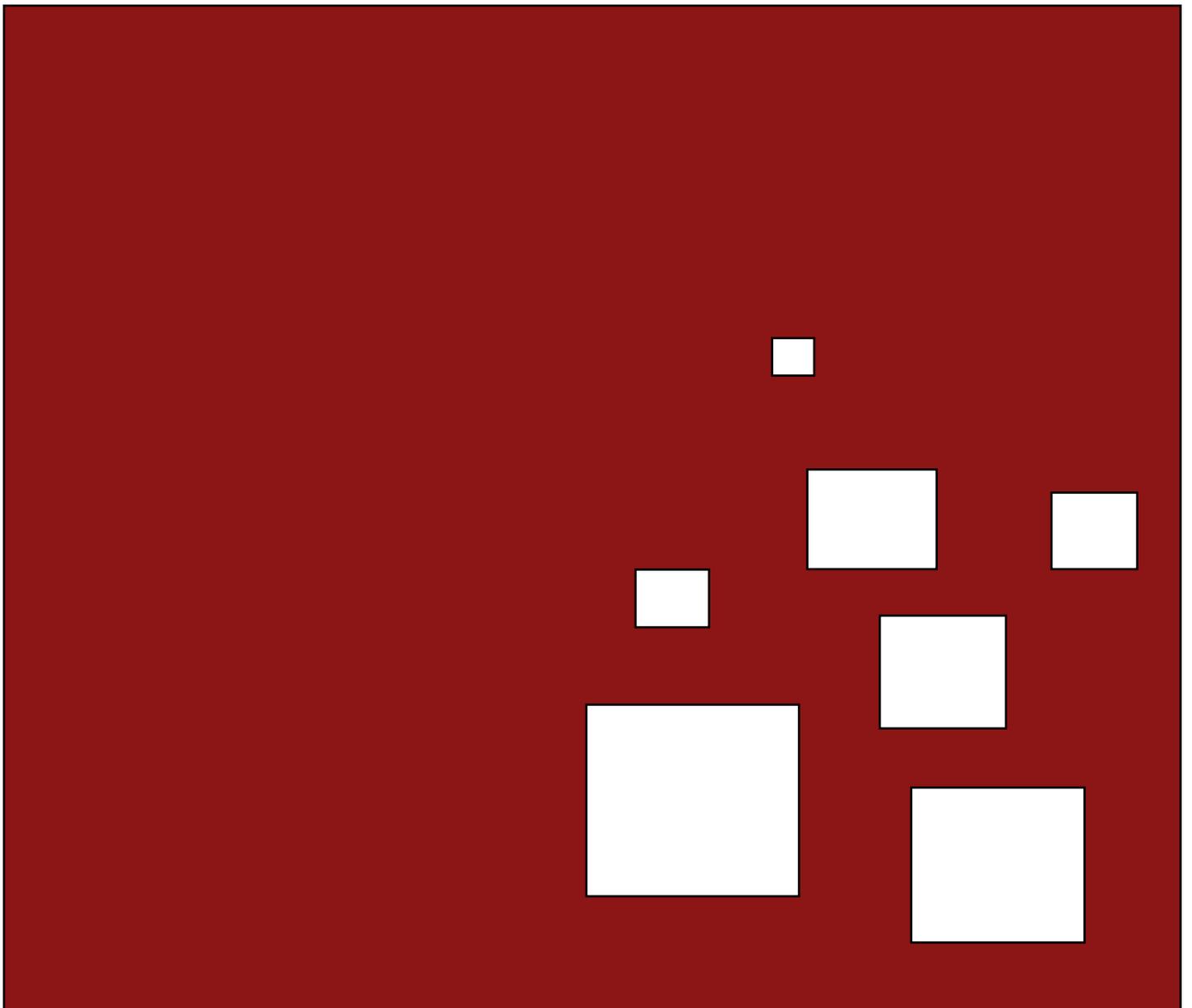


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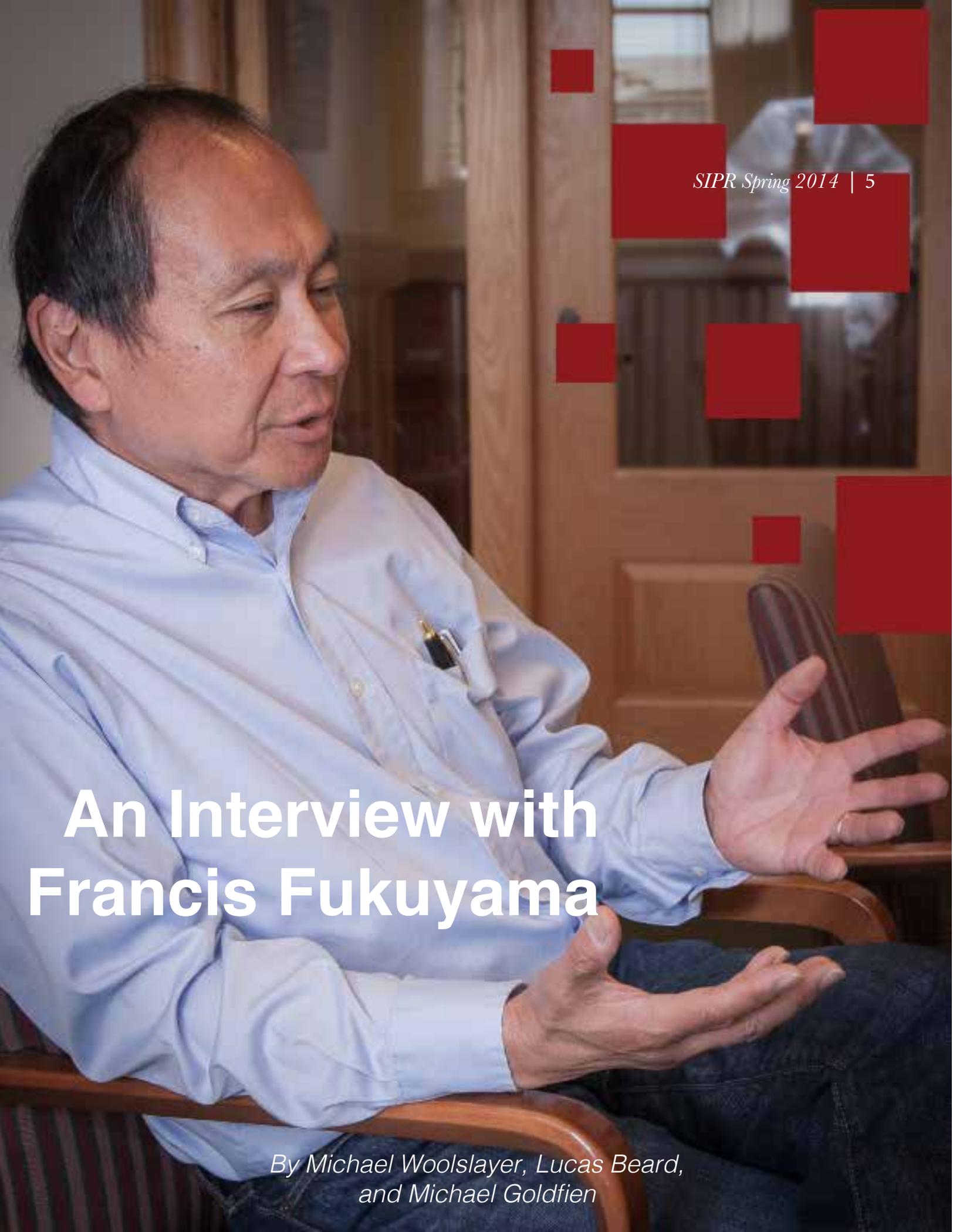
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As members of the Stanford International Policy Review editorial board, we hope you enjoy the following inaugural issue. For questions and comments please email us at stanfordipr@stanford.edu

-- Lucas Beard, Michael Goldfien, and Michael Woolsey



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An Interview with Francis Fukuyama

*By Michael Woolslayer, Lucas Beard,
and Michael Goldfien*



An Interview with Francis Fukuyama

*By Michael Woolslayer, Lucas Beard,
and Michael Goldfien*

Francis Fukuyama does not pay much attention to the field of international relations these days. In recent years, “the incentives have all been to do very empirical, but necessarily, very micro-level studies. This whole trend towards doing randomized experiments has accelerated that small-bore focus.” His current interests lie very far from “a lot of the cutting-edge research, that’s methodologically cutting-edge,” because such research “addresses pretty small issues.” The “micro-studies are very good, they are very important, but it’s hard to say these are the top three that you absolutely need to read.” In part, this is due to the significant increase in available sources of data that were almost unthinkable thirty years ago, when he joined the field.

Yet Fukuyama also identifies a deeper source: the emulation of economics. Political science has “regressed though in the sense that it’s been colonized by economics and by economic models. So the economists are all emulating physicists, and the political scientists are all emulating economists.” Political scientists end up missing many of the more interesting and fundamental questions of politics that cannot be explained by simple economic models. “You need much more contextual information, you need much deeper knowledge of history, you need languages, understating of culture really to understand political outcomes.” Not to say theory is not important, but “in politics, you just cannot come up with the kinds of elegant theoretical models that

you can in economics.” Not that those models have proven effective, as the recent crisis has shown. “Those models don’t work very well. Economists themselves don’t really understand how the macroeconomy works.” In emulating economics’ methods and concerns, “we’ve really lost something in political science in that respect.”

Fukuyama has long been engaged with large issues, since his training in the Humanities as a Classics major at Cornell. “I wanted to learn Greek so I could read Plato and Aristotle in the original under the influence of Alan Bloom, who was a political theorist and a very charismatic teacher that I had met my freshman year.” He spent his undergraduate years studying philosophy, and not taking any political science, aside from political theory. As the post-modernist wave hit the United States in the mid-1970s, Fukuyama spent a year doing comparative literature. “I went to Paris and studied with Jacques Derrida and Roland Barthe, and all these French luminaries. I ended up really hating it.”

He switched into a political science graduate program, focusing on “very kind of nitty-gritty, policy-oriented political science,” in a sense “overcompensating in the other direction.” This circuitous route to the study of political science proved valuable. “I am really glad I had that kind of schizophrenic training, because I think the background in political theory introduced me to really big questions.”

“I am really glad I had that kind of schizophrenic training, because I think the background in political theory introduced me to really big questions.”

Such training also embedded a healthy respect for qualitative methods. “A lot of times if you want to look for causality, the way



to do it is not to try to run a regression between two big datasets, it's actually going and talking to decision-makers and trying to trace the processes by which decisions are made." Fukuyama is aware of the limitations of these methods, but thinks in for some of the bigger issues they are the only real option. "It won't have a lot of external validity," but that is ok, because "when you get to some of these big issues, there isn't a single, elegant theory that's going to have a lot of external validity, all you can do is try to understand specific cases."

Inspiration from early mentors like Samuel Huntington reinforced this inclination toward big questions and projects. His current undertaking on political order is an attempt to rewrite and update Huntington's own *Political Order and Change in Societies*. *The End of History* grew from the "European Hege-

lian tradition” that Fukuyama had been immersed in as an undergraduate and early graduate student. As he said:

That’s probably where the Humanities background actually makes a difference, because I think in philosophy or in political theory you’re used to asking big questions. There’s no point in saying, “Does a co-payment increase the uptake in bed-nets?” That’s not a philosophical question. But the questions “What’s the best sort of government?” or “How do governments change or decay or grow?” That is the sort of thing that you ask if you’re a political theorist.

“When you get to some of these big issues, there isn’t a single, elegant theory that’s going to have a lot of external validity, all you can do is try to understand specific cases.”

Though stemming from similar philosophical impulses, the process of tackling these massive projects has changed over the years. In the past, like the writing of *The End of History*, Fukuyama withdrew for a year, “did a lot of reading, wrote the book, then put it out there.” Now it is much more “kind of an iterative process.” He writes in sections, and then presents them for comment

from colleagues. “It’s more of a social process, where I’m constantly getting feedback and it builds into something larger.”

Whatever his methods, the products have made him one of the preeminent political science intellectuals of the modern era. Dr. Francis Fukuyama, Olivier Nomellini Senior Fellow at the Freeman Spogli Institute for International Studies (FSI), has produced landmark scholarship for over thirty years, from *The End of History* to his recent two-volume project on political devel-

opment, *The Origins of Political Order* and the forthcoming *Political Order and Political Decay*. He remains a well-known, respected, and sometimes controversial academic, particularly in countries that have, correctly or incorrectly, tied his ideas to their own experiences with “neoliberal” institutions and reforms. This was evident during a recent trip he led to Argentina with Stanford University International Policy Studies graduate students, where officials from the Mayor of Buenos Aires, Mauricio Macri, to the Minister of Social Development, Alicia Kirchner, solicited his opinion on the country’s policies.

In spite of, or perhaps because of, the impact of his scholarship, Fukuyama has been frequently misunderstood. “With regard to *The End of History*, the most common misunderstanding was just my use of the term ‘history,’ obviously,” he said. “It’s interesting, because the one group of people who had no problem with the concept were actually people of a Marxist tradition, because the Marxists have the same concept of History with a capital H, and then the end of History, which would be communism.” When Fukuyama suggested that the end of History would not be communism, but some form of liberal democracy, the Marxists understood perfectly; “they might not agree, but it was within their conceptual framework.” Most Americans, on the other hand, “don’t have that conceptual framework, didn’t grow up in that particular philosophical tradition” and so did not grasp his meaning when he referred to History. Many also misinterpreted *The End of History* to be referring to a particularly American variety of democracy and market economics. “Actually,” Fukuyama said, “I’ve always thought the European Union represents the true end of history, because in the European Union they’re basically trying to substitute law and a kind of universal norms for power politics in a way that the United States is not really willing to.”

In fact, Dr. Fukuyama is vocal about what he views as the decline in American institutions. “It’s not a good situation where

you have a highly politicized political class and public, combined with a check-and-balance system that has evolved into something that I call a ‘vetocracy.’” The system was originally designed with significant impediments to quick government decision-making. “That’s fine if your main objective is to avoid tyranny, or if you don’t need very much government, which was the case in nineteenth century America.” Yet these same mechanisms are contributing to the current gridlock. Though not unprecedented in American history, the U.S. is now failing to accomplish “one of the most fundamental functions of a government, to pass sustainable, fiscally-responsible budgets, not just on a year-by-year basis, but actually to do it with some predictability.” The “capture of American government by well organized interest groups” has meant that “legislation is poorly written” and “we can’t reform our tax code.” The recent Supreme Court decision on campaign finance, *McCutcheon v. Federal Election Commission*, No. 12-536, has “removed all the obstacles that stood in the way of the rich and powerful being able to use the system for their own purposes.”

The increasing trend toward greater income inequality in the U.S. is partly to blame for the polarization in Washington. Yet many of those who suffer the effects of the “growing skew in income distribution” have been driven by a burgeoning populism to vote for a Republican party that advocates the very policies that accelerate the trend. “It’s just one of these contradictory, not understanding your self-interest outcomes kinds of outcomes that periodically happen in democracies.” Populism itself can be a positive force, if harnessed for useful purposes, like the popular movement that drove the New Deal in the 1930s. “The capture of government institutions by elites in a democracy will only [not] happen if the people being harmed by that use their power at the ballot box to correct the situation.”

Fukuyama is not a doomsayer on the U.S., but a realist: “it’s not a crisis in the sense that the system is going to break down

and come to a grinding halt, but it does mean that the quality of government in the United States is not good.” The ramifications of the stultification of institutions play out internationally, as well. Along with colleagues Larry Diamon, Gerhardt Casper, and Stephen Krasner at Stanford’s Center on Democracy, Development, and the Rule of Law (CDDRL), Fukuyama has seen a decline in the appeal of the U.S. model around the world, a far cry from the case even twenty years ago. “When you have a Washington that is so partisanly divided that we can’t pass a budget and the whole government shuts down, nobody says, ‘Yeah, we want to be like that. We want to shut down the government

“It’s not a crisis in the sense that the system is going to break down and come to a grinding halt, but it does mean that the quality of government in the United States is not good.”

because we can’t agree on the budget.”

Even with sufficient agreement to pursue a policy, there is no guarantee that it is implemented effectively. “People agree on many policies, but they can’t make them work.” Fukuyama cites the failures in nation-building after the Iraq War and the botched Obamacare rollout as recent exam-

ples. He supported the initial invasion of Iraq and thinks “that universal health insurance is a good thing, and we ought to have it.” Yet, in both cases, “they managed to screw this up in a way that it threatens the actual survival of the underlying policy. These are pure implementation issues.”

The decline of the bureaucracy in the United States is partly to blame. “Right now, our civil service is extremely demoralized, and I would say its quality has been declining steadily over the

last thirty-four years.” To help tackle this decline, Fukuyama joined the board of directors of the Volker Alliance, an organization started in 2013 by former Chairman of the Federal Reserve Paul Volcker to address effective implementation of public policies and rebuild public trust in government. He laments the fact that few of the most qualified people pursue work in the government bureaucracy. “It’s not surprising, because the government makes it really hard to work for them.” The most public service-oriented have been gravitating toward NGOs and international organizations rather than the civil service. “That’s really bad, because you need strong, smart, young, motivated people running the government. A lot of what I think I want to focus on at this stage of my life is to try to figure out how to make this stuff work better.”



Travels in Search of Argentina's Democracy

By Lucas Beard



Travels in Search of Argentina's Democracy

By Lucas Beard

This spring, I traveled to Argentina as a member of Stanford University's International Policy Studies trip led by Dr. Francis Fukuyama to analyze Argentina's political situation by meeting with the country's decision makers, government employees, civil society, and academic community. In every meeting we attended, we kept hearing the same messages. Our study trip exposed an unsettling deterioration in the democratic processes in the country paired with a feeling among the population of resignation. Despite these observations, the general elections in 2015 may provide an opportunity for change in the near future. Here are some first-hand impressions of this study trip to Buenos Aires.

These are perilous times for Argentina's democracy. The danger and consequences of democracy's potential failure will surprise no one in a country with such a patchwork history of elected governments interrupted by military coups. While Argentina has maintained elected officials for the last 31 years, the true measure of democracy: choice, appears to be evaporating. The balance of power between the executive, legislative, and judicial branches has swung starkly in favor of presidential power. Corruption, clientalism, and populist economic policies abound in the country. Most Ar-

gentinians simply shrug their shoulders at these deteriorating democratic norms; seeming to validate the belief that this is just a regular downturn in the cycle of Argentinian governance.

Social Development

Wide-eyed with disbelief, members of our study trip wandered through the *collectivos* outside of Buenos Aires. The government funds these *collectivos*, or socialist work camps, as social development projects intended to relieve poverty and encourage economic growth. Despite the injection of government development funds, the work camp was a sad place incorporating several sparse buildings into a wide forest near Argentina's largest airport. It felt like a Soviet work camp, complete with a Dear Leader iconography (profiles of Evita Peron next to those of current President Cristina Fernandez de Kirchner) and propaganda videos detailing the social utility of the facility.

The *collectivo* produced small amounts of paving bricks and lumber; however, there was no larger demand for these manufactured products. The languid workers made it abundantly clear that the focus of the project was more on clientalistic voter appeasement than a form of social development or skills training. Despite the rhetoric of empowerment, the collective seemed to be a thinly veiled handout to voters and local politicians.

The Peronist is Dead, Long Live the Peronists

Part of a larger recurring theme of populist politics in Argentina, the current Kirchner administration has promoted unpro-



*A colectivo street sponsored by the
Ministry of Social Development*

ductive, un-targeted subsidies at the expense of true economic development. Echoing the populist couple-based leadership of the Peron family in the 1960s, the 2000s was a decade of the Kirchners. First, Nestor, riding the soy-based commodities pricing boom, helped bring the country out of serious economic turmoil, and after Nestor passed away, his wife has taken up his cause. This populist husband-to-wife succession echoes the pattern of succession in 1974 when the presidency passed from Juan Peron to his third wife, Isabel Peron.

In meeting with members of the local governments, civil society, and small business owners, I felt a jaded sentiment regarding the economy. These people had seen this movie before; they knew how it was going to end; but they couldn't help but keep watching until it finished. A profound and pervasive sense of déjà vu meant somewhat counterintuitively, that there was no dread or calamity, but instead resignation.

From an economic perspective, Cristina Fernandez de Kirchner appears to be a low-tax, and spend populist. As Argentina has discovered before, spending money that you don't have can

Argentina's balance of power has shifted to clearly favor the executive branch

lead to overdrawn bank accounts and irate creditors. The signs of financial distress due to poor fiscal policy have been piling up. In 2010, the president controversially, and potentially illegally, fired the head of the Central

Bank for not tapping into the country's sparse foreign exchange reserves. Kirchner understandably wants to provide services for her constituents from both a value-based perspective and a personal elections position, but doing so has created a ticking clock of current account imbalances. Exacerbating this current fiscal mismanagement is the debt overhang from the last time Argentina defaulted in the early 2000s. Currently, this debt situation has yet to be resolved and a large quantity of money is being litigated in New York as a result of debt holdouts. Only time will tell how long creditors can be held at arms reach and how far into the red Argentina can fall before yet another sovereign default or a change of government is in the cards.

Imbalance of Powers

We began our trip with a discussion of Argentina's judiciary with Ricardo Gil Lavedra while sitting on the steps of the University of Buenos Aires' Law School. Mr. Lavedra led the Trial of the Juntas in the 1980s, when the new democratic govern-

ment examined the war crimes of the previous military junta. He cautioned us about current dangers facing the Argentinian government. Reclining on the university stairs, I watched joggers in brightly colored spandex pass by on well-marked exercise trails. With brilliant weather and smiling pedestrians, I couldn't quite comprehend what Ricardo Gil Lavedra was telling us. The story we heard was so dissimilar and disconnected from the first-world idyllic scenery that it didn't even feel real. And that's exactly the danger in Argentina. Due to Argentina's abundant natural bounty and educated population, it's easy for visitors to think that revolutions, human rights abuses, and neglected democracies happen somewhere else, certainly not here,



Ricardo Gil Lavedra discussing the state of Argentina's judicial system

not in Buenos Aires with its broad tree-lined streets and fancy restaurants. Mr. Lavedra was the first of several high-level individuals to describe the specific ways that President Kirchner has attempted to derail the country's democratic processes by exempting the executive branch from the normal checks and balances of government.

In a concerning trend reminiscent of other populist regimes with strong personality-driven leaders, Argentina's balance of powers has shifted to clearly favor the executive branch. Like most modern constitutional democracies, Argentina has three distinct and purportedly independent branches of government: executive, legislative, and judicial.

The branch has become increasingly powerful and unilaterally acting. A primary mechanism for this expansion has historically been the Necessity and Urgency Decrees ("DNU") issued by the President of Argentina. A part of the constitution since 1994, these decrees were used to skirt democratic processes and "fast-track" legislation to bypass Congress. President Cristina Fernandez de Kirchner has used DNUs to achieve goals, such as ousting the president of the Central Bank head and support the development of the deal that nationalized Repsol's resource extraction operations in Argentina. Both of these decisions drew considerable ire from the international community.

During our last day of meetings, we concluded our trip with a visit to Argentina's Supreme Court and a meeting with the President of the Court, Dr. Ricardo Lorenzetti. He told us yet another eye-opening tale of presidential overreach. In a sustained battle for judicial independence, Dr. Lorenzetti conceded that the Supreme Court has lost its battle for the indepen-

dence of the lower courts. These lower courts are now strongly influenced by local political movements stretching from Buenos Aires and are no longer considered a dependable form of justice. With defiant, tired eyes, the Chief Justice suggested that with no control over the lower courts, and an uncertain future for the Supreme Court, the entirety of Argentina's judicial independence was at stake.

Rekindling Democracy: An Opportunity in 2015

Given the volatile combination of populist politics and economics, the signs do not augur well for Argentina's democratic future. The economy is barely limping along due to a combination of stubbornness, barely effective capital controls, and a desire of the international community to prevent another massive sovereign default. The political situation suffers from crack downs on media, deteriorating independence in the judiciary, and a determined effort from the executive branch to subvert the legislature through presidential decrees. However, despite these apparent threats to democracy, it is not too late to save Argentina's democracy and there are possible glimmers of light on the horizon. In October 2015, Argentina will have a general election that will include the selection of a new president. With Cristina Fernandez de Kirchner constitutionally ineligible for a third consecutive term, next year looks to include a highly contested field of candidates. The election and political discourse has spilled out onto the streets with ubiquitous graffiti advocating or denigrating one candidate or another. While there are several pro-Kirchner politicians eligible for election, there are also a few candidates that are seeking to change Argentina's path and reverse some of the decisions of the last decade.

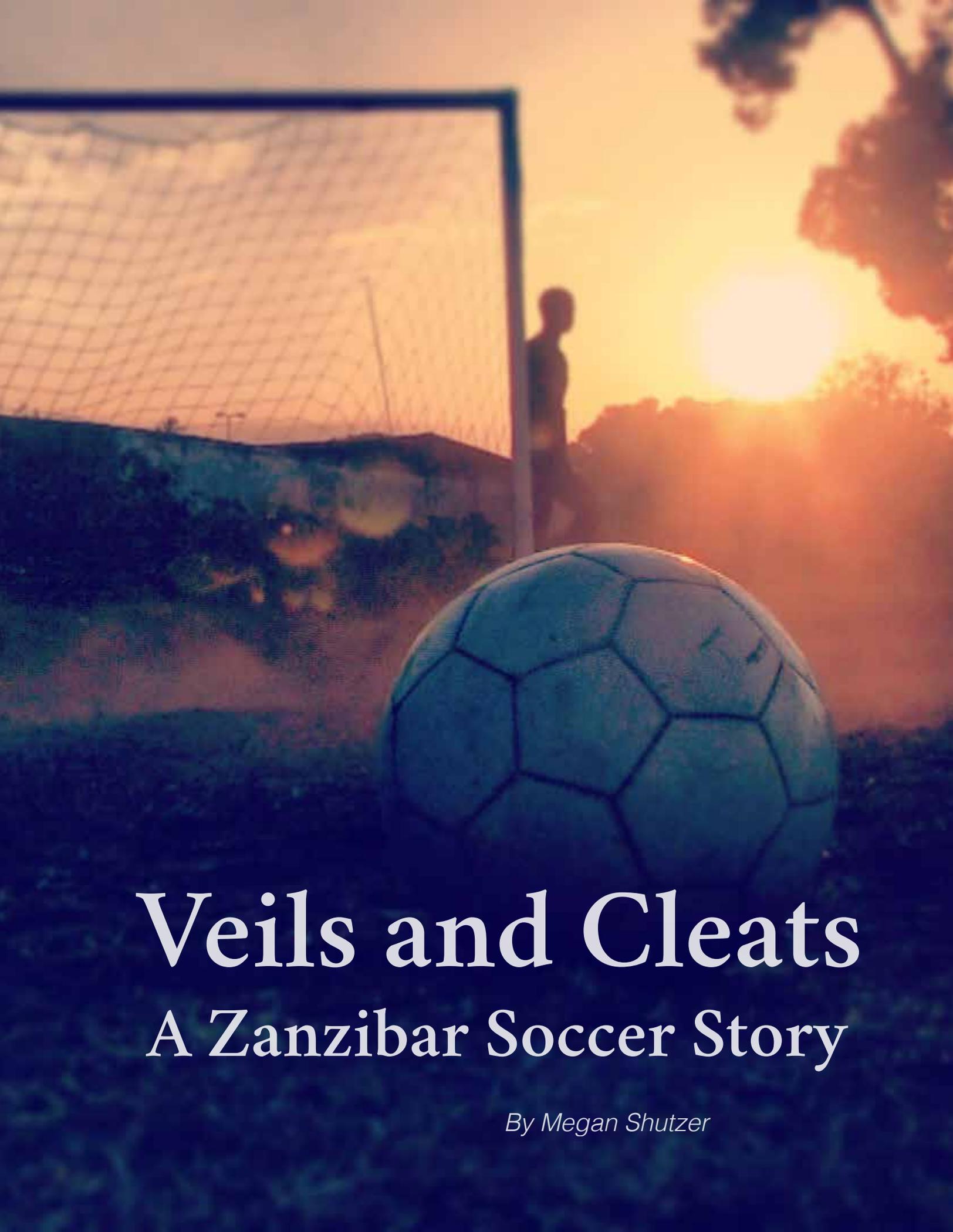


The mayor of Buenos Aires, Mauricio Macri, approaches his desk after a speech

One bright spot has been the potential candidacy of the mayor of Buenos Aires, Mauricio Macri. A prominent businessman and member of the opposition party, Macri is one individual seemingly keen on changing the political course set by Kirchner. When we visited the mayor in his offices, he went to lengths describing how divergent his policies would be from the current administration. A concrete measure of his efforts to improve democratic processes has been the creation of the Open Government Initiative in the City of Buenos Aires. This project, based on the principles of open governance and transparency, collects and releases city management information to the public while building user-friendly platforms to access and understand this data. The Open Government Initiative has created annual ‘hackathons’ to promote creative uses for public data, and they have collaborated with other Argentinian cities to build transparency and accountability. In a country that has only recently released accurate inflation numbers, the transparency of the Open Government Initiative is a welcome step in the right direction.

Likewise, the president of the Supreme Court, Dr. Ricardo Lorenzetti, described his efforts to fight and protect the traditional democratic checks and balances between the legislature, executive, and judiciary. While Lorenzetti admits this is a losing battle at the moment, he also alluded to potential positive changes from the upcoming general election in 2015.

When Argentinians go to the polls next year, I'll be eagerly awaiting to hear the results. The country has been in this position before, and we'll see what its constituents make of the country's current trajectory.



Veils and Cleats

A Zanzibar Soccer Story

By Megan Shutzer



Veils and Cleats: A Zanzibar Soccer Story

Zanzibar, a semi-autonomous state off the coast of Tanzania, is a cultural melting pot, influenced by its historical ties to the Arab world as well as the African continent. Though Islam has long been prevalent on the Island, over time religion has crept into Zanzibari politics and woven itself into social norms of day-to-day life, particularly with regard to gender. For example, there is a widely held belief in Zanzibar that it is immoral for women to play soccer.



Megan Shutzer is a recent graduate from Stanford University's International Policy Studies program.



The women of the New Generation Queens do not share the belief that playing football as a Muslim woman is immoral. They are leading a new wave of Muslimah football on the island, transforming long-held ideas about women, Islam, and sports.

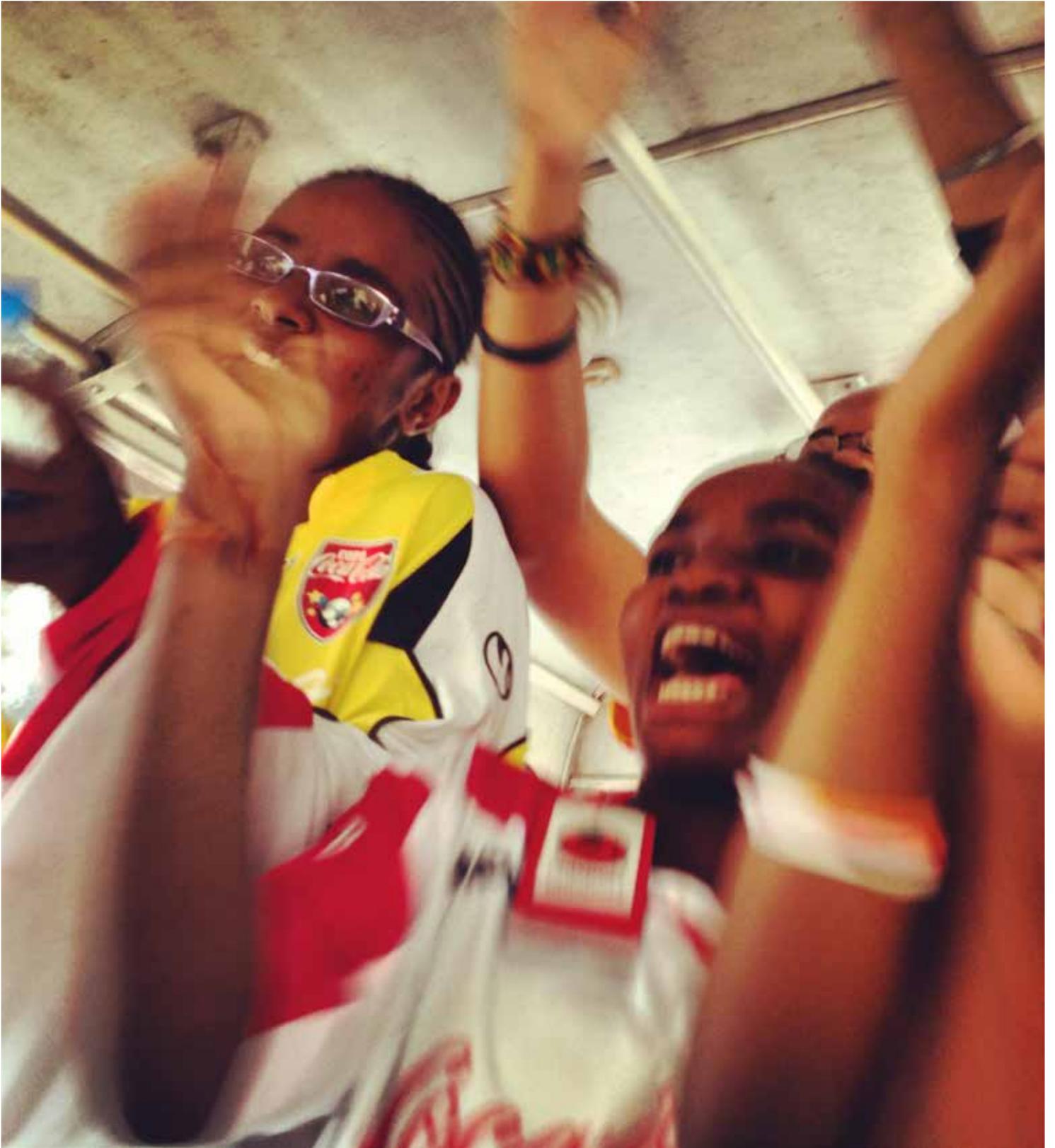


These women face criticism from their community for wearing shorts, competing against men, and playing in front of male spectators. Though many of the players were initially forbidden to participate by their families, and others have been pressured by their husbands to give up the sport once married, the New Generation Queens have slowly shifted perceptions about women's soccer on the island.



Their love of sport outweighs the hardships of participating, and they are fiercely committed to sharing their passion with others. The players aim to show their community that they can be strongly committed to both sport and religion. These film stills depict that very synergy.





Culled from a documentary currently in production—a collaboration between filmmakers, Katie Tygeliski and Megan Shutzer, and players on the team—the selected stills capture the spirit of these strong women at the forefront of a movement for a more equitable and inclusive world.

While at first glance women's soccer appears to be an unusual policy issue, there are policy implications for school programs and ministry of sports funding. In the past six months alone, three new women's teams have formed, and under the leadership of Nasra Mohammed, assistant coach to Tanza-



nia's national women's football team, the sport is being introduced to girls in thirty schools across Zanzibar. On an island where many women are relegated to cooking, cleaning and childcare roles, sports offer both physical and socio-cultural benefits that increase confidence and can encourage women to imagine themselves as actors with agency over their own lives.





The Weakness Fallacy

By Michael A. Goldfien

Throughout the recent period of unrest in Ukraine, commentators have jumped at the opportunity to blast the Obama administration for its “weak” response to Russian aggression. Charles Krauthammer called President Obama’s policy “toothless.” Sarah Palin observed that whereas Vladimir Putin is seen as someone who “wrestles bears,” Obama is seen as someone who wears “mom jeans.” Even more measured critics, like Leslie Gelb, have argued that U.S. policy is missing “credible force,” which would not only send a stronger message to Moscow, but to Pyongyang and Beijing as well. So are the naysayers right? Are the bad guys taking advantage of U.S. weakness? Will America’s allies start looking for new friends, fearing that Washington is no longer a credible partner?

In short: No.

Putin didn’t decide to annex Crimea because Obama is too weak to use force. Between the intervention in Libya, the surge in Afghanistan, and drone strikes in Pakistan and Yemen, only a very selective memory could lead one to conclude that Obama lacks the spine to use his military. No, Moscow didn’t capitalize on U.S. weakness. It capitalized on an asymmetry of interest.

Michael A. Goldfien is an M.A. candidate in International Policy Studies at Stanford University

Crimea is strategically and culturally important for Russia. For the U.S., not so much. Even with the United States' vastly superior military, it would be costly to defend Crimea from Russian aggression. So when it looked like Putin might lose

Russia didn't capitalize on U.S. weakness. It capitalized on an asymmetry of interest.

his influence in Kiev, he took a risk in annexing Crimea not because the Obama administration is too weak to use force, but because he correctly bet that the U.S. wouldn't be willing to incur significant costs to

militarily defend a peninsula of little interest. As former Secretary of Defense Robert Gates recently said about the situation in Crimea, "there is no real military option."

But without a stronger response, won't allies in Asia start to question U.S. credibility?

Countries like Japan or the Philippines might see it this way. If the U.S. isn't willing to use force to prevent Russian irredentism, why should they expect the U.S. to defend them against Chinese irredentism? Then again, Ukraine isn't a treaty ally of the United States. Washington may prefer that other countries respect its territorial sovereignty, but the U.S. isn't bound to defend Ukraine against external aggression. If the Obama administration had been "toothless" in response to a Russian invasion of a NATO member, treaty allies in Asia would have much more cause for concern.

To the contrary, the Obama administration's refusal to use or threaten force over Crimea may simply reflect its commitment to the Asian pivot. In the context of China's rise, the Obama administration's response to the annexation of Crimea could be seen as an effort to conserve resources for Asia-Pacific, where American economic and strategic interests are greater. In this way, both friends and foes in Asia might actually see the U.S. as more credible.

So does the U.S. need to demonstrate its resolve in Europe to reassure allies in Asia? Does it need to use force against Russia to deter China or North Korea? No. With deft diplomacy, Washington can simply remind decision-makers in Asia that, in contrast Crimea, the U.S. has vital interests in the region and is willing to defend them militarily. In fact, with many U.S. allies in Asia spending just 1-2 percent of GDP on defense, perhaps *they* should be seeking to reassure Washington.

North Korean Defectors in China: Illegal Economic Migrants or Refugees?

By Yu Bin Kim

Throughout the 2012 South Korean presidential election campaign, Park Geun-hye emphasized not only the denuclearization of the Korean Peninsula, but also the problem of North Korean refugees in China. A first step to dealing with this issue would be pushing Beijing to consider North Koreans who cross the border into China as refugees, not as economic migrants. This distinction, based on the 1951 Refugee Convention, is important because it would make it illegal for China to repatriate those fleeing harsh conditions in North Korea. To encourage Chinese compliance, Seoul should emphasize its willingness to accept North Korean refugees as South Korean citizens on-arrival.

The Refugee Problem

In the early 1990s, the following two events exacerbated an already stagnant North Korean economy: the fall of the Soviet Union and flood disasters. With the withdrawal of Soviet financial assistance, the basic services provided by the North

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Korean government to its citizens rapidly collapsed. Moreover, due to inefficient and flood-damaged agricultural production, numerous North Korean citizens suffered severely from both hunger and malnutrition. Since then, often forced by these harsh living conditions and a dearth of economic opportunities, North Koreans have begun to cross the border into China in search of not only food, but refuge. Currently, it is estimated that there are approximately 30,000 to 50,000 North Korean refugees in China.¹ As long as North Korea remains either diplomatically or economically isolated, the number of North Korean citizens crossing the border into China is expected to increase. Unfortunately, the problem is that the Chinese government does not provide any form of internationally mandated protection, including the most minimal form known as “temporary protection,” for these vulnerable North Koreans. Meanwhile, international pressure to urge China on this matter has been lacking.² For South Korea and the rest of the international community, the immediate challenge will be to form a cohesive argument in order to facilitate China’s recognition of its indirect role in human rights violations.

The Definition and Rights of a Refugee

Through the 1951 Refugee Convention and its 1967 Protocol, the international community confirmed the universal definition of a refugee. According to the United Nations High Commissioner for Refugees (UNHCR), a refugee is someone who:

...owing to a well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion, is outside the country of his nationality, and is unable to, or owing to such fear, is unwilling to avail himself of the protection of that country.³

Therefore, all of the 145 signatory countries are obligated to protect those who satisfy this definition. At this point, it is important to note that both South Korea and China are signatory countries, also known as “contracting states,” to the 1951 Refugee Convention and its 1967 Protocol.

While protecting refugees, signatory states must adhere to the *non-refoulement principle*. Simply put, this non-refoulement principle prohibits all signatories from repatriating those who meet the refugee definition, especially against their will. Without a doubt, it is the most important mechanism for refugee protection. The non-refoulement principle is stated explicitly in Article 33 of the Convention:

No Contracting State shall expel or return (‘refouler’) a refugee in any manner whatsoever to the frontiers of territories where his life or freedom would be threatened on account of his race, religion, nationality, membership of a particular social group or political opinion.⁴

In order to preserve state sovereignty, however, “contracting states” reserve the right to reject the principle of non-refoulement under certain circumstances. For instance, if either incoming or residing refugees pose a grave security threat, signatory countries may repatriate them. In the same manner, signatories can deny the right of non-refoulement to refugees who “had been convicted of a ‘particularly serious crime’ in their country of origin.” Many ordinary North Korean citizens who cross the border into China belong to either the “wavering” or the “hostile” *songbun* class under the country’s rigid caste system.⁵ The Pyongyang leadership’s perception of loyalty determines each individual’s respective *songbun* status.

(Here, being loyal means providing unconditional support for and holding political views that are acceptable to the regime.) Unlike the small minority forming the “core” class, which is at the top of the hierarchy, those in the “wavering” and “hostile” classes often face severe economic and political discrimination.⁶ Since North Korea deliberately utilizes this *songbun* system as a tool for not only controlling but surveilling its own society, people in the “wavering” and “hostile” classes must be seen as holding “membership of a particular social group or political opinion.” This makes them refugees, not illegal economic migrants.

The concept of *refugees sur place* complements the 1951 Refugee Convention and its 1967 Protocol in an important way. The UNHCR defines *refugees sur place* as people who become refugees “at a later date.” In other words, if the possibility of persecution upon repatriation causes genuine and valid fear regardless of their initial status upon leaving their country, these people meet the definition of refugees sur place. Indeed, it is important to note that both *refugees sur place* and refugees are considered the same by international law. Consequently, as conventional refugees, these *refugees sur place* are also safeguarded by the principle of non-refoulement. In regards to North Korean refugees in China, the High Commissioner for Refugees, Antonio Guterres, emphasized the importance of this particular concept to the Chinese government back in 2006.⁷

A Definition Open to Interpretation?

The Chinese government argues that North Korean citizens who cross the border into China are illegal economic migrants, not refugees.⁸ In fact, the Ministry of Foreign Affairs (MOFA)

emphasizes the initial motive of these North Koreans for crossing the border. According to the MOFA, they cross the border not in fear of persecution, but in search of food and economic opportunities; thus, in this sense, they do not satisfy the definition of a refugee. Moreover, the Chinese government argues that the constant influx of North Koreans constitutes a grave security threat to the country because it erodes social stability. On this basis, especially in the name of state sovereignty, China claims that it has the right to repatriate North Koreans as a countermeasure. Lastly, the Chinese government frequently mentions the importance of staying committed to a bilateral agreement, also known as the “Mutual Cooperation Protocol for the Work of Maintaining National Security and Social Order and the Border Areas,” that it signed with North Korea

By forcibly repatriating refugees, China aims to maintain and expand its influence in Pyongyang.

back in 1986. Under this agreement, both China and North Korea are required to prevent illegal border crossings.⁹ It is important to note that the North Korean government considers every illegal border

crossing a treason punishable by death, which gives China another reason to repatriate North Korean citizens on the basis of the following statement: they “had been convicted of a ‘particularly serious crime’ in their country of origin.” Simply put, China views its repatriation of North Korean “illegal economic migrants” as its legal obligation under its agreement with North Korea. At the same time, by forcibly repatriating North Korean refugees China aims to maintain amicable relations with Pyongyang and expand whatever influence it has

over North Korea.¹⁰

The South Korean government does not accept China's position regarding North Korean refugees. Rather, the Seoul views China's behavior as a violation of the *refugees sur place* concept accredited by the international community and the UNHCR. Unlike China, South Korea firmly believes that North Koreans who cross the border into China must be considered refugees, not illegal economic migrants. While the Chinese have been reluctant to accept Seoul's viewpoint, there are ways of bolstering South Korea's position.

Taking Action

China's argument with regard to the initial motive of North Koreans crossing the border can be countered in two ways. First, China is violating the concept of *refugees sur place*, which plays a key role complementing the 1951 Refugee Convention and its 1967 Protocol. According to this particular concept, many, if not all North Korean citizens in China become refugees "at a later date" due to their fear of persecution upon repatriation. If their fear is credible, it overrides their initial intentions for leaving their country. As mentioned before, illegal border crossing is considered treason in North Korea. Accordingly, it can be punishable by not only forced labor, but also death. Indeed, these measures are extreme and neglect human rights. By violating the *refugees sur place* concept, China is also violating the principle of non-refoulement, especially as a signatory country to the Convention and its Protocol. Second, North Korea is the world's most isolated country with marginal economic growth. Without a doubt, it is extremely difficult for ordinary North Korean people to even make a minimal living

within their country. Arguably, these North Koreans are persecuted economically due to their fear of starvation. Given the North Korean government's inability to provide even basic, necessary services and its exclusive control over the public distribution system (PDS), which operates on the basis of the *songbun* system, those in the "wavering" and "hostile" classes often fall victims to the lack of access to food and material supplies, especially in times of economic hardship.¹¹ In this context, their continuous economic deprivation must be considered tantamount to political persecution. Through this interpretation, North Koreans should be legally considered refugees even upon their initial entry to China. Finally, China's commitment to its bilateral agreement with North Korea can be challenged by its earlier commitment to the Convention and its Protocol.

South Korea should not choose "quiet diplomacy" for handling this issue with China. While moving away from "quiet diplomacy," Seoul can

focus on publicizing to the international community the fact that South Korea accepts North Korean refugees as citizens upon arrival. Concurrently, Seoul should provide

Seoul should provide China with another option: sending refugees to South Korea.

China with another option: sending detained North Korean refugees to South Korea rather than North Korea. Showing South Korea's willingness and efforts to resolve the North Korean refugee issue will not only garner international support, but will also encourage other countries to increase international pressure upon North Korea and China. However, other

countries accepting North Korean refugees as residents, if not citizens, remains to be seen. Most importantly, by providing China with an alternative destination for North Korean refugees, South Korea's actions will undermine China's argument that the constant influx of North Koreans constitutes a grave security threat to the country. Finally, in cooperation with the international community, Seoul should push China to open its border areas with North Korea for inspection by the UNHCR. Granting access to the border areas will help the UNHCR and other organizations gather valuable information about North Korean refugees and their situation.¹²

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5. Roberta Cohen, "China's Repatriation of North Korean Refugees," *Brookings*, March 5, 2012.

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Autodefensas in Mexico: Will The Cure Be Worse Than The Disease?

By Lisa McKinnon Munde

On February 24, 2014, an issue of TIME magazine hit newsstands featuring a picture of Mexican President Enrique Peña Nieto with the caption, "Saving Mexico." This issue circulated at a delicate time for Mexico as the security situation continues to deteriorate, despite recent progress in targeting and arresting high value individuals (HVIs) such as Joaquín Archivaldo "El Chapo" Guzmán Lora, leader of the Sinaloa Cartel. Notwithstanding these limited HVI targeting successes,¹ the overall narrative in Mexico seems to be one of increasing lawlessness. The inability of the government to provide security and governance in the face of the mounting threats and violence from drug trafficking organizations that operate with impunity has lead some, like author John Robb, to classify Mexico as a "hollow state."²

Peña Nieto's failure to address security concerns has also given rise to armed civil self defense groups known as autodefensas in the agrarian southwestern state of Michoacán,³ where kidnappings reached record levels in 2013 and murders climbed to a 15-year high.⁴

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This article aims to characterize the recent emergence and legalization of autodefensas in Michoacán and subsequently draw brief comparisons between government-backed paramilitary groups in Colombia known collectively as CONVIVIR⁵ that operated in the 1990s, in order to better understand the common impetuses behind such movements as well as the relative utility and peril associated with government sanction of such groups.

Rural Defense Corps: A movement born in the wake of deteriorating security

On January 27, 2014, the Mexican government effectively legalized autodefensas operating in the southern state of Michoacán after initially opposing their existence and even mounting military offenses against them just two weeks earlier. These

armed civil self-defense groups, which began to form in Michoacán as early as February 2013, have since been incorporated as part of a Rural Defense Corps under the nominal control of the Mexican Army.⁶ The decision to place them under federal control stems from the increased role the military has been charged with

in combating cartel violence, as state and municipal security forces and judges have demonstrated susceptibility to corruption and extortion by drug trafficking organizations (DTOs).

Armed civil defense groups have taken it upon themselves to counter the influence of the brutal cult-like drug cartel known as the Caballeros Templarios.

However, allocating federal forces specifically to the state of Michoacán under this “militarization of public security”⁷ model had not been a top priority for Mexico City since Operativo Conjunto Michoacán, the initial deployment of federal troops in the drug war. Until now, the government had focused its efforts in more visible locations like northern border towns such as Juarez vice rural states like Michoacán. To combat this perceived neglect from the federal government, armed civil defense groups have taken it upon themselves to fill the void and counter the influence of the brutal cult-like drug cartel known as the Caballeros Templarios (Knights Templar), a splinter group of the now defunct La Familia Michoacána (Michoacán Family) cartel.

The plight of the autodefensas is compelling in light of the widespread destabilizing violence throughout the region—which the government has been largely ineffective at combating since the “war on drugs” began in 2006 under the presidency of Michoacán native, Felipe Calderon. Approximately 80,000 people have died and another 20,000 have disappeared in Mexico since 2006.⁸ In the agricultural lowlands of Michoacán, the self-defense groups present themselves as grassroots organizations and are comprised of about 5,000 citizens fed up with violence and extortion. Michoacán is the world’s leading producer of avocados, accounting for over half of the world’s market. The Templarios have been able to successfully extort large payments from farmers of this fruit, commonly called oro verde or “green gold” because it yields the highest returns of almost any other cash crop, including marijuana.⁹ The region also boasts sizable lemon and lime farms, is a large steelmaking center, and is home to the busy strategic deepwater Pacific port of Lázaro Cárdenas. The port is also a major point of ex-

change for raw chemical precursors from Asia used in manufacturing methamphetamines like “Crystal Meth” in Mexican laboratories for sale in U.S. markets.

In November 2013, the Mexican Navy had to take over the port after it was discovered that the Knights Templar, in de facto control of the facility, were illegally exporting large quantities of illegally procured iron ore to China.¹⁰ The cartel is known for its diversification in economic activities—drug trafficking, prostitution, extortion, and now smuggling of raw materials. According to Financial Times, the Knights Templar smuggled 272,000 tons of iron ore last year—44 percent of the ore produced in the entire country.¹¹ As recently as March 5, 2014, The New York Times reported that “More than 400 federal police agents and military personnel raided 11 holding and supply yards in Michoacán, seizing 119,000 tons of minerals at the port and 124 pieces of heavy machinery.”¹² The value of the confiscated material was estimated at \$15.4M.¹³ This development is another embarrassing incident for the Mexican government and demonstrates its inability to govern and control much of the territory outside the federal district.

The head of the autodefensas council, Dr. José Manuel Mireles, a medical doctor who resided in Modesto, California for ten years and regularly volunteered for the Red Cross, says that most citizens tolerated the financial extortion but that the situation changed “when the cartel began breaking into people's houses and began raping women.”¹⁴ A January 17, 2014, press statement from the Self-Defense Council of Aquila, Michoacán indicates that as the state and municipal governments have failed to rectify security concerns—killings, kidnapping, rape, and extortion—the people of Michoacán intend to take

matters into their own hands in order to defend their families and livelihood:

Today, the residents of the municipal seat of Aguila, tired of the extortions, rapes, killings, kidnappings and all sorts of criminal acts committed by the Knights Templar; given the complete abandonment of the citizenry by the municipal and state governments who for 12 years did not provide the security needed for our people to have a peaceful and dignified life; we have decided to organize our self-defense group in order to expel organized crime from our town, and we invite the rest of the people of the municipality to rise up against crime, so they never again feel fear or pay protection fees.¹⁵

Some laud the autodefensas as heroes for their determination in standing up and taking the law into their own hands in the face of horrific cartel violence and government inaction, after all Mexico does have what some call a “rebellious consciousness” that dates back to the Revolution of 1910.¹⁶ On the whole, however, this trend is a worrisome indicator that the public in Michoacán has experienced a complete loss of faith in government’s ability to provide security. Officially enfranchising these groups further deteriorates public faith in the ability of the state to govern its own territory as it suggests the state’s own recognition of this inability. Sergio Sarmiento, a columnist with the Mexican newspaper, *La Reforma*, criticized Mexican lawmakers for ceding the state’s monopoly on the use of force, “something the state never should have lost.”¹⁷ Earlier this year, citing a loss of confidence in the elected governor of Michoacán’s ability to provide security for his people, Peña Nieto appointed Alfredo Castillo as an envoy to take charge of Michoacán’s security. In a radio interview, Castillo warned that the autodefensas could eventually abuse their new

power: “You can start with a genuine cause, but when you start taking control, making decisions and feeling authority . . . you run the risk of getting to that point.”¹⁸ However, in their early media campaign, the group insists that they have no such aims. Estanislao Beltrán, a lemon farmer-turned self-defense group leader has said, “We have no interest in weapons. We want them to put an end to this organized crime and we’ll go back to our work.”¹⁹ However, perhaps his later comments provide indications that the group is already having second thoughts about working within the framework of the Army-supervised Rural Defense Corps: “The fact that we’ve made a deal with the government doesn’t mean we are going to be tied down. If we see it’s beneficial and advances the struggle, all right. If not, we’ll have to find another alternative.”²⁰ The attitude reflected in these comments is troubling to many scholars and human rights watchdogs, as other quasi-military groups active in the region eventually threatened the very security of those they originally intended to protect—such as those in Colombia, Guatemala, and El Salvador.²¹

Enfranchising the autodefensas in the Rural Defense Corps might seem a perplexing political move for Peña Nieto, especially given Beltrán’s inflammatory remarks regarding the group’s unwillingness to cooperate unconditionally with authorities. However, analyzed in context of the current administration, the decision seems consistent with strategy norms of Peña Nieto’s Institutional Revolutionary Party (PRI). The PRI dominated Mexico for over seventy years using a variety of tactics to keep their stronghold over the political landscape from 1929-2007, including co-opting potential threats.²² Federico Estevez, a political scientist at the Autonomous Technological Institute of Mexico has said of the governmental policy re-

garding the autodefensas, "This is their way of accommodating dissent and taming it. This is the old PRI, the old Mexico. Why didn't they go in and disarm them? That's not the way the PRI works." In addition, the government may recognize the autodefensas as a potentially cost-effective tool in disrupting or at least destabilizing the Templarios—a multi-pronged approach, of sorts. In addition to municipal, state, and federal forces along with rival cartels, autodefensas represent one more force to be reckoned with for the Knights Templar, complicating their ability to operate in the region.

The issue of public relations may also shed some light on why the government ultimately decided to incorporate rather than dismantle these civil self-defense groups. According to a Los Angeles Times piece by Fausset, Richard and Cecilia San-

chez, "Government officials also may have been wary of crushing the vigilantes for public relations reasons, given the echoes of cherished rural uprisings dating to the Mexican Revolution."²³ Given the legacy of the Arab Spring and recent and ongoing popular protests throughout Latin America, including Venezuela and Brazil, Mexico has chosen to co-opt and enfranchise rather than to oppose these groups at this time. However, it is important to note that as of yet, Mexican policy has been to create an alliance and monitor the groups while abstaining from

The rise of autodefensas in Mexico is in many ways an example of the global trend toward privatization in the security and military sphere.

direct financial support or training—one of many differences between Colombian policy toward paramilitary groups like CONVIVIR in the 1990s. The rise of autodefensas in Mexico is in many ways an example of the global trend toward privatization in the security and military sphere, a phenomenon Dr. Magdalena Defort calls the “privatization of violence.”²⁴ It can be historically traced back to the age of privateering and is increasingly visible in Latin America in the 20th century. This trend is perhaps most notable in the rise of paramilitarism in Colombia where armed civil self-defense groups (like

CONVIVIR and AUC²⁵) morphed into violent armed groups responsible for significant human rights abuses in the 1990s and early 2000s. However, we must be cautious in drawing broad comparisons between the autodefensas and CONVIVIR groups and respectful of the differences between the nuance in experiences of violence in Colombia and Mexico.

The Colombianization of Mexico?

While serving as Secretary of State, Hillary Clinton compared the security situations of the two countries at an event in Washington hosted by the Council on Foreign Relations in September of 2010 by remarking, “[Mexico’s] looking more and more like Colombia looked 20 years ago, where the narco-traffickers controlled certain parts of the country... These drug cartels are showing more and more indices of insurgencies.” According to the BBC, Clinton’s speech signifies the first example of a senior official suggesting the “Colombianization of Mexico,” a controversial but not preposterous theory often debated in academic circles.²⁶ However, her speech drew strong criticism from the Mexican government as Calderon's national security

adviser, Alejandro Poire, reiterated Mexico's sensitivity to the idea when he responded to Clinton's comments by saying, "We do not share these findings, as there is a big difference between what Colombia faced and what Mexico is facing today."²⁷ Even President Obama felt compelled, according to the *Washington Post*, to contradict Clinton's remarks with an interview in the Mexican Spanish-language newspaper *La Opinion* the day after she made them: "You can't compare what is happening in Mexico with what happened in Colombia."²⁸ The reluctance of the Mexican government to acknowledge similarities is perhaps less rooted in the validity of the individual comparison and is more related to politics. The collective memory of the Mexican-American War still looms large in the country. Consequently, Mexicans are consistently weary of the potential for U.S. intervention in Mexico as they observe intense U.S. involvement in the Colombian conflict and are therefore cautious about any comparisons, which, in their minds, could provide the U.S. with justification for unwelcomed commitment in Mexico.

There are, indeed, significant differences in the Mexican and Colombian experiences; most notably that Mexico is not confronting an ideological armed conflict against a politco-military insurgency like the FARC or ELN, but instead myriad and warring drug trafficking organizations. Both countries, however, have in common the issue of what Mexico security expert Juan Salgado calls the "incapacity of the state to ensure security and procure justice."²⁹ Accordingly, perhaps we can extrapolate general trends in order to pose some pertinent questions regarding the unfolding Mexican situation. Is it useful, given historical precedent, for the government to allow armed "civilians" to intervene where the state has clearly proven incom-

petent? Or, is it perhaps more likely that the “cure will end up being worse than the disease” by adding another belligerent and further complicating the evolving conflict in Mexico—government vs. cartels vs. autodefensas—as it did in Colombia? Should a nation, in the words of scholar Erubiel Tirado, fight “lawlessness with lawlessness?”³⁰

The rise of CONVIVIR in Colombia during the 1990s coincided with a surge in the power of cartels and, more significantly, their allies within leftist guerrilla movements. In an attempt to curb the violence and influence of leftist rebels, the government officially revived its paramilitary program when in 1995 it approved legislation allowing for the creation of CONVIVIR groups. In the words of Rep. Pablo Victoria, “None of us can fail to see that Colombia is losing this war. CONVIVIR is the best and cheapest way to defend citizens against guerrilla attacks.”³¹ His comments are consistent with Defort’s observations regarding the “privatization of violence.” Paramilitary groups were legal in Colombia from 1965 until 1989 when these right wing groups devolved into death squads³² and committed massive human rights abuses leading to their outlaw by the government. Unfortunately, the CONVIVIR experience would ultimately prove no different.

At peak strength, 529 CONVIVIR cells operated throughout 24 of 32 Colombian departments (equivalent to states or provinces).³³ However, active government support—funding and training—for these groups was short lived. Due to military complicity, CONVIVIR, like other paramilitary groups, enjoyed virtual impunity in implementing heavy-handed tactics to root out leftist guerillas. This general attitude of impunity with regard to paramilitaries is illustrated in a 1999 study by

the Office of the Advisor for Peace that states, “between 1990 and 1997 the Colombian armed forces attacked guerrillas 3,873 times and the paramilitaries six times.”³⁴ In 1997, due to mounting complaints that CONVIVIR committed human rights violations in concert with illegal paramilitary groups, the Constitutional Court of Colombia declared unconstitutional the supply of CONVIVIR and prohibited the use of their personnel as intelligence collectors.³⁵ In the face of this legislation, which essentially disbanded government-supported civil defense groups due to the fact that they used government resources to exploit and harm those they were charged with protecting, hundreds of members seceded and joined the illegal and more violent AUC paramilitary group. They brought with them the training and equipment given to them by the Colombian government. On September 10, 2011, AUC was designated a Foreign Terrorist Organization by the U.S. State Department due to the torture and mass killings undertaken by the group.³⁶ The decision was welcomed by Colombian Interior Minister, Amando Estrada, who remarked that the “US decision is accurate and it would have a positive effect on Colombia's situation and peace process in the future.”³⁷

By 1999, CONVIVIR was completely outlawed; however, by this time the number of “paramilitaries,” or vigilante self-defense groups, in Colombia had increased tenfold.³⁸ According to a 2010 United Nations estimate, approximately 80% of all casualties during Colombia's civil war were at the hands of paramilitary forces compared to 12% by leftist guerrillas, and 8% by government forces.³⁹ Similarly in 2005 Amnesty International reported, “The vast majority of non-combat politically-motivated killings, ‘disappearances,’ and cases of torture have been carried out by army-backed paramilitaries.”⁴⁰ Jour-

nalist Juanita Darling captures the dilemma of sanctioning armed civilian groups, “rather than being the decisive factor in stopping the fighting, as they were meant to be, the CONVIVIR have further blurred the line between combatants and civilians in Colombia's 36-year civil war.”⁴¹ The government had unwittingly trained and equipped individuals whom they would later battle.

Filling the Void of Good Governance

The common denominator of the government authorizing armed civil defense groups to act where government has failed—in both Mexico and Colombia—is troubling for analysts concerned with security trends and human rights in Latin

Peña Nieto has his work cut out for him in ensuring security and “Saving Mexico.” Adding another antagonistic armed force to the equation would certainly be catastrophic.

America. Alejandro Hope, a security expert at the Mexican Institute for Competitiveness told the *New York Times* before the decision to legalize autodefensas, “The Mexican government has landed itself in a ‘catch-22.’ If soldiers continue to disarm the self-defense groups, the government will be accused of being

complicit with the Knights Templar, but if it stops it will be accused of protecting paramilitary groups.”⁴² Hence, Mexican officials elected to bring the autodefensas “into the fold” as the lesser of the two evils, recognizing their own inability to stamp

out cartel violence and extortion in Michoacán. Unfortunately, until institutions like the police and judiciary are strengthened throughout Latin America and rule of law is embraced as an unalienable cultural value, the alarming trend of civilians arming themselves to fill governmental voids will likely continue. As such, Mexico should continue to prioritize building credible, effective, and non-corrupt governmental organizations. In the meantime, hopefully Mexicans can look past their abhorrence for the “Colombianization” argument, in this case, in order to recognize some best practices and lessons learned from the Colombian experience with quasi-military forces.

Although the government has legalized autodefensas, they have not committed to train or equip them as Colombia did with the CONVIVIR groups. Hopefully Mexico can find a balance between maintaining oversight and monitoring of the autodefensas without being compelled to train or arm them. The decision to do so would likely aid in enabling further compromise for the security of citizens in the region—as such support for CONVIVIR groups did in Colombia. Peña Nieto has his work cut out for him in ensuring security and “Saving Mexico.” Adding another antagonistic armed force to the equation would certainly be catastrophic.

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An Explanation for The Unbridled Clash: Adapting The Civilization Paradigm to The Modern Asia

By Emily Szu-hua Chen

As the end of Cold War drew near in the mid-1980s, nearly a century of titanic struggle over which ideology had seemed to be a significant model for grouping Asian societies – fascism, communism or liberal democracy – apparently came to a close.¹ While countries no longer defined their national identities and interests based on the ideological division of the Cold War, Samuel Huntington predicted that in the post-Cold War era, a more fundamental factor involving history, language, culture, and religion – a “civilizational identity” – would rise as the natural successor to the ideology of the Cold War. The fault lines between civilizations would thus be the “great divisions among mankind and dominating sources of conflict.”²

Indeed, Huntington’s civilization paradigm rang truest in a global sense after the 9/11 Islamic terrorist attack on American soil.

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Applying Huntington's paradigm to the Asia region, however, requires understanding three distinct characteristics in Asia to better depict, if not predict, the prospect of peace and stability in the region

– the growing regional solidarity, the enhancement of national interests, and internally-transformed civilizations in Asia.

The division of civilizations in modern Asia has created most of the chronic, unmanageable conflicts.

The regional unity has turned Asia into a relatively peaceful and stable region; nevertheless, in the event of potential frays, the conflicts would be caused by either – frequent yet minor turbulences would occur between countries in their respective pursuit of national interests or intractable, deeply rooted clashes would arise from a newly-defined civilizational difference.

This article holds a position in line with Huntington's argument that presents the civilizational difference as a primary role in shaping the regional order in Asia. While the regional solidarity has promoted peace and stability, the division of civilizations in modern Asia – albeit with a definition different from what Huntington once implied – has created most of the chronic, unmanageable conflicts, with some of them remaining unsolved for centuries and continuing to arouse turbulence. This clash of civilization has become decisive in determining the long-term peace and stability in the region.

Three Characteristics of Modern Asia

First, contrary to what Huntington suggested as the nature of the world being imbued with incessant bloody conflicts among civilizations, post-Cold War Asia, irrespective of its various civilizations – including Confucianism, Japanese, Hinduism and Malay-Islam – has been a comparatively peaceful area in the world. The stability in Asia was realized through regional solidarity, a product initially facilitated by the U.S.’s comprehensive engagement in the region since the outset of the Cold War and aggrandized by growing economic interdependence. By shielding Asian countries from communist expansionism, allowing a common dependency on U.S. markets, and exporting American culture to its Allies, the U.S. indirectly promoted similarities and close ties between Asian states.³ Increasing economic interdependency in the area has further strengthened the burgeoning unity. For instance, according to the ASEAN trading statistics published in December 2013, the top two trading partners of ASEAN are within Asia – with China being the largest trading country accounting for 12.9% of total trade volume, followed by Japan with a 10.6% share.⁴ This economic interdependence and regional solidarity has effectively prevented regional provocations from elevating into all-out confrontations.

Unlike Huntington’s contention that different civilizations would shape the interactions among countries in Asia, this has never been the sole factor. Conflicting national interests in fields of economy, security and politics have simultaneously influenced the regional politics. Frequent disruptions arising from countries’ pursuit of national interests, but could potentially be shelved or solved in the short run by a country’s change of its policy priority, by quid-pro-quo bilateral negotiations, or through the use of international dispute settlement mechanisms. For example, in 2012, Japan together with the United States and the Eu-

ropean Union filed a joint claim to the World Trade Organization against China's export restrictions on rare earth metals that are crucial for the production of many high-tech devices.⁵

Unlike those squabbles that mostly came from the conflicting national interests between nations, most of the chronic, intractable turbulences appeared between countries with different civilizations, which conspicuously defined the regional order. The civilizations in contemporary Asia, however, were not the same as what Huntington assumed it to be. Rather, the modern Asian civilizations have been through qualitative changes, with traditional cultures integrated with "Western civilization" to varying degrees in order to achieve the goal of economic well-being and/or political freedom.¹ The clash of civilization thus comes in two forms. One, aligned with what Huntington defined, involves the original difference between traditional civilizations, and is further augmented by modern nationalism; and two, the division of the newly transformed value systems induces the other.

Integrating with the West: The Mutative Asian Civilizations

With the demise of the ideological model of the Cold War, nation-states have tried to define their identity and interests in civilization terms. In the face of the increasing impact of Western liberal democracy, the task for most nations in Asia was not to "demarcate civilizations but to mix and meld them" to serve their first and foremost national goal of economic well-being and/or political freedom.⁶ The existing civilizations in Asia – Confucianism, Japanese, Hinduism, and Malay-Islam – were thus grafted onto Western civilization; countries attempted to reconcile this foreign civilization with their traditional culture and values. For

example, whereas the economy prospered in the West during the Cold War, the Maoist ideological campaigns in China failed, including the ending of Great Leap Forward and Cultural Revolution in mid-1970s. The strong desire of the Chinese leadership and people to get rid of poverty and starvation led to the Deng Xiaoping's economic reform in 1978 under the "reform and opening-up" policy. Other demonstrations of the successful adoption of market economies in the Cold War could be seen

Countries attempted to reconcile foreign civilization with their traditional culture and values

in the economic rise of Japan, South Korea, Taiwan, and the Southeast Asian NICs.⁷

The Westernization in Asia can be divided into economic modernization and political democratization. The modernization is characterized by the pursuit of material

well being of a nation through the practice of a consumer culture; democratization is a quest for political freedom. In practice, most Asian countries have largely embraced the market economy in the pursuit of economic welfare while the adoption of political freedom varies greatly between countries.⁸ For instance, China has chosen an approach of combining with Marxist-Leninism and capitalism, the so-called "China path," in its economic reforms under the banner of "socialism with Chinese characteristics." Whilst the economic reforms in China have been accelerating toward a full market economy, an opening of the political system to more public participation still remained limited. In the case of Japan, after the World War II, American two-phased occupation program in Japan – from the occupation goal of "reforming" to "rebuilding" – has trans-

formed Japan into a liberal democracy. Quite the contrary to the stalemate of political reform in China, Japan's political democracy was clearly indicated in its 1946 Constitution.⁹

Sources of the Untamed Strife: The Clash of Civilization in Modern Asia

The division of civilizations in Asia generates two major sources of ungovernable frictions: one involving the difference between historical memories of the traditional civilizations enhanced by modern nationalism; the other touching the virtual difference of the modern mutative civilizations, which featured the varied degree of Westernization among countries.

As Huntington suggested, civilizations are differentiated from each other by elements such as language, history, customs, institutions and religion. Among all the elements, he claimed that religion is “a central, perhaps the central, force that motivates and mobilizes people.”¹⁰ While religion has its leverage in world affairs, as manifested by the ongoing rivalry between the Islamic and Western world after 9/11, I argue that historical memories have played a dominant role in deciding interactions between countries in Asia. In modern times, the historical component of traditional civilizations has been oftentimes meshed with nationalism that comes from distinctive national history of each country – a byproduct of the consolidation of the nation-state concept in post-Cold War Asia – making clashes between two countries with separate civilizations harder to handle.

The civilizational history coupled with contemporary nationalism prompted states in the region to ostensibly safe-

guard their sovereignty and territorial integrity, leading to a continuous occurrence of territorial disputes in Asia. Examples of this phenomenon include the Japan-China-Taiwan disputes over the Senkaku/Diaoyu Islands, the Japan-Korea disputes over Dokdo/Takeshima Island, and disputes over the Spratley and Paracel Islands among Asian states.¹¹

Take the recent deterioration of Sino-Japan relations as an example. Two countries have been locked in dispute over Senkaku/Diaoyu Islands in the East China Sea. What makes the dispute intractable is not merely the complexity of the territorial claims, but also the historical memories of conflict and nationalist sentiment between the two countries. In a sense of civilizational

Nationalism has politicized territorial disputes into more than a controversy over territory between two nations

history of China, its hierarchy and historic “Sino-centric” world order might make it uncomfortable with the terms of balance and equality – the sharing of power with others – in East

Asia. Chinese and Japanese nationalism makes these territorial disputes even more difficult to navigate. The nationalism, a “poisoned well” of fifty years of animosity that began with the Sino-Japanese war of 1895 and ended with the defeat of Imperial Japan in 1945, has politicized the dispute into more than a controversy over territory between the two nations. For the Chinese, the island dispute is emblematic of “Imperial Japan’s assault on the decaying corpse of the Chinese dynasty,”¹² which was again proven by Chinese premier Li Keqiang, in addressing the opening session of parliament in March 2014, warning Japan of its determination of “safeguarding the victory of World War II”.¹³

Differences Between Modern Mutative Asian Civilizations

To analyze the difference between modern civilizations in Asia, two variables should be taken into consideration: the original difference of indigenous civilizations and the varied degree of Westernization between countries – a process of economic modernization and the adoption of Western values. Cross-analysis of the two variables can yield three unique combinations between countries with newly defined civilizations: the near-conformity (near congruity in both original civilization and their degree of Westernization), the complete anomaly (total incongruity in both inherited civilization and their degree of Westernization); and the semi-anomaly (difference in either indigenous civilizations or their degrees of Westernization). Based on this assortment, each category can define the nature of interactions between countries as either peace or conflicts.

In addition to clashes between Asian countries, one must not ignore the longstanding American presence in the region. With the U.S. “rebalancing” policy toward Asia, future conflicts between civilizations will not be limited to Asian countries themselves. Instead, the regional order in the future will also be forged by the interplay between the U.S., Western civilizations, and Asian civilizations. Among all the Asian nations, undoubtedly, the most likely clashes involve the U.S. and China. To date, despite the constant quarrels over the issues of lop-sided trades, military buildup, and political reforms, there exists a fundamentally strategic distrust between the two countries. One of the basic sources of strategic distrust between the U.S. and China, as Wang Jisi suggested, is related to the fundamental difference – the “civilizational disparity” – that are constructed by varied political traditions, value systems and strategic cultures.¹⁴

Table 1.1 The Possible Natures of Interactions Between Two Modern Asian Civilizations

		Indigenous Civilizations	
		Similar	Different
Degree of Westernization	Similar	<p>Relative peace</p>	<p>Conflicts</p> <p><u>Japan versus Korea</u> Difference in traditional value systems – Japan's own civilization and Korea's Confucianism, yet both with high degree of Westernization as liberal democracies.</p>
	Different	<p>Conflicts</p> <p><u>China versus Taiwan</u> Congruence in the traditional value system of Confucianism, yet difference in the degree of Westernization, with major diversion of political freedom – Taiwan as a democracy while China as an authoritarian state.</p>	<p>Conflicts</p> <p><u>Japan versus China; China versus India</u> Difference in inherent value systems – Japanese civilization, Hinduism and Confucianism; Difference in the degree of Westernization – Japan and India as liberal democracy, while China as an authoritarian with its "market economy with socialist characteristics."</p>

For the U.S., regardless of Deng Xiaoping's reform since 1978, China's authoritarian politics, continued violation of human rights and non-transparency make its government untrustworthy. For example, the transparency issue has something to do with its inherent strategic cultures. According to Kurt M. Campbell, the former U.S. Assistant Secretary of State for East Asian and Pacific Affairs, and Richard Weitz, a Senior Fellow and Director of the Center for Political-Military Analysis at Hudson Institute of the United States, China believes that concealing its strength can achieve strategic deterrence. In contrast, the United States tends to manifest its deterrence by demon-

China will remain
and engage with
the current system

strating its capabilities; to the U.S., Chinese opacity would lead to other countries' miscalculation and mishaps.¹⁵

The Prospect of Peace and Stability in Asia

Civilizational factors could be a major source of unmanageable disputes in Asia that greatly shape the regional order. Globalization has offered Asian countries more opportunities to be exposed in dominant Western value systems, the potentiality of clashes of civilizations increases. Internally, conflicts between Asian civilizations will grow due to the acceleration of difference in the degree of liberal democracy adoption among Asian countries in the process of Westernization. Externally, the growth of civilization consciousness will be accentuated by the Western efforts to infuse its values of democracy and liberalism into the region, causing what Huntington called a “return-to the-roots” phenomenon.

While the civilizational divisions will continue to incur major disruptions in Asia, the close economic and technological integration – a product of growing economic interdependence between countries in Asia – will serve as a lubricant for easing tensions, persisting in maintaining a relatively peaceful and stable region in the world.

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Catching Up and Forging Ahead: An Evaluation of Chinese Foreign Policy Since 1949 and Its Future Prospect

By Emily Szu-hua Chen

“**T**he foreign policy of our Party and Government is consistent,” stated Lin Biao in a report to the 9th National Congress of the Communist Party of China (CPC) in 1969.¹ Over time, Chinese government officials along with some observers of Chinese foreign relations have emphasized the continuity in Chinese foreign policies.” In an attempt to study patterns within China’s actual behaviors, however, other observers discover that China’s foreign policy decisions have been heavily driven by multiple “interests” rather than fixed “principles,” which Chinese officials have long claimed as the basis of its policy consistency.² This reliance on “interests” raises questions about the idea of the continuity in Chinese diplomacy.

The mooted fixed principles appear vaguely defined in China's official documents. With limited clarifications, a principle allows for diverse interpretations, thus inevitably confusing China observers. Yet the puzzle does not necessarily mean that beneath China's seemingly changing behaviors there lies no coherent national strategy. Counter-intuitively, I argue that Chinese foreign policy since 1949 has shared a great degree of uniformity. For the past sixty years, Chinese principles together with practices can be understood as an array of practical changes of approach within a principles-based framework that consistently aims to serve

Chinese foreign policy since 1949 has shared a great degree of uniformity

China's long-standing national purposes.

Generally, Chinese foreign policy decisions have long been designed to fulfill and safeguard, its enduring national goals of “sovereignty, security and development” coupled with an officially identified single issue of “reunification of Taiwan” as a core interest.³ Chen Yi's report to the 8th CPC National Congress in September 1956 proposed the “Five Principles of Peaceful Co-existence,” “socialist construction” and “accomplishment of our task of liberating Taiwan” as main national aims, and as late as Hu Jintao's 18th CPC National Congress report in November 2012, which professedly noted China's “resolve to uphold China's sovereignty, security and development interests” and specified to “advance China's reunification.”⁴

In fact, such terms as “sovereignty, security and development” were not formally applied in early days as national goals or interests, even when China's international strategies were appar-

ently motivated by such concerns. In particular, during Mao Zedong's leadership, such national goals were once framed under the banner of "proletarian internationalism" in a bid to represent the interests of all "international proletariats" rather than China's own to suffice ideological purposes.⁵ It was not until Deng Xiaoping rose to power in 1977 that China's national priorities were clearly exhibited. In December 2010, Dai Bingguo, then the state councilor for external relations, further pointed out "the stability of the CPC leadership," "sovereign security, territorial integrity, and national unification," and "sustainable economic and social development" as China's "core interests."⁶

One for All: A "Principles-based" Framework and "Reality-based" Practice

To best protect its national aims, China has developed a principles-based continuum, ranging between two leading principles, "Marxist-Leninism" and "interest-oriented (western)" principles that have dominated Chinese foreign policy across time. The government's position on this continuum at different times complies with realistic needs in each historical period.

For the Marxist-Leninist thought (or sometimes signified by China as one of its variations, "socialism"), its principal position as a "guiding thought" could be dated back to the founding of the People's Republic of China, and continued to be a "theoretical basis guiding the Party's thinking."⁷ Unlike the principle of Marxist-Leninism, which ostensibly has manifested itself in official documents, the "interest-oriented" principle requires a between-the-lines analysis of official texts. Such principle in Chinese foreign relations is grounded on a western concept of "sovereignty," and has been em-

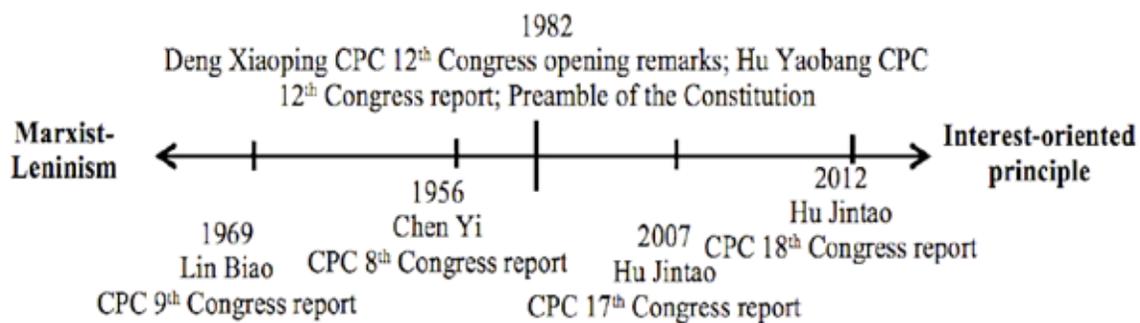
bodied in its “Five Principles of Peaceful Co-existence.”

That being said, some have argued that the virtue-centered “Traditional (Confucianism) Thought” exerts great influence on contemporary Chinese foreign policy due to China’s moral values.⁸ The pursuit of “equal rights, equal opportunities and fair rules for all” in the society, for example, is not a virtue from a hierarchical Confucianist world, but more of the “co-equal” nature of relationships in western worldviews and the revolutionary determination of dissolving “social classes” at the final stage of progress in Marxist-Leninism.⁹ Along the same line, Deng Xiaoping’s administration articulating its national goal of “building socialism with Chinese characteristics” in September 1982 cannot be confused as the combination of Marxist-Leninist Thought with Confucianism, but as the integration of socialism and Western scientific approach that conforms to reality.¹⁰

But how have a “principles-based” framework been implemented in the face of ongoing reality changes? Efforts made in the comparisons of China’s official documents throughout the past 60 years have demonstrated the patterns of practice of China’s foreign relations — a thread of evenly and unevenly mixtures of two principles — the Marxist-Leninist and the “interest-oriented” principles — with two prominent traits. First, throughout the past years, one of the two principles might overshadow, balance, or concede to the other, but neither has been abandoned. This tendency was specifically exhibited after the Sino-Soviet border clash over Chenbao Island in 1969, which prompted Mao Zedong to approach the U.S., forming “Great Power Triangle” with the United States and Union of Soviet Socialist Republics (USSR) to meet national security and strategic purposes, and consolidated in 1971 when China gained entry to the United Nations. Sec-

ond, “interest-oriented” principle has steadily reigned in Chinese foreign policy decisions, except for an abrupt reversal to the extremism of Marxist-Leninism from 1966 to 1969 due to the revolutionary excess of the Cultural Revolution. (See Graph 1)

Graph 1 Leading principles in historical periods since 1949 (in relative position)



The underplaying of Marxist-Leninist Thought was not only a decision based on realistic needs catering to Western-led liberalism, but also owing to the divided interpretations between Mao Zedong and Deng Xiaoping on its policy priority, with Mao’s insistence that “social revolution first, economic progress will follow” while Deng believed the other way around.¹¹ The decline of Marxist-Leninist thought and the rise of “interest-oriented” principles can be found in different applications of the “Five Principles of Peaceful Co-existence” across time. While the principle was confined to “the countries having different social systems,” which then referred to capitalist countries, in Lin Biao’s CPC report in April 1969, it has later been applied to “all countries” from Hu Yaobang’s CPC report in September 1982 to the present, which can be seen as an attempt to downplay the ideology of “class conflicts” between capitalist and socialist states.¹²

Rising China, A Destined System-Challenger?

China's unprecedented economic growth and active diplomacy on the global stage today has aroused the suspicions of status quo powers by the potential for China to overthrow the present international system from rising "not from within but outside the established post-World War II international order."¹³ To measure China's inclination to create a new international system independent of the established one, a central question should be well addressed: what makes a rising state a system-transforming power rather than one that accepts the existing international system? Three particular aspects should be taken into account to assess the potential of a "system-challenger": a nation's "superpower" status, its interactions with the existing system, and the compatibility of its grand strategy with the present world order.

To become an international system-challenger, a country needs to qualify as a "superpower," that is, whether a country's power is sufficient to exert its leverage among others on the globe. The definition of "superpower" has been diversely interpreted and loosely used in public discourse to refer to any actor with dominating weight in its certain field. Here, a nation's need, in addition to its national capabilities, shall be centered on its "great mobility of power." This feature of "global reach" to challenge an established system is defined by William Fox in 1944 as "a country's capacity to project dominating power and influence anywhere in the world...and so may plausibly attain the status of global hegemon."¹⁴ Still, an attempt to evaluate a nation's potential that places a country's "willingness" on the same weight as "capability" is contested. For one thing, a nation's intention to be a superpower could sometimes be an assumable fact when a country starts to foster its capability, even if it proclaims no willingness to do so. A country's intention in this case can be

regarded as an intrinsic element in its plan of national capability building. Besides, a nation can sometimes have no choice but to project its power overseas to secure its interests abroad.¹⁵

In recent years, there has been a debate over whether China's capability is sufficient to be a superpower that can compete with the U.S. In an overall assessment of China's capabilities, including dimensions such as military, economy, politics and culture, some have argued that "China is not yet a superpower, nor is it likely to emerge as one soon," and positioned China as regional power at most.¹⁶ Others have concluded an inevitability of China's dominance by virtue of the country's striking economic performance. Arvind Subramanian has developed

A nation can integrate into the present order if the existing interaction between itself and the system is highly interactive.

an index of dominance consisting of a country's GDP, its trade, and the extent to which it is a net creditor to the rest of the world to analyze its superpower potentiality.¹⁷ Using this index, China, in the next twenty

years, would be likely to account for nearly 20 percent of global GDP, generate 15 percent of world trade and serve as a substantial net creditor to the world, which would indicate the "imminence" of China's ascendancy and a "near-unipolar world dominated by China" in the future.¹⁸

Even if a country has the capability to become a superpower, still, it does not necessarily opt for overturning the established system. A nation can integrate into the present order if the existing interaction between itself and the system is highly interactive. To

know whether there is a favorable interaction taking place can be observed from the nature of the international orders per se and the degree of a nation's dissatisfaction with the old order.¹⁹

As G. John Ikenberry suggested, today's Western order is "easy to join and hard to overturn," in a sense that the liberal system, which are rooted in democracy and capitalism, features in non-discriminated rules and norms, expansive participations and shared leadership, giving a notable capacity to accommodate most countries and avoid unipolar domination. Also, the new interdependence between nations driven by communications technology as well as the "balance of terror" of nuclear weapons have consolidated the existence of the established order.

China has been increasingly working within the Western system, thriving and benefited from multilateral institutions, including but not limited to such fields as politics and economies. China's status as a permanent member of the UN Security Council grants the veto power of "great-power exceptionalism" in the field of global security; being part of the World Trade Organization (WTO) has accelerated its economic development and economic interdependence, as seen in latest statistics that China's economy continued to grow 7.8 percent in the third quarter of 2013.²⁰

Lastly, whether an established system is conducive to a state's pursuit of national interests is decisive in shaping a country's choice between accommodating itself into the order and overthrowing it. China continues to create a "favorable" international situation of peace and stability as a "strategic opportunity" for China's domestic tasks, among which economic construction and lifting its people's standards of living maintain as its centerpiece.²¹

China's future grand strategy, as indicated by Wang Jisi, will contain four ongoing changes in China's strategic thinking. First, an inclusive understanding of security, which combining "economic and nontraditional concerns with traditional military and political interests" leaves China no choice but to cooperate with both allies and adversaries. In the way of attending global affairs, China has gradually shifted its mindset from "country-centrism" to more "issue-oriented" multilateralism in a sense to enhance China's stature and constrain American power.²² Third, the ongoing efforts of economic development have grown toward the topics of economic efficiency and its integration of society, which require not only an incremental domestic consumption and a steady opening of its capital markets.

China will remain
and engage with
the current system

China's special emphasis on "cultural soft power" in recent years is another key point. Such common values as "good governance and transparency in the global arena" has been sought after to improve its international image.²³ (See Table 1 on following page)

The evolution of Chinese foreign policy and the three indicators above suggest that China will remain and engage with the current system, while enjoying the stable benefits conducive to national building, resolving transnational issues and gaining more time to reposition itself in the world of near future.

Table 1 Three indicators to evaluate China's likelihood of being a system-transforming power

	Definitions/ Explanations	Evaluations on China	System-challenger?
<p>“Superpower status”</p> <p>A nation's dominating “capability” and its “great mobility of power” in the world</p>	<ol style="list-style-type: none"> 1. “A country's capacity to project dominating power and influence anywhere in the world...and so may plausibly attain the status of global hegemon.” 2. A nation's “capability” and “willingness” 	<p>Capability evaluation:</p> <ol style="list-style-type: none"> 1. Comprehensive power – China as a regional power 2. Economic power only– China's great potential of being a superpower 	Contested
<p>“In-system interactions”</p> <p>The interplay between a nation and the existing system</p>	<p>An “easy to join and hard to overturn” system –</p> <ol style="list-style-type: none"> 1. Rooted in democracy and capitalism 2. A notable capacity to accommodate most countries 3. New interdependence between nations driven by advanced technology 4. “Balance of terror” of nuclear weapons 	<p>Positive Interactions – China has long been working within and benefiting from the existing system. For example, China is a permanent member of the United Nations (UN) Security Council and a member of the World Trade Organization (WTO).</p>	Not likely
<p>“Strategic compatibility”</p> <p>The compatibility of a nation's grand strategy and the existent order</p>	<p>An established system conducive to an emerging state's pursuit of national interests/ goals</p>	<p>Compatible strategy –</p> <ol style="list-style-type: none"> 1. An attempt to form a “favorable” international situation to serve for domestic tasks 2. An inclusive understanding of security 3. An “issue-oriented” approach to the world 4. An economic focus on efficiency and its integration of society 5. An emphasis on “cultural soft power” 	Not likely

Sources: Adapted from John Ikenberry, “The Rise of China and the Future of the West,” *Foreign Affairs*, Vol.87 No.1 (Jan-Feb 2008); Lyman Miller, “China an Emerging Superpower?” *Stanford Journal of International Relations* (Winter 2005); Arvind Subramanian, “The Inevitable Superpower—Why China's Dominance is A Sure Thing,” *Foreign Affairs*, Vol.90 No.5 (Sept-Oct 2011); Wang Jisi, “China's Search for a Grand Strategy—A Rising Great Power Finds Its Way,” *Foreign Affairs*, Vol.90 No.2 (Mar-Apr 2011); Alice Miller, “China and the international system: 1971-present” (class lecture, China in World Politics, Stanford University, Stanford, CA, October 14 & 21, 2013).

1. Lin Biao (Lin Piao) report to the 9th CPC Congress (1969); Wang Jisi, “China's Search for a Grand Strategy—A Rising Great Power Finds Its Way,” *Foreign Affairs*, Vol.90 No.2 (Mar-Apr 2011), p. 68.
2. Robert Sutter, *Foreign Relations of the PRC: The Legacies and Constraints of China's International Politics since 1949* (Lanham, Maryland: Rowman and Littlefield, 2013), pp. 14-15.
3. Alice Miller, “China and the international system: 1949-1971” (class lecture, China in World Politics, Stanford University, Stanford, CA, October 2, 2013); Wang Jisi, “China's Search for a Grand Strategy—A Rising Great Power Finds Its Way,” *Foreign Affairs*, Vol.90 No.2 (Mar-Apr 2011), p. 71.
4. As Chen Yi indicated in the report, “five principles of peaceful co-existence” consisted of mutual respect for

territorial integrity and sovereignty, non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful co-existence. See Chen Yi report on foreign relations, 8th CPC Congress (1956); Hu Jintao political report to the 18th CPC Congress (2012).

5. Wang Jisi, "China's Search for a Grand Strategy—A Rising Great Power Finds Its Way," *Foreign Affairs*, Vol.90 No.2 (Mar-Apr 2011), p. 69.

6. *Ibid.*, p. 71.

7. Chen Yi report on foreign relations, 8th CPC Congress (1956); Lin Biao (Lin Piao) report to the 9th CPC Congress (1969); Hu Jintao political report to the 18th CPC Congress (2012).

8. John W. Garver, *The Foreign Relations of the People's Republic of China* (Englewood Cliffs, NJ: Prentice Hall, 1993), pp. 18-19.

9. Hu Jintao political report to the 18th CPC Congress (2012); Alice Miller, "China and the international system: 1949-1971" (discussion section 2, *China in World Politics*, Stanford University, Stanford, CA, October 4, 2013).

10. John W. Garver, *The Foreign Relations of the People's Republic of China* (Englewood Cliffs, NJ: Prentice Hall, 1993), p. 19.

11. Deng Xiaoping's theory of "black cat white cat," Alice Miller, "China and the international system 1971" (class lecture, *China in World Politics*, Stanford University, Stanford, CA, October 7, 2013).

12. Lin Biao (Lin Piao) report to the 9th CPC Congress (1969); Hu Yaobang report to the 12th CPC Congress (1982).

13. John Ikenberry, "The Rise of China and the Future of the West," *Foreign Affairs*, Vol.87 No.1 (Jan-Feb 2008), p. 24.

14. Lyman Miller, "China an Emerging Superpower?" *Stanford Journal of International Relations* (Winter 2005), http://www.stanford.edu/group/sjir/6.1.03_miller.html (accessed October 17, 2013).

15. Alice Miller, "China and the international system: 1971-present" (class lecture, *China in World Politics*, Stanford University, Stanford, CA, October 14, 2013).

16. *Ibid.*; Lyman Miller, "China an Emerging Superpower?" *Stanford Journal of International Relations* (Winter 2005), http://www.stanford.edu/group/sjir/6.1.03_miller.html (accessed October 17, 2013).

17. Arvind Subramanian, "The Inevitable Superpower—Why China's Dominance is A Sure Thing," *Foreign Affairs*, Vol.90 No.5 (Sept-Oct 2011), pp. 68-69.

18. *Ibid.*, pp.69-70.

19. John Ikenberry, "The Rise of China and the Future of the West," *Foreign Affairs*, Vol. 87 No.1 (Jan-Feb 2008), p. 27.

20. *Ibid.*, pp. 29-33; Jamil Anderlini and Simon Rabinovitch, "China reverses first-half slowdown," *The Financial Times*, October 18, 2013, http://www.ft.com/intl/cms/s/d82feb7c-379b-11e3-b42e-00144feab7de,Authorised=false.html?_i_location=http%3A%2F%2Fwww.ft.com%2Fcms%2Fs%2F0%2Fd-82feb7c-379b-11e3-b42e-00144feab7de.html%3Fsiteedition%3Dintl&siteedition=intl&_i_referer=#ax-zz2iDKTXSC8 (accessed October 18, 2013).

21. Wang Jisi, "China's Search for a Grand Strategy—A Rising Great Power Finds Its Way," *Foreign Affairs*, Vol.90 No.2 (Mar-Apr 2011), p. 77.

22. *Ibid.*, pp.74-75; Alice Miller, "China and the international system: 1971-present" (class lecture, *China in World Politics*, Stanford University, Stanford, CA, October 21, 2013).

23. *Ibid.*, pp.75-76.



Red Lines and the Syrian Civil War: The Power of a President

By Sam Kurland

Since March 2011, Syria has been embroiled in a bloody civil war between government forces led by Bashar al-Assad and a number of rebel groups including the “Free Syrian Army” and more radical elements like “Fatah al-Islam.”¹ On August 21, 2013, an unknown assailant shelled an opposition-controlled area of the Ghouta suburb near Damascus with rockets and artillery carrying nerve agents. Nearly 1,500 civilians were killed in the attack, including at least 426 children.² Less than two weeks following the incident, the United States announced that its intelligence community “assesse[d] with high confidence” that the Syrian government was responsible for the attack on the Damascus suburbs.³

The Syrian attack was far from the first of its kind. In 1936, Italian forces used sulfur mustard sprayed from airplanes to massacre civilians in their campaign against the Ethiopian Empire.⁴ In 1988, during the First Persian Gulf War, Iraqi forces loyal to Saddam Hussein dropped chemical bombs from planes onto residential areas in the town of Halabja, which had fallen

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under Kurdish control only two days previously.⁵ Most infamously, during World War II, Nazi Germany used chemical weapons to facilitate their genocide in concentration camps.⁶ However, the chemical attack on Ghouta was distinguished from previous attacks by an event that occurred more than one year before the first shell fell on the Damascus suburb.

In August 2012, President Barack Obama told the White House Press Corps that the use of chemical weapons by the Syrian government against its citizens in its civil war would cross a “red line” that would trigger “enormous consequences.”⁷ What manner of “enormous consequences” did the president have in mind? How would the United States respond to incontrovertible evidence of chemical attacks by the Syrian regime? Would the international community stand by the United States if it chose to exercise military force?⁸ As a result of the chemical attack on August 31, 2013, these questions moved from the realm of idle speculation and academic conjecture into the glare of the international spotlight. The Syrian civil war was no longer merely a regional security concern, for the commander in chief of the world’s only military superpower seemed to have committed his nation’s might against one side of that conflict. A new chapter in the Syrian crisis had begun.

This paper strives to answer two of the questions that arose from the chemical attack on Ghouta and President Obama’s ultimatum for the Syrian regime: first, did President Obama’s “red line” remark reflect an international consensus that the use of chemical weapons by the Syrian government must be met with international intervention in the Syrian civil war? Second, did the president’s choice of words result in a more robust international response to the chemical attack than would

otherwise have been carried out? By addressing these questions, this paper aspires to contribute to active discourse about the legitimacy of international intervention when states use chemical weapons in civil conflicts and to provide insight into the role of the President of the United States in galvanizing such intervention.

Understanding the Red Line

On August 20, 2012, President Obama appeared before the White House Press Corps to make a brief statement about the Medicare program and to take questions about other issues. Only the final questioner inquired about the Syrian Civil War, asking if the President “envision[ed] using U.S. military, if simply for nothing else, the safe keeping of the chemical weapons” in Syria, and if the President felt that those weapons were in safe hands at that time.⁹

Concurrently, in Syria, opposition forces were beginning to gain traction. The United Nations Security Council had recently condemned the Syrian government for human rights abuses against protesters, and Saudi Arabia had denounced Bashar al-Assad’s government and recalled its ambassador.¹⁰ For the first time, it seemed genuinely possible that the Assad regime might be violently overthrown by the rebel forces. This possibility aroused serious concerns about what actions these forces might take with Syria’s considerable chemical weapons stockpiles if it should gain control over them.

Against this backdrop, President Obama gave a significant response to the question about the possibility of U.S. military involvement in Syria. He said:

We cannot have a situation where chemical or biological weapons are falling into the hands of the wrong people. We have been very clear to the Assad regime, but also to other players on the ground, that a red line for us is we [sic] start seeing a whole bunch of chemical weapons moving around or being utilized. That would change my calculus. That would change my equation... We have communicated in no uncertain terms with every player in the region that that's a red line for us and that there would be enormous consequences if we start seeing movement on the chemical weapons front or the use of chemical weapons. That would change my calculations significantly (emphasis added).¹¹

In the final moments of a twenty-minute press conference, the president made three distinct assertions, which are italicized in the above excerpt. First, it is unacceptable for the Syrian opposition, terrorists, or other rogue actors to gain control of the chemical weapons held by the Syrian regime. Second, the mobilization or use of chemical weapons should significantly alter the way foreign actors make decisions about involvement in the Syrian civil war. Third, the movement or use of chemical weapons should trigger “enormous consequences” for the responsible parties.

Each of these assertions is a significant claim subject to lively debate and disagreement among nations. To date, there have been no independently verified acquisitions or uses of chemical weapons by Syrian opposition. The president's consideration of courses of action for that eventuality, while providing interesting context for his broader remarks, has had few concrete consequences. This paper will discuss the latter two claims, which came under intense scrutiny following the Syrian gov-

ernment's chemical attack on Ghouta.

An International Red Line?

There is good cause to believe that an international norm against the use of chemical weapons does exist. The Geneva Gas Protocol of 1925, to which Syria is a party, condemns the use of “asphyxiating, poisonous or other gases, and of all analogous liquids, materials, or devices”.¹² Syria is also a party to the Geneva Conventions of 1949, which provide general protections to parties engaged in both international and civil warfare.¹³ In 1997, members of the international community established the Chemical Weapons Convention (CWC), under which nations agreed not to “develop, produce... use... or engage in any military preparations to use chemical weapons” in either international or civil warfare.¹⁴ To date, 189 out of the world's 204 sovereign states have joined the CWC. Clearly, in most cases, international law explicitly condemns the use of chemical weapons.

However, the use of chemical weapons in the Syrian civil war falls within a narrow band of exceptions to each of these prohibitions. The Geneva Gas Protocol of 1925 is binding only on its signatories “between themselves;” that is, it creates no obligations in civil conflicts like the ongoing war in Syria because while the incumbent government may be a signatory, the opposition is not.¹⁵ Moreover, Syria has not joined a specific section, Additional Protocol II, of the Geneva Conventions that would apply their strictures to civil conflict. Finally, Syria is one of only 15 nations that have not joined the CWC, and its provisions are therefore not binding on Assad's government.¹⁷ Syria does have certain obligations related to the use of chemi-

cal weapons under the Genocide Convention and the International Covenant on Civil and Political Rights.¹⁸ However, Blake and Mahmud assert that “if Syria used chemical weapons to unlawfully kill civilians or to perpetrate genocide, those actions would be a violation of Syria’s treaty obligations” under that convention, but no more so than if the Syrian regime had used conventional weapons to perform the same acts.¹⁹ Failing to find a clear instance in which the Syrian government’s use of chemical weapons violates explicit international law, we must look beyond the confines of black-letter law to find compelling evidence that the use of chemical weapons fundamentally changed the international community’s willingness to intervene in the Syrian civil war.

If not in explicit law of treaties or conventions, perhaps a strong prohibition against the use of chemical weapons exists in customary international law. Customary laws are the “international obligations arising from established state practice... established by showing state practice and *opinio juris* [the belief that certain actions are or are not undertaken due to some obligation].”²⁰ The International Committee of the Red Cross (ICRC), an authority on customary international humanitarian law,²¹ articulates in its Rule 74 that “the use of chemical weapons is prohibited.”²² To support its finding of customary law, the ICRC cites the treaties and conventions discussed here, military manuals of numerous countries, and legislation from many states, all of which condemn the use of chemical weapons. The organization notes in particular that all confirmed chemical weapons attacks since the 1930s have been widely denounced by other states. Most significantly, the ICRC finds that “no State has claimed that chemical weapons may lawfully be used in either international or non-international armed

conflicts. On the contrary, there are numerous statements to the effect that chemical weapons must never be used and must be eliminated”.²³ These findings meet the first criterion necessary to establish a prohibition under customary international law: they demonstrate that the use of chemical weapons is not a state practice of any nation, and that many nations have adopted affirmative state practices against such actions. However, they do not so clearly establish *opinio juris*. Do all nations refrain from using chemical weapons out of a sense of international legal obligation? The fact that 189 states are party to the CWC suggests that the vast majority of nations share such a sense of obligation, but is certainly not dispositive of the question for the remaining 15 states—and therefore for the international community as a whole.

Key international precedent suggests that prohibitions on the exercise of chemical weapons do not, in fact, demonstrate *opinio juris*. In an advisory opinion entitled “Legality of the Threat or Use of Nuclear Weapons,” the International Court of Justice (ICJ) found that nations may adopt non-use of weapons of mass destruction as a state practice for policy purposes independent of any perceived international obligation. Furthermore, the ICJ noted that some states may not have used weapons of mass destruction simply because circumstances that would justify their use have not yet arisen.²⁴ Again, traditional views of international law fall short of supporting President Obama’s contention that the use of chemical weapons in the Syrian conflict would transgress an important boundary.

Do cultural traditions provide a stronger argument for a special prohibition against the use of chemical weapons? The use of chemical weapons in warfare has been documented for

thousands of years. Ancient Greek mythology and history are rife with references to poison arrows, “Greek fire,” and other chemical weapons. Throughout these works, chemical weapons are presented as dishonorable, treacherous tools of war,²⁵ a tradition that continues throughout famous Western works including *Hamlet*, in which the antagonist is suggested to murder the title character’s father with poison.²⁶ At first blush, it seems reasonable to assert a strong cultural basis for a firm prohibition on the use of chemical weapons.

However, attitudes toward chemical weapons vary significantly between cultures. Frances Harbour, a scholar of Middle Eastern security, argues that many nations with strong legal or cultural roots in Islamic tradition do not find Western objections to the use of chemical weapons particularly compelling.

No strong consensus within the international community supported President Obama’s focus on chemical weapons as the crux of discussion about foreign intervention in Syria.

She wrote in 1995 that while “Western tradition has long condemned using poisons in warfare as peculiarly unsavory,” Islamic tradition provides no similar prohibition.²⁷ The Qur’an, the holiest book of Islam, teaches “if one avenges himself after he has been wronged, there is no way of blaming him.” Islamic statesmen have argued based

on this tenet that their nations must be permitted to maintain chemical weapons stockpiles to preserve their ability to respond

in kind to the use of weapons of mass destruction by their enemies.²⁸ Finally, Harbour argues, “the duty to defend the community has a special moral weight in the Islamic tradition,” barring leaders from surrendering any mechanism by which it might defend the homeland from future attack.²⁹ Each of these connections with the Islamic tradition illustrate the central challenge facing any cultural argument for a global chemical weapons prohibition: culture is fundamentally local, and will inevitably vary significantly between nations or other parties in conflict. We must therefore dismiss a universally applicable cultural rationale for President Obama’s ultimatum to the Syrian government.

President Obama was asked to discuss the prospect of military intervention in Syria by the United States. In response, he established a test based strictly on the movement or use of chemical weapons. By doing so, the president strongly implied that the United States would not intervene unless his “red line” was crossed—and would act swiftly when it was. Neither explicit nor customary international law forbade Syria from using chemical weapons, and that widely differing cultural norms preclude a clear social consensus against the use of such weapons; no strong consensus within the international community supported President Obama’s focus on chemical weapons as the crux of discussion about foreign intervention in Syria.

Actions and “Enormous Consequences

After the “red line” was crossed during the chemical attack on Ghouta, President Obama faced enormous pressure to follow through with military force. One poll in the intervening months between the president’s original statement and the

Ghouta attack showed that while only 17% of Americans supported U.S. military involvement prior to the chemical attack, 63% would support such involvement if compelling evidence showed that the Syrian government had used chemical weapons.³⁰ At one time, military and diplomatic insiders indicated that the U.S. planned to strike with a barrage of as many as one hundred Tomahawk cruise missiles targeted to destroy Syrian government installations throughout the country.³¹ But in a surprising turn of events, on September 14, 2013, President Obama announced that Secretary of State John Kerry had reached an accord with the Russian government—a key ally of the Assad regime—to systematically take Syria’s chemical weapons stockpiles under international control for their eventual destruction. To date, neither the United States nor any other major world power has taken any further action against the Syrian government.

How would this response have differed if President Obama had not articulated a “red line” prohibition on chemical weapons? The rhetoric of the President of the United States can dramatically influence American public opinion.^{33, 34} While the ability of the president to shape international discourse and action is less certain, scholars such as Bonnie Dow have argued that when the president speaks unequivocally about crisis, as President Obama did in August 2012, his words have the power to galvanize support for international action.³⁵ The experience of international diplomacy during the second half of the twentieth century, particularly during the Cold War, convinced other observers of the significance of leaders’ words to the outcomes of international disputes.³⁶

However, an executive’s popular rhetoric about a particular

course of action can often narrow, rather than broaden, the range of options available for future conduct. A leader rallies support by proclaiming the importance of a particular choice, but if he is successful, he may find in the future that support for any other choice has waned significantly. After all, by gathering favor for one option, he has elevated it high above all others in the public's view. As Wheeler wrote of a leader's "words and deeds" in *Saving Strangers*, "the former constitute the latter by establishing the boundaries of what is possible."³⁷ That is, a

leader's diction about an incident will inevitably influence his or her range of future options. I will argue that this limiting effect, by which leaders dictate, intentionally or otherwise, the terms and conditions of possible action, is the most significant consequence of President Obama's "red line."

An executive's popular rhetoric about a particular course of action can often narrow, rather than broaden, the range of options available for future conduct.

Michael Walzer, a noted scholar of "just war" theory, describes the categorical imperatives he believes should govern modern warfare. In one chapter, Walzer discusses the conditions under which international intervention in armed conflict is justified. Walzer reasons, based in large part on the writings of John Stuart Mill, that nations must not intervene in one another's affairs in order to promote one system of government over another, because, he contends, "Self-determination is the right

of people to become free by their own efforts.”³⁸ Walzer goes on to argue that nations should not cross one another’s borders for the purpose of making war at all, except in a narrow set of circumstances. One such circumstance is humanitarian intervention in cases where human rights abuses make free and fair “self-determination” impossible.³⁹ While Walzer argues in other cases that intervention is justified only when it “balances, and does no more than balance” the powers in an armed conflict to promote self-determination,⁴⁰ he employs a different standard in cases of human rights abuses. Casting off the notion of balance, Walzer argues that “people who initiate massacres lose their right to participate in the normal... process of domestic self-determination. Their military defeat is morally necessary.”⁴¹ Based on the principle that those who massacre others irreparably harm the process of national self-determination, Walzer would clearly advocate robust military intervention against Assad’s government. His rationale is particularly interesting and important to our understanding of the effects of President Obama’s “red line”: Walzer would not view the use of chemical weapons as an inherent evil, but instead would consider their use in the Ghouta massacre as one among a litany of serious crimes by the Assad regime that collectively form a clear case for intervention.

Contemporary observers have also argued that a strong rationale for military intervention in Syria exists independent of the use of chemical weapons. Some analysts agree with the reasoning Walzer proposed many years earlier and argue that the mounting evidence of civilian massacres by the Syrian government is sufficient cause to intervene to protect that nation’s people.⁴² These authors argue that the use of chemical weapons did little to alter the mandate for international intervention

in the Syrian conflict, contending that the government's atrocities justify intervention independent of international norms regarding chemical weapons. Amir Tahiri wrote just three weeks before the Ghouta attack that "concern about the possibility of a larger massacre [using chemical weapons] does not justify indifference to the daily killings already taking place."⁴³ Blake and Mahmud argue that a strict focus on chemical weapons has distracted from the Assad regime's brutality exercised by conventional means, and that the government's mass killings of civilians justified intervention long before the Ghouta attack.⁴⁴ While these authors agree that some action should be taken against the Syrian regime, they disagree fundamentally with President Obama about the proximate justification for that action.

Others provide utilitarian arguments for intervention based on principles of military strategy and international security. Scholars of military theory have argued that targeted airstrikes against airfields controlled by the Assad regime could decrease the number of casualties from the civil war by dramatically diminishing the government's ability to target civilian areas. These strikes would also be expected to pitch the conflict toward ground battles in less-populated areas, where rebel groups are more equally matched with regime forces.⁴⁵ Still others argue that international arms embargoes against Syria—to which more than 100 nations are parties—provide a mandate to intervene and interdict the flow of weapons being smuggled into the country from Iraq and Iran.⁴⁶ A final argument supposes that the unsupervised overthrow of the Syrian government would leave a "power vacuum" and invite terrorist or extremist interests to take control of the country, jeopardizing international security interests.⁴⁷ A panoply of legitimate caus-

es for international intervention in Syria have been proposed, each of which would likely lead to specific military actions with lasting consequences in the bloody civil war.

However, despite these diverse calls for aggressive intervention, the United States has taken no further action since its mission to bring Syria's weapons stockpiles under international control, and has not indicated any interest in taking further action in the future. Without the support of the world's only superpower, no other nation has taken or is likely to take action to end the civil war.⁴⁸ Why have so many apparently legitimate causes of action been passed over in the Syrian crisis? It is likely that President Obama's remarks superseded each of these causes, replacing them with a single test—were chemical weapons used?—and a single option for intervention—action to prevent further abuse of those weapons. While President Obama's clear stance against chemical attacks made possible the action he sought, which took Syria's chemical arsenal under international control, it also provided a convenient opportunity for the international community to declare “mission accomplished” and turn its focus away from further intervention in the civil war. Having completed their only stated objective, little incentive remained for the United States or its allies to face the risks and costs of military intervention. Intentionally or not, President Obama circumscribed the eventual international response by defining chemical attacks as the Assad regime's most serious transgression. To use Wheeler's phrase, the president “established the boundaries of what is possible,”⁴⁹ shifting attention away from other war crimes and onto one narrowly defined aspect of the Syrian crisis.

President Obama did not, it seems to an outside observer,

stand to gain from precluding international intervention based on other causes of action; therefore, it seems unlikely that he deliberately confounded other efforts to step into the Syrian civil war. His rhetoric's limiting effects were likely an unintended—and perhaps unwelcome—second order consequence of his chosen strategy for discouraging the combatants from using chemical weapons. That the President of the United States stumbled unwittingly into such a consequential position with one turn of phrase in a press conference is cause for some concern; other leaders and decision makers would do well to study carefully the circumstances that made this mistake so consequential.

Lessons from Ghouta

The context of President Obama's firm statement against the use of chemical weapons suggested that he intended to enforce that prohibition with military force, if necessary. However, principles of explicit and customary international law and a close analysis of cultural perspectives suggest that President Obama's "red line" did not enjoy consensus support in the international community, and so did not carry a clear mandate for the United States and its allies to enforce the prohibition with their military might. Contrasting the diversity of published causes for international action in the Syrian civil war with the narrowness of the eventual response (the action that brought Syria's chemical weapons under international control) reveals a possible consequence of President Obama's rhetoric that is consistent with existing scholarship about the power of presidential oratory to influence international action. Specifically, by "speaking unequivocally" about the Syrian crisis, President Obama marshaled international actors to support

his terms for intervention in the Syrian conflict;⁵⁰ however, by doing so, the president “established the boundaries of what is possible” and precluded further intervention based on other grievances or interests.⁵¹

While these conclusions may foster a better understanding of the Syrian civil war, they are of little direct significance to that conflict, as the ideal moment for effective international intervention in Syria has long since passed.⁵² Instead, the lessons we glean from Ghouta are most significant as we look ahead to the weighty task of preventing—and when necessary, responding to—future abuses of chemical weapons. Leaders who study the consequences of President Obama’s “red line” will learn that while it ultimately did not discourage the Assad regime from using chemical weapons, it did allow the United States to form an international coalition in support of seizing the government’s stockpiles of those weapons, despite legal barriers and cultural differences. Most importantly, they will learn that the specific elements of the Syrian crisis that President Obama chose to discuss publicly quickly became the sole focus of international debate, and that subtleties he did not address from the outset quickly became lost amid the echoes of his original proclamation.

President Obama likely did not intend to constrain the international response to the Syrian civil war; he had little incentive to tie his own hands to preclude intervention in furtherance of national interest or international norms. However, in his role as agenda-setter, President Obama would have done well to exercise greater restraint in his word choice. To draw a “red line” is to suggest automatic, immediate, and dire consequences for transgressors. This may have been the president’s intention—

his strong rhetoric probably discouraged the use of chemical weapons in the Syria, at least temporarily—but the specific language had a second effect: after August 20, 2012, conversation about the Syrian conflict within the U.S. and abroad considered (if not outright focused on) the meaning of the “red line.” When the Assad regime took a bridge too far in Ghouta, U.S. public opinion quickly converged on action of some kind.⁵³ However, once an agreement had been reached to take chemical weapons off the table in Syria, no mandate was left for further intervention. The president had successfully focused the conversation on chemical weapons for more than a year. When they were no longer a factor, the Syrian “problem” as many had come to see it was resolved.

But the reality on the ground, of course, was very different. A multitude of other crimes by the Assad regime might provide legitimate causes for international action,⁵⁴ but President Obama’s effective narrative about the preeminence of the danger posed by chemical weapons so dramatically sidelined these other transgressions that even now, in the absence of the chemical threat, the conversation about further intervention to punish the Assad regime for its other crimes is conspicuously missing. This is the real consequence of President Obama’s “red line.”

By studying President Obama’s example, leaders faced with similar circumstances in the future might develop more effective strategies for speaking in times of crisis to advance their cause without constraining their opportunities for further action, either by using rhetoric with less weighty connotations or actively expressing the need for flexibility in response to changing circumstances.

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Do Export Credit Agencies Benefit the Economy?

By Soh Young In

With policy makers' strong belief that export is a major element for promoting economic development, many countries have established official Export Credit Agencies (ECAs) to support domestic export industries. As they provide state backing for large-scale and long-term transactions, ECAs have become highly influential players in international trade and financial markets these days. Especially during and after the recent financial crisis, ECAs' traditional role as a public insurer of last resort have become more conspicuous. However, consensus on the role of ECAs in promoting export growth and their impacts on the overall economy have been divided for many years. Proponents say ECAs expand market capacities by covering risks that private sector actors cannot control and thus contribute to reducing disparity in the global economy. Others argue that export credit is a biased trade subsidy, and it causes more severe economic distortion both domestically and globally.

This study provides an empirical evaluation on ECA perfor-

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mance for policymakers. It displays three questions in the order which policymakers should question themselves in practicing export credits. Firstly, it starts from a simple question, do ECAs benefit the economy?; this study conducts an empirical analysis on ECAs' performance in promoting export growth, job creation, income growth, and domestic financial activities. Then the next question is can these benefits be sustainable?; it evaluates how long the country enjoys the benefits from creating ECA. Lastly, this study examines the efficient structure to provide export credits.

For empirical evidence, this study uses the panel data regression of 15 countries that have official ECAs from 1972 to 2010.¹ It utilizes the staggering timing of ECA establishments in different years for identification and use the differences-in-differences method for estimation.

This study finds that exports of a country tend to increase after ECA creation, but the positive effect does not last in a longer period of time. Moreover, this positive effect mostly comes from direct export credit scheme (export guarantee is insignificant in increasing exports). Yet, expanding direct export credits hinders

Exports of a country tend to increase after ECA creation, but the positive effect does not last in a longer period of time.

private financial sectors' lending activities. The organization of the paper is as follows: Section 2 takes a cursory look at ECAs to identify properties and issues of ECAs, and reviews previous studies on their performance. Section 3 provides an empirical

analysis of 1) impacts of ECA creation on countries's economy, 2) patterns of ECAs' impacts over time, and 3) sub-categorized impacts by types of ECA intervention; guarantee alone or both of guarantee and direct loan. In Section 4, it discusses the implication of empirical results from Section 3, and suggests policy recommendation in practicing export credits. Lastly, Section 5 concludes with a brief summary.

Objective of ECAs

An ECA is a private or government entity that acts as an intermediary between national governments and exporters by providing export credits. Export credits are used to financially support the sale of goods and services in international markets. The primary objective of the ECA is to promote national exports and to create more jobs. Export is an important factor for country's economic growth and development because the trade deficit (the country imports more than it exports) may have negative impact on the country's wealth. Therefore, the government casts ECA as a useful tool to support domestic export industries and therefore the economy.

Government ECAs are mainly to provide financial support for export orders to countries that pose a political or economic risk. Though ECAs can be both public and private, there is a clear distinction. The private ECAs include commercial banks, private insurance companies and financial institutions that provide their services on their own account. The government on the other hand, supports the public, or official, ECA. Loans and guarantees provided by official ECAs are actually guaranteed by the government and hence fully liable in case of default. As export credits provided by official ECAs certainly have favorable conditions, they are rather used to finance or insure risky/costly

transactions that private sectors can hardly handle. (In this paper, we will refer to official ECAs as ECAs hereafter, and will make distinction for commercial ECAs when necessary.)

Development of ECAs

Since the creation of the UK's ECA, Export Credits Guarantee Department (ECGD), in 1919, 36 countries have established official ECAs (see Table 1). After the World War II, most ECAs concentrated their functions on post-war reconstruction. Since then, ECA financing has evolved into an increasingly complex structure to meet various needs. During the recent financial crisis, ECAs have significantly increased their presence in providing covers for defaults and rescheduling for troubled debts, which however have caused competitions among ECAs. In particular, ECAs in developing countries that aim for export-driven growth, such as South Korea and China, have competitively expanded the size of export credits. Recently competitions among ECAs have intensified as many players in international market try to win over each other with favorable condition of state backing.

Types of Export Credit Financing

Export credits can be largely categorized into two schemes, direct export credit (loan) and export credit guarantee (insurance). The type depends on the mandate given by its government. The most widely used scheme is export credit guarantee: ECA covers a loan from a private lender. ECAs provide export credit guarantee to encourage financing of exports of domestic suppliers, while providing competitive credit terms to foreign buyers. By reducing financial risk to lenders, credit guarantees encourage exports to buyers in countries, mainly developing countries, which have sufficient financial strength to have for-

foreign exchange available for repayments. Direct export credit is the loan made directly by ECAs at the lower interest rates to foreign buyers of domestic suppliers. Occasionally, ECA takes risk on the interest rate for exporters by subsidizing rates or offering a low long-term fixed rate, called interest rate support. The Commercial Interest Reference Rate (CIRR) is the official fixed lending rate and is calculated by reference to the preceding month's average rates for the relevant currency.

Table 1: Countries with Official ECAs

Country	ECA	Year*
United Kingdom	Export Credits Guarantee Department (ECGD)	1919
Germany	Euler Hermes, and KfW	1927
Sweden	Swedish Export Credits Guarantee Board (EKN), and Swedish Export Credit Corporation (SEK)	1933
United States	Export-Import Bank of the United States (US EXIM)	1934
Mexico	Banco Nacional de Comercio Exterior (Bancomext)	1937
Belgium	Office national du Ducroire (ONDD)	1939
Canada	Export Development Canada (EDC)	1944
Austria	Oesterreichische Kontroll Bank (OeKB)	1946
France	Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE)	1946
Israel	Israel Foreign Trade Risks Insurance Corporation (ASHRA)	1957
Norway	Export Credit Norway (Eksportfinans), and The Norwegian Guarantee Institute for Export Credits (GIEK)	1960
Hong Kong	Hong Kong Export Credit Insurance Corporation (ECIC)	1966
Portugal	Companhia de Seguro de Créditos (COSEC)	1969
Spain	Española de Seguros de Credito a la Exportación (CESCE)	1970
Luxembourg	Office du Ducroire (ODD)	1971
Italy	Servizi Assicurativi del Commercio Estero (SACE)	1977
Sri Lanka	Sri Lanka Export Credit Insurance Corporation (SLECIC)	1978

India	Export-Import Bank of India, Export Credit Guarantee Corporation (ECGC)	1982
Turkey	Export Credit Bank of Turkey (Türk Eximbank)	1987
Greece	Export Credit Insurance Organisation (ECIO)	1988
Australia	Export Finance and Insurance Corporation (EFIC)	1991
Columbia	Banco de Comercio Exterior de Colombia (Bancóldex)	1991
Poland	Korporacja Ubezpieczeń Kredytów Eksportowych (KUKE)	1991
Czech Republic	Export Guarantee and Insurance Corporation (EGAP), and Czech Export Bank	1992
South Korea	Korea Trade Insurance Corporation (K-Sure), and Export-Import Bank of Korea (KEXIM)	1992
China	Export-Import Bank of China, and China Credit Insurance Corporation (SINOSURE)	1994
Hungary	Hungarian Export-Import Bank, and Hungarian Export Credit Insurance (MEHIB)	1994
Jordan	Jordan Loan Guarantee Cooperation (JLGC)	1994
Slovakia	Export-Import Bank of the Slovak Republic (Eximbank SR)	1997
Finland	Finnvera and its subsidiary Finnish Export Credit Ltd (FEC)	1998
Japan	Japan Bank for International Cooperation (JBIC), and Nippon Export Investment Insurance (NEXI)	1999
Netherlands	Atradius	2001
Denmark	Eksport Kredit Fonden (EKF)	2002
Switzerland	Swiss Export Risk Insurance (SERV)	2007
New Zealand	Export Credit Office (ECO)	2011
Russia	Export Insurance Agency of Russia (EXIAR)	2011

* year of the official ECA establishment

Types of Export Credit Financing

As ECA financing has expanded into more diverse forms of financing, there have been increasing conflicts with commercial banks and most of conflicts reside in ECA's direct credit products. Direct export credit scheme may also cause conflicts with commercial banks; some complain that the considerable portion of official export credits is to merely substitute other existing financial products provided by commercial banks. Credit guaran-

tee schemes can not be simply stated that the ECA compete with and crowd out private financial institutions; rather they broaden the range of instruments available to exporters, often combining their tools with the products of other financial players, thus improving financing solutions. Even in the case of guarantees on bonds issuance, there is a plenty of room left for commercial banks; they are still needed in the structuring, sub- scribing and distributing the security. On the other hand, as direct export credit requires ECA to borrow money from financial market as a public entity, it involves budgetary concerns regarding increasing public debt.

Generally, a number of ECAs concentrate on the export credit guarantee as it is more cooperative than competitive. However, export-driven countries such as South Korea, China, Hungary, and Japan, have expanded the direct credit schemes. In fact, the 8 of 36 countries that have two separated institutions for direct export credit and export credit guarantee businesses are all export-driven countries (Table 2).

Table 2: Countries with Separated ECA Functions

	Countries
Credit Guarantee Only	Greece, Netherlands, New Zealand, Denmark, Luxembourg, Belgium, Switzerland, Spain, Iceland, United Kingdom, Austria, Italy, Portugal, Poland, France, Finland
Guarantee and Loan Given by One Institution	Mexico, United State, Canada, Turkey, Australia, Slovakia
Guarantee and Loan Given by Two Institutions	Korea, Japan, China, Norway, Germany, Sweden, Czech Republic, Hungary

In most cases, expanding ECA financing is initially requested by exporters, but as excessive export credit assistance leads to a buyer's market they fall into a trap set by themselves. For instance, in

a bidding process for a construction project, a project company (a foreign buyer) increasingly request that a construction company (a domestic service supplier) brings financial packages with their countries' ECAs. Such processes ignite margin-cutting races among ECAs.

Types of Export Credit Financing

Many studies have shown that ECA financing is a useful tool for governments to support domestic export industries. Delio Gi-anturco describes ECA's definition as "1) a highly specialized bank, insurance company, finance corporation, or dependency of the governments, 2) offering loans and/or guarantees, insurance, technical assistance etc., to support exporters, 3) covering both commercial and political risks related to exports sales, 4) with the backing or approval of the national government, and 5) dedicated to supporting the nation's exports." ECA has a crucial function with regard to economic progress and to the current prosperity the industrialized nations are enjoying today. ECAs succeeded in increasing domestic employment, raising business sales and profits, and expanding national tax bases by stimulating exports.² In international perspective, ECAs can help both home company (exporters) increase sales opportunities, as well as their business partners. For example, those who are operating in emerging market economies with less developed financial systems may need to import new machinery to modernize their processing lines and increase their value added.³

However, Raoul Ascari, Italian ECA (SACE)'s chief operating officer, points out that the rationale for establishing an ECA has never been spelled out in a definite way and that the "economic literature on this line of research has almost disappeared over the last two decades." He refers the World Bank Research Ob-

server in 1989 as the rare example that lists some rationales behind export credit. The primary rationales of ECA are domestic distortions, capital market failures, risk uncertainty and incomplete financial markets, moral hazard, and adverse selection. Yet there has been less evidence to prove those issues have been resolved by ECA. Rather he found that moral hazard and adverse selection may raise risk premiums above the threshold at which exporters are willing to pay for ECA financing.⁴

Moreover, some policy makers lack of understanding in the consequences of export credit assistance and their imprudent decision-making in using ECA financing may cause more serious issues of market distortions and national account. In July 2001, the OECD's Working Party on Export Credits and Credit Guarantees recognized the potential impact of ECA in nation's external debt burden, particularly in the least developed countries, and thus adopted the "Statement of Principles on Officially Supported Export Credits to the Heavily Indebted Poor Countries."⁵ It advises that the use of ECAs is to promote trade in competitive market environments and it is different from the one of multilateral development banks and agencies to provide development aid.

A number of NGOs today argue about the adverse effects of ECA financing on national and global economy. European Network on Debt and Development (Eurodad) points out that ECA is likely to increase economic disparity between North and South countries.⁶ Basically, ECA financing of exports credits in most developing countries is financed by debts from developed countries. It finds that, on average, 80% of developing countries' debts to Northern governments come from export credits. Furthermore, after 2008 financial crisis, these developing countries'

debts increased as they gave out more export credit guarantee to fill the shortage from bankrupted financial institutions.⁷ ECA Watch Austria argues that ECAs generate detrimental effects on global sustainable development by enabling projects with high risks to their environmental, political, social and cultural impacts which would not come to life without the support and financial backing of ECAs.⁸

Empirical Hypothesis

Policymakers have recognized that an ECA's role is indispensable as they provide the last resort against political and commercial risks that private markets will not take. Many countries have competitively increased the amount of export credit assistance and global competition in ECA financing has indeed become increasingly formidable.

However, it is necessary for policymakers to analyze costs and benefits before expanding export credit. The fundamental question is what if such expected benefits of ECA never exist in reality. Export credit assistance may not be an effective solution for keeping or raising export market share, domestic employment, and economic growth. There might be a downside of ECAs, which offsets the benefits. For instance,

Many countries have increased export credit assistance and global competition in ECA financing has become increasingly formidable.

ECAs are primarily debt-creating agencies; the funding source of ECA financing is the nations' public debt. Increasing public

debt may offset ECAs' benefits from promoting exports. The other instance is that ECAs may discourage local financial institutions' lending activities; ECAs might crowd private sectors out of the financial market, and retard the development of domestic financial markets. It is possible that ECA financing simply replaces existing financial products provided by commercial banks. Such situations have already been evidenced from acute tensions between commercial banks and ECAs in some countries, and the direct export credit scheme is the key subject of such controversy. Furthermore, policymakers should aware that ECAs' benefits may become marginal if ECA financing is just used to fill the gaps between local financial institutions' capacity and the level of domestic suppliers need. Once a country exhaust its financial resources, it will be left with more severe consequences; no comparative advantage created, less trade, dragged economic growth with large amount of public debts, and lower remittance and inefficient labor market.

It is necessary for policymakers to examine if ECAs foster export growth, domestic job creation, and thus national economic growth, and also to investigate factors that may offset ECAs' positive effects, if any. In this regard, this study focuses on testing three main hypotheses:

- * Hypothesis 1: ECA has a positive impact on key macro variables such as exports, income growth, unemployment rate, and financial depth;
- * Hypothesis 2: such impact is sustainable over long period of time;
- * Hypothesis 3: direct loan is more effective than credit guarantee.

This empirical analysis is distinctive for two reasons: 1) to the best of my knowledge, it is the first empirical study on ECAs' performance that is cross-sectional and covers the recent financial crisis period, and 2) this study looks at other key economic variables that ECAs may affect. Firstly, the evaluation period of this study covers the recent financial crisis periods. During and after the financial crisis, ECA financing activities have become more active in global finance market because many commercial banks lost their capacities in providing enough funding to market. Thus, it is important to see how ECA function not only during normal times but also during shocks; the second World War can be one example of shocks but it has been almost 70 years that other factors might be changed over time. Secondly, this study provides a general review on ECA impact to policy makers. Although individual countries conduct reports on its own ECA performance evaluation, it lacks the cross-sectional evaluation to assess general effects of ECA across countries. Lastly, to evaluate ECAs' performance, this study takes a view of not only directly-related indicators such as export growth and unemployment rate but also indirectly-related indicators like private financial sectors.

Data

The data consists of 15 countries' data that have official ECAs over the time period from 1972 to 2010.⁹ Russia, Czech Republic, and Slovakia are excluded because variables in these countries might be recorded differently before and after the dissolution of the Soviet Union in 1991, and dissolution into Czech Republic, and Slovakia happened in 1993. Ghana is also excluded due to lack of data. Some observations with missing data are also deleted from population. All data are annual survey data by World Development Indicators (WDI) and Global Finance Indicators

(GFI) of the World Bank and obtained from the DataBank in the World Bank.¹⁰

The main explanatory variable is a dummy related to ECA creation, a binary variable. This study assesses how this variable affects four dependent variables:

1. level of export (total annual export, share of GDP) - It shows the direct effect of ECA creation. This study focuses on the total export value not the net of export and import since ECAs only deal with export activities.

2. income growth (GDP per capita growth, annual percentage) - The GDP growth is a traditional measure of the level of economic development. This indicator can provide evidence on indirect effect of ECA creation.

3. unemployment rate (the number of unemployed among the total labor force) - The underlying assumption is that the level of exports and labor market is positively related to the provision of economic growth. Export promotion and job creation are the main purpose of ECAs.

4. financial depth(domestic credit to private sector, share of GDP) - Financial depth captures financial sector activities in the economy. In general, financial depth is the size of banks, other financial institutions, and financial markets in a country. Financial depth measures domestic private credit. The private credit, therefore, excludes credit issued by governments, central banks, government agencies, and public enterprises. The particular use of this variable in this study is to assess if ECAs vitalize domestic private sector activities or crowd them out through competition.

During 1972-2010, 15 countries launched ECAs and 70.22 percent of country-year observations occur in presence of ECA. Overall, means of exports, and domestic credit to private sector have increased after ECA creation (Table 3). Especially, there is a significant jump in exports; the conditional mean of exports of these 15 countries before ECA is 27.49 and rose to 39.70 after ECA creation. The conditional means of GDP per capita growth slightly decreased. But, this simple mean comparison cannot be significant observation because it does not consider auto correlation.

Table 3: Summary Statistics of Variables (Before and After ECA)

	Before ECA	After ECA	Total
<i>GDP per capita growth (annual %)</i>			
mean	2.49	2.39	2.42
number of observations	397	936	1333
<i>Exports of goods and services (% of GDP)</i>			
mean	27.49	39.70	36.17
number of observations	380	935	1315
<i>Unemployment (% of total labor force)</i>			
mean	6.10	7.27	7.03
number of observations	181	713	894
<i>Domestic credit to private sector (% of GDP)</i>			
mean	82.03	87.45	86.15
number of observations	231	731	962

Now, we subdivide observations into four time periods from the year that each country's ECA is created (Table 4). Interestingly, there appears a noticeable jump in GDP per capita from three years before to three years after ECA creation, and it again decreases in longer period of time - five years after ECA creation. The level of export continuously increases over time. Although we still can see the hike in exports before and after three years of ECA creation, it is not as much as the results from Table 3. On the contrary to Table 3, domestic credit to private sectors de-

creases. It may indicate that ECA creation does not contribute to stimulate private financial activities. Again, as noted above, this results does not consider auto correlation and is not statistically rigorous.

Methodology

As shown in Table 1, ECA establishment takes place in waves, not all at once. This staggering timing of establishing an ECA across countries provides a good source of cross-sectional and time-series variation to estimate the effect of an ECA on the variables of interest.

Table 4: Summary Statistics of Variables (in 4 periods)

	5 years before	3 years before	3 years later	5 years later
<i>GDP per capita growth (annual %)</i>				
mean	2.28	2.52	3.45	3.03
number of observations	81	49	55	93
<i>Exports of goods and services (% of GDP)</i>				
mean	29.70	30.67	33.40	34.92
number of observations	81	49	55	93
<i>Unemployment (% of total labor force)</i>				
mean	6.49	6.60	6.85	6.61
number of observations	54	34	37	61
<i>Domestic credit to private sector (% of GDP)</i>				
mean	83.89	85.71	80.66	80.73
number of observations	64	39	42	71

In this regard, to test the hypothesis that an ECA helps raise a country's export, for example, we use the Differences-in-Differences (DD) method. Our conjecture is that, if having an ECA really contributes to increasing the export, we would observe the "jump" in the time series of the export around the timing of establishing an ECA. For the robust interpretation, we should control for the country characteristics and any time trend not related to an ECA. For this purpose, we follow the methodology

of Wacziarg and Welch and use the following panel regression specification:

$$y_{it} = \alpha + \beta ECA_{it} + \gamma_t + \alpha_i + u_{it}$$

where y_{it} is the dependent variable of our interest such as economic growth (real GDP growth rate), (export/GDP), unemployment rate, and (private credit/GDP). For (export/GDP), y_{it} is the share of export to GDP of country i at year t . ECA_{it} is a dummy variable taking a value of one in all country-year observations after establishing an ECA.¹¹ Otherwise, they are zero. For example, South Korea established its ECA in 1992. In this case, we have $ECA_{it} = 1$ after the year of 1992 for South Korea. γ_t is the time fixed effect common to all countries in the sample. We need this term to control for the possible time trend. α_i is the country fixed effect, which controls for the unobserved heterogeneity among countries.

For our hypothesis 1, we expect $\beta > 0$ when y_{it} is the share of export to GDP, suggesting that having an ECA helps raise a country's export. Thus, we intend the parameter β to capture the effect of ECA after controlling for any common time trend and unobserved country characteristics.

Hypothesis 1: Do ECAs Have Impacts on Key Macroeconomic Factors?

This section assesses the within-country effects of ECA creation over 1972-2010 period. It compares conditional means of dependent variables before and after ECA creation. The dependent variables, y_{it} , are 1) share of exports of goods and services, 2) GDP per capita growth, 3) unemployment rate, and 4) share of domestic credit to private sector in country i at year t . The

regression model is:

$$y_{it} = \alpha + \beta ECA_{it} + \gamma_t + \alpha_i + u_{it}$$

where the α_i term is a country fixed effect and the γ_t term is a time fixed effect.

Methodology

We compare two estimates with and without time fixed effect common to all countries. With time fixed effect, estimations of β for all four dependent variables decrease as well as its level of significance. Yet, it still shows that ECA creation is positively correlated with exports and domestic credit to private sectors with 95% level of significance. It can be evidence that the expectation that ECA invigorates export industries and domestic financial sectors is satisfied.

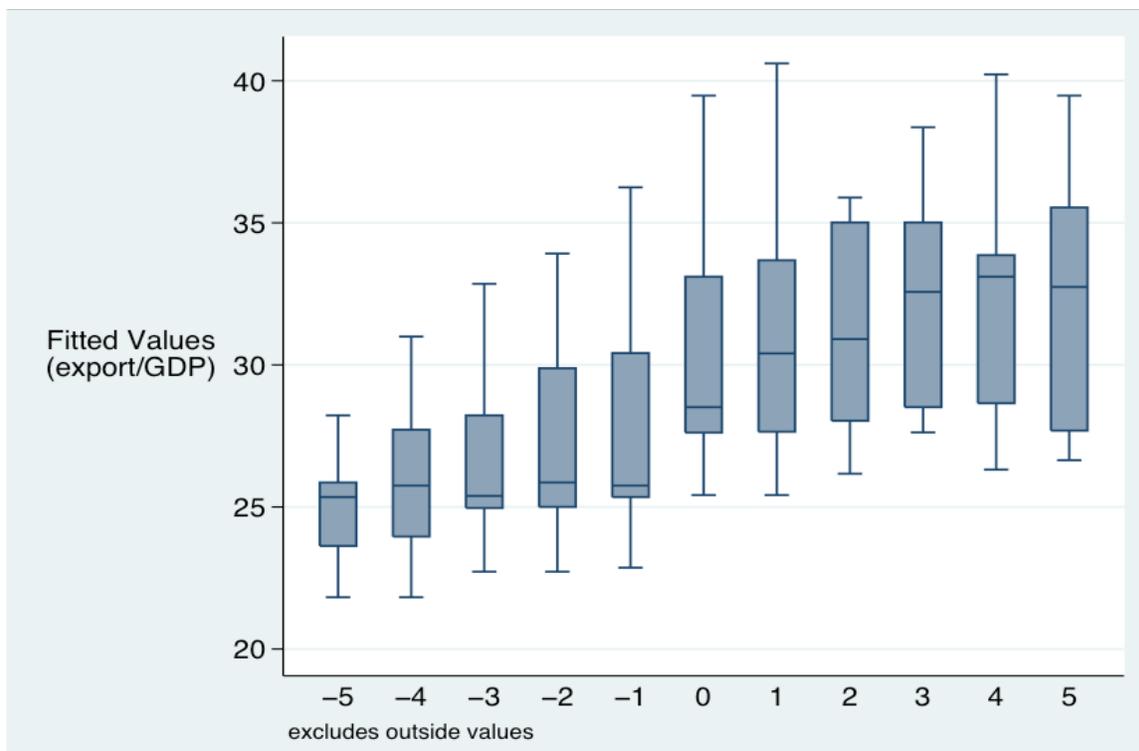
Figure 1 displays a clear visualization that exports increases after ECA creation. It shows the median, 25th and 75th percentiles, maximum and minimum fitted values of the dependent variables in Equation 1 over the years before and after ECA creation. A box plot shows the 25th and 75th values with a median line at 50th percentile, and the upper and lower whiskers display the maximum and minimum fitted values respectively. The scales on X-axis measure the years relative to ECA creation, where 0 implies one year before ECA creation and 1 is the year of ECA creation. Figure 1 shows that the median values of fitted values of exports jumps from year 0 to year 1. In addition, the average of fitted exports during the five years before ECA (year -4 to 0) is 26.9 percent and the one during the five years after ECA (year 1 to 5) is 27.7 percent.

Table 5: Estimation of β with/without Time Fixed Effects

	Without Time Fixed Effect	With Time Fixed Effect
GDP per capita growth	-0.18 (0.27)	-0.13 (0.44)
Exports of goods and services	11.02 (0.57) ***	2.19 (0.89) *
Unemployment	-0.10 (0.26)	0.43 (0.39)
Domestic credit to private sector	34.84 (2.71) ***	7.33 (3.67) *

Standard errors in parentheses Level of significance codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1

Figure 1: Level of Exports Following ECA Creation, 1970-2011



This regression result does not find a significant correlation between ECA creation and GDP growth or between ECA creation and unemployment rate. Yet, it cannot be sufficient evidence to conclude that ECAs do not promote income growth and job creation. First of all, it is possible that ECAs indirectly affect GDP growth through exports growth but it is not captured in this model. The other possible argument is that expanded exports

indeed does not lead toward increasing the net trade balance. In case of the United States, a Government Accountability Office expert testified that export credit programs of Export-Import Bank of the United States (US EXIM) does not have a substantial change in the net trade balance. Export subsidies may stimulate foreign demand for particular U.S. products, but the increased demand for dollars needed in order to purchase those products raise the U.S. dollar's value. The stronger dollar encourages imports and raises the price of U.S. exports generally. The exchange-rate mechanism, in other words, moderates any price advantage created by export credit loans.[12]

Hypothesis 2: Are ECA Impacts Sustainable?

The simple average difference before and after ECA creation may pass over important timing issues. It provides no information on how soon the effects occur or whether they become insignificant after several years of ECA creation. This section, therefore, examines the time path of four dependent variables for an average country before and after ECA creation. It runs regression including time and country fixed effects with four dummy variables, D_1, D_2, D_3, D_4 , which are binary indicators of certain periods of time. Dummy variables for four periods surrounding the ECA creations were defined in order to further examine the timing of the share of exports, GDP growth, unemployment rate, and share of domestic credit to private sector responses to ECA creation. Fixed-effects regression is:

$$y_{it} = \alpha + \beta_1 D_{1it} + \beta_2 D_{2it} + \beta_3 D_{3it} + \beta_4 D_{4it} + \gamma_t + \alpha_i + u_{it}$$

where $D_{1it} = 1$ if $T - 3 \leq t < T$ and 0 otherwise; $D_{2it} = 1$ if $T \leq t < T+3$ and 0 otherwise; $D_{3it} = 1$ if $T+3 \leq t < T+7$ and 0 otherwise; $D_{4it} = 1$ if $T+7 \leq t$ and 0 otherwise; T denotes

the year that ECAs were established. The coefficients on these dummy variables capture the average difference in dependent variables between four periods, and the period preceding three years before ECA creation, the baseline period.

Results

The regression results shows that countries launched ECA do experience immediate growth in exports; exports grow by 3.34 percentage points in three years since ECA creation (Table 6). Passing over three years since ECA creation, exports still increase but at a decreasing rate; exports increase by 2.83 points after three years but before seven years since ECA creation, and by 2.69 percentage points more than seven years later since ECA creation. The timing pattern revealed by this regression is that exports start to increase even before ECA creation, hikes up to 3.34 percentage points immediately after ECA creation, and continues to increase but at a decreasing rate over a longer period of time. This pattern is different from simple mean comparison results (Table 4) where exports continuously increase in three and five years from ECA creation. One thing to note is the possibility of endogeneity; for instance, ECA is created in responding to growing needs from expanding export industries and increasing exports share in GDP.

Table 6: Fixed-Effect Regressions: Timing of the Effects of ECA Creation

	GDP per capita growth	Exports	Unemployment	Domestic credit to private sector
D_1	0.57 (0.53)	2.50 (1.06)*	0.29 (0.47)	6.97 (4.47)
D_2	0.28 (0.56)	3.34 (1.11)**	0.03 (0.48)	7.83 (4.50).
D_3	0.08 (0.55)	2.83 (1.09)*	0.06 (0.46)	9.68 (4.32)*
D_4	0.74 (0.61)	2.69 (1.24)*	1.24 (0.55)*	-2.13 (5.21)
no. of observations	645	628	405	475

no. of countries	15	15	15	15
adjusted R^2	0.13	0.12	0.09	0.15

Standard errors in parentheses Level of significance codes: 0 '****' 0.001 '***' 0.01 '**' 0.05 '.' 0.1

Domestic credit to private sector seems to take off until three to seven years following ECA creation, but such growth becomes insignificant after seven years passed. This result provides further information on change of domestic credit to private sector over different periods of time; the regression model for Hypothesis 1 possibly misses that ECAs' impact on domestic credit to private sector becomes insignificant in longer period of time.

Hypothesis 3: Testing Different ECA Financing Schemes

There are two major schemes of ECA financing, direct export credit and export credit guarantee. As mentioned above, direct credit products are more likely to be controversial because they can duplicate the loans provided by private sectors. In such case, borrowers tend to chose ECA over private sectors because of its favorable financial conditions, and private sector actors may be crowded out. This section assesses impacts of two different schemes by adding interaction variable of two binary indicators, ECA_{it} and $Both_{it}$:

$$y_{it} = \alpha + \beta_1 ECA_{it} + \beta_2 (ECA_{it} \cdot Both_{it}) + v_i + \eta_t + u_{it}$$

$Both_i$ is binary indicator of direct credit scheme existence; $Both_{it} = 1$ if country_{*i*} provides both loan guarantee and direct loans, and 0 otherwise. For instance, all the countries that provide export credit guarantee and loan by one institution and/or two separated institutions have $Both_{it} = 1$.¹³ The interaction variable $ECA_{it} \cdot Both_{it}$ is 1 if country_{*i*} has ECA that provides both

direct credit and credit guarantee. Therefore, the estimation of the impact of ECA that only provides credit guarantee is β_1 while the estimation of the impact of ECA that provides both direct credit and credit guarantee is $(\beta_1 + \beta_2)$.

Results

From two previous hypothesis tests, we find that ECA creation has positive impacts on exports. As we further divide the existence of ECA to the existence of direct export credit scheme, we find an interesting discrepancy. That is ECAs' positive impacts on exports only come from ECA that provides both direct credit and credit guarantee. ECAit coefficient becomes no longer significant once the interaction variable added to the regression model (see Table 7). Exports increase by 4.69 percentage points with ECAs that provide both financing products, the level of significance is very high.

The other remarkable finding is that signs of correlations of domestic credit to private sector with ECAit and ECAit * Bothit are opposite; domestic credit to private sector is positively correlated with ECAit but negatively with ECAit * Bothit. And, both correlations are significant. It indicates that domestic financial markets are encouraged by ECAs' credit guarantee supports but depressed by ECAs' direct credits. It is supportive evidence to the arguments that direct credit supports from ECA overlap with domestic commercial banks' role and may reduce private sector activities in the domestic market.

Table 7: Fixed-Effect Regressions with Interaction Variable

	GDP per capita growth	Exports	Unemployment	Domestic credit to private sector

ECA_{it}	0.01 (0.49)	0.20 (0.97)	0.32 (0.46)	12.88 (4.40) **
$ECA_{it} \cdot Both_{it}$	-0.33 (0.52)	4.69 (1.02)***	0.25 (0.52)	-11.01 (4.87) *
no. of observations	645	628	405	475
no. of countries	15	15	15	15
adjusted R^2	0.11	0.11	0.04	0.07

Standard errors in parentheses Level of significance codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1

Implications for Domestic Policy

First, policymakers should aware that export growth would not necessarily result in economic growth. This study shows that ECAs increase export while there is no significant impact on real GDP growth and employment. One possible reason is that, based on our empirical results, ECA credit may crowd out private loans, thus not contributing to an increase in overall credit within the economy.

Second, policymakers should understand the marginal effect of export credit subsidies and set a strategic time frame to enforce/exit for ECA policy. Our empirical analysis finds that export credits may boost some export industries in the short-run, but such contribution becomes less noticeable in a longer period of time.

Third, policymakers should know the strength and the weakness of each financing scheme and make good use of them to meet their specific needs. The major advantage of ECAs is their risk bearing capacity. Although most policymakers think that such advantage comes from credit guarantee schemes as ECAs guarantee can provide coverage for the riskiest part of an exporters' business, and protection against political and commercial risks, this study finds that the actual benefit, the increment of exports,

is only driven by direct credit schemes. However, the downside of direct export credit is that it directly increase public debt and its function is duplicated with private financial sectors.

In this regard, policymakers should balance out between public and private financial sectors. The demand for an ECA has increased tremendously. Some policymakers regard ECA as a solution to market failure that encourages both exporters and local finance institutions. Since ECA filled the huge gap left by the private sector during the recent financial crisis, it is recognized as a door-opener for exporters to riskier markets and a pace maker for local banks with its credit coverage. In addition, the Basel II Accord further raised the demand for ECA as banks had to maintain sufficient capital adequacy by the regulation. Banks seek for the low risk credit coverage like ECA, sovereign credit ratings holders. As private banks become more risk-averse, the role of an ECA to perform risky or less-profitable project such as social infrastructure projects in developing countries becomes more important.

International Policy Movement

ECAs also overheat competition across nations. The competition is more intense between industrialized countries and emerging market countries. For instance, in the shipbuilding industry, the EU countries complains about the unfairness of ECA support in Asian developing countries. As country risks rarely exist for the majority of European shipyards, ECA are not the appropriate financing option for them. Whereas ECAs in developing countries can provide financial support to their domestic shipbuilding companies. EU countries argue that financing given to developing countries can be used to cover the gap between the owner's actual financing requirements and the mortgage-based

loans available from commercial banks. In reverse, there are also complaints from developing countries that developed countries use ECAs to provide loans and credit to developing countries in order to sell them their exports.

Recently, initiatives to relieve excessive competitions has been started. The main object is to create a common ground for all ECAs and to harmonize their programs - in terms of advantage and restrictions, so that free trade and efficiency can be fostered. There are two agreements established for the global legal framework for ECAs: OECD Arrangement on Guidelines for Officially Supported Export Credits and the WTO's Agreement on Subsidies and Countervailing measures (ASCM). OECD Arrangement on Guidelines for Officially Supported Export Credits were formalized in 1978, and it is a non-binding gentlemen's agreement within the OECD members. The main purpose of the Arrangement is to provide a framework for the orderly use of ECA financing. The Arrangement seeks to encourage fair competition among exporters. ASCM regulates the use of subsidies and describes the measures countries may take to counter the effect of subsidies.

Despite the OECD arrangement, ECAs in some low-income countries still suffer from serious deficiencies, such as lack of transparency and monitoring procedures, and problems involving corruption and accountability. Moreover, the acute tension between developed and developing countries in the use of export credits is the most serious problem. Also, since the Arrangement does not have a strict legal binding, more strong motivations for ECAs' reformation and harmonization should be globally coordinated.

Conclusion

This study empirically finds that ECA policy can be a good tool to promote exports. However, the immediate exports boost evidenced shortly after ECA creation becomes marginal in a longer period. Moreover, such increases throughout the entire period only captured when direct export credits are provided, not credit guarantee. But the costs incurred from providing direct export credits could be higher than the benefit; this study finds that direct credit support from ECA decrease private financial activities in domestic market. There are possible benefits from ECAs acting as quasi-government players in markets. However, there certainly are limitations in practicing ECA as export credit subsidies. In this regard, this study recommends policymakers to understand that ECAs' positive effect of fostering more export might be offset by costs incurred from such limitations, and to globally collaborate on reformation and harmonization of ECA policy.

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1. There are 36 countries in total that have official ECAs as of today. However, this study will be based on 15 countries that launched official ECAs during 1972 and 2010 because data on other variables are available only in this period. Detailed explanation will be given in section 3.2.
 2. Gianturco, Delio E. *Export credit agencies: the unsung giants of international trade and finance*. Greenwood Publishing Group, 2001.
 3. Dinh, Trung Quang, and Hilmar Por Hilmarsson. *PRIVATE SECTOR CROSS BORDER TRADE TO EMERGING MARKET ECONOMIES: HOW CAN EXPORT CREDIT AGENCIES HELP TO MANAGE THE RISKS?*. *Bridges/Tiltai* 62, no. 1 (2013).
 4. Ascari, Raoul. *Is export credit agency a misnomer? The ECA response to a changing world*. No. 2. SACE working paper, 2007.
 5. OECD. *Implementing Sustainable Development Synthesis of the OECD work on sustainable development undertaken over the period 2001-2004*. OECD/ BMU (Federal Ministry for the Environment), 2004.
 6. European Network on Debt and Development (Eurodad) is a network of 49 NGOs from 19 European countries that researches and works on issues that are related to debt, development finance and poverty reduction (established in 1990).
 7. Oygunn Sundsbo Brynildsen. *Exporting goods or exporting debts?*. Eurodad, 2011.
 8. ECA Watch Austria was founded in the late 1990s as a platform of Austrian environmental and human rights organizations aiming for the reform of the Austrian export credit agency OeKB and was established as an independent environmental and human rights organization in 2008.
 9. The sample was restricted to 1970-2011 time period because the dependent variable values before 1970 are not included in the data set. Also, it tests countries that created their ECAs between 1972 and 2010 to see the

variation of dependent variables.

10. <http://databank.worldbank.org>

11. Wacziarg, R., & Welch, K. H. *Trade liberalization and growth: New evidence. The World Bank Economic Review*, 22(2), 187-231. 2008.

12. Hecker, JayEtta Z. *Export-Import Bank: Key Factors in Considering Eximbank Reauthorization. General Accounting Office*, 1997.

13. *The other option is to create three dummy variables for 1) countries that only provide export credit guarantee, 2) countries where one institute provides both guarantee and loan, and 3) countries where two separate institutions provide each product. This paper tests whether ECA provide both options or not no matter that products providers are separated or not.*



Piracy, Profits, and the Consequences of the IOC Shift Offshore in Nigeria

By Jessica Knight

In the last several years, major international oil companies (IOCs) in Nigeria have begun selling off onshore oil blocks, refocusing on deepwater offshore exploration. Royal Dutch Shell (“Shell”) is the largest and oldest IOC operating in Nigeria, with by far the most onshore projects. Last month, it sold four of its 28 onshore oil blocks, which together produce around 70,000 barrels per day. Chevron, Total, ENI, and ConocoPhillips have made similarly significant moves. At the same time, these companies have stepped up their offshore exploration efforts, financing new projects with the cash generated from the sale of their onshore assets.

Refocusing, not Retreating

These divestments do not mean that IOCs are pulling out of Nigeria – a move that would certainly devastate the national economy. Many IOCs, Shell in particular, have decades-long relationships with Nigeria. Their continued willingness to invest in capital-intensive offshore projects shows that they are taking a long view of the situation in the Delta. The risk-reward calculus

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still comes up reward. IOCs aren't going anywhere.

Besides, IOCs own a lot more onshore than just oil blocks. They have stakes in crude pipelines, pumping stations, storage facilities, and major export terminals, not to mention the infrastructure associated with the growing liquefied natural gas (LNG) industry. In general, IOCs seem to be holding on to these assets – except a few, like the Nembe Creek Trunkline, that have been especially insecure. This way, IOCs may not be getting the oil out of the ground, but they still get a cut of the profits.

This shift is not a retreat, but a refocus. IOCs are businesses. It looks more and more like an offshore orientation is the best route to stable, enduring, and profitable oil exploration in Nigeria. There are many multifaceted reasons for this refocus, given the highly complex and unstable operating environment in the Delta, but here are a few key points to know:

1. Offshore operations are more secure and, therefore, more profitable. The Niger Delta is a dangerous place for IOCs. Militant and criminal groups, such as the Movement for the Emancipation of the Niger Delta (MEND), sabotage critical infrastructure and kidnap foreign oil workers for ransom. Despite a 2009 amnesty, violence is once again on the rise. In the last month alone, MEND has claimed responsibility for sabotaged pipelines, an explosion at the Warri Refinery, killing several Nigerian soldiers, and the high-profile offshore kid-

The risk-reward calculus still comes up reward. IOCs aren't going anywhere.

napping of two Americans.

This instability drives up IOC operating costs significantly. Damage to infrastructure interrupts production and export activities. In Q2 2013 alone, Shell reported a production shortfall of about 100,000 barrels of oil and 150,000 tons of LNG, which translates to at least \$250 million of lost earnings. In their Q3 2013 results announced just a few weeks ago, Shell estimated a quarterly loss of about \$300 million due to the “deteriorated” and “challenging” operating environment in Nigeria. To combat this, IOCs are forced to spend exorbitant sums on security – particularly IOCs with greater onshore exposure. Leaked documents show that Shell spent more than \$1 billion on security globally between 2007-2009, with nearly 40% of that (\$383 million) allocated to Nigeria.

Offshore personnel and infrastructure are much easier to protect. ExxonMobil, which only operates offshore, recorded just three armed attacks in the last decade, compared to 945 attacks on Shell from 2007-2012 alone. Greater security translates to fewer production disruptions, lower security costs, and overall greater profits.

2. Oil theft is less of a problem offshore. Oil theft is rampant in the Niger Delta, but not all oil theft is created equal. Local theft, often called “bunkering,” happens when thieves install illegal taps on crude pipelines. These taps divert oil into boats for distribution either to illegal refineries along the coast, or to larger barges waiting to sell the oil in international markets. This type of theft requires infrastructure access, so it really only happens onshore and in shallow waters. Crucially, bunkering incurs serious second-order costs, through infrastructure repair and envi-

ronmental cleanup.

Small-scale bunkering is a familiar narrative, but recently oil theft has started to take place at an industrial scale. Poor governance has created opportunities for organized crime, often involving corrupt government and military officials, to loot oil resources. Complex criminal networks can tap into oil infrastructure and siphon off crude at much greater rates – and with much less secondary damage. At export terminals, “white collar” oil thieves fudge the paperwork so that oil can be stolen directly from storage tanks, mixed with licit shipments, or otherwise made to mysteriously vanish. (For a more detailed treatment of Nigerian oil theft, see last month’s excellent Chatham House report.)

The distinction between oil theft on local and industrial scales is central for understanding how theft impacts IOCs. At first glance, you might think industrial theft is the only real problem. After all, the amount of stolen oil is so astounding that the loss to bunkering seems tiny by comparison. But the real story is more complicated. Under current profit-sharing agreements, the Nigerian government claims the majority of oil revenue after costs. For onshore operations, the effective government take can reach 95%!

Of course, this is a double-edged sword: the government also bears 95% of the revenue loss for stolen oil. To put this in perspective, let’s borrow the figure of 400,000 barrels of oil stolen per day, cited last week by the Nigerian Senate Joint Committee on Finance and Appropriation. This translates to \$42 billion at current prices. If the government takes 95% of profits, theft costs them \$39.9 million daily, compared to just \$2.1 million

for IOCs. Even with a more conservative profit share estimate of 70%/30%, the government loses more than twice as much as the IOCs.

The same is not true for bunkering. IOCs bear 100% of the second-order infrastructure repair and environmental cleanup costs, which are enormous. IOC contracts require them to clean up oil spills at their facilities, no matter who caused them. IOCs mitigate the burden of these second-order costs when they downsize onshore operations. No, this doesn't address the problem of "white collar" oil theft – but overall, IOCs are better off.

3. Offshore taxes and royalties are much lower. Not only are offshore projects less vulnerable to sabotage and theft, but they don't incur the same high taxes and royalties as onshore projects. In Nigeria, companies active in the oil industry must pay a special Petroleum Profit Tax, instead of the standard corporate income tax. The current tax rate is 50% for deepwater and inland basin operations, but 85% for onshore and shallow waters.

Royalties come into play because, legally, the Nigerian government retains ownership rights to all natural resources in its territories. Rates are determined on a sliding scale based on location, which decreases as you move farther offshore. Deepwater projects more than 1000m offshore require no royalties at all – compared to rates of 18.5-20% for onshore and shallow waters.

Security Implications Moving Forward

With sabotage and oil theft cutting into already razor-thin profit margins, it makes sense that IOCs find these favorable fiscal terms even more attractive. Why pay a 20% royalty onshore

when you could extract oil royalty-free further offshore?

Taken together, it's clear why IOCs think they stand to gain by shifting their oil exploration offshore in Nigeria – even though offshore operations require greater upfront investment and, all else equal, incur higher operating costs. But what could this mean for security?

* Continued local and industrial oil theft. The oil theft situation likely will not change. Nigerian oil companies are picking up most of the onshore blocks, but oil theft at all levels is a criminal, for-profit enterprise. Thieves do not distinguish between pipelines owned by IOCs and those owned by Nigerian firms. A pipeline is a pipeline, an opportunity to make some serious cash. Oil theft has been a problem for Nigerian companies, too, and theft-related damage to oil infrastructure will continue regardless of ownership as long as desperate poverty in the Delta persists.

* Increased targeting of LNG infrastructure and personnel. Nigeria holds the largest natural gas reserves in Africa, though the sector is considerably less developed than crude oil. The limited LNG infrastructure already in place has not seen as much damage as its crude oil counterparts. LNG holds less value for thieves, since demand for oil far outstrips demand for natural gas and is therefore harder to re-sell. However, LNG theft is not unprecedented: Shell has declared force majeure several times in the last few years as a result of theft-related damage.

LNG theft, much like oil theft, will continue. But likely the LNG industry will begin experiencing more deliberate violence at the hands of militants. As Nigerian companies take over oil blocks, LNG infrastructure and personnel will become relatively more

convenient and promising IOC targets. The same is true for other onshore infrastructure in which IOCs will retain a stake, such as pipelines and export terminals.

* Increased targeting of Nigerian oil companies. Nigerian oil companies often assert that they will be better able to establish positive community relations in the Delta. This may be true, to some degree – shared nationality and, sometimes, cultural and linguistic ties may ease integration of oil firms into communities. But this does not necessarily protect them from Delta militants.

Not all insurgencies rely on popular support in equal measure.

In Pakistan's FATA region, for example, militants are almost entirely self-sufficient and operate independent of local civilians. Urban Iraq, where the insurgency could not survive without popular support, lies on the other extreme. The Niger Delta more closely resembles Pakistan. Militant groups do

There may be a honeymoon phase, but odds are the relationship between Nigerian companies and the surrounding community will turn sour sooner or later.

not need the support of local communities to operate. By extension, oil companies cannot end the violence solely by “winning hearts and minds” through positive community relations.

This spells trouble for Nigerian companies. They lack the resources to implement large-scale social welfare initiatives, like Chevron's Foundation for Partnership Initiatives in the Niger

Delta (PIND). Even if they do manage to improve relations with the locals, they won't have addressed any of the underlying grievances that drive militant action. Delta militants oppose everyone they see as exploiting their region, especially their own government. Time and again, they have shown themselves willing to attack Nigerian politicians, security forces, religious leaders, wealthy civilians, and even children. There may be a honeymoon phase, but odds are the relationship between Nigerian companies and the surrounding community will turn sour sooner or later.

And when it does, we will probably see an escalation of military operations onshore. Nigerian companies have closer ties to the government than IOCs. South Atlantic Petroleum, Ltd. is chaired by General T.Y. Danjuma, former Minister of Defense and Army Chief of Staff. Just last month, a British prosecutor revealed that Oando, one of Nigeria's largest indigenous oil companies, was involved in money laundering and embezzlement with the former Governor of Delta State, James Ibori. Ibori – who is now in prison – allegedly owned 30% of the company, which paid millions of dollars into a private Swiss bank account he held. This is a rare public example of the endemic corruption in Nigerian government, but it's a safe bet that Ibori isn't the only corrupt politician with significant interests in Nigerian oil companies.

The turnover of responsibilities and infrastructure onshore will place the burdens of onshore theft and sabotage squarely on Nigerian shoulders. Thus, as Nigerian companies lose more and more money, they will push for increased defensive and offensive security measures. This probably includes an escalation of Nigerian military operations to protect vulnerable government

interests in these companies.

* Increased targeting of offshore oil infrastructure. Offshore infrastructure offers a much more difficult target for militants, for all the reasons previously discussed. But “more difficult” does not mean “impossible.” MEND demonstrated the capability to attack offshore platforms more than five years ago, when they successfully shut down Shell’s massive Bonga oil platform. The heavily fortified facility is located 120 km off the Warri coast in 1000m deepwater.

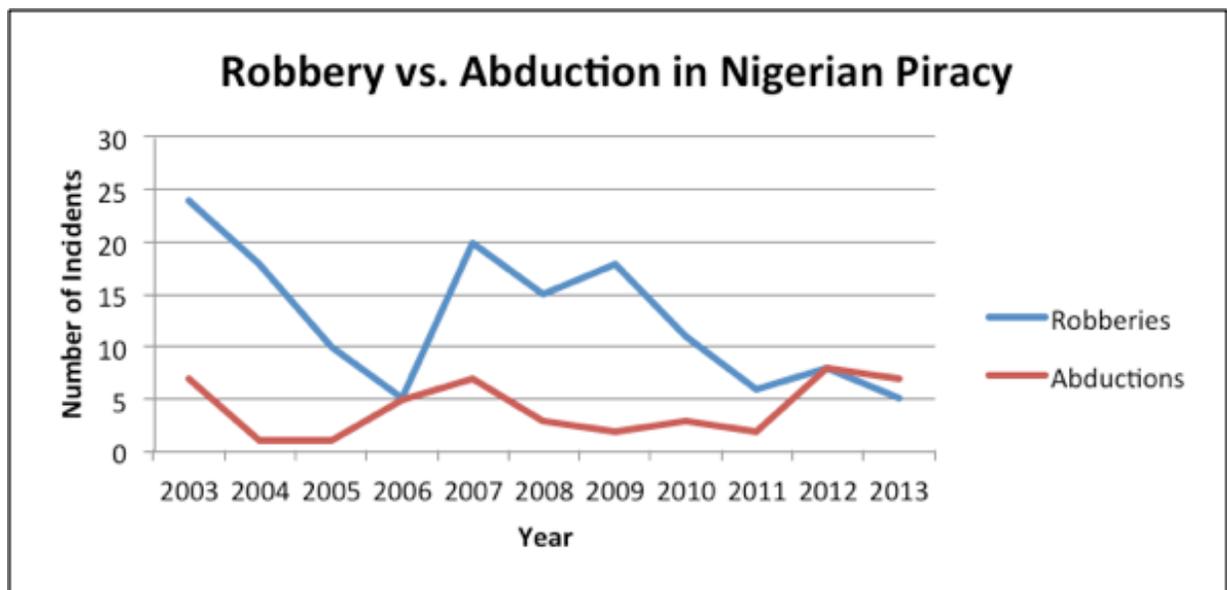
But why go to all the trouble of attacking a deepwater facility when you have an easier target next door? This logic explains why so few attacks to date have taken place offshore. But as IOCs move away from onshore operations, their offshore infrastructure will become a more favorable target. We can see early rumblings in MEND’s public threat last week: “Offshore operations are not a safe haven. MEND has visited Bonga before and we will do it again when the time is right.” This is not an empty threat. IOCs should be prepared for increased danger of militant attacks in the Gulf of Guinea – or, as it is more often termed, piracy.

* Increased targeting of offshore personnel for kidnap and ransom. Kidnappings have increased significantly in Nigeria since 2006, when MEND began targeting foreign oil workers on offshore platforms. Now, kidnap-for-ransom is a thriving criminal enterprise, both throughout the Delta and on the Gulf of Guinea. Foreigners remain the primary targets, since Western businesses tend to pay the biggest ransoms.

There are a few reasons to expect more piracy kidnappings as

the IOCs move offshore. First, the same logic we just applied to IOC infrastructure applies to personnel, as well. Militants will continue to target IOC personnel as part of their campaign to drive the Nigerian oil industry out of the Delta, no matter where they are. If personnel move offshore, militants will follow.

Secondly, Nigerian piracy is all about the ransoms. Data from the International Maritime Bureau shows how Nigerian piracy has evolved from focusing primarily on theft to kidnap-for-ransom. Piracy-related abductions are on the rise. Ransom payments promise millions of dollars to criminal and/or militant groups – enormous sums that far outweigh any licit (and most illicit) methods of income.



Nigerian employees of the indigenous firms taking over onshore are not promising targets for kidnapping. Their companies lack the resources of multinational companies and, therefore, the means to pay a large ransom. Would-be kidnappers will need to locate new targets – most likely foreign personnel from IOCs, support vessels, cargo ships, and others in the Gulf of Guinea.

This played out recently in the public eye when pirates kidnapped two Americans off a U.S.-flagged supply vessel in the Gulf of Guinea, releasing them a few weeks later after receiving a \$2 million cash ransom payment. The pirates self-identified as MEND (although the name is appropriated very loosely these days) and afterwards reported that the incident “ended on a happy note.” Happy for the rich pirates, maybe. High-profile successful kidnap-for-ransom cases, like this one, demonstrate the relative ease of these operations and embolden others to follow their lead.

Of course, it is one thing to say that foreign personnel will be increasingly targeted in kidnap-for-ransom pirate attacks, and another thing to say those attacks will be successful. Many other variables impact the success of militant and criminal operations, from the activities of Nigerian military forces to shipboard security measures. In any case, it is clear that – since the IOCs are here to stay – they should carefully consider how shifting dynamics in the oil industry might change their security needs, and prepare accordingly.



What you need to know about the Geneva Nuclear Deal

By Sarah Hess

On November 24, 2013, the P5+1 and Iran agreed to an initial deal on Iran’s nuclear program. After seven years of United Nations (UN) sanctions, it appears that the international conflict over Iran’s nuclear program may be finally coming to an end.¹ While the Geneva deal—officially called the “Joint Plan of Action”—is only an interim agreement valid for six months (and renewable by mutual consent), it is the first step in ending decades of hostility between Iran and the West. The interim deal freezes key parts of Iran’s nuclear program in exchange for limited sanctions relief until a mutually-agreed, long-term comprehensive solution can be reached. While both sides have an incentive to adhere to the interim agreement, it remains unclear if Iran believes it is sufficiently incentivized to adhere to a long-term, comprehensive agreement.

The Deal

The Geneva nuclear deal outlines the plan to reach a “mutually-agreed long-term comprehensive solution that would ensure

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Iran's nuclear program will be exclusively peaceful.”² The deal recognizes that a comprehensive solution will involve a reciprocal, step-by-step process, which will eventually ensure the peaceful nature of the program as well as lift all UN Security Council, multilateral, and bilateral sanctions related to Iran's nuclear program. The Geneva deal outlines the first step of this process.

According to the Geneva nuclear deal, Iran will dilute half of its existing 20%-enriched uranium to no more than 5 percent. Iran agrees to not enrich uranium over 5 percent for the duration of the six months, and announces that it will not advance its ac-

tivities at the Natanz Fuel Enrichment Plant, Fordow, or the Arak reactor. There will be no new locations for enrichment, and Iran will continue to safeguard its research and development practices. Iran also agrees to halt reprocessing and any construction of facilities capable of reprocessing. In addition, Iran agrees to enhanced monitoring, including providing

specified information to the International Atomic Energy Agency (IAEA) on its plans for nuclear facilities and allowing daily IAEA inspector access.

While both sides have an incentive to adhere to the interim agreement, whether Iran is sufficiently incentivized to adhere to a long-term, comprehensive agreement is unclear.

In exchange, the P5+1 agree to “pause efforts to further reduce Iran's crude oil sales, enabling Iran's current customers to purchase their current average amounts of crude oil.” There will

be no new nuclear-related UN Security Council sanctions, and the P5+1 agree to allow the repatriation of a limited amount of revenue held abroad. In addition, the United States and the European Union agree to suspend sanctions on insurance and transportation services, petrochemical exports, gold and precious metals, and the auto industry. The U.S. and EU will refrain from imposing new nuclear-related sanctions, and will establish a financial channel to facilitate humanitarian trade for Iran's domestic needs using Iranian oil revenues held abroad.

According to the Joint Plan of Action, the parties aim to agree to a comprehensive solution no more than a year after the Geneva deal. A comprehensive deal would “reflect the rights and obligations of parties to the NPT and IAEA safeguards agreements.” It would comprehensively lift UN Security Council, multilateral, and bilateral nuclear-related sanctions, and establish a “mutually-defined enrichment program with mutually-agreed parameters consistent with practical needs.” There would be no reprocessing or construction of a facility capable of reprocessing spent fuel to recover plutonium, and all concerns related to the Arak reactor would be fully resolved. Iran would fully implement the agreed upon transparency measures and enhanced monitoring, and would ratify and implement the Additional Protocol, which expands the IAEA's authority to monitor nuclear activities. Iran's nuclear program would include international civil nuclear cooperation, including modern light water power and research reactors, the supply of modern nuclear fuel, and R&D practices. Finally, following the successful implementation of the final step of the comprehensive solution, Iran's nuclear program would be treated the same as those of any non-nuclear weapon state member of the Nuclear Non-Proliferation Treaty.

Analysis of the Deal

Both Iran and the West have an incentive to adhere to the short-term agreement. At least in the short-term, the benefits of cooperating significantly outweigh the costs of defection for both sides. Iran gains a pause from the international sanctions that are currently crippling its economy and a greater freedom to trade in the global economy. The deal also implicitly assures that the United States and Israel will not militarily confront Iran during the course of the current negotiations. Thus, Iran will not unnecessarily antagonize the West during the negotiations over a long-term agreement; doing so would almost certainly trigger increased sanctions, and would increase the likelihood of military confrontation. At least in the short term, Iran has a strong incentive to cooperate.

The United States also has an incentive to cooperate with deal, if for no other reason than it preserves its international image and respect as a conflict mediator. The United States gains temporary assurance that Iran's nuclear program is peaceful. In addition, the United States can gain valuable intelligence on the current state and capabilities of the program. Unless Iran has hidden some of its centrifuges or fuel rods—which would be very difficult to do without detection—or the IAEA inspectors refuse to share information from their inspections, the United States should gain useful intelligence on the competence and capacity of the program. Finally, the United States delays any planned military strike against Iran, thus avoiding the need to commit the resources needed to launch such a military campaign. Thus, we can expect both the United States and Iran to cooperate with the agreement during negotiations.

However, while both sides have an incentive to cooperate on

the interim agreement, the long-term prospects are much less clear. Iran's incentives to adhere to a long-term, comprehensive agreement depend critically on Tehran's perceived need for a nuclear deterrent and its domestic politics. American domestic politics will also alter Iran's perspectives, as the diplomatic carrot of sanctions relief will only work if Congress plays along with Iran and removes sanctions in return for Iran's cooperation.

Nuclear Deterrence

Iran likely sees nuclear weapons as a deterrent against external threats. Nuclear weapons make the cost of war frighteningly high, thus discouraging states from starting wars that might lead to the use of such weapons.³ From Tehran's perspective, a nuclear weapon would provide a much-needed security guarantee against U.S. or Israeli aggression.

A nuclear-armed Iran would also balance Saudi Arabia and Israel's regional power. While Saudi Arabia—a Sunni state—does not itself possess nuclear weapons, its vast oil wealth allows it to exercise strong influence in the region. Israel—a Jewish state—is widely known to possess nuclear weapons. As both nations are hostile to Tehran, a nuclear Iran could counter the military capabilities of Israel and provide a strong Shi'a influence in a largely Sunni-dominated region. In particular, nuclear-armed Iran would allow Tehran to expand its support for terrorism in the Middle East with reduced fear of strong retaliation.

Tehran has good reason to seek a security buffer against the West. Not only do the United States and Iran share mutual animosity, but it has also experienced U.S.-led regime change in its history. In response to the brief nationalization of the Iranian

oil industry, the CIA and MI6 orchestrated a coup d'état against Iran in 1953, which overthrew democratically elected Prime Minister Mohammad Mosaddegh and his cabinet. The United States' strong support for Shah Mohammad Reza Pahlavi before his overthrow in the 1979 Iranian Revolution as well as its refusal to extradite the Shah after he fled to the U.S. also reinforces the current Iranian government's distrust for the West. Considering further the West's support for Iraq during the Iran-Iraq war, the U.S. invasion of Afghanistan, President Bush's 2002 "axis of evil" speech, and the subsequent U.S. invasion of Iraq in 2003, Tehran reasonably feels threatened by the U.S. In fact, with three nuclear powers in its neighborhood (Pakistan, India, and Israel), U.S. troops on two sides (in Iraq and Afghanistan) for the past decade, and U.S. naval forces patrolling the Persian Gulf, it would be surprising if Iran wasn't interested in its own deterrent.⁴ And with North Korea as an example, it would be understandable if Tehran sees nuclear weapons as credible deterrent against hostile states.

Thus, Tehran may simply determine (or may have already determined) that its security depends on possessing nuclear weapons. If Iran sees nuclear deterrence as critical to its regime's survival, sanctions are unlikely to change its mind.⁵ Given its history with the West, Tehran is unlikely to trust any security promise that may come through current negotiations. Thus, a credible commitment from Iran may simply not be possible.

Iranian Domestic Politics

Iranian domestic politics will inevitably play a role in the success or failure of negotiations. Using appeals to nationalism, Tehran has made its nuclear program a defining domestic political issue.

Even in the absence of weaponization, the program serves as a symbol of Iran's modernity, sovereignty, and status in the region. However, economic losses have placed a considerable strain on domestic support for the nuclear program. The continuation of Iran's nuclear program as it currently stands may simply be a question of how long Tehran can maintain the public perception that sovereign nuclear energy is worth the economic costs.

A credible commitment from Iran may simply not be possible.

Between the nuclear energy establishment and hard-line politicians, Tehran has many influential political actors who have a strong interest in maintaining the nuclear program. As Harvard University's Majid Rafizadeh explained: "Any Iranian administration that shows signs of flexibility towards mending diplomatic and political ties with the West faces these vast political and economic powerful monopolies that fundamentally oppose 'The Great Satan.'"⁶ There are almost certainly some hardline elites in the Islamic Republic who are pushing for weaponization. The strength of these hardliners and their interests within the government will likely influence what options are on and off the table.

Iran has also succeeded in mobilizing the public in support of Iran's right to nuclear energy. The nuclear program has enjoyed broad popular support due to its promised energy independence and scientific progress, as well as its assertion of Iran's rights against foreign powers.⁷ According to a 2013 Gallup poll, fifty-six percent of Iranians support Iran developing its own nuclear power capabilities for non-military use, and thirty-four per-

cent support Iran developing its own nuclear power capabilities for military use.⁸ Thus, Tehran has succeeded thus far in using the prolonged crisis to rally support for the program and the regime.

However, Iran has also suffered economically from the sanctions. While sanctions may have created a domestic “rally round the flag” effect initially, sustained economic pressure on Iran will almost certainly cause loss of popular support for the nuclear program in the long-run. Today, Iran suffers from negative economic growth, currency depreciation, and high rates of unemployment. Without economic improvements, it is unlikely that Tehran will be able to hold on to its public support for long.

For the first time in two decades, Iranian economic growth was negative in 2012 and 2013.⁹ Today, Iran’s inflation rate stands at 19.7 percent, one of the highest in the world.¹⁰ At its peak in July 2013, Iran’s inflation rate reached 41.3 percent.¹¹ Iran’s lack of international integration and trade has also resulted in high rates of unemployment. Today, Iran’s unemployment rate stands at 10.5 percent.¹² Its youth unemployment rate, however, is a staggering 26.9 percent.¹³ Lack of job opportunities has caused many educated Iranian youth to seek jobs overseas, resulting in a significant “brain drain.”¹⁴ Thus, Iran’s continued isolation and hostility over its nuclear program may only continue insofar as the regime can convince its people that the program is worth the dramatic economic costs.

U.S. Domestic Politics

U.S. domestic politics may also disincentivize Iran from agreeing to a long-term, comprehensive solution to its nuclear program.

If the United States cannot credibly promise decreased sanctions in exchange for Iran allowing increased access to IAEA inspectors, then Iran would have very little incentive to cooperate. Given the recent congressional threat to increase sanctions against Iran after they came to the negotiating table, the U.S. Congress may be a significant obstacle to a long-term deal.

There are two types of U.S. bilateral sanctions against Iran: executive orders and congressional sanctions. While President Obama can easily remove executive order sanctions simply by unilateral repeal, he needs Congress to pass legislation to remove the congressional sanctions. And given that the congressional sanctions contain the much harsher blacklists of virtually all of Iran's energy, financial and transportation sectors, these are the sanctions that must be altered or repealed to sufficiently incentivize Iran into cooperating.

Admittedly, there are many reasons why Congress may wish to maintain sanctions on Iran even if it cooperates on the nuclear front; Tehran's support for terrorism being the primary reason. However, if Iran cannot trust the United States to reduce its bilateral sanctions in return for Tehran's cooperation with the IAEA, then sanctions provide no real diplomatic "carrot." Thus, the U.S. may—intentionally or not—sabotage the nuclear negotiations due to its own domestic gridlock.

Risk of Preventive War

Assuming that Tehran desires a nuclear weapon for deterrence, the timing of weaponization is critical. Iran would not risk preventive war in order to prevent the possibility of U.S.-led regime change in the future. Thus, Iran would avoid weaponization (or

the appearance of weaponization) when the risks of preventive war from the U.S. and Israel are high.

The Obama administration's rhetoric towards the possibility of a nuclear-armed Iran should deter weaponization for the time being. President Obama has said publicly no less than twenty times that the United States is "determined to prevent Iran from getting a nuclear weapon" and he "will take no options off the table to achieve that goal."¹⁵

With U.S. national interests and credibility on the line, a military response is likely if Iran shows clear efforts towards weaponization. Thus, Iran is wise to show signs of cooperation now.

Whether Tehran weaponizes depends on how it sees the

threat of a preventive war by the United States and Israel today and how it sees the threat of regime change in the future. If acquiring a nuclear weapon today would deter both, then there would be no reason not to build a bomb. But if the process of building a bomb would cause a preventive war today, the choice gets more difficult. Thus, if the probability of preventive war is high, Iran's best choice may be to stay where they are—in a sort of limbo—or to appear to be (or really be) de-escalating the crisis. But in the future, if Iran still feels the need for a nuclear deterrent and the chance of preventive war is low, a bomb may be imminent.

The U.S. may—intentionally or not—sabotage the nuclear negotiations due to its own domestic gridlock.

Long-term Gains and Losses

Iran's decision to weaponize will likely depend on its cost-benefit analysis of the long-term effects of building a bomb. On the pro-weaponization side, Iran would gain a nuclear deterrent against the U.S. and Israel, and thus the freedom to exercise more power and influence in the region. Tehran will also satisfy its domestic hardliners who support weaponization. However, Iran faces dramatic economic losses that will increase the suffering of the Iranian people. Such losses may, in the long-term, turn people against the nuclear program and possibly the regime itself. Thus, whether Iran continues its standoff with the West over its nuclear program may simply depend on how long Iran can convince its people that the program is worth the costs.

Conclusion

With the recent Geneva nuclear deal, Iran and the West have the opportunity to resolve a decades-old international conflict. Trust between both sides is low, and for good reason. While the deal incentivizes both Iran and the West to cooperate in the short term, a long-term agreement may be torpedoed by Iranian security concerns or domestic politics on either side. The Geneva nuclear deal is a good first step to resolving the crisis; however, more diplomacy may be needed. While all parties should be optimistic for a future where Iran can again integrate into the global economy without Western doubts over its nuclear ambitions, there are significant hurdles to overcome.

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Effects of an Increased Gasoline Tax on the Economy, National Security and the Environment

By Wyatt Horan

Crude oil and petroleum products have an enormous role in the American economy with far reaching social, political and environmental implications. Crude oil accounts for 36% of United States energy supply.¹ In 2011, the United States consumed 6.87 billion barrels of crude oil (18.83 million barrels per day).² Domestic oil production supplied 60% of consumption (2.38 million barrels per day).³ Reports recently published by the IMF and University of California Irvine indicate that current gasoline taxes do not adequately adjust for the negative social and environmental externalities of petroleum usage.^{3,4} A federal gasoline tax was enacted in the 1930s to fund construction and maintenance of national highways. Historically the tax increased nominally each year, but the current tax of 18.4 cents per gallon has not changed since 1994 even though the price of gas has nearly tripled.⁵ Increasing the national gasoline tax could revitalize the United States' degraded transportation infrastructure, minimize national security threats and reduce environmental impact. The following report evalu-

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ates the merits of these claims and suggests possible implications of imposing a higher gasoline tax.

Financial Benefits of a Gasoline Tax

Increasing the national gasoline tax will provide economic support to revitalize our nation's degraded transportation infrastructure. When enacted, the 1994 gasoline tax supported most national highway maintenance and upgrades.⁵ The tax has not increased in nearly two decades and is currently the lowest gas tax in the developed world. As a result, the Transit Trust Fund, which supports highway maintenance, has been over drawn to the point of bankruptcy. Currently, \$72 billion must be spent to repair the nation's degrading bridges.⁶ The American Society of Civil Engineers estimates that the US needs to spend \$2.75 trillion to "maintain and improve its infrastructure by 2020."⁶ A higher national gasoline tax will support vastly under-funded highway and transportation maintenance and encourage economic activity by supporting construction repairs throughout the nation.

Minimizing National Security Threats with the Gasoline Tax

By elevating the federal gasoline tax, the US may minimize national security threats by decreasing its dependence on foreign oil. The elasticity of demand of gasoline is sufficiently high that a higher gasoline tax would provide a disincentive to driving. A relatively small increase in the price of gasoline would significantly reduce overall driving by American which would result in a decreased dependence on foreign oil. In 2012, the US imported 40% of its crude oil from abroad.⁶ The RAND corporation reported that "an abrupt and extended fall in the global oil

supply and the resulting higher prices would seriously disrupt U.S. economic activity.”² Nations with unstable governments but enormous oil resources have significant economic power over the US, which threatens our national security. The US currently spends between 12-15% of the 2008 defense budget on securing oil resources in the Persian Gulf.² Ensuring a secure supply of oil—the lifeblood of the American economy— will minimize national security threats. The RAND corporation claims that a higher gasoline tax will reduce our dependence on foreign oil by decreasing domestic consumption. An increased gas tax would directly affect consumer driving habits; American drivers would drive less and purchase more fuel-efficient cars or use public transportation which all serve to reduce oil consumption. Transportation accounts for 70% of gasoline consumed in the US so even a small increase to the current gas tax “should serve to reduce the national security risks the United States faces from importing oil.”²⁹

Addressing Environmental Impacts

Increasing the national gasoline tax will reduce environmental impact by accounting for negative externalities associated with oil consumption, like carbon emissions and other air pollutants. Current energy taxes are too low and do not account for environmental externalities. Carlo Cottarelli, the Director of the IMF’s Fiscal Affairs Department, stated that taxes are “rarely high enough to account for all of the adverse effects of excessive energy consumption.” According to new data compiled by the IMF, global subsidies for energy in 2011 totaled \$1.9 trillion, or about 2.5% of world GDP. Cottarelli’s remarks suggest that energy consumption, particularly from oil, has a far more expensive price tag.³ A University of California Irvine study estimated that adverse health effects from combusting oil amounts

to about 40 cents per gallon. The current gas tax also does not account for the externality of traffic congestion. Kenneth Small,

Subsidies for energy in 2011 totaled \$1.9 trillion, or about 2.5% of the world GDP

an economist at UC-Irvine, estimates that the “average congestion cost is about 70 cents per gallon.”⁴ If a higher gasoline tax passes, some consumers could choose to drive less and purchase more efficient cars. A change

in American driving habits will reduce domestic oil consumption. Consuming fewer oil products will decrease carbon emissions and other air pollutants. Fewer emissions will reduce environmental impact by reducing anthropogenic sources of carbon pollutants that contribute to climate change. An increased gasoline tax could more accurately account for the negative externalities of oil usage.

Counterarguments to an Increased Tax

Opponents to an increased gasoline tax claim that a higher tax will reduce economic activity by increasing the operating costs for most American companies.¹⁰ Opponents also assert that reducing domestic oil consumption through a higher gas tax would not enhance national security as much as is expected by supporters of a higher tax. Sen. Jeff Bingaman asserted that a higher gas tax might not “significantly reduce national security threats because domestic oil production has grown in recent years.”¹¹

Finally, opponents use unintended environmental effects as a counter argument for increasing the gasoline tax. A higher gas tax, they claim, may influence Americans to purchase electric

vehicles some of which cause more environmental damage than a conventional car fueled by gas ‘fracked’ from Canadian tar sands.^{4 12}

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