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Foreword

This journal began with the Department of Political Science 4th Annual Graduate Student Conference. The conference committee met in January 2015 to discuss the theme for the conference and journal. At the time news coverage centered around the multiple crises occurring throughout the globe. There was constant discussion surrounding the Ebola crisis in Africa, ISIS and the conflict in Syria, the political crisis in Ukraine, and the economic crisis in the Eurozone. Given that there were multiple ongoing and arising crises, the committee determined that this would be an opportune time to hold a conference and publish a journal which would focus on this theme.

The conference was organized to foster dialogue on the theme along a multidisciplinary path. The idea was to hold a conference that looked beyond international relations and would integrate within this theme the fields of public policy, domestic politics, and political theory. The conference successfully achieved this goal with discussions ranging from domestic policy to development policy in Africa. The best papers were chosen to create this journal.

This journal is the culmination of the many hours of work from students, staff, and faculty at Concordia University. As well as the tireless work of the editorial team to review and edit the papers to ensure an outstanding end product.

Editorial Team

Acknowledgments

Organizing the conference and journal was far less chaotic with the help and guidance given by the previous organizer, Jocelyn McGrandle. She was always available to answer any questions even when it came to the small details which end up being important.

I would like to thank the editing team, Teodora Mihaylova, Ozge Uluskaradag, Timothée Labelle, and Adnan Raja who gave their time to edit and review the papers. I would like to give a special thanks to Teodora who was always available to double check everything I did and provide constructive feedback during the conference process. The knowledge and advice given by the faculty advisor, Dr. Stephanie Paterson, ensured a smooth flow of the process. I would also like to thank the participants for their tireless work in reviewing their papers during the lengthly editing process. I would like to acknowledge the contribution of the discussants, Dr. Axel Huelsemeyer, Dr. Julian Schofield, Dr. Mireille Paquet, and Ozge Uluskaradag whose invaluable analysis and critique allowed the participants to strengthen the quality and argument of their papers.

There was support throughout the entire process, and I would like to thank the undergraduate volunteers who were always available to help out, Gabriela Rolls, Reshma Magho, Katherine Duchesne, and César Cepada.

The conference and journal would not have been possible without the generous contributions of the Department of Political Science, the Dean of Arts and Science, the Graduate Student Association, the Canadian Council on Student Life and the Concordia University Small Grants Program.

Behind the scenes, Julie Blumer and Joanne Downs were always available to answer the multiple administrative questions that came up throughout the entire process. Finally, I would like to thank the Chair of the Department of Political Science, Dr. Marlene Sokolon, whose support was graciously appreciated.

Christine Bissonnette

The New Land Strategy in Ethiopia: Analysis of the Government's Underlying Motivations

Joanny Belair, University of Ottawa

Abstract

Since 2008, a global growing interest for land has led numerous African governments to put in place a "national land strategy" in order to facilitate land transactions. In Ethiopia, the government has actively engaged to favor land investments, underscoring their potential positive economic impacts. However, its new land strategy does not appear to fulfill its development promises as recent reports denounce important social, economic and environmental issues associated with those new investments. This paper seeks precisely to explain why there is a discrepancy between the government discourse on agricultural development, and its observed outcomes. I argue that this discrepancy is mainly explained by the fact that government's political agenda is often entangled with its developmental economic objectives. The argument will be illustrated by an analysis of both the national and local land strategy. I conclude by contending that even if the official discourse stages agricultural development as the economic priority, the government's underlying motivations are also about establishing political control.

Biography

Joanny Belair is PhD candidate in Political Science, with a major in Comparative Politics, at the University of Ottawa. Ms. Belair completed her Master's degree at the Graduate School of Public and International Affairs at the University of Ottawa. Her research interests are issues associated to land governance in East Africa.

Introduction

It is estimated that until 2010, 51 to 63,000,000 hectares have been targeted by land investments in 27 countries in Africa[1]. This is unprecedented. Seeing this growing interest for their land, numerous African governments are implicated to facilitate land transactions, and most of them have put in place a "national land strategy". According to the World Bank estimates, international land deals have grew at a staggering speed, from 4 million hectares in 2008 to 56 millions hectares in 2009, and 70 percent of them will take place in Sub-Saharan Africa[2]. Ethiopia has positioned itself as a leader leaser in Sub-Saharan East Africa. In fact, 3,6 million hectares have been leased to international investors between 2008 and 2011, mostly in the lowland regions. In Gambella, a peripheral region of Ethiopia, 42% of available lands have been freed for investments[3]. Using Ethiopia as a case study, this paper is specifically interested in analyzing mixed socioeconomic outcomes of these recent land deals.

Ethiopia's ruling party, the EPRDF (the Ethiopian Party Revolutionary Democratic Front), has been extremely active in promoting actively private investments in large-scale farms via its national land strategy. As it is stated on its Ministry of Agriculture (MOARD) website: "The

[1] Cécile Friss et Anette Reenberg. *Land Grab in Africa: Emerging Land System Drivers in a Teleconnected World* (University of Copenhagen, GLP-IPO, GLP Report No. 1., 2010), p.11.

[2] Frida Lager and Anna Nilsson, *Risky Business: large-scale land investments and possibilities of safeguarding the rural poor in Ethiopia* (Bachelor Thesis, University of Gothenburg, September 2012), p. 1.

[3]Human Rights Watch Report. "Waiting Here for Death: Forced Displacement and Villagization in Ethiopia's Gambella Region", *HRW* (United States, 2012).

overriding importance of provisioning infrastructure, improving labor supply and facilitating land acquisition in order to attract private capital in high potential agricultural areas of the country can't be stressed enough"[4]. The central government is also claiming that such investments will bring positive local economic development through technology and skills transfer[5]. In its 2011-2015 Growth and Transformation Plan (GTP), agriculture is depicted as the engine of economic growth with an expected annual rate of growth of 14.9%, and a stated objective of doubling the agricultural output by 2015 [6]. Simultaneously, to improve the productivity of smallholder farmers, the EPRDF has also set an ambitious local program of agricultural development, which includes governance decentralization and a model farmer program.

Whether this national strategy fosters development or not is contentious. Although the EPRDF highlights the great potential of these international investments for development (economic growth, productivity increase, and technology and skills transfers), recent reports denounce important problems such as increased food insecurity, loss of livelihood, human rights abuses, and dangers for the environment. Thus, the Ethiopian's land strategy does not appear to fulfill its development promises. This paper seeks precisely to explain why there is such a discrepancy

[4] Ministry of Agriculture in Ethiopia (MOARD) website, [http://ethioagp.org/769].
[5] Jon Abbink. "Land to the foreigners': economic, legal, and socio-cultural aspects of new land acquisition schemes in Ethiopia", *Journal of Contemporary African Studies*, vol. 29, no 4 (2011), pp. 517.
[6] Dessalegn Rahmato. "Land to investors: Large-scale land transfers in Ethiopia", *FSS Policy Debates Series,* vol. 1 (June 2011), p. 15.

between the government discourse on agricultural development, and its observed outcomes.

I argue that this discrepancy is mainly explained by the fact that government's political agenda is often entangled with its developmental economic objectives. Therefore, even if the official discourse stages agricultural development as the economic priority, EPRDF's underlying motivations are also about establishing political control. I use the concept of neopatrimonialism as a theoretical tool in this analysis. The concept, which will be more developed in the next section, is useful to describe the hybrid system of governance that we find in many African countries. It points out to the necessity of unveiling underlying motivations of central governments in order to fully explain political outcomes of such systems.

I illustrate this argument by analyzing the land reform that has been implemented in early 2000s at both national and local level. First, on the national side, by centralizing land management, the central government has strengthened its control over land. Yet, as I demonstrate, the so-called socioeconomic objectives of those land investments did not materialize because no concrete action has been undertaken to ensure their realization. Instead, EPRDF's recent national strategy has been complemented with a villagisation/resettlement initiative that aims not only at freeing land for investment, but also at establishing political control over pastoralist populations. Using an official discourse towards development has allowed the government to undertake these controversial actions without jeopardizing the international community support.

Second, on the local side, decentralization officially ambitions at increasing productivity of smallholder farmers. The government has sought to implicate directly peasants in the strategy of agricultural development through the establishment of consultation mechanisms, by providing local training, and by establishing a model farmer program. However, a closer examination of this local development strategy implementation reveals that it is rather driven by the Party's political agenda of political control than by its economic development goals. In fact, decentralization appears to respond above all to the necessity for the EPRDF to regain local electoral control, after having seen its hegemony seriously challenged during the 2005 elections.

This paper is divided in three parts. First, I present the neopatrimonial concept that will constitute my theoretical framework to analyze this discrepancy between the official discourse, which framed land investments as a strategic move towards development, and mixed socioeconomic development outcomes that result of the national land strategy. Even though the concept has been criticized for its conceptual overstretch, I believe it is still insightful to better comprehend this Ethiopian political context where official discourse and formal institutions are often a facade which obscures the "practical norms of real governance[7]". In order to understand the gap between stated objectives and outcomes of land investments, it is necessary to analyze these informal political practices and norms because they help us to expose underlying motivations of the government.

[7] Jean-Pierre Olivier de Sardan, "Researching the Practical Norms of Real Governance in Africa", Africa Power and Politics Program, 5, 2008.

In the second part, I analyze the current national land strategy. By reviewing the land categorization, recent signed contracts and the villagisation/resettlement initiative, I show the inconsistency of the government discourse on land deals and development, and how its national land strategy allows it to reassert its control over population. In the last part, I examine how two specific local development initiatives, decentralization and the model farmer program, appear to be motivated by the EPRDF's desire to regain electoral control over peasants. Despite a discourse emphasizing local agricultural development for economic prosperity, I contend that the Party's political agenda constitutes its prime motivation in undertaking these local initiatives. Thus, by exemplifying the national land strategy at national and local level, I argue that underlying government's motivations of political control illustrate its neopatrimonial nature.

This paper focuses only on internal political motivations, and contends that exploring them is essential in our understanding of the game at play the land grabbing process that we observe in East Africa. It aims to contribute to the literature by exploring one specific political aspect of governance related to land reform and investments. Few authors have explored this aspect, and it has been overlooked by the scholarship on land deals.

The neopatrimonial state

Origin of the neopatrimonial concept could be found in the governance systems described by Max Weber. Patrimonialism, in its *pure form,* combines diverse domination activities linked to tradition, such as tribalism, clientelism, patronage, corruption, etc. Jean-François Médard adapted this concept by adding the prefix neo- to describe Cameroun's politics[8]. The main rupture lies in the fact that "neopatrimonialism" is not embedded in tradition. Hence, neopatrimonialism refers to a hybrid type of governance constituted of a mix of rational governance apparatus, and of patrimonial practices[9].

Neopatrimonialism is also an inexpensive way of governing, especially when the state did not have enough capacity to establish legitimate control over its whole territory. An important element of neopatrimonial governance is the practically inexistent demarcation between the public and the private sphere. Jean-François Bayart uses the concept "politics of the belly" to describe state elites' behavior, who seek to maintain their hegemony by grabbing, accumulating and partially redistributing resources and wealth[10]. In fact, the state concentrates the distribution of its resources to specific networks, a strategy that helps it to reduce its costs, and safeguards its hegemony[11]. This also led to political processes that are

[8] Innerk Bruhbs, "Le concept de patrimonialisme et ses interprétations contemporaines", In Daniel C. Bach et Mamoudou Gazibo (dir.), *L'État néopatrimonial : Genèse et trajectoires contemporaines*, (Les Presses de l'Université d'Ottawa, 2011), p. 30.
[9] Nicolas van de Walle, *Op. Cit.*,p. 16.
[10] Jean-François Bayart, *L'État en Afrique*, Éditions Fayart, France, 1989, p. 283.
[11] Nicolas van de Walle, *Op. Cit.,* p. 46

informal and fragmented. Emmanuel Terray's metaphor of the air conditioner and the veranda illustrates well the phenomenon: "The first is the face of modern state power, bureaucratic omnipotence and technical expertise – the avatar of modernity; the second is the scene of the real business of government by a logic which is no longer that of efficiency, but of share-out"[12]. Moreover, as Van de Walle shows, the extraordinary durability of neopatrimonial regimes even in times of economic crisis is in part explained by this ruler's capacity to maintain the *status quo*. For instance, by implementing partial economic and political reforms, rulers manage to both respond to international pressures for good governance and preserve their political power[13].

It is precisely this aspect of neopatrimonial governance that this essay seeks to explore. In fact, to consider the neopatrimonial nature of the Ethiopian's state is helpful to uncover its political objectives with its land strategy, that are not quite the same as the official ones. It also allows an explanation of why there is such a gap between stated objectives and achievements. "Although the EPRDF is an authoritarian government pursuing state-led development, it is accomplished at dressing its strategy in the rhetoric of market-based development, poverty reduction and democracy"[14]. As I show in the next sections, official discourse is misleading and obscures the political game concomitant to the land reform.

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[12] Bruce J. Berman. "Ethnicity, patronage and the African state: the politics of uncivil nationalism", *African Affairs*, no.97 (1998), pp. 335.
[13] Nicolas van de Walle, *Ibid.*
[14] Tom Lavers. "The political economy of social policy and agrarian transformation in Ethiopia", Doctoral Thesis (University of Bath, UK, March 2013), p. 186.

Land strategy at national level

> "The new five-year Growth and Transformation Plan (GTP), which is to run from 2011 to 2015, and which was launched in the last quarter of 2010, envisages agriculture to grow at the rate of 14.9% annually, and expects to double farm output by the year 2015. The Plan predicts that the country will meet all the MDG targets in 2015, and by 2028 Ethiopia will become what it calls a "middle-income" country. One of the strategies for rapid agricultural growth is to be private investment in large-scale farms for which the government will provide support and encouragement. The land expected to be transferred to large-scale investors in the Plan period (not including land already allotted) is expected to increase from 0.5 million hectares in 2011, to 2.8 million in 2013 and 3.3 million in 2015."[15]

As demonstrated by the quote above, the current trend of "global land grabbing" is seen positively by the Ethiopian's government, and promoted as a unique opportunity for rural development. The Ministry of Foreign Affairs affirms that it will provide "'new seeds and new techniques' to developing countries and that the 'deals also allow for major overall investment including improved marketing as well as better jobs, and related infrastructural developments, including schools, clinics and roads." [16] Explicitly, on its website, the government also states: "The

[15] Dessalegn Rhamato, *Op. Cit.,* 2011, p. 15.
[16] Elias N. Stebek. "Between 'land grabs' and agricultural investment: land rent contracts with foreign investors and Ethiopia's normative setting in focus", *Mizan Law Review*, vol. 5, no. 2 (2011), pp. 182.

overriding importance of provisioning infrastructure, improving labor supply and facilitating land acquisition in order to attract private capital in high potential agricultural areas of the country can't be stressed enough"[17]. Thus, the idea of development in the form of agrarian capitalism and land investments became framed by the EPRDF as the 'only route' towards socioeconomic development.

Hence, as early as in 2008, with the beginning of the global rush for land, the central government implemented its national land strategy. The first step was to centralize powers by designating the Federal Ministry of Agriculture and Rural Development (MOARD) as the lead agency for land management. Subsequently, the MOARD created a new government body: the Agricultural Investment Land Administration Strategy (AILAS), which became the leading actor of the national strategy. AILAS assumes key responsibilities by managing the new centralized system of land management, the Federal Land Bank. Moreover, it was responsible of facilitating land investments, transactions and transfers for all transaction of over 5,000 hectares. As a consequence, all regional governments have been forced to transfer all available lands to Federal Land Bank, thereby loosing their previous right of managing land transactions. Land that has been transferred through this process is substantial: "Benishangul is estimated to have as much as 1.4 million hectares potentially available for investors, Gambella 1.2 million, SNNP 500,000, and Oromia 1.7 million"[18].

[17] MOARD website, [http://ethioagp.org/769/]
[18] Dessalegn Rhamato, "The perils of development from above: land deals in Ethiopia", *African Identities*, 12 (1), 2014, pp. 29.

In addition, the government established very attractive investment conditions such as income tax exemption from 2 to 5 years; a land rent payment grace period up to 2 to 5 years; no export taxes on good exported, the right to move labourers from region to region without any restriction, etc.[19] The fact that Ethiopia became the leader leaser of land in East Africa indicates how this promoting strategy was successful. Even if comprehensive data about land deals is not accessible, estimates are that 1.2 million hectares was leased during the period 2004-2008[20], and that an additional 1.17 million hectares was transferred during the 2007-2010 period[21]. Most of those deals were made by foreign investors for large-scale farming projects.

Finally, the government also enacted a resettlement program alongside its land strategy. Starting in 2010, this resettlement program of three-years aims at displacing pastoralist populations[22]. "According to published reports, this involves the resettlement of approximately 1.5 million people throughout the lowland areas of the country—500,000 in Somali region, 500,000 in Afar region, 225,000 in Benishangul-Gumuz, and 225,000 in Gambella" [23]. "Villagizing" pastoralist populations aims at improving their living conditions with a better access to schools, health facilities, and government services in general, and is meant to complement agricultural development by restructuring "from within" their communities towards more modern ways of life. For the former Prime Minister,

[19] MOARD website, [http://ethioagp.org/769/]
[20] Dessalegn Rhamato, *Op. Cit.,* 2011, p. 12.
[21] Jon Abbink, *Op. Cit.,* pp. 517.
[22] William Davison. "Ethiopia plans ambitious resettlement of people buffeted by East African drought", *Christian Science Monitor*, (August 1, 2011).
[23] Human Rights Watch Report. *Op. Cit.,* p. 19-20.

Meles Zenawi, poverty and backwardness of pastoralists constitute a "main concern for the whole country"[24]. Even the World Bank shares this view and provided funding for the program: "the Bank agreed with Meles that the long term goal towards pastoralists should be one of resettlement and the pursuit of new livelihoods, particularly as settled farmers than nomadic herders"[25]. In sum, this resettlement program associated with the land strategy is presented as a positive step to reduce poverty and to foster social and economic development of pastoralist people that are perceived as backward.

Although the national land strategy succeeded in attracting investors, its impact on socioeconomic development is far less convincing, as demonstrated by several elements. First, the categorization of land is problematic. Land being leased is portrayed as unused. During an interview with BBC, Hailemariam Desalegn, the then Deputy Prime Minister, stated: "The area that is being leased is lowland where farmers are not willing to go and plough the land. It is often infested with malaria and the climate makes it unsuitable for smallholder farmers."[26] Following this logic, in 2008, the government estimates that no less than 10 million hectares of land were currently available for foreign investors[27]. Yet, these estimates are sometimes "derived from satellite imagery or aerial photographs, in most cases not supported by surveys on the ground"[28]. Growing

[24]Eliot Fratkin, *Op. Cit.,* pp. 94.
[25] Eliot Fratkin, *Op. Cit.,* pp. 97.
[26] Duncan Bartlett. "Ethiopia weighs benefits of foreign 'land grabs", *BBC* (June 10, 2011).
[27] Ethiopia's total land is estimated at 115 million hectares. Although 74 million hectares is suitable for cultivation, only 15 million hectares is currently used for agriculture. Elias N. Stebek, *Op. Cit.,* pp. 179.
[28] Dessalegn Rhamato, *Op. Cit.*, 2014, pp. 29.

evidence shows that the availability of land for leasing has been exaggerated, especially in the lowland regions that are mainly inhabited by pastoralist populations. Consequently, a great amount of the *unused* land that has been leased is vital for these pastoral groups who actually need it for "grazing, herding, and collecting wild products"[29]. Thus, rather than promoting development and reducing poverty, the government's land strategy engenders more precarious situations, and threatens the livelihood of vulnerable populations.

Second, the land contracts signed include no provision to ensure that anticipated benefits of the land deals will materialize. In 2011, Stebek reviewed the 24 contracts that are publicly accessible through Ethiopia's government website. First, he notes that there is no explanation on the establishment/variation in the lease rate. Moreover, "rental fees for agricultural land are astonishingly low, perhaps one of the lowest in the world: in most parts of the country, investors pay less than 10 USD for a hectare of land per year."[30] In fact, Karuturi Company has signed a 84-year contract for the lease of 300 000 hectares, which required it to pay, after the 6 years grace period granted, a ridiculous 135 birr per hectare per year (7.60 CAN)[31]. Furthermore, all obligations related to development promises are either not in the contracts or "left to the credibility and discretion of the lessee"[32]. In fact, the provision states that the obligation of the lessee regarding the building of

[29] Lorenzo Cotula and al. "Fuelling exclusion? The biofuels boom and poor people's access to land". *IIED* (London, 2008), p. 22-23.
[30] Dessalegn Rahmato, *Op. Cit*., 2014, pp. 29.
[31] Xan Rice. "Ethiopia – country of the silver sickle – offers land dirt cheap to farming giants", *The Guardian* (January 15, 2010).
[32] Elias N. Stebek, *Op. Cit.,* pp. 209.

infrastructure is "at the discretion of the lessee" and "whenever it deems so appropriate"[33]. Creation of job is not mentioned. Contracts did not require investors to collaborate with local farmers for production and/or to buy a certain amount of supplies locally[34].

Third, the brutal implementation of the resettlement/villagisation program raises doubts about government's development motivation. NGOs, such as Human Rights Watch, Afar Human Rights Organization, and the Oakland Institute, all published reports of human rights violations following their investigation in the field. They collected testimonies of "beatings, intimidation, and unlawful arrests" in Lower Omo Valley and in Gambella regions, denouncing human rights abuses and a relocation process that is marked with violence[35]. Interviews conducted by Human Rights Watch in the affected regions showed that government officials have compelled population to move, without allowing any form of contestation. "Those who expressed concern or question the government's motives were frequently threatened, beaten, and arrested by police or soldiers."[36] In some cases of communities' resistance, the government has even gone as far as to burn houses.[37] In Afar region, government's retaliation against its opponents has translated into harassment and mass imprisonment[38]. Far from being

[33] Elias N. Stebek, *Op. Cit.,* pp. 204.
[34] Elias N. Stebek, *Op. Cit.,* pp. 210-211.
[35] Oakland Institute. "Development Aid to Ethiopia: overlooking violence, marginalization, and political repression", *The Oakland Institute* (2013), p. 8.
[36] Human Rights Watch Report, *Op. Cit.,* p. 29.
[37] Human Rights Watch Report, *Ibid.*
[38] Ahro. "The Core of Human Rights violation Areas in Afar Region of Ethiopia", *Ethiomedia* (April 7, 2012).

perceived as positive by pastoralist populations, government's program is described as a ruthless threat to their livelihood. As an Anuak elder stated:

> "We want you to be clear that the government brought us here... to die... right here.... We want the world to hear that government brought the Anuak people here to die. They brought us no food; they gave away our land to the foreigners so we can't even move back. On all sides the land is given away, so we will die here in one place. An Anuak elder in Abobo woreda, May 2011."[39]

All these issues show that official discourse has been misleading: socioeconomic development is not the government's priority with its national land strategy. Even if the government claims that villagisation and land promotion strategy are not concomitant, it is conspicuous. For example, 42% of all land in Gambella region has been made available for investors alongside with the villagisation process[40]. In fact, it appears that the new villagisation program is quite convenient for the government: it allows it to both free land for investments in regions populated by pastoralist populations, and to justify villagisation over a population that has traditionally "escaped" its control.

Moreover, by targeting only pastoralist populations, the government limits its political risks in undertaking both strategies. "Mele's political base had always been and continues to be, small peasant farmers whose lands are not being appropriated for state farms, as they were under

[39] Human Rights Watch Report, *Op. Cit.,* p. 25.
[40] Human Rights Watch Report, *Op. Cit.,* p. 3.

Mengistu [Derg's regime], or for agribusinesses." [41] Furthermore, by selling lands mainly to international investors, the government avoids the creation of a landholding class that might challenge its authority.

Thus, the global rush for land proves a golden opportunity for the Ethiopian's government: in addition to replenish the central government's coffers with new investments, it justifies the implementation of radical measures to increase government's control over pastoralist populations, which had by the past managed "to escape[42]" its power. Using development rhetoric to provide justification to the international community, the government is able to implement a controversial program of villagisation/resettlement in order to strengthen its hegemony.

Land strategy at the local level

Even before the local land reform, the role of the EPRDF in local agriculture development was central. It directly intervenes in farmers' lives by supplying agricultural inputs, providing agricultural loans, obliging farmers to participate in collective development work, and by managing the Agricultural Extension Program. Nevertheless, alongside with its national land strategy, the Party has undertaken new initiatives in order to foster agricultural development at the local level.

[41] Eliot Fratkin, *Op. Cit.,* pp. 98.

[42] This expression is borrowed to Goran Hyden when he uses the expression "uncaptured peasantry" to describe relationships between the state and peasants in Tanzania. Goran Hyden. "Beyond Ujaama in Tanzania: Underdevelopment and an uncaptured peasantry", *African Economic History*, vol. 10 (1981), pp. 199-202.

First, all kebeles [43] have been attributed a DA (Development Agent) and have been instructed to provide training services to peasants through a Farming Training Centre. Then, the DA becomes responsible to overlook development and farming activities and ensuring that farmers are improving their productivity[44].

Second, following the 2005 elections, the Party also established a new administrative structure, the *sub-kebele*, and implemented a model farmer program. Officially, the *sub-kebele* structure is part of a decentralization process at the local level, which does not entail though delegation of political and financial powers, which have been centralized with the national land strategy. It aims at creating grass-roots organizations, which were assumed to foster local development and peasants' empowerment. It was implemented to show how market economy leads to success and how farmers may become entrepreneurs. The model farmer program sought to establish model farmers in order to set an example. To be a model farmer, it is required that one is dedicated to development by "gaining wealth, developing well his land, by working hard, and by learning new technologies and putting them into practice"[45]. Although all these actions appear coherent with the government socioeconomic development objectives, a closer examination of the political context reveals that

[43] The *Kebele* is the smallest administrative unit in Ethiopia and represents a delimited group of people. Ethnic regions are composed of zones, which include numerous *woreda* (or districts). These districts are also subdivided into *Kebele.*

[44] René Lefort. "Free market economy, 'developmental state' and party-state hegemony in Ethiopia: the case of the 'model farmers", *Journal of Modern African Studies*, vol. 50, no. 4 (2012), pp. 686.

[45] René Lefort, *Op. Cit.,* (2012), pp. 688.

economic and development goals might not have been the real trigger of this decentralization process.

The 2005 elections

Prior to the 2005 elections, the EPRDF was confronted with increasing pressures from the international community to democratize. The Party decided to liberalize electoral competition in order to enhance its international democratic image, without really fearing that this opening will challenge its political hegemony. "The elections were thus seen as tools not for enhancing democracy in Ethiopia, but for consolidating EPRDF's power" [46] . However, the liberalization brought important opportunities for opposition parties, which seized them.

The May 2005 election early results came as a complete surprise for the EPRDF leadership, who realized that it was at risk of loosing power to main opposition parties, the Coalition for Unity and Democracy (CUD) and the United Ethiopian Democratic Forces (UEDF). On the eve of the Election Day, the EPRDF aggressively reacted. It suspended the counting process and declared a state of emergency, banned all public gatherings and replaced Addis Ababa's police forces by national police and military special units [47] . Opposition parties organized protests, accusing the EPRDF of delaying the counting in order to have more time to manipulate the results. The EPRDF

[46] Lovise Aalen and Kjetil Tronvoll. "The End of Democracy? Curtailing Political and Civil Rights in Ethiopia", *Review of African Political Economy*, vol. 36, no. 120 (2009), pp. 196.
[47] *Ibid.,* pp. 195

brutally repressed those contestations, arresting and detaining up to 5,000 members of the opposition parties[48].

At last, the final results were released four months later, in September 2005, and confirmed without much surprise EPRDF as the winner with 59% of the 547 seats in Parliament. Despites clear electoral irregularities, major opposition parties still managed to take 32% of all votes, or 174 seats. In itself, it was an important victory for the opposition, considering that in the 2000 elections, it only won 12 seats.[49] Nonetheless, the results were perceived as a clear threat by the EPRDF. It prompted the Party to put in place a strategy to regain control. In the following months, it limited powers of the opposition members in Parliament, took back the control of medias, passed new laws on Party formation, and undertook a mammoth propaganda strategy in the countryside[50].

In the light of that political context, it is clear that the *sub-kebele* and the model farmer program were also put in place for political reasons, allowing the Party to further penetrate the local level in order to secure votes for the next elections. For instance, becoming a model farmer was not possible if the aspirant was not a "dedicated militant of the Party". Therefore, a model farmer official role was twofold: 1-being a model of agricultural development; 2-being a vanguard agent for the Party. Data collected by René Lefort through interviews of model farmers in

[48] *Ibid.,* pp. 196.
[49] Irin Africa. " ETHIOPIA: Ruling party named winner in final result of disputed poll", (Adis Ababa, September 5 2005).
[50] Lovise Aalen and Kjetil Tronvoll, *Op. Cit.,* pp. 199-202.; René Lefort, *Op. Cit*, (2012), pp. 684.

Amhara state demonstrated that the second role became dominant over the first.

> "This leads to a situation where membership of the party prevails over being a model farmer, to such an extent that the latter fades into the background and even disappears behind the former. [...] Of the sample of twenty model farmers, only three more or less distinguished the economic function of membership from the political function of 'vanguard'."[51]

Thus, recruitment of model farmers went hand-in-hand with recruitment for the Party. As a consequence, the model farmer program was very popular among peasants because they perceived that it was a way of gaining better access to state controlled resources[52]. The same reality applies with the creation of the *sub-kebele*, which were likewise subverted for political ends. "The sub-kebele structures are also responsible for calling meetings planned by the administration of the ruling party and for passing messages about new policies and laws, as well as party propaganda from higher levels down to the household".[53]

Overall, the EPRDF's political campaign worked quite well and in the 2008 local elections (*kebele* and *woreda* levels), the Party won 3.5 millions out of the 3.6 millions seats of the country[54]. Also, membership to Party increased

[51] René Lefort, *Op. Cit.,* (2012), pp. 692
[52] René Lefort, *Op. Cit.*, (2012), pp. 689-691.
[53] Lovise Aalen and Kjetil Tronvoll, *Op. Cit.,* pp. 198.
[54] For more explanations about local elections in 2008, see Lovise Aalen and Kjetil Tronvoll. "Briefing: The 2008 Ethiopian Local Elections: The return of electoral authoritarianism", *Affrican Affairs,* vol 108, no. 430 (2009), pp. 116-117; BBC News. "Clean sweep for Ethiopian party" (May 19, 2008).

significantly passing from 760 000 member in 2005 to 4 million in 2008[55].

Hence, local development strategy became very political and brought confusion at the local level between economic development and politics. This confusion renders almost impossible for farmers to question development initiatives, even when they disagree. Peasants are forced to comply with any decision made by the state. "Farmers are in a very difficult position... If they do not comply with what they are told to do, they can be blamed as being against the government... or the development of their very community."[56] Culturally, the historical hierarchical nature of power in Ethiopia and its perceived divine essence also reinforces compliance. Because the central government and its agents, known locally as *the mengist*, are the same than God for many peasants, "to submit to absolutism of the *mengist* is simply to respect divine will"[57].

Apart from the highly political character of the local development strategy, many other issues are worth noting. First, in coherence with the EPRDF's ideology, a top-down approach to development is favored. It prevents local participation or leads to inefficiency because local context is not taken into account in central development directives. This farmer's case is illustrative:

[55] Lovise Aalen and Kjetil Tronvoll, *Op. Cit., Review of African Political Economy* (2009), pp. 203.
[56] Davide Chinigò. "The politics of land registration in Ethiopia: territorialising state power in the rural milieu", *Review of African Political Economy*, 2014, published online August 8, pp. 12.
[57] René Lefort, "Powers- mengist- and peasants in rural Ethiopia: the May 2005 elections", *Journal of Modern African Studies*, vol. 45, no. 2 (2007), pp. 258.

> "We dug our pond in 2005. We paid a few hundred birr to daily laborers, wasting our money. As you know I am a village leader, and people complained to me. They said: 'You are telling everybody to dig a pond, but you do not have one yourself'. If I had had a good catchment near my land, I would have dug a pond before, but what is the use of a pond if it is impossible for water to enter it? Sub-district administrators constantly commented on me. They visited me in my house and I tried to convince them of the impossibility for a pond on my land to harvest rainwater, but they did not accept this. One day, at a meeting in the district my case was brought up again. I was so tired that I decided to dig a pond anyway"[58].

Second, as René Lefort demonstrates, the training provided, mostly theoretical, is ill suited to farmer's needs and realities[59]. Finally, the mandatory community work put an unacceptable burden on farmers. As mentioned by Lefort: "Expecting a peasant to abandon his farm for sixty consecutive days to carry out communal work or to grow 300 indigenous tree seedlings in a year is unrealistic"[60]. Hence, the fact that local development strategy has been strongly determined by political goals has brought inconsistencies and inefficiencies that compromise its odds of success.

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[58] Kaatje Segers and al. "Be like bees - The politics of mobilizing farmers for development in Tigray, Ethiopia", *African Affairs*, vol. 108, no. 430 (2008), pp. 106.
[59] René Lefort, *Op. Cit.*, (2012), pp. 696.
[60] *Ibid.*

In sum, local development initiatives have been framed by the Party-state as essential components of a national project to achieve economic development in Ethiopia. However, I have demonstrated that they are denatured by the Party's political agenda. As with the national land strategy, the EPRDF uses development rhetoric to undertake actions that allows it to consolidate its political control.

Conclusion

To conclude, in order to understand the political motivations of the government regarding its land strategy, it is essential to go beyond its official statements. To acknowledge the neopatrimonial nature of the Ethiopian state helps me to analyze the discrepancy between socioeconomic objectives of land deals and their outcomes by shedding light on the importance of considering formal and informal practices and norms in this hybrid system of governance. The national land strategy and its implementation constitutes a good illustration of the neopatrimonial nature of the Ethiopian state. It demonstrates how the formal discourse was misleading and used to obscure the underlying motivations of the government that were, in this case, associated to a desire of strengthening its political control.

As I have shown, the government's discourse oriented toward development is not supported by consistent actions. Instead of focusing on socioeconomic development, the recent national land strategy has allowed the government to centralize land management and increase its control over pastoralist populations. Because the land being promoted as available for leasing belongs almost exclusively to pastoralist populations, it is obvious that the government's

new land strategy targets them specifically. The recent villagisation initiative, and the violence of its implementation, illustrates the government's determination to reinforce its political control over its population. Moreover, the decentralization process that has been implemented at the local level alongside with the model farmer program were primarily motivated by the Party's political agenda of regaining electoral control following the 2005 elections. As a consequence, peasants became confused between economic and political objectives of local agricultural development initiatives.

Finally, future research should try to unpack the Party's political objectives instead of generalizing them under broad categories such as "desire to increase political control". Even though this generalization has proven useful for this analysis, it is undoubtedly reductive of the complexity of the political dynamics. In addition, primary data would be necessary to deepen our understanding of the issue. Lastly, it should be mentioned that ethnicity considerations have not been explored in this paper. However, as the governance system of Ethiopia's is based and constructed upon ethnicity, it could be interesting to further investigate this aspect in order to better grasp the differentiated impact of land deals.

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Linking Popular Protests to Authoritarian Regime Resilience in Contemporary China

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Abstract

What is the relationship between popular protest and authoritarian regime perpetuation in China? Protests are often regarded as a major challenge to the stability of authoritarian regimes. Since the early 1990s, social unrest in China has been rapidly growing in both scale and intensity. The emergence of widespread contentious activities in a strong authoritarian regime represents a puzzling phenomenon. While repression remains a central element of the Chinese party-state's approach for dealing with political dissent, it is particularly intriguing that protests appear to have become increasingly tolerated by Chinese authorities. This contradicts the commonly held view that high-capacity authoritarian regimes typically repress contention. Why do Chinese authorities tolerate some forms of popular protests? What are the mechanisms that link protest to regime stability? Drawing on the literature on authoritarianism, regime transition and contentious politics, I explore two key mechanisms that mediate the Chinese party-state's relationship with protests. First, from the perspective of the central state protest can signal public grievances, dissent, or problems of local governance, making it an important information-gathering mechanism. Second, the decentralization of the power structure helps protect the legitimacy of central authorities since protests are managed at the local level. In sum, because they are managed and absorbed into the political logic of the authoritarian party-state, protests can contribute to regime stability.

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Introduction

Protests are usually regarded as a major challenge to the stability of authoritarian regimes. Since the early 1990s, social unrest in China has been rapidly growing in both scale and intensity. While data on protest remains difficult to access, official figures reveal that the number of so-called mass incidents[1] increased from 8,700 in 1993 to 180,000 in 2010.[2] Increasingly aware of their rights, Chinese citizens have engaged in various forms of contentious actions to confront grievances stemming from issues such as land grab, environmental pollution, and local officials' predatory behaviour, among others.[3]

The emergence of widespread contentious activities in a high-capacity authoritarian regime represents a puzzling phenomenon. While repression remains a central element of the Chinese party-state's approach for dealing with political dissent, it is particularly intriguing that protests in general appear to have become routinized and increasingly tolerated by Chinese authorities.[4] This contradicts the commonly held view that authoritarian regimes tend respond to contention with severe repression.[5] Why do Chinese authoritarian rulers tolerate some forms of popular contention? What are the mechanisms that link protest to regime resilience?

In this paper, I adopt a state-centered perspective to explore the relationship between protest and authoritarian regime resilience, and to reflect on the Chinese party-state's strategy and tactics of rule. The emergence of frequent protests throughout the country represents a focal point of the Chinese party-state adaptation to the conflicts and rising public expectations that have accompanied rapid and destabilizing social and economic changes. All types of political regimes need mechanisms to receive feedback from society and respond to citizen demands. Democratic regimes enjoy elections, civil society, a free press, independent courts, and social movements, among others. Authoritarian regimes, however, face a particular set of challenges. To survive, they need to develop alternative feedback and monitoring mechanisms, without opening the political system to competition.

I argue that the Chinese state management of protests can be understood as an example of institutional adaptation aiming at the containment of an ongoing cycle of contention. The Chinese party-state has taken advantage of certain mechanisms to become more responsive to the demands and the expectations of the public, without compromising the monopoly of political power it enjoys under the current Leninist political structure. More specifically, I argue that two important mechanisms mediate the Chinese party-state's relationship with popular protests. First, from the perspective of the central state, protests can signal public grievances, growing dissent, or problems of local governance. They also convey information about citizens' perceptions and preferences and serve to monitor local officials' behaviour. Protest can thus act as an important information-gathering mechanism. In China, protests have been facilitated through

the petition system (*xinfang*), an elaborate institution present at all levels of government to collect and monitor citizen complaints. Second, the divided power structure helps to protect the legitimacy of the central government. An important consequence of the divided structure of power is the principal-agent problem that characterizes the relationship between the central and the local governments. Decentralization in China has granted considerable power to local governments, leading to selective policy implementation and abuse of power. Protest at the local level therefore provides information about local officials' behaviour. In China, local authorities are tasked with responding to collective resistance such as petitions, demonstrations or riots. Decentralization allows central authorities to distance themselves from the blame and the negative exposure generated during protest; it thus helps to protect the legitimacy of the central authorities.[6]

In sum, protests serve as a feedback mechanism that provides the Chinese state with information on local governance and helps central authorities respond to various challenges. The adoption of a strategic approach to the management of protests and their absorption within the logic of the authoritarian political system has helped the Chinese party-state's containment of contention—an approach that entails a mix of repression, toleration and concession. The general structure of this paper is as follows. The first section reviews some of the literature on authoritarianism, authoritarian regime resilience and protest. The information problem faced by authoritarian regimes is emphasized in this first section. The second section provides an overview of China's protests since the 1990s. The third section provides an examination of two mechanisms that connect the Chinese Party-state's

management of protest with regime resilience. The final section provides a short discussion and concludes.

Authoritarian regime resilience and protest

Explanations for the survival and success of the Chinese regime generally focus on the role of institutions. Nathan argues that after 1989 the Communist Party of China (CPC) has undertaken a number of institutional reforms that have helped strengthen and stabilize the Chinese party-state, hence leading to authoritarian resilience.[7] He focuses on four aspects of the CPC's institutionalization process: the succession process, the promotion of political elites according to meritocratic considerations, the differentiation and specialization of bureaucratic institutions within the regime, and the development of input institutions– channels of political participation and appeal. Likewise, Shambaugh emphasizes the adaptation of formal institutions, as well as intraparty reforms in his explanation for the persistence of CPC rule.[8] Kellee Tsai points to the reliance of the CPC as being linked to adaptive informal institutions.[9] When local practices emerge that were more efficient than formal institutions, they were sometimes adopted and formalized by the state. An example of this was the incorporation into the Chinese Communist Party of the private entrepreneurial class in the 1990s.[10] Research on single-party authoritarian breakdown and survival shows how the origins of authoritarian regimes shape their long-term institutional trajectories and prospects for survival.[11] Perry and Heilmann claim that the adaptive and flexible nature of the Chinese political system is rooted in the revolutionary experience of the CPC whereby continual tactical and policy experimentation was emphasized.[12]

Scholars have started to pay increased attention to the relationship between contentious politics and authoritarian regime resilience in China, pointing to the dynamics and consequences of protests.[13] The emergence of contentious collective action whereby people behave in ways that fundamentally challenge political authorities or make new, unaccepted claims represent a potential threat to authoritarian rulers.[14] The literature identifies several reasons why protests present a risk to authoritarian regime stability.

Kuran [15] and Lohmann [16] provide key insights into the dynamics of mass protest and authoritarian breakdown by highlighting the importance of tipping points, preference falsification, demonstration effects and information cascades. First, Kuran explains that authoritarian rulers face an important information problem: citizens' true preferences towards political change or status quo are hidden. Kuran calls this phenomenon preference falsification.[17] An important part of the population may be secretly in favor of political change, but are afraid to reveal their aspiration (or take political action) given the risk of punishment. People will come out publicly against the incumbent regime only if a certain threshold of participation is reached. Since actors' private preferences and participation thresholds are hidden, "a society can come to the brink of a revolution without anyone knowing this, not even those with the power to unleash it."[18] A tipping point where a revolutionary bandwagon becomes possible may have been reached without anyone realizing it. Yet, revolutionary mobilization cannot be predicted and mass discontent with the ruling regime is not enough to generate popular uprising.[19]

The occurrence of a triggering event (for example, an economic recession, a military defeat, or a major policy failure) may lead a first group of citizens, the group with the lowest fear of repression, to reveal their true public preferences—their dissatisfaction with the current status quo and desire for political change.[20] Citizens engage in costly political action to express (to signal) their dissatisfaction with the incumbent regime, thereby transmitting information that other people use in their calculations to participate or not in the protest wave. When information starts to flows freely, people learn about others who also share their resentment of the government. This drastically lowers the threshold of participation in resistance or dissent for other groups. Lohmann analyzes the expanding turnout of protestors that took place in the East German city of Leipzig in 1989 as informational cascades that undermined the Communist regime by revealing some previously hidden information about its nature and the preferences of the public.[21]

Moreover, Tarrow explains that protests can engender more protests by lowering the costs of collection action for other groups that have fewer resources.[22] Protests can also bring about more protests through the activation of networks and the spread of protest techniques and repertoires.[23]

Furthermore, protests can affect the interests of the elites. Wood, for instance, shows that elite interests are dynamically affected by popular protest.[24] Labour mobilization in South Africa and peasant insurrection in El Salvador threatened the interests and opportunities of economic elites, who came to judge that they would be better off if they compromised with the insurgents. Protests can also expose weaknesses in the

government, and reveal potential regime-threatening differences between hardliners and moderates.[25]

Finally, in single-party Communist regimes, the ruling party typically might justify its monopoly of political power with reference to an ideology (e.g. Marxist-Leninism), a guiding objective or to a social contract under which the party professes to represent, and even to embody, the interests of the people and of the nation. As pointed out by Ulfelder, "this claim renders single-party regimes vulnerable to contentious collective action because virtually any mass mobilization can be construed as a blow to the legitimacy of the regime."[26] Contention directed against central authorities threatens the ideational basis underlying the legitimacy of these sort of authoritarian regimes.

These insights have important implications. First, an authoritarian regime facing a potential revolutionary crisis needs to be prepared to make use of prompt repression to avoid sending a signal of indecision. Perhaps more to the point, the ruling party needs to maintain a credible threat to use force against the opposition, in order to keep opponents guessing about its intent. Indeed, in the event of protest cycle, "the dynamic path of mass turnout over time is affected by uncertainty about the nature of the regime and the cost of participation."[27] Second, vulnerable regimes have an incentive to limit the production and dissemination of information to enhance their prospects for survival, hence the practice of censorship and the regulation of polling and surveys.[28] However, even if they engage in censorship and seek to control information flows authoritarian regimes still need to find ways to resolve the problem of preference falsification, to become knowledgeable about the private

preferences of their citizens. For their own survival, they need to rely on some sort of feedback and monitoring mechanisms.

Moreover, authoritarian rulers require the cooperation and support of the population in order to achieve economic development and social stability.[29] Coercive power may be deployed to impose cooperation on different parts of society and to eliminate threats of uprising. However, a strategy of repression can be costly and ineffective. States may opt for a softer approach by channeling contention—increasing the costs of organization and mobilization, and monitoring potential protestors.[30] Suppressing the preconditions for collective action is, however, neither easy nor costless. In addition to financial and administrative expenses, "a more subtle cost of channeling is that repressing organizations silences constructive critics, as well as opponents of the regime, and blocks information flow upward."[31] Authoritarian regimes therefore need to walk a fine line between the repression, channeling and toleration of contention and dissent. Especially insofar as citizens' beliefs and preferences are not static but rather shaped by their interaction with state officials. Repression might engender violence or turn loyal citizens into opponents of the regime.

If repression entails a trade-off, authoritarian rulers can also solicit societal cooperation and prevent social uprising by relying on non-coercive instruments such as policy concessions and redistribution.[32] As Geddes notes in her study on democratization and the durability of various types of authoritarian regimes, "single-party regimes survive in part because their institutional structures make it relatively easy for them to allow greater participation and popular

influence on policy without giving up their dominant role in the political system."[33] Nevertheless, both in order to make effective policies and to prevent uprising, authoritarian regimes like China need to gather accurate information about the preferences and perceptions of the populace. Lorentzen nicely summarizes the information problem faced by authoritarian rulers: "lacking the informative feedback provided by competitive elections, an unfettered press and an active civil society, authoritarian regimes can find it difficult to identify which social groups have become dangerously discontented and to monitor lower levels of government."[34] Authoritarian regimes need to find ways to gather accurate information about the society and the citizens under their rule, to manage and contain contention and to respond to policy problems.

Protest in China

This section provides an overview of social protests which have increasingly occurred since the since the early 1990s. A brief contextual presentation is followed by a description of the nature of protests, their modes of operation and their historical background.

The emergence of widespread protest has taken place in the wake of market reforms that have led to massive structural socio-economic changes in China, such as increased social and physical mobility and rapid urbanization. Under the command socialist economy, China's population was largely immobile; it was organized, and governed through the socialist economic work unit (the *danwei*) which was responsible for providing health care, education and social welfare as well as making sure people followed party

ideology and policies.[35] Market reforms rendered the work unit system—the foundation of the Chinese social and control system in urban areas—obsolete, thus opening up social spaces not controlled by the Party and disrupting the provision of welfare. Peasants started migrating to cities to work in factories. More generally, rapid economic development and shifting relations between state, market and society have been accompanied by significant rise in socio-economic inequality, an expanding rural-urban divide as well as widespread corruption.

In this context, Chinese citizens have increasingly undertaken protests in response to problems such as land grabs, environmental pollution, corruption, and abuse of power. Protests are often extremely limited in their geographical scale and reach, and are typically uncoordinated across sites and social classes.[36] Most of the unrest and discontent in Chinese society has been oriented against specific socio-economic grievances circumscribed at specific locations.[37] Although economic inequality has increased noticeably over the course of market reforms, protests have generally not been launched to express social discontent over the level of inequality within society per se, but rather to protect people's personal livelihood and property, for instance.[38] Many protests have in fact been defined as NIMBY protests.[39]

Frequent modes of collective action in China are collective petitions, protests or demonstrations, such as labour strikes and riots, confrontations with the police, government officials and businesspeople, and even attacks on state agencies.[40] Nonetheless, the boundary between collective petitions and protests, demonstrations or other forms of contention is easily blurred.[41] Almost all social groups have

been involved in mass incidents, including active and retired workers, farmers, students, demobilized soldiers, and middle-class homeowners.[42] Disruptive protests have erupted for instance when workers were laid off from their jobs or not paid their wages; or when peasants had their houses torn down or their land taken away without due compensation.[43] Major protests have also emerged to confront environmental degradation and pollution, both in the countryside and in cities such as Xiamen and Dalian.[44]

Case studies of protest mobilization show how state policies have led to isolated protests that fail to cross local and class boundaries.[45] In the words of Shambaugh, "there is little 'connecting tissue' between these 'nodes' or pockets of unrest."[46] It is also often stressed that the most important cause of the increasing number of mass incidents in China has been the abuse of power at the local level by party cadres, leading to various forms of mismanagement and grievances, and that the discontent is not directly aimed at the central party-state itself.[47] As explained by Yongshun Cai, "the demands raised by protestors in most cases are nonpolitical or non-regime threatening; they are often limited, specific, and clear to state authorities."[48]

As the rights consciousness of Chinese citizens grew during the post-Mao era,[49] Chinese citizens have appealed to central government directives, pointing out local cadres' malfeasance and asking central authorities to hold local officials accountable. The majority of protests have corresponded to actions of rightful resistance, defined by O'Brien and Li as the following:

> Rightful resistance is a form of popular contention that operates near the boundary of authorized

> channels, employs the rhetoric and commitments of the powerful to curb the exercise of power, hinges on locating and exploiting divisions within the state, and relies on mobilizing support from the wider public. In particular, rightful resistance entails the innovative use of laws, policies, and other officially promoted values to defy disloyal political and economic elites.[50]

Several authors see parallels between social protest today and the late period of the Qing dynasty (1644-1912). Elizabeth Perry, for instance, contends that contemporary protests bear some resemblance with the moral economy protests that took place during imperial times, whereby aggrieved protestors made claims based on livelihood concerns while professing their loyalty as filial subjects to the central authority.[51] Protest was not necessarily a revolutionary force against the Chinese state, but an important part of the relationship between the populace and the rulers. In her view, the Chinese traditional conception of rights emphasizing socioeconomic security and livelihoods and as deriving from the state, rather than individual freedoms and civil and political rights, still holds.[52] Similarly, Ho-fung Hung points out that during the Qing-era, "the Confucianist-familial conception of political power motivated protesting subjects to appeal to higher authorities against local officials. The salience of similar appeals among today's protesting citizens suggests that this conception of power continues to prevail."[53] Contemporary protestors indeed often appeal to higher-level authorities to call attention to specific local governance issues, demanding the removal of unpopular lower-level officials, but without questioning directly the ruling authority of the Communist Party. Like today, protest and rebellion throughout Chinese history was allowed within certain limits beyond which it was met with punishment.[54]

Understanding the Chinese state response to protest

The post-Tiananmen CPC has adopted a mixed strategy for containing popular contention. Feng and Su explain that the earlier Maoist tendency of politicizing any expression of grievance or dissent has slowly gave way throughout the recent reform-era to a more pragmatic "distinction between political and non-political dissent, thereby shifting to a two-way track approach toward social control [constituting] an important institutional adaptation."[55] On the one hand, the party-state has consistently repressed efforts to challenge its authority or the monopoly on political power of the CPC. It tolerates no organized opposition and has supressed any sign of organized political activity that has serious diffusion potential. Democracy activists, intellectual dissidents, religious and ethnic minority activists, and human rights defenders—that is, individuals or groups with the potential to challenge the legitimacy of the CPC-dominated political system or to breed mobilization across class and local boundaries—have been subjected to harassment, house arrest and imprisonment. In addition to the crackdowns on the 1989 pro-democracy movement, and the Falun Gong in 1999, recent examples include the swift crackdown on the so-called Jasmine Revolution pro-democracy protests that took place in 20 February 2011.[56] However, such a cross-class and multi-city mass demonstration stands out as a rare event.

On the other hand, as previously discussed, Chinese authorities increasingly tolerate a great number of small-scale protests directed at local authorities. While repression always remains a possible recourse, Lee points out "there are now clear stipulations limiting the use of arrest and coercive force

against situations of mob violence, assault on government buildings and property, and disruption of public order."[57] The general pattern seems to be tolerating rightful resistance.

Still, most modes of collective action in China are illegal, as Cai explains: "Strikes are illegal according to the constitution; demonstrations require the approval of the police department; and the number of participants in a collective petition cannot exceed five. Confrontations with state agents or attacks on state agencies are certainly seen as crimes."[58] The increased frequency of collective resistance thus reflects greater tolerance for these highly frequent activities by the government; that is, it reflects a political space for collective action.[59] Chen argues that the rise and routinization of social protests in China is mainly due to the direct facilitation of such activities by the Party-state.[60] What is the rationale underpinning the toleration and facilitation of protest by the Chinese regime? And what are the channels for this?

While scholars have typically tried explaining the resilience the authoritarian Chinese regime *despite* protests, recent research suggests that protests may have actually *helped* the regime survive.[61] Following and building on these insights, I argue that the Chinese state management of protests can be understood as an example of institutional adaptation aimed at the containment of an ongoing cycle of contention. From the perspective of the Chinese party-state, tolerating some forms of protest allows gathering information needed in order to better respond to the demands and the expectations of the population, without compromising the monopoly of political power it enjoys under the current Leninist political structure.

Two important mechanisms mediating the Chinese party-state's relationship with popular protests are explored below.

Protest as signaling and the petition system in China

The first mechanism mediating Chinese central authorities' relationship with protest is the signaling function of protest. As Lorentzen argues, the informal toleration of small-scale protests revolving around narrow economic issues can serve as an important way to gather information about social discontent.[62] From the perspective of the central government, institutionalized (e.g. petitions) and noninstitutionalized (e.g. demonstrations or riots) forms of protest both provide valuable information to central authorities. When citizens protest, they communicate information to authorities about their policy preferences and their perceptions of the quality of local governance. Because in authoritarian countries the risk of repression is considerable for those who engage in protest, it represents an example of costly, and therefore credible, signaling. From the standpoint of the state, protest thus represents an important information-gathering mechanism.

The signal contains at least two components. First, the frequency of protests and the number of participants. Frequent protests with a large number of participants are likely to indicate the presence of some serious issues in need of attention. Second, the way that collective action is framed might also be especially important. As Tarrow explains, "inscribing grievances in frames that identify an injustice, attribute the responsibility to others, and proposing solutions to it is a central activity of social movements."[63] Protestors can thus not only indicate, for example, particular local

problems of mismanagement, abuse of power or policy failure, but also explicitly express ways in which the problem could be resolved to their satisfaction. If properly managed and absorbed, protests, then, might be seen not only as a regime threat but also as a mechanism of regime perpetuation.

Political contention, of course, can take various forms such as protests, demonstrations, which include labour strikes and riots, and collective petitions. In China, individuals or groups can seek intervention in the resolution of grievances or complaints from authorities, including the central government, through institutionalized and permitted channels, such as petitions, or noninstitutionalized action, such as protests.[64] Nonetheless, the petition system, also called the letters and visits system or *xinfang*, is the main channel for handling citizen complaints in China.[65] Originating from imperial times, the petition system was established by the CPC in the 1950s. Under the Communist regime, ordinary citizens have been allowed and even invited to provide feedback to authorities, by lodging complaints and submitting petitions.[66] Various party and government bodies have departments or reception offices to handle citizens' requests.[67] Citizens can present petitions either by sending letters or by presenting petitions in person. The operation of the petition system has been heavily influenced by the Maoist mass line, "a set of principles for political practice and institutional design, which seeks to integrate extensive mass mobilization and participation with the [CPC]'s monopoly of political power."[68] This political approach of managed participation involved nonbinding consultation with people at the grassroots. The petition system thus represents a channel for political participation.

It must be emphasized that in practice petitioning involves more than simply writing a letter to some distant officials. Petitioners usually present petitions collectively and directly in person to the *xinfang* office. Moreover, petitioning is often the means through which collection action escalates into more troublemaking contentious activities. When petitioners fail to receive satisfactory redress or hearing from local authorities, they may escalate their action and present collective petitions at the provincial or central level. Petitioning groups are often willing to engage in troublemaking activities such as blockading government building entrances, marching, and staging sit-ins in order to attract the attention of higher-level authorities.[69] In effect, the boundary between collective petitions and protests, demonstrations or other forms of contention is easily blurred.[70]

Chinese citizens take authorities' commitment to the petition system seriously, argues Xi Chen.[71] They make extensive use of the system, filing an annual average of 11.5 million petitions per year during the 2000s.[72] The petition system, however, has serious limitations. It only has limited effectiveness in resolving grievances and only a very small percentage of individual petitions yield results.[73] Also, an important problem is the ad hoc, discretionary nature of solutions with which local cadres respond to the problems brought forward by protestors. Local officials are especially wary of tactics such as sit-ins and street marches that bring higher-level authorities' attention to them.[74] Citizens may choose to escalate their action, that is, to use more drastic and noninstitutionalized modes of collective action in seeking resolution to their problems or redress to their grievances

because of the limited effectiveness of using permitted channels.[75] The petition system in China thus serves as a focal point for contention, and facilitates collective action.

The purpose of the petition system, then, is mainly twofold. First, although it is supposed to be a dispute resolution mechanism, petition centers usually do not possess the resources or the power to resolve citizens' grievances. Secondly and more importantly, the petition system serves as an information-gathering mechanism. It provides central-level government officials with detailed information on the scope, the locations and the causes of public discontent and social problems. In a context where citizens can access information more rapidly than ever, and the discourse of rights has become more widespread in official and media discussions, citizen complaints are important not only for citizens but also for the regime. The evidence suggests that the information is used by the government to make policy adjustments, to identify protest leaders, and to buy off protestors by providing compensation, for example.[76]

Finally, another governance function of the petition system, according to Lee, is to "display the symbolic presence of central authorities as guarantors of righteousness"[77] in ways that seek to echo the traditional benevolent role of the central ruler. That being said, central authorities do not necessary object to local government regulations against petitioners. In fact, the former welcomed the 2004 decision of the Beijing city government to issue a harsh directive to regulate petitioners' activities.[78] Presenting petitions in Beijing always implies considerable risks to petitioners; and the regime does not tolerate mass incidents in the capital, as the

swift crackdown on the so-called Jasmine revolution protests of 2011 exemplifies.

The divided structure of power

A second mechanism mediating Chinese central authorities' relationship with protest is the divided structure of power in China, as has been argued by Cai.[79] The Chinese political system is typically characterised as both horizontally fragmented and vertically decentralized. As explained by Lieberthal, the fragmentation of decision-making signifies that policies emerge as the result of intense bureaucratic bargaining between ministries and provinces, which often have conflicting interests or preferences.[80] Vertically, the political structure can be simplified in terms of central-local relations. For our purposes, the divided structure of power has two main implications.

First, an important consequence of the divided structure of power is the principal-agent problem that have characterized the relationship between the central and the local governments in the reform-era.[81] The processes of market reform and decentralization have granted considerable power and autonomy to local governments. This has led to selective policy implementation and abuse of power, which the central state found itself less able, and more costly, to identify. Policies decided at the central level have been implemented with great inconsistency by local government officials who have sometimes tended to ignore national policies when these clashed with their self-interests—which include rent-seeking, selling grabbed land without proper compensation, colluding with private entrepreneurs operating below-standards and polluting factories. This pattern of selective policy

implementation at the local level has been recognized as an important problem at the roots of a number of local grievances.[82] Given this situation, the toleration of protest at the local level by the state has become an attractive way of gathering information about local officials' behaviour and the well-being of local grassroots communities. This situation has also created opportunities for convergence of interests between citizens and central government.[83]

Second, decentralization helps protect the legitimacy of the central government and the CPC. In China, local officials are responsible for dealing with popular protests. During the 2000s, stability maintenance[84] became one of the two main priorities of local officials' work, together with economic development. Decentralization allows central authorities to distance themselves from all the kinds of blame potentially generated during protest; it thus helps to protect the legitimacy of the central authorities. In this regard, Feng and Su point to two principles emphasized in December 2008 by the Chinese official at the head of the Central Political and Legislative Affairs Committee and who was in charge of stability, law and order.[85] These two principles attributed protest to the negligence of local officials, and blamed local officials under whose leadership a protest escalated into a high-profile incident.[86] Together with policy directives limiting the use of force in dealing with protests,[87] a powerful discursive framework was put in place whereby official discourse frames the central government as a benevolent ruler, attentive and responsive to the needs of the population; and local officials as responsible for local problems policy failures and protest mismanagement.[88] Moreover, even though the power structure is divided, the CPC possesses a powerful tool of disciplinary control over local officials

stemming from its Leninist party structure: the nomenklatura and the cadre evaluation system through which the CPC evaluates and makes all personnel appointment at all hierarchical levels.[89] Faced with the incapacity of local officials to manage a given protest situation or the news of some grave local abuse of power, the central state has been able to punish individual officials, and reap the public perception rewards for doing so.

Discussion and conclusion

As Chinese society becomes more differentiated, complex, and pluralistic, the need for feedback mechanisms and input institutions to reduce political stress and enhance government performance has become ever more important.[90] Indeed, with the demise of Marxist ideology the CPC's regime has come to rely mostly on performance legitimacy and, as pointed out by scholars, many challenges faced by China are related to public goods provision and political aggregation.[91] As explained by Zhao "government performance stands alone as the sole source of legitimacy in China. If the state becomes unable to live up to popular expectations, the government and regime will be in crisis."[92] The emergence of widespread protests represents a focal point of the Chinese party-state management of, and adaptation to, the conflicts and rising public expectations that have accompanied rapid and destabilizing social and economic changes following the processes of reform and growth.

In his book *Power in Movement* Tarrow explains that:

> By a 'cycle of contention,' I mean a phase of heightened conflict across the social system, with rapid diffusion of collective action from more

> mobilized to less mobilized sectors, a rapid pace of innovation in the forms of contention employed, the creation of new or transformed collective action frames, a combination of organized and unorganized participation, and sequences of intensified information flow and interaction between challengers and authorities. […] It demands that states devise broad strategies of response that repressive or facilitative, or a combination of the two. And it produces general outcomes that are more than the sum of the results of an aggregate of unconnected events.[93]

While scholars used to try to explain the resilience of the authoritarian Chinese regime in spite of growing number of protests, recent research suggests that protests may have actually helped the regime survive. Indeed, it is possible to posit that the overall strategy of the Chinese regime has been to defuse the threat to persistence of CPC rule by containing the cycle of contention that has emerged in recent years in China. As Chen explains, when the claims of social groups "are partly incorporated into the political system and when policy outcomes are more or less acceptable, the possibility for antisystem actions such as rebellions and revolutions becomes quite low."[94] The strategic management of protests by the Chinese state and the realization that they can serve as information-gathering mechanisms for regime resilience must be understood in this context.

In a similar vein, recent research suggests that Chinese authorities have pursued an approach to censorship that, arguably, parallels or complements the strategic management of protest: the Chinese leadership tolerates a great deal of comments that are critical of policies, leaders, and the government in general, to a surprising degree. The important

distinction is that discussions (e.g. commentaries, blog posts, etc.) associated with the regime itself or with events that have a potential for mass collective action are systematically suppressed and removed from the Web, because they are perceived as regime-threatening.[95] Moreover, recent research looking at civil society in China also indicates a complementary logic at play. Jessica Teets has put forward the concept of consultative authoritarianism, a new model of state-society relationship in China whereby a relatively autonomous civil society, with some access to the policy process, is heavily influenced by the state's sophisticated and indirect methods of social control, which includes the use of fiscal incentives, to guide NGOs towards meeting state objectives. [96] In turn, this type of state-civil society relationship contributes to better governance and more resilient authoritarianism. [97] Likewise, Froissart's research suggests that NGOs defending migrant workers' rights, framing their demands in the language of collective bargaining, may have contributed to regime stability by helping to identify labour-related grievances and working within the established authoritarian legal framework towards their resolution.[98]

The CPC regime benefits from the visibility and the positive effects of national policies, and can avoid blame-generating situations when things go wrong at the local level. The vast and growing economic resources in the hands of the central government has allowed it since the 2000s to increase investment in social welfare spending in response to rising inequality, such as the establishment of a minimum livelihood guarantee program. For example, the central government also abolished the agricultural tax in 2004—the subject of much peasant grievances and local abuse. These

expenditures and programs have contributed to the central government being seen as benevolent redistributor even after the demise of the socialist economy and to mitigate some of the impacts of rising inequality.[99] Research and independent surveys show that Chinese citizens tend to have a high level of trust in the central government,[100] which is also partly reflected in their appeal to higher-level authorities through participation in the petition system.[101] Hence, the evidence suggests that in spite of the increasing number of protests, Chinese citizens have continued to hold a positive view of central authorities of the regime.

Xi Chen claims that social protests in China can be approached as a form of contentious bargaining.[102] In this view, most protests are rational and strategic and provide an opportunity for relatively powerless people to promote their interests in the Chinese political system under the continuing domination of the CPC.[103] State authorities have been found to provide concessions to protestors following a cost-benefit analysis whereby the costs of concessions is weighted against the benefits of reducing discontent.[104] Further, Ching Kwan Lee points to a general shift from a top-down pattern of concessions to common bargaining between the state and protestors."[105] More research is needed on this phenomenon.

Yet, a strategy of selective toleration of protest requires the presence of a credible threat of punishment. The CPC has not only maintained control of all means of coercive power but has strengthened these instruments of control and repression after Tiananmen.[106] It controls the military (the People's Liberation Army) and all coercive institutions. These include the People's Armed Police, People's Militia, the Ministry of State Security and the Ministry of Public Security.[107] This

also includes the various different ministries and administrations that share responsibility for stability maintenance (*weiwen*),[108] under supervision of the Central Political and Legislative Affairs Committee, one of the CPC's Central Committee's principal bodies. Stability maintenance work is taken seriously, and the size of the *weiwen* budget has reportedly exceeded that of the military.[109] Ultimately, the regime maintains a high capacity to repress.

To conclude, this paper has examined two mechanisms—protest as signaling and the divided power structure—that help understand the Chinese government's strategic relationship with protest, and help account for China's authoritarian regime resilience after 1989. It must be emphasized that I have not argued that these mechanisms will prevent the breakdown of the Chinese authoritarian regime or that they are the main explanation for the success or survival of the regime until now. Rather, I have drawn on recent research in order to provide an explanation as to why the high-capacity Chinese regime do not repress protest to the extent we might expect: because the strategic management of protest has been linked to authoritarian regime resilience. The "real causes" of China's authoritarian resilience are without any doubt complex and multi-faceted. While the Chinese regime appears to have realized the importance of gathering concrete information on the effects of policies, on public opinion and discontent, going back to Kuran and Lohmann, some degree of preference falsification likely remains. Protestors may frame their collection action in rightful, loyalist and pro-regime ways for opportunist reasons, but this might not represent their true preferences towards the regime.

[1] The terminology used in this literature can be confusing. Here, "mass incident" is defined as a demonstration, riot or unauthorised public meeting involving more than 500 people.
[2] See Liping Sun, "Social Order Is a Critical Challenge at Present," Economic Observer, February 25, 2011. Available at: http://opinion.hexun.com/2011-02-25/127571301.html.
[3] Many protests have involved minorities (in particular involving Tibetan and Uyghur people). Moreover, nationalist (anti-Japan) protests have been frequent too. This paper does not consider these phenomena as they require a separate analysis in their own right.
[4] See Peter Lorentzen, "Regularizing Rioting: Permitting Public Protest in an Authoritarian Regime," *Quarterly Journal of Political Science* 8, no. 2 (April 2013), pp. 127–58; Kevin J, O'Brien, *Popular Protest in China,* Cambridge, MA: Harvard University Press, 2008; Xi Chen, *Social Protest and Contentious Authoritarianism in China*, Cambridge, New York: Cambridge University Press, 2012.
[5] Sidney G .Tarrow, *Power in Movement: Social Movements and Contentious Politics, 3rd edition, Cambridge; New York: Cambridge University Press, 2011*, p. 209.
[6] Yongshun Cai, "Power Structure and Regime Resilience: Contentious Politics in China," British Journal of Political Science 38, no. 3 (2008), pp. 411–32.
[7] Andrew J. Nathan, "Authoritarian Resilience," *Journal of Democracy* 14, no. 1 (2003), pp. 6–17.
[8] Shambaugh, *China's Communist Party*.
[9] Kellee Tsai, "Adaptive Informal Institutions and Endogenous Institutional Change in China," *World Politics* 59, no. 01 (October 2006), pp. 116–41.
[10] Kellee Tsai, *Capitalism without Democracy*: *The Private Sector in Contemporary China*, Ithaca, N.Y.: Cornell University Press, 2007.
[11] Benjamin B. Smith, "Life of the Party: The Origins of Regime Breakdown and Persistence under Single-Party Rule." *World Politics* 57, no. 3 (2005), pp. 421–51.
[12] Perry and Heilmann, *Mao's Invisible Hand: The Political Foundations of Adaptive Governance in China*, Harvard Contemporary China Series, Harvard University Asia Center, 2011. See chapter 1.
[13] Notable work includes Cai, *Collective Resistance in China*; Chen, *Social Protest and Contentious Authoritarianism in China*; O'Brien*, Popular Protest in China*; and Lorentzen, *Regularizing Rioting*.
[14] Tarrow, *Power in Movement*, p. 9.
[15] Timur Kuran, "Now Out of Never: The Element of Surprise in the East European Revolution of 1989," *World Politics* 44, no. 1 (October 1, 1991), pp. 7–48.
[16] Susanne Lohmann, "The Dynamics of Informational Cascades: The Monday Demonstrations in Leipzig, East Germany, 1989–91," *World Politics* 47, no. 01 (October 1994), pp. 42–101.
[17] Kuran, "Now Out of Never," p. 17.
[18] Ibid., p. 20.
[19] Ibid., p. 16.

[20] Ibid.
[21] Lohmann, "The Dynamics of Informational Cascades."
[22] Tarrow, *Power in Movement*.
[23] Ibid.
[24] E. J. Wood, "An Insurgent Path to Democracy Popular Mobilization, Economic Interests, and Regime Transition in South Africa and El Salvador," *Comparative Political Studies*, vol. 34 no. 8 (2001), pp. 862–888.
[25] O'Donnell, G., & Schmitter, P. C. *Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies*, Baltimore: Johns Hopkins University Press, 1986, pp. 6-47.
[26] Jay Ulfelder, "Contentious Collective Action and the Breakdown of Authoritarian Regimes," *International Political Science Review / Revue Internationale de Science Politique* 26, no. 3 (2005), p. 317.
[27] Lohmann, p. 54.
[28] Kuran, "Now Out of Never," p. 47.
[29] Jennifer Gandhi and Adam Przeworski, "Authoritarian Institutions and the Survival of Autocrats," *Comparative Political Studies* 40, no. 11 (November 2007), pp. 1279-1301.
[30] Tarrow, *Power in Movement*, p. 172.
[31] Ibid., p. 173.
[32] Gandhi and Przeworski, p. 1282.
[33] Geddes, "What Do We Know about Democratization after Twenty Years*?" Annual Review of Political Science* 2 (1999), p. 135.
[34] Lorentzen, "Regularizing Rioting," p. 127.
[35] See for example David Bray, *Social Space and Governance in Urban China: The Danwei System from Origins to Reform,* Stanford, Calif.: Stanford University Press, 2005.
[36] O'Brien, *Popular Protest in China*.
[37] Kevin J. O'Brien and Lianjiang Li, *Rightful Resistance in Rural China*, Cambridge, New York: Cambridge University Press, 2006.
[38] Wang Feng and Yang Su, "Communist Resilience", pp. 234-235. In *Socialism Vanquished, Socialism Challenged*, edited by Nina Bandelj and Dorothy J. Solinger, pp. 219–37, Oxford University Press, 2012.
[39] This means "not in my backyard."
[40] Yongshun Cai, *Collective Resistance in China*: *Why Popular Protests Succeed or Fail*. Stanford, Calif.: Stanford University Press, 2010, p. 31.
[41] Cai, *Collective Resistance in China*; O'Brien, *Popular Protest in China*.
[42] Cai, *Collective Resistance in China*, p. 31.
[43] O'Brien, *Popular Protest in China*.
[44] Yanhua Deng and Guobin Yang, "Pollution and Protest in China: Environmental Mobilization in Context." *The China Quarterly* 214 (June 2013), pp. 321–36.; Kingsyhon Lee and Ming-Sho Ho, "The Maoming Anti-PX Protest of 2014," *China Perspectives* 2014, no. 3 (September 2014), pp. 33–39.
[45] O'Brien, *Popular Protest in China*.
[46] David L. Shambaugh, *China's Communist Party: Atrophy and Adaptation*, Berkeley, Cal.: University of California Press, 2008, p. 32.

[47] Joseph Fewsmith, "China Politics 20 Years Later," p. 57, In *Socialism Vanquished, Socialism Challenged*, edited by Nina Bandelj and Dorothy J. Solinger, pp. 44–60. Oxford University Press, 2012; O'Brien and Li, *Rightful Resistance in Rural China*.
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[55] Feng and Su, "Communist Resilience," pp. 229–230.
[56] Karrie J. Koesel and Valerie J. Bunce, "Diffusion-Proofing: Russian and Chinese Responses to Waves of Popular Mobilizations against Authoritarian Rulers," *Perspectives on Politics* 11, no. 3 (September 2013), pp. 753–68.
[57] Lee, "State & Social Protest," p. 129.
[58] Cai, *Collective Resistance in China*, p. 31.
[59] Ibid.
[60] Chen, *Social Protest and Contentious Authoritarianism in China*.
[61] In particular, see Lorentzen, "Regularizing Rioting."
[62] Ibid.
[63] Tarrow, *Power in Movement*, pp. 145–146.
[64] Cai, *Collective Resistance in China*, p. 9.
[65] Carl F. Minzner, "Xinfang: An Alternative to Formal Chinese Legal Institutions," *Stanford Journal of International Law* 42, no. 1 (2006), pp. 103–79; Chen, *Social Protest and Contentious Authoritarianism in China*.
[66] Chen, *Social Protest and Contentious Authoritarianism in China*, p. 190.
[67] Cai, *Collective Resistance in China*, p. 22.
[68] Chen, *Social Protest and Contentious Authoritarianism in China*, p. 89.
[69] Chen, *Social Protest and Contentious Authoritarianism in China*.
[70] Cai, *Collective Resistance in China*; O'Brien, *Popular Protest in China*.
[71] Chen, *Social Protest and Contentious Authoritarianism in China*.
[72] Minzner, p. 105.
[73] Chen, *Social Protest and Contentious Authoritarianism in China*; Minzner, p. 106.
[74] Chen, *Social Protest and Contentious Authoritarianism in China*; Cai, *Collective Resistance in China*.
[75] O'Brien and Li, *Rightful Resistance in Rural China*, chapter 4.
[76] Cai, *Collective Resistance in China*, chapter 8; Lee, "State & Social Protest."
[77] Lee, "State & Social Protest," p. 129.

[78] Cai, *Collective Resistance in China*, p. 193.
[79] Cai, "Power Structure and Regime Resilience."
[80] See Kenneth G. Lieberthal, "Introduction: The 'Fragmented Authoritarianism' Model and Its Limitations," In Lieberthal and David M. Lampton (eds.), *Bureaucracy, Politics, and Decision Making in Post-Mao China*, Berkeley: University of California Press, 1992.
[81] Cai, "Power Structure and Regime Resilience."
[82] See Kevin J. O'Brien and Lianjiang Li, "Selective Policy Implementation in Rural China," *Comparative Politics* 31, no. 2 (January 1, 1999), pp. 167–86; Cai, "Power Structure and Regime Resilience"; Lorentzen, "Regularizing Rioting."
[83] O'Brien and Li, *Rightful Resistance in Rural China*.
[84] See Kai Xu and Weiao Li, "'Weiwen Jiqi' [The Machinery of Stability Preservation]," Caijing, June 6, 2011, available at: http://www.caijing.com.cn/2011-06-06/110738832.html.
[85] Feng and Su, "Communist Resilience."
[86] Ibid., p. 230.
[87] Lee, "State & Social Protest," p. 129.
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[89] Lieberthal, *Governing China*.
[90] Nathan, "Authoritarian Resilience," pp. 13–16.
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[92] Dingxin Zhao, The Mandate of Heaven and Performance Legitimation in Historical and Contemporary China," *American Behavior Scientist*, vol. 53, no. 3 (2009), p. 428.
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[96] Jessica C. Teets, "Let Many Civil Societies Bloom: The Rise of Consultative Authoritarianism in China," *The China Quarterly* 213 (March 2013), p. 18.
[97] Teets, "Let Many Civil Societies Bloom".
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[101] Cai, *Collective Resistance in China*.
[102] Chen, *Social Protest and Contentious Authoritarianism in China*, p. 207.
[103] Ibid., pp. 205–206.
[104] Cai, *Collective Resistance in China*.
[105] Lee, "State & Social Protest," p. 124.

[106] Shambaugh, *China's Communist Party*.
[107] Ibid., pp. 175–176.
[108] Xu and Li, "'Weiwen Jiqi' [The Machinery of Stability Preservation]."
[109] Edward Wong and Joanthan Ansfield, "China's Communist Elders Take Backroom Intrigue Beachside," *The New York Times*, July 21, 2012, sec. World/Asia Pacific, available at: http://www.nytimes.com/2012/07/22/world/asia/chinas-communist-elders-take-backroom-intrigue-beachside.html.

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Cascading Change: The Eurozone Crisis and its Implications

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Biography:

Alex B. Rivard is a second year Masters student in Concordia University's Public Policy and Public Administration program. He obtained his undergraduate degree from Concordia University in 2014. His main areas of study primarily focus on theories of nationalism, national identity and sovereignty, public policy, and economics. He is currently writing his thesis under the direction of Dr. Daniel Salée.

Abstract:

Although the Eurozone crisis is ongoing, two interrelated implications have already emerged: (1) the *manner* in which donor countries disperse financial aid to recipient states; and (2) the *amount* of assistance recipient countries can expect to obtain. Initially, member states in need were bailed out (i.e. through the budget) by others. This was the modus for three Greek bailouts, as well as for Ireland, Portugal, and Spain. (The latter three countries in the meantime have left their bailout programs.) The shift in the willingness of donor countries occurred between the third Greek program and Cyprus as the most recent applicant for financial aid. In the Cypriot case, a so-called cascading approach was first used. Its six stages involve e.g. large account holders (of at least €100,000); a bank's shareholders; and the government. Only as a last resort, donor countries now commit their resources. Thus, the original bailout is now labelled a *bail in*. Cyprus was merely its launch; the cascade is the model for all future cases in the Eurozone. The purpose of this paper is to explain why this shift took place in general, and why it occurred at this particular time. To do so, I

first explain the central feature of the Eurozone crisis, namely the intersection of its sovereign debt and banking aspects. On this basis, I then trace the relationship between Germany and France (donors) to Greece and Cyprus (recipients). I will argue that public opinion in donor countries explains the shift.

1. Introduction

The European Union (EU) has, naturally, progressed a tremendous amount since its original conception under the Treaty of Rome in 1957. Indeed, with the express desire to foster regional integration through the linking of continental economies, this new union — although not yet called that — took shape through the eventual European Economic Community in 1958. Suffice to say, the primary goal of the Community, to ensure that yet another large-scale European war does not begin, has since been achieved. That is not to say that the EU has not been without its problems. Most recently, the Eurozone crisis has been at the forefront of political and economic debate concerning the crisis' causes, remedies, and implications for the future of the Union. My research question seeks to answer: What were the implications of the Eurozone crisis both in terms of the sovereign debt and banking crisis? More specifically, what policy changes were a result of the banking crisis? I will begin by looking at the sovereign debt crisis by observing the debt situation within Europe and specifically Greece who is, essentially, the incarnation of the crisis. Further, I will demonstrate that the changes the EU imposed in regards to the debt crisis were an attempt to solidify the Maastricht criteria through the *Troika*[1] and the fiscal compact. I will then observe the banking crisis in three parts. First, I will examine the empirical reality behind the crisis — *what* the

crisis was; I will then focus on the changes adopted by the EU, notable the cascading/bail-in approach; and finally I will argue that the shift to the cascading approach was largely a result of public opinion. Ultimately, I argue that the more important reforms undertaken by the EU in regards to the Eurozone crisis are in the banking sector where a complete change in rescue operations has occurred. While the sovereign debt crisis did result in legitimate changes, the overall mechanism for dealing with the next possible crisis remains the same: through the bailout.

France and Germany present themselves as ideal cases to study the implications of the Eurozone crisis given that these countries are original signatories to the Treaty of Rome (West Germany at the time of signing), have both been ardent supporters of integration and the EU as a whole, and have invested heavily in the EU in order to maintain its solvency and the strength of the euro. Greece is an ideal study for the changes the EU has made in regards to sovereign debt given that they remain the sole country to rely on bailout funds — indeed receiving a second bailout. However, Greece is the exemplification of the sovereign debt crisis and therefore cannot be studied when determining the implications of the banking crisis. In order to determine the effects of the banking crisis, the cascading approach will be studied through its implementation in Cyprus therefore allowing for a real-life and tangible demonstration of the bail-in method as a precedent for future bank rescues.

2. Sovereign Debt

Article *104c* of the Maastricht Treaty specifically states that "Member States shall avoid excessive government deficits" which gives the Commission the ability to "monitor the

development of the budgetary situation and of the stock of government debt" (Maastricht Treaty 1992, 14). The Treaty defines excessive debt as: "the ratio of government debt to gross domestic product exceeds a reference value, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace" (14). This reference value was 60 percent for Treaty signatories and included a no bailout framework for countries who needed rescue funding. This, then, is a problem with the Maastricht Treaty. The 60 percent target was solely the criteria to *join* the Treaty, there was no necessity to maintain this target once member-states signed the Treaty. This allowed for countries to reshape their fiscal situation by complying with the Maastricht criteria and then subsequently continue borrowing and increasing their debt to GDP ratios while realizing that there did not exist a legal obligation to comply with the entry requirements.

Because EuroStat information begins in 1995, Figure 1 demonstrates the debt to GDP ratios of Germany, France[2], and Greece through five year intervals ending with the most recent data. Germany and France have been chosen as they will eventually serve as the key area of analysis of donor countries while Greece has been observed because of its continued reliance on bailout money. As both Germany and France are signatories on the Maastricht Treaty, they maintained a debt to GDP ratio of under 60 percent until roughly 2005 where it has since been increasing. Strikingly, when looking at Greece, a signatory of the Maastricht Treaty, having agreed to a ratio of under 60 percent, but having not reported their fiscal numbers until 2006 (and that time at 103 percent), Greek debt to GDP ratio was reported at 146 percent in 2010 and 175 percent in 2013 (EuroStat 2015a). Not only was Greece above the 60 percent minimum when they *first* reported in 2006, but so too were Germany and

France (66.3 and 64.2 percent respectively); in fact, of the EC-12 signatories of Maastricht, only half were under the required minimum (Denmark, Ireland, Spain, Luxembourg, and the UK) (EuroStat 2015a). The increasing amount of sovereign debt undertaken by member states is, per Lane (2012), indicative of the debit crisis being "deeply intertwined with the banking crisis and macroeconomic imbalances that afflict the euro area" (50). It is not so much that the increasing proportion of countries violating the Maastricht Treaty by increasing their sovereign debt was unnoticed, but it was less of a prescient issue as 2008 and 2009 saw a focus on "the action of the European Central Bank to address the global financial shock" (Lane 2012, 55). 2009 presented itself as a critical year in the economic development of the EU, even though "countries reported larger-than-expected increases in deficit/GDP ratio," the single most important aspect was the revised Greek budget which forecasted a budget deficit of "12.7 percent of GDP—more than double the previous estimate of 6.0 percent" which was evidently an "extreme violation of the euro's fiscal rules" (Lane 2012, 56). The increased debts by member states is indicative of "non-consistent enforcement of the Maastricht criteria [which] allowed some Euro area counties […] to postpone budgetary adjustments" (Horváth & Šuster 2014, 40). Because of Greece's exceptionally high sovereign debt, investors stopped funding Greece which resulted in a need to violate the Maastricht Treaty's no bail out clause and extend a "rescue loan" to Greece in May 2010 of €110 billion from EU governments and a further €30 billion from the IMF (Dixon 2011, 77; Featherstone 2014, 296). Yet, to complicate matters, the increased sovereign debt borne by nearly all members of the EU, in conjunction with rescue loans extended to Greece, Portugal, Ireland, and Spain, a

commercial banking crisis emerged which marked the second aspect of the Eurozone crisis.

2.1. The Troika, the Fiscal Compact, and France & Germany

Where the Maastricht Treaty had criteria in which countries needed to abide in order to gain entry, there existed no such form of regulation or legislation that made the 60 percent target mandatory once a member because a signatory to the Treaty. Because there had been increasing sovereign debt across the EU, the crisis forced donor countries to extend bailout payments to Portugal, Ireland, Spain, and Greece. While Portugal, Ireland, and Spain have since left the bailout programme, Greece required a second bailout. Ultimately, the unsustainably high level of sovereign debt accumulated by Greece resulted in a shift in policy in how to deal with high levels of debt. Where significant reform as a result of the Eurozone crisis is largely concentrated in the banking sector, this is not to say that there exists no change in policy concerning sovereign debt. Indeed, the largest change regarding debt has been the implementation of the Troika and the fiscal compact; largely due to leadership extended by then French President Nicolas Sarkozy and German Chancellor Angela Merkel.

Franco-German leadership in relation to the Greek sovereign debt crisis was pivotal in mobilizing European resources to ensure bailouts for Spain, Portugal, Ireland, and Greece. The actual financial aspect of France and Germany's involvement can be witnessed through the *Troika*, officially the Economic Adjustment Programmes (EAP). Where Greece was already extended a €100 billion loan financed by EU governments, and a €30 billion loan financed by the IMF, the Troika's capability as the primary agent of donor-

recipient relations was "reinforced by a second bail-out for Greece […] involving a major 'haircut' on foreign private creditors" totalling €130 billion (Featherstone 2014, 296; BBC 2012). Indeed, the Troika's involvement with the bailout was a demonstration of "close supervisory responsibilities" never before implemented by the EU (Featherstone 2014, 296).

The donor-recipient relationship was likely also affected by the Treaty on Stability, Coordination and Governance (TSCG) which was signed in March 2012. The Treaty "tightens and broadens the Stability and Growth Pact" and hinges on four key points: (i) The inclusion of a 'Fiscal Pact' which requires balanced budgets through debt brakes[3]; (ii) Reversed Qualified Majority Voting; (iii) Any debt level over 60 percent needed to be reduced; (iv) A New Growth Pact with €100 billion to "counteract the potentially recessive effects of the Fiscal Pact" (Sauernheimer 2014, 88).

Although Franco-German leadership was not a new phenomenon within the EU, the creation of the Fiscal Pact and the Troika was a novel approach in which to try and quell the sovereign debt crisis. By implementing the Fiscal Pact and forcing member states to submit their draft budgets to the Commission (European Commission 2015c), the EU effectively sought to rectify the failings of the Maastricht Treaty. Where the Treaty aimed to make sure members *got* in, the new agreements aim to make sure that members *stay* in. The Stability and Growth Pact (SGP) sought to ensure this by applying three "reference values": (i) ensure that member states have a "have a safety margin against breaching the 3% deficit limit"; (ii) ensure that member states are "on course to a sustainable debt position"; and (iii) member states "have adequate room of budgetary manoeuvre" (European Commission 2015d). These were the medium-term budgetary

objectives (MTO) of the SGP. A key component of the MTO was a strict application of the Maastricht criteria, yet here "Member States faced with a debt level exceeding 60% of GDP or with pronounced risks to overall debt sustainability are required to adjust faster towards the MTO". The MTOs within the SGP allows for the Commission to implement strict criteria in order to ensure that the effects of a future debt crisis are lessened. Member states' failure to comply with the budgetary MTOs, should the Commission, determine a "significant deviation from the MTO or the adjustment path towards it" will first result in a "warning to the Member State concerned, which is followed by a Council recommendation within on month" (European Commission 2015d). If the warning is not heeded by the affected member state, the warning can be followed by a "sanction equal to a interest bearing deposit of 0.2% GDP" (European Commission 2105d). For its part, the European Commission (2015e) explicitly states the adoption of the SGP and the MTOs were a direct result of the debt crisis given that the crisis "served as an eye opener to the shortcoming on European budgetary surveillance, prompting *a significant reform of the SGP in 2011*" [4] (European Commission 2015e).Yet, even with the implementation of the Troika, the SGP, the MTOs, and the Fiscal Compact, this has merely strengthened budget oversight. This is not to say that this is an insignificant step in terms of preventing another debt crisis, but at its core, should another crisis emerge, the way in which to treat it remains the same: through bailouts. It is for this reason that the banking crisis is the most significant in looking at the implications of the Eurozone crisis. Unlike the debt crisis, the banking crisis has led to fundamental policy shifts in *how* to deal with failures which resulted in the emergence of the *bail-in* replacing the bailout.

3. The Banking Crisis

The second phase of the Eurozone crisis, the banking crisis, brings the crisis more into line with the global ramifications of the American economic crisis[5]. Mody and Sandri (2012) argue that the banking crisis began with the nationalization of Anglo Irish Bank, "a small Irish bank, but, in retrospect, its nationalization proved to be a European marker" (203). How did a banking crisis emerge in the EU? Mody & Sandri point to the spread — risk premium — that banks incurred during the financial hardship. Eurozone banks who held different government bonds were having a difficult time refinancing themselves due to the increased economic hardship faced by the countries that issued the bonds, this greatly increased the risk of bank runs given fears of insolvency (Saurenheimer 2014, 86). Here lied the primary aspect for the European Central Bank (ECB) to involve itself with the primary goal of initially stabilizing the teetering banking system. Fearing banking insolvency, which would assuredly create economic chaos, the EU moved swiftly to create instruments which aimed to stabilize the region. These included the creation of the Troika and the implementation of the *cascade* effect. This cascade effect aims to replace the bailout system. Where a bailout is a public financial rescue package for a country in need, the cascade effect is an effective *bail-in* that aims to rescue commercial banks. The cascade effect rests on six principles:

> (1) the shareholders of a bank will receive a lower than expected dividend; (2) the creditors of said bank will have to write off a portion of these demands; (3) deposits of over €100,000 are always unsecured; such savers will lose a part of these deposits; (4) each

> commercial bank contributes to so-called national resolution funds, which are drawn upon; (5) the respective Eurozone member state; (6) only as a last resort is the ESM is drawn upon (Hülsemeyer *forthcoming*, 7).

the first application of which was applied to the Cypriot case in the EU's attempt to stabilize their banking system without having to heavily rely on public funds. The cascading effect marks the Eurozone's main policy change that resulted from the banking crisis: that the cascading effect will serve as the future mechanism for stabilizing failing banks.

Apart from the cascade approach, June 2012 saw European member states agree to a banking union which was "conceived to ensure that banks are stronger and better supervised and, should problems arise in the financial sector, they can be resolved more easily and without using taxpayers' money" (European Commission 2015). This union is comprised of two aspects: the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM). Effective as of November 2014, the SSM serves as the "banking supervisor for all banks in the euro area, directly responsible for supervising the approximately 123 largest banking groups" (European Commission 2015). In order to lay the foundation for the SSM, first a series of stress tests were conducted on European banks to give the ECB an idea of their solvency. Morgan *et al*. (2014) define a stress test in the American context but is nonetheless applicable to the European level. Stress tests require banks to "undergo simultaneous, forward-looking exams designed to determine if they would have adequate capital to sustain lending to the economy in the event of an unexpectedly severe recession" (Morgan *et al*. 2014, 1480). Jobst *et al*. (2013) expand on the definition by adding that the tests apply methods, or

scenarios, as a "'what if' exercise: a rough estimation of what might happen if certain 'extreme but plausible' risks were to crystallize" which aims to identify "vulnerabilities and incipient risks in the financial sector from a rapid deterioration in the operational and market environment" (6). The authors argue that the banking crisis has led to the creation of a new type of stress testing, one "with a crisis management objective, which IMF staff refers to as 'crisis stress testing'" which aims to identify the "soundness of individual financial institutions and 'failure' would typically require recapitalization or even restructuring" (Jobst *et al*. 2013, 9). This new concept has been applied at the EU level through "region-wide stress testing […] conducted by the Committee of European Banking Supervisors (CEBS) in 2009 and 2010 and then by its successor, the European Banking Authority (EBA) in 2011" (Jobst *et al*. 2013, 9-10). For their part, the EBA states that stress tests were specifically used with the "objective of assessing the resilience of a large sample of banks in the EU against an adverse but plausible scenario" (EBA 2011, 2). This plausible scenario included assessing against a "deterioration from the baseline forecast" in main macroeconomic indicators such as: GDP, unemployment, and housing prices" (EBA 2011, 2).

The results of the ECB's stress tests demonstrated that only 25 of 130 banks were "indicated to have a *capital shortfall*[6]" and 12 of said 25 banks had "taken action in the course of [the] year and raised sufficient capital to cover the shortfall displayed" (European Parliament 2015, 1). The European Commission contends that these stress tests were successful and helped to "dispel doubts and restore confidence in EU banks" (European Commission 2015a). The SSM, as an overseer of banks within the EU is a direct

result of the banking crisis. It is in place to ensure that bank failures occur much less frequently.

On the occasion that banks do fail, here lies the importance of the SRM. The SRM is made up of the Single Resolution Board (SRB) and the Single Resolution Fund (SRF). When the ECB informs the SRB that there is a risk of a bank failure, the "Board will be responsible for taking most decisions on the best course of action and will prepare for the resolution of the stricken bank" allowing for the financing of a fiscal fund (€55 billion within eight years) by "all the banks in the banking union countries" (European Commission 2015). The SRB takes full effective power in January 2016 thus completing the banking union and therefore allowing for a "single EU authority [to] have the powers and resources to protect taxpayers from bank failures" (European Commission 2015). By adopting a banking union, in association with the cascade approach, the EU has taken significant steps towards protecting taxpayers from a private sector banking failure. This demonstrates one of the implications of the Eurozone crisis: the realization that the saving of *commercial* banks by public citizens is unjust and needed to be reformed. Because the banking crisis and sovereign debt crisis were two different aspects of the Eurozone crisis, the shift from bailing-out banks to bailing-in banks can be seen in the shift in public opinion. In order to determine this shift, I turn to the Eurobarometer to observe public opinion concerning the Eurozone crisis and its implications.

4. Public Opinion and the Shift in Attitudes

4.1. Data[78]

In order to track popular opinion concerning economic preferences and concerns regarding the Eurozone crisis, I will rely on data from a series of Eurobarometers from 2009 through 2013. 2009 serves as the base year of study because it was the first year in which the Eurobarometer asked citizens about the economic crisis, specifically labelling a section of the survey "Europeans and the Crisis" (Eurobarometer(s) 72.4; 74.2; 76.3; 78.1; 80.1). A severe limitation of the Eurobarometer surveys is the lack of consistency post-2010. While the questions from 2011-2013 are consistent, it does not ask some of the questions previously posed from 2009-2010 thus severely limiting conclusions and inferences that can be made from these surveys. Nonetheless, I will attempt to make a series of observations specifically using the "Europeans and the Crisis" indicators apart from two questions from the standard survey: (i) Perceptions on the European economy and, (ii) Perceptions on the future of the European economy. Ultimately, I believe what I have found in this paper is an exciting starting point which demonstrates, at least, the relationship between public sentiment and the policy shift. To further expand this model, EB questions need to ask more pertinent questions or a new dataset needs to be used. This, however, presents itself as an opportunity rather than a hindrance as this is an area of research which surely deserves more study and focus.

Germany, France, and Greece have been chosen as the studies in which I will look at for two reasons: (i) Germany and France are both the biggest donors in terms of the Eurozone rescue plan and the classic Franco-German alliance in terms of public opinion is certainly worth exploring; (ii) Where Spain, Portugal, and Ireland have since left the bailout programme, Greece remains reliant on EU

funding. While the Greek bailout package was a result of the debt crisis and not the banking crisis, it is logical to assume that the vast amount of public monies loaned to Greece — on two occasions — would result in public sentiments that would be opposed to further public money being used to rescue any form of near failing institution. Overall, this would extend into the banking sector where public money for a private institution would both be seen as irresponsible and a shift towards a market-based approach could be due to general uneasiness with the idea of using more taxpayer money to stabilize a failing bank. In sum, public sentiments surrounding Greece and debt crisis, I argue, are responsible for the shift in the banking crisis.

4.2. Findings

Because of the limited scope and capability of the Eurobarometer, I will rely on graphical analyses to draw conclusions in order to demonstrate the popular opinion concerning the Eurozone crisis has led to a shift in economic policy from *bailout* to *bail-in*.

Figure 2 demonstrates that from 2009 through 2010, there was a significant belief among Germany, France, and Greece that stronger coordination among EU member states would be effective. Never reaching below 80 percent, in any country, here is a key demonstration that European citizens thought that stronger coordination would be beneficial for the EU. Figure 3 is itself a question extremely similar to the ones asked in Figure 2. Figure 3 demonstrates the belief that EU member states should work closely together to tackle the crisis, it demonstrates that there has been widespread support the closer working of member states from 2010 through to 2013 — the total support for increased cooperation, in all

three countries, has never been below 90 percent. Support for greater policy integration can be seen in Figure 4. The question used in Figure 4, which tracks the belief that supervision over the use of public money as being effective, was unfortunately only asked in 2009 and 2010. Nonetheless, the most distinct pattern is the increase in German sentiment of 12.4 percent over one year. This is indicative of a perception that the use of public money to stabilize the economic region should be subject to increased supervision. While France had stayed at 82 percent, a drop in Greek support of 7 percent is witnessed. As the crisis continued, and as more bailout money was given the Greece, this question would have been highly relevant to observe over time.

However, the biggest determination of perceptions on the European economy can be seen in the two non-crisis indicators, Figures 5 and 6. Figure 5 demonstrates the opinions of citizens who view the European economy as both Bad and Very Bad. The results are striking. German views of a poor European economy peaked at 71.1 percent in 2012, French at 90.6 in 2012, and Greece at 87.7 in 2010. From 2009 through 2013, Germany saw a *decrease* in those who saw the economy as bad of 7.9 percent; France an increase of 8.3 percent; and Greece a decrease of 1.8 percent. These results are perplexing as only France has seen an increase in negative views of the European economy. In conjunction with Figure 6, however, a noticeable upward trend among respondents is present in viewing the opinion that the European economy is going to get worse. Where Germany saw an overall change from 2009 through 2013 of 4.5 percent; France an increase of 9.9 percent; and Greece an increase of 17.9 percent; the biggest increases for Germany and France occurred from 2010 to 2011 (coinciding with Greece's first bailout payment) of 23.3 and 26.6 percent

respectively. These increases are indicative that the donor countries were increasingly skittish towards the European economy. Figure 7 demonstrates the percentage of those polled who thought that the worst was still to come concerning the Eurozone crisis. Interestingly, Germany saw a sharp decrease in worry of 12.9 percent from 2009 through 2013. Yet, as of 2013, all counties were above 50 percent in their pessimism of the future European economy. Likewise, Figure 11 shows the belief that the EU will be *stronger* as a result of the crisis. Although only asked for two years (2012 and 2013) each country demonstrates an increase (small in France and Greece), and a significant one in Germany's case of 10.7 percent.

The Eurobarometer does not, unfortunately, ask specific questions concerning public opinion on bailouts or changes in the bailout structure. I therefore have to draw conclusions from the handling of the economic situation and support for policy initiatives not bailout related in order to demonstrate that popular opinion has accounted for the European shift towards the *bail-in*. As previously discussed, Figure 4 demonstrates that there was widespread support for more oversight when using public monies, but determining which organization, supranational or national, at carrying out this supervision allows for a determination of whether or not there exists a change in popular opinion concerning the bail in. The determination of which institution is the most effective at handling the crisis, then, can be used as a proxy indicator in determining public support for greater EU involvement should there be a noticeable trend in support for the EU. Figure 8, somewhat, demonstrates that this may be the case. The results are interesting. Germany has stayed consistent in their belief that the EU is the most effective actor, hovering around 27 percent; France has seen an

increase in support for the EU of 6.3 percent; and Greece has seen a decrease of 21.4 percent. The Greek case may not be hard to understand given that the austerity measures enforced by both the EU and the IMF could have led to increased feelings of public resentment towards the organizations which would therefore reduce the perceived effectiveness of the EU. Germany and France, however, are interesting in that one would expect a large increase of support for the EU as an effective actor given their respondents' belief that the European levels should be working more closely together. Figures 9 and 10 demonstrate this belief. Figure 9 shows that the overwhelming majority of citizens polled (the lowest being 79 percent in Greece) believe that the coordination of economic policy among *member states* would be effective; while Figure 10 likewise shows similar levels of support but here Greece is less enthused with the idea of *euro countries* coordinating their economic policies — resulting in a decrease of belief that it would be effective of 7.5 percent. Regardless, the fact remains that the countries *did* work more closely together and that opinion in both Germany and France either remained constant or increased is indicative that there is no significant feeling of resentment towards the EU or a strong belief that the national is the *sole* actor that should be responsible. As Figure 4 demonstrates, there has been widespread support for supervision when public monies has been used. Although this question was only asked in 2009 and 2010, this indicator, in conjunction with the identified indicators on the future of the EU and on the European economy, demonstrates that European citizens have not had the keenest of feelings towards the future and the then current state of the Union's economy. Does this discontent, and overwhelming support for more coordination, explain the shift from bailout to bail-in?

Because the fiscal crisis occurred first, and because Greece has been the recipient of two separate bailouts, the uneasiness at this situation in Greece and France was mirrored in their public sentiment. Notice how Greece received their first bailout in 2010. 2010 through 2011 marks an increase in percentage of Germans who view the European economy as bad of 7.2 percent and increase of 7.6 in France while the Greeks managed a *decrease* of 6 percent (Figure 5). Likewise, the payment of Greece's first bailout is marked by an increase in percentage of those who think the European economy is getting worse of 23.3 percent in Germany, 26.3 percent in France, and only 6 percent in Greece (Figure 6). The same time period sees a dramatic increase in Germany of 21 percent, 14.1 percent in France, and a *decrease* of 2.4 percent in Greece of those who think that the worst is still to come concerning the crisis (Figure 7). Greece, clearly, is an interesting paradox. Where Germany and France both have increased concerns about the Eurozone, immediately in the time period when Greece received their bailout, the Greeks are not anymore worried than they already are, and have apparently decreased their level of worry.

The discontent within the Eurozone by Germany and France (read: donor countries) and the issuance of a 2012 memorandum by the European Commission on the Bank Recovery and Resolution Directive entitled "establishing a framework for the recovery and resolution of credit institutions and investment firms" is surely no coincidence (European Commission 2012). The memorandum declares that, since 2010, the EU had been working in the banking sector in order to "equip authorities with common and effective tools and powers to tackle bank crises pre-emptively, safeguarding financial stability and minimising

taxpayer exposure to losses in insolvency" (European Commission 2012, 2). In fact, the 2012 memorandum specifically mentions the bail-in tool, a tool which gives authorities "the power to write down the claims of unsecured creditors of a failing institution and to convert debt claims to equity" in order to "recapitalise an institution that is failing or about to fail, allowing authorities to restructure it through the resolution process and restore its viability after reorganization and restructuring" (13). Under the resolution, the liabilities of the banks are *bailed-in* except for certain liabilities — ones that are secured (deposits < €100,000; and "liabilities with a residual maturity of less than one month") (European Commission 2012, 13). By incorporating bank liabilities into their rescue packages, the EC was determined to limit citizen losses and prevent the use of public money in the securitization of commercial banks.

Public perception within donor countries — largely influenced by what happened in Greece and the substantial bailouts given to Portugal, Ireland, and Spain — resulted in the shift to the bail-in method. This method was adopted in Cyprus. Highly contentious, the EU and the Bank of Cyprus agreed to a "recapitalisation process through the bail-in structure" (Bank of Cyprus 2013). This bail-in made 10 percent of eligible deposits converted to equity, which raised "the total percentage of eligible deposits converted to equity to 47.5%" (Bank of Cyprus 2013). The decision to use bank holdings as a rescue funding of its own was erroneously referred to as a "bailout" by numerous news sources (The Guardian 2013; CBC 2013). The application of this bail-in process was the first time it had been used and will most likely not be the last. To avoid public losses, and to make banks accept responsibility for their failures, the adoption of the bail-in process will be the future of rescue operations

within the EU. No longer will large sums of public financial aide be used to stabilize faltering commercial banks; instead a fairly rigid and, some would argue, draconian form of private re-financement of banks will require that banks accept their losses and impose strict conditions for stabilization funds which are funded from their own capital and by private investors. This change has been parallel to public attitudes which has demonstrated three things: (i) the general skittishness of the donor countries towards the European economy; (ii) the desire for increased coordination; and (iii) the belief that more supervision of public monies would be effective. This desired supervision has a direct influence on the cascade effect: in order to limit the fears of the public that their money will be used to stabilize a private entity, make sure the brunt of the responsibility of financing lies with the institution who is seeking said money. At its core, the bail-in process was a result of the intersection of the fiscal and banking crisis — emerging as a tool to *prevent* bailouts.

5. Conclusion

The European Union has undergone a very real and very difficult economic crisis. Yet, the crisis that the EU faced was one that was of their own doing. A lax monetary policy without the benefit of a fiscal union and member states with increasingly high debt to GDP ratios in conjunction with poor enforcement of the Maastricht Treaty led to the debt crisis. This crisis demonstrated the economic vulnerability of recipient countries. Yet, where Portugal, Ireland, and Spain have since left their bailout packages, Greece remains the sole country to rely on yet a second package. The use of public funds by donor countries, particularly in the context of

Greece's first stimulus in 2010, led to increased sentiments of negative attitudes towards the situation of the economy, the future of the economy, and the direction of the EU. Where the overall changes brought about by the debt crisis are notably focused on ensuring the *prevention* of yet another crisis, the mechanism for dealing with an *ongoing* crisis ultimately remains the same: through bailouts. The debt crisis has not had as significant implications in dealing with a sovereign debt crisis as it has had on the banking sector. The Eurozone crisis has directly led to severe changes in bank rescue policy shifting from bailouts to bail-ins. This, in turn, explains why there was dissatisfaction with the bailout structure. In the rational minds of citizens, the use of their money to sustain a failing country could have been merited — but to extend this to a faltering commercial bank would not be acceptable. Commercial banks would have to accept losses and partially finance themselves — while securing certain aspects so that clients would not collectively be responsible for this funding package. The bail-in method, adopted by Cyprus in 2013, is a tremendously important step in the future of the EU. This cascading effect will now be the future standard-bearer for bank rescues within the EU. However, European citizens and elites alike are praying that they need not have to support another failing bank because regardless of how well the bail-in package aims to protect the public, the economy will unavoidably suffer, so too will investors, consumers, and Europe at large.

Acknowledgements

I would like to acknowledge the helpful and invaluable feedback of Drs. Axel Hülsemeyer and Moshe Lander, both of Concordia University; as well as the feedback and suggestions by the blind peer-review. I would also like to extend thanks to Concordia's Political Science Graduate Students' Association, Concordia University, and the helpful comments and suggestions received at the PSGSA's Conference on *Political and Economic Crises and Their Implications* held on April 24, 2015.

[1] The *Troika* is a three member committee comprised of the European Commission, the European Central Bank, and the International Monetary Fund which primarily organized the European bail out efforts.

[2] It must be said that using Germany and France can present itself as a bit of an 'apples to oranges' comparison. Given that Germany has been a model of consistency throughout the Eurozone crisis by maintaining the same Chancellor, French voters decided to replace President Sarkozy with François Hollande in 2012. Regardless of the change in government and policy, the reality is that these two countries represent two of the most prominent and economically powerful members of both the European Union and the Eurozone. On this basis, then, I cannot say that this is a comparison of two cases which cannot be compared — the two countries, and France's changing governments, are responsible for a historical, and contemporary, relationship which forms the economic backbone of the European Union. The German-French relationship, then, through both Sarkozy and Hollande regimes, has faced the sovereign debt crisis with the German administration and it would be expected for these two countries to face the banking crisis in the same fashion.

[3] Debt brakes are constitutional requirements to ensure balanced budgets or a specific budgetary target.

[4] Emphasis in original.

[5] While the collapse of Lehman Brothers in the United States had far reaching international consequences, the European banking crisis was not altogether related to their collapse.

[6] Emphasis in original.

[7] For Eurobarometer indicators used: see attached appendices. Here lies a significant limitation of this paper. The ability to adequately determine if public opinion is undoubtedly responsible for this shift is extremely hard to test and

falsify. For instance, the EB does not offer a consistent dependent variable across the time series which would serve as the basis for a regression. It is therefore difficult to determine if spurious relationships are responsible for the shift in policy. Likewise, because of the limited data, there lacks the ability to test for *reverse causality* and whether or not the change in policy was, in fact, a result of political actors implementing policy changes as a forward-thinking response to *possible* changes in public sentiment.

[8] The identified shortcomings of the EB in endnote seven do not, however, take away from the EB's usefulness. The EB is still very good for observing bivariate and inferential statistics in order to demonstrate emerging patterns of public perception among respondents. Because of this reason, and the sheer sample size the EB, I will nevertheless use the EB in order to understand European sentiment over time. In order to truly determine the most important factors of the outcome, the EB would need an identifiable cross-time DV. Perhaps the only way to isolate this DV and run a proper regression would be to conduct my own survey. This, however, is outside of my means. Regardless, the bivariate relationships identified in this paper creates the groundwork for what could be a very interesting area of study with the commitment of more resources that builds off this work.

Appendices

Eurobarometer indicators used for analysis:

- "Some analysts say that the impact of the economic crisis on the job market has already reached its peak and things will recover little by little. Others, on the contrary, say that the worst is still to come. Which of the two statements is closer to your opinion?"
  - Isolated: "The worst is still to come" (2009-2013);

- "In your opinion, which of the following is best able to take effective actions against the effects of the financial and economic crisis?"
  - Isolated: "The European Union" (2009-2013);

- "Certain measures aimed at combating the current economic and financial crisis are currently being discussed within the European institutions. For each of these measures, could you tell me whether you think it would be effective or ineffective in combating the crisis?"
  - Isolated: "A stronger coordination of economic and financial policies between all the EU Member States" (2009-2010);

- "A supervision by the EU whenever public money is used to rescue a financial institution"
  - Isolated: Effective (2009-2010)

- "For each of the following statements, please tell me whether you totally agree, tend to agree, tend to disagree or totally disagree"
  - Isolated: "EU Member States should work together more in tackling the financial and economic crisis"

- Isolated: agree (2010-2013).

- 2011 changes a previously worded question, it is therefore included but put into a different graph as to not imply that they are the same question:
  - "A range of measures to tackle the current financial and economic crisis is being discussed in the European institutions. For each, could you tell me whether you think it would be effective or not?"
    - Isolated: "A stronger coordination of economic policy among all the EU Member States; A stronger coordination of economic and financial policies among the countries of the euro area"
      - Isolated: effective (2011-2013);

- "For each of the following statements, please tell me whether you totally agree, tend to agree, tend to disagree or totally disagree"
  - Isolated: "As a consequence of the crisis, you think the EU will be stronger in the long run"
    - Isolated: agree (2012-2013)

Figure 1: Debt-to-GDP, 1995-2013

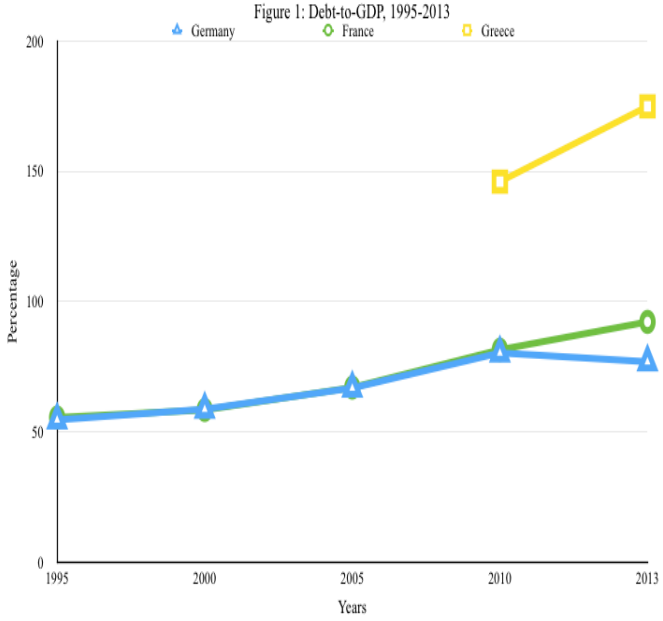


Figure 2. “Certain measures aimed at combating the current economic and financial crisis are currently being discussed within the European institutions. For each of these measures, could you tell me whether you think it would be effective or ineffective in combating the crisis?”, 2009-2010

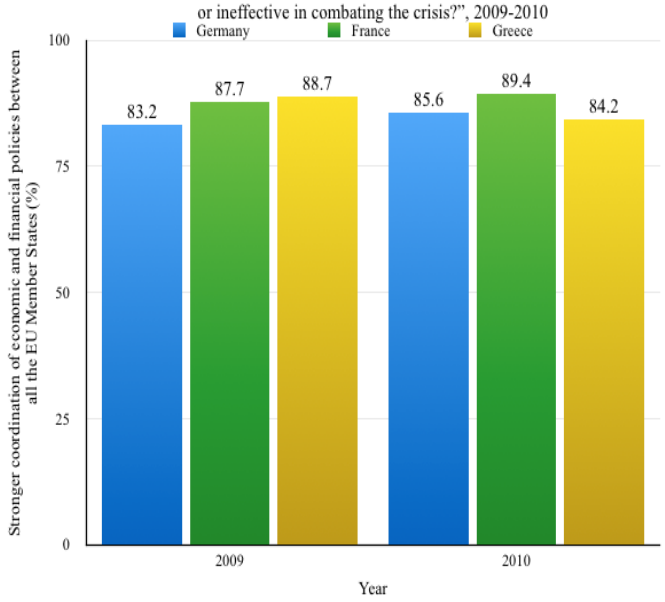


Figure 3. “EU Member States should work together more in tackling the financial and economic crisis”, 2010-2013

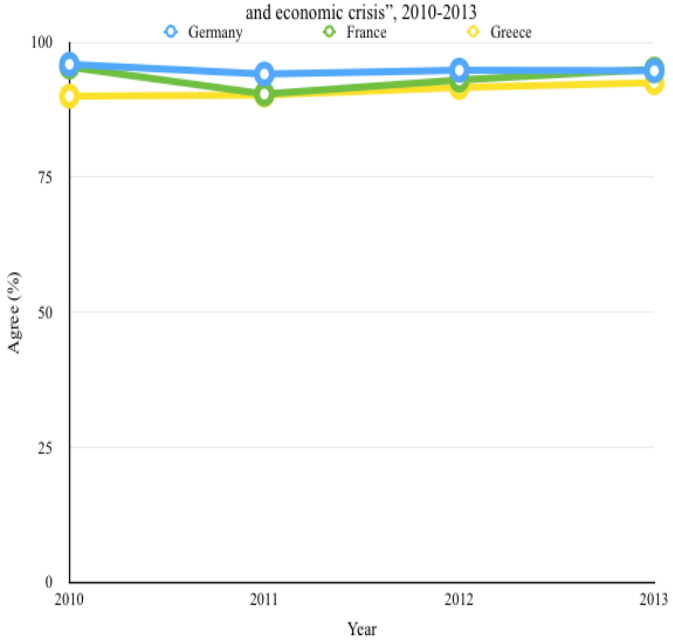


Figure 4. “Certain measures aimed at combating the current economic and financial crisis are currently being discussed within the European institutions. For each of these measures, could you tell me whether you think it would be effective or ineffective in combating the crisis?”, 2009-2010.

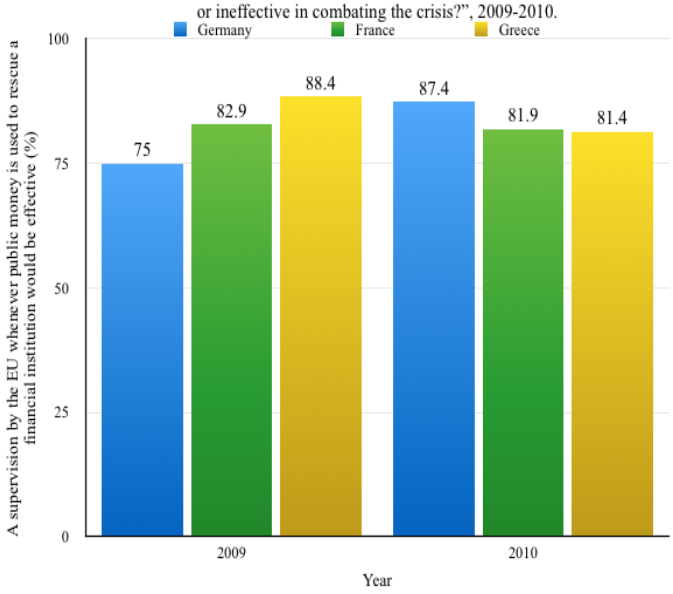


Figure 5. “How would you view the following current situation in each of the following?”: Euoprean Economy, 2009-2013

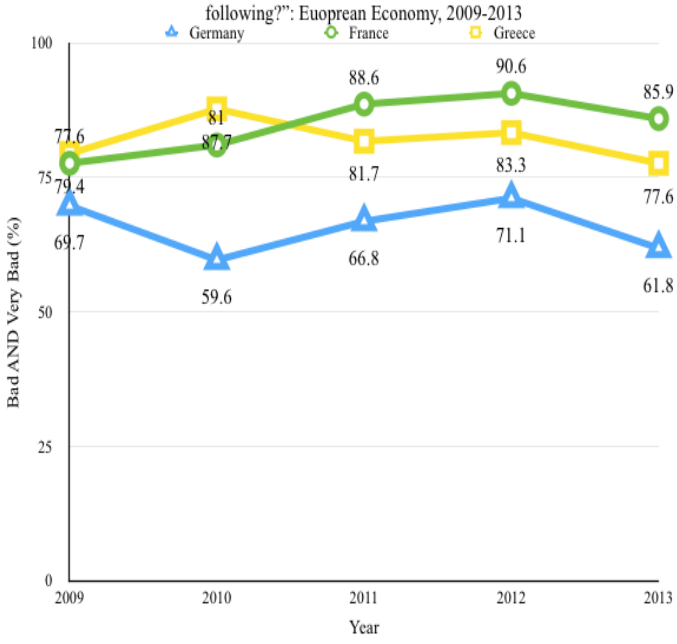


Figure 6. "What are your expectations for the next twelve months: will the next twelve months be better, worse or the same, when it comes to…?": European Economy, 2009-2013

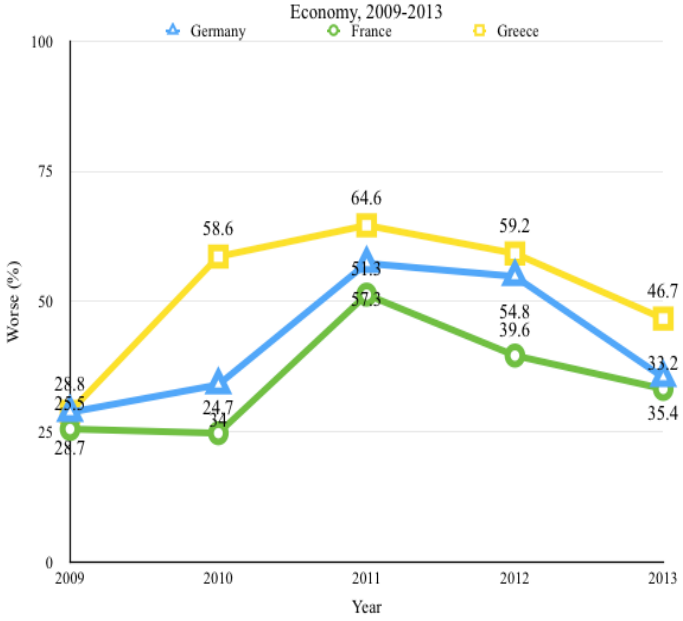


Figure 7. "Some analysts say that the impact of the economic crisis on the job market has already reached its peak and things will recover little by little. Others, on the contrary, say that the worst is still to come. Which of the two statements is closer to your opinion?", 2009-2013

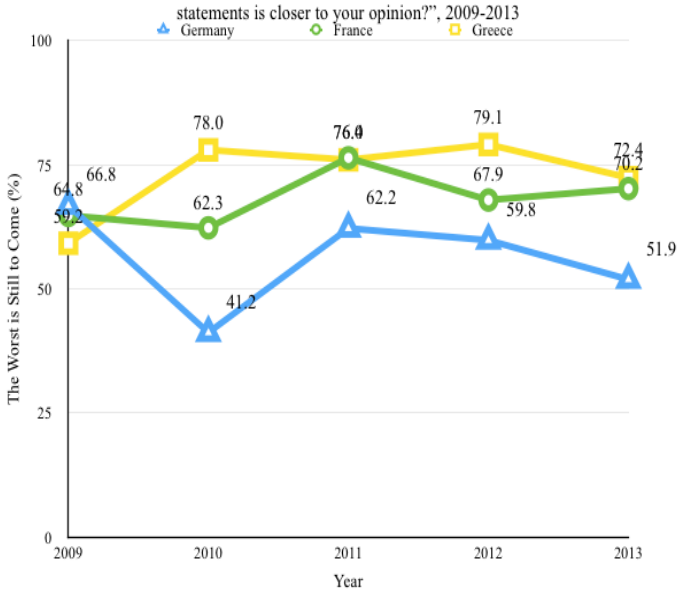


Figure 8. "In your opinion, which of the following is best able to take effective actions against the effects of the financial and economic crisis?", 2009-2013

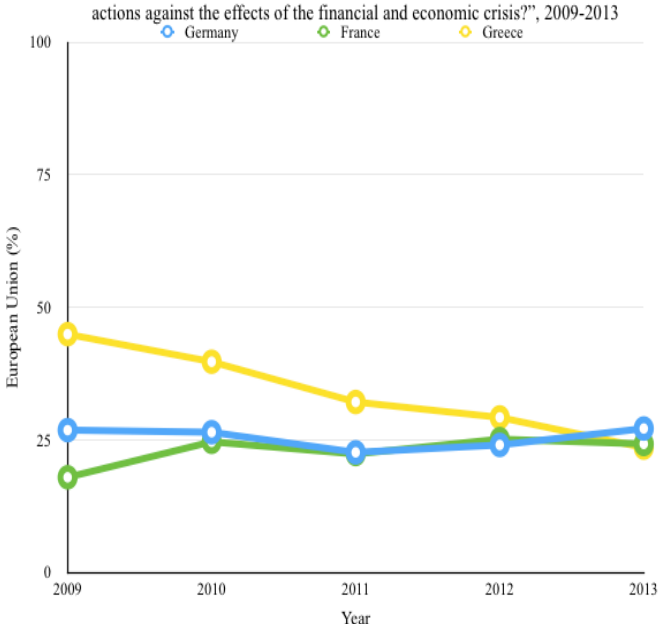


Figure 9. "A range of measures to tackle the current financial and economic crisis is being discussed in the European institutions. For each, could you tell me whether you think it would be effective or not?", 2011-2013

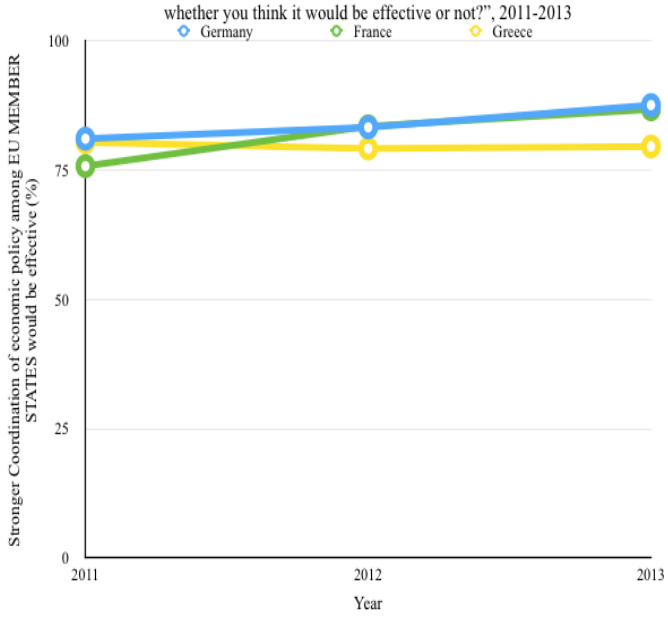


Figure 10. "A range of measures to tackle the current financial and economic crisis is being discussed in the European institutions. For each, could you tell me whether you think it would be effective or not?", 2011-2013

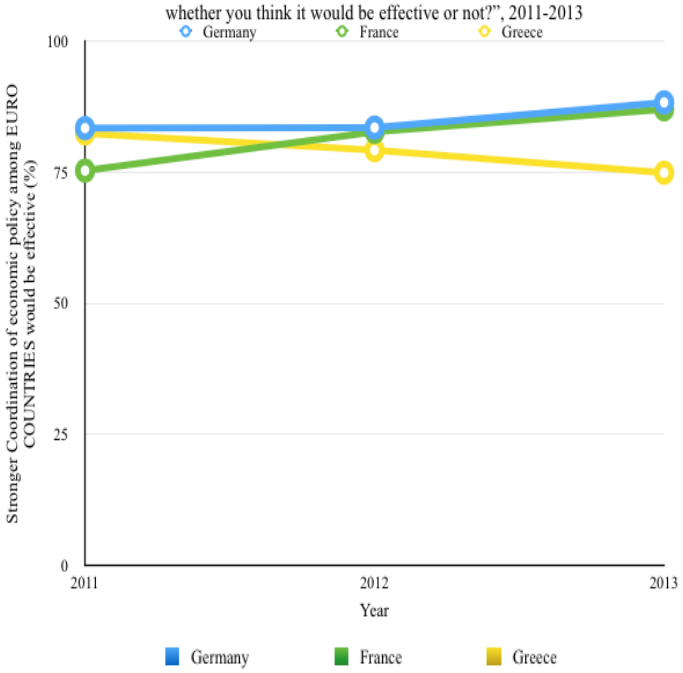
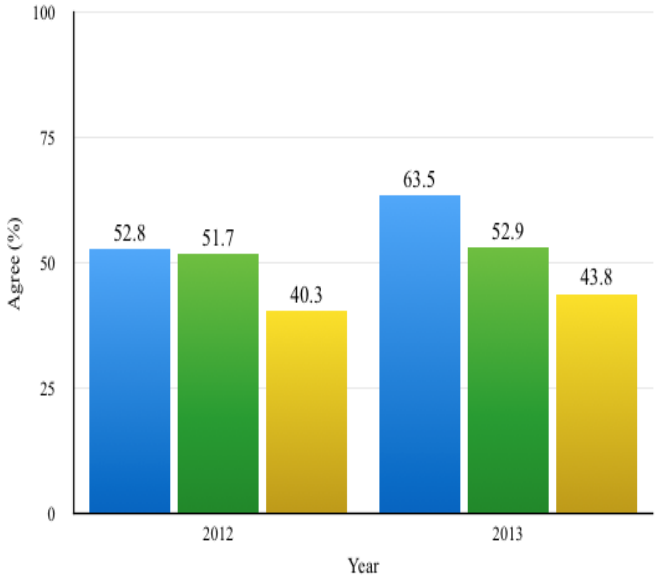


Figure 11. "As a consequence of the crisis, you think the EU will be stronger in the long run", 2012-2013



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The EU's Attempt at Regaining Regulatory Control Over the Illicit Market Economy

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Abstract

The European System of National and Regional Accounts (ESA 2010), the newest internationally compatible European Union (EU) accounting framework for a systematic and detailed description of an economy, was implemented as of September 2014. The EU is the only body of countries that have adopted the framework of including illicit economic activity into its Gross Domestic Product (GDP) accounts. The questions this paper seeks to address are: How has crime come to be classified as a formal economic transaction? What are the repercussions of including illegal economic activity into the calculations of the GDP of a country? This study theoretically argues that states are losing autonomy and control over economic activity appropriated to the globalization and increase of the illicit economic sector. Beginning with analyzing the rationality for including illegal economic actions into the calculation of European GDP, this study examines the economic background of Italy and Greece, as these two countries are experiencing significant economic instability. In addition to exploring the benefits of including this type of activity, this paper then observes the repercussions of calculating illegal activity into the GDP of the case studies in question. This paper suggests that there is a strong need for harmonization of the measurement framework of national accounts.

1. Introduction

The world's networks and institutions are continuing to grow, expand, and become more interconnected than ever

before. This phenomenon is generally reflected upon as advantageous for contemporary markets and economies, as it opens borders to communication and international trade. However, with the removal of barriers for legitimate trade to flourish, it is accompanied by a proliferation of the underground market at a transnational level. In 2009, the Organisation for Economic Cooperation and Development (OECD) estimated that half the world's workers were employed in 'System D'.[1] System D is a phrase coined in French-speaking Africa and the Caribbean to describe effective and motivated people – "*débrouillards*." [2] Essentially these are inventive, self-starting, entrepreneurial merchants doing private business without registering or being regulated by the state bureaucracy and without paying taxes. By 2020, it is predicted that two-thirds of the world's population will be working for this illicit[3] sector.[4] It is widely recognized that as trade has expanded and globalized, so has the scale of System D. Given this significant continuous increase of underground illicit economic activity, the question arises of what the causes and repercussions of such an activity are internationally. This paper explores the

[1] Jutting, J.P. & De Laiglesia, J.R. (2009). Is Informal Normal? Towards More and Better Jobs in Developing Countries. *An OECD Development Centre Perspective.* Retrieved from http://www.oecd-ilibrary.org.libaccess.lib.mcmaster.ca/docserver/download/4109011e.pdf?expires=1422669830&id=id&accname=ocid177437&checksum=2CA2FEA29151985EBC0B0FE7C639827E

[2] Neuwirth, R. (2012). *Stealth of nations: The global rise of the informal economy*. Anchor.

[3] The terms 'illicit' and 'illegal' are used interchangeably in this paper meaning forbidden by law, including criminal economic activity.

[4] Jutting, J.P. & De Laiglesia, J.R. (2009). Is Informal Normal? Towards More and Better Jobs in Developing Countries. *An OECD Development Centre Perspective.* Retrieved from http://www.oecd-ilibrary.org.libaccess.lib.mcmaster.ca/docserver/download/4109011e.pdf?expires=1422669830&id=id&accname=ocid177437&checksum=2CA2FEA29151985EBC0B0FE7C639827E

contemporary issues associated with the growth and globalization of illicit economic activity.

The United Nations System of National Accounts (UNSNA), the internationally agreed upon standard of recommendations on how to measure economic activity, describes a set of macroeconomic accounts in an approved framework of concepts, definitions, classifications, and accounting rules globally.[5] The UNSNA provides

> an overview of economic processes, recording how production is distributed among consumers businesses, government and foreign nations. It shows how income originating in production, modified by taxes and transfers, flow to these groups and how they allocate these flows to consumption, saving and investment.[6]

Despite contrasting stages of economic development, the UNSNA is intended to be used by all countries. In 2009, the United Nations Statistical Commission validated a new set of international standards for the System of National Accounts (SNA), which was followed by a revision of the European equivalent of the SNA, the European Systems of National and Regional Accounts (ESA 2010).[7] The SNA 1993, SNA 2008, ESA 1995, and ESA 2010 have recommended that hidden and illegal productive activities should be accounted for in Gross Domestic Product (GDP).

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[5] The System of National Accounts. (2015). *United Nations.* Retrieved from http://unstats.un.org/unsd/nationalaccount/sna.asp

[6] The System of National Accounts. (2015). *United Nations.* Retrieved from http://unstats.un.org/unsd/nationalaccount/sna.asp

[7] Van de Ven, P. (2015). New standards for compiling national accounts: what's the impact on GDP and other macro-economic indicators? *OECD Statistics Brief.* Retrieved from http://www.oecd.org/std/na/new-standards-for-compiling-national-accounts-SNA2008-OECDSB20.pdf

Notwithstanding these enduring recommendations, there has been debate surrounding whether to include illegal activities into formal GDP accounts. These views have arrived from the apparent reason that illicit economic activity is difficult to measure accurately. In practice, many countries have not chosen to adopt this particular accounting rule. However, there have been multiple developments concerning the ability to compile estimates of this type of activity, mainly within the European Union (EU). In an attempt to make economic calculations more accurate, the EU has made an effort to include illegal economic activity into its formal national economy accounts.

The European System of National and Regional Accounts (ESA 2010) was recently implemented in September 2014 [8] where section 1.79 of the ESA states "[i]llegal economic actions shall be considered as transactions when all units involved enter the actions by mutual agreement. Thus, purchases, sales or barters of illegal drugs or stolen property are transactions, while theft is not."[9] What is significant about this framework is that it includes the revenues of illegal economic actions as part of a country's GDP. The decision to fully include these activities in the national accounts estimates has produced controversy in the media, public, and economic research community. Why was this policy implemented and what are the repercussions of including this type of informal activity into the formal economic calculations of EU states, particularly Italy and Greece?

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[8] About ESA 2010. (2014). *Eurostat.* Retrieved from http://ec.europa.eu/eurostat/web/esa-2010

[9] European system of accounts: ESA 2010.(2014). *Eurostat European Commission.* Retrieved from http://ec.europa.eu/eurostat/documents/3859598/5925693/KS-02-13-269-EN.PDF/44cd9d01-bc64-40e5-bd40-d17df0c69334

This study carefully examines the implications of incorporating illegal economic activity into the description of a country's economy. The particular questions this paper seeks to address are: How has crime come to be classified as a formal economic transaction? What are the advantages and negative repercussions of including illegal economic activity into the calculations of the GDP of a country? What are the implications for the rise in illegal economic activity in the EU? In attempting to shed light on these queries, this paper begins by arguing that as the illicit economic sector continues to grow, it undermines the state's ability to enforce law and exhibit control over economic activity. This paper also argues that although the inclusion of illicit economic activity into GDP accounts has certain advantages, it also has repercussions that can potentially have a negative influence on the economic policy implementation of a country.

The first section of this paper will generally address how globalization has diminished the authority of the nation-state to regulate economic activity which will then segue into a more specific argument that the globalization of organized crime has hindered the state's ability to enforce law and control a significant sector of its economy. The second section of this paper addresses the justifications for including illicit economic activity into the EU's formal GDP accounts. The third section alludes to the implication of including this type of activity into the calculations of a nation's economic activity. Lastly, this paper presents case studies of Italy and Greece to show how this inclusion will affect specific countries directly.

2. Globalization and the State

It has been repeatedly argued by many scholars that globalization has significantly undermined the legitimacy and sovereignty of individual states. For instance, Saskia Sassen argues that the formation of a new economic system centered on cross-border flows and global telecommunications has affected the sovereignty and exclusive territoriality of the modern state.[10] Similarly, Vincent Cable alludes to the erosion of economic sovereignty brought on by the speed of technological change.[11] He uses the terms globalization and economic integration interchangeably when arguing that the nation-state has lost sovereignty and economic power to regional and global institutions and to the markets.

Linda Weiss generally argues that globalization negatively impacts state power.[12] She defines globalization as the creation of a unified world market and global governance in which the usual constraints of location and institutions no longer matter. However, Weiss does not believe that the advancement of globalization has to occur fully at the expense of state power. She believes that there is a 'governed interdependence' that exists which "involves institutionalized negotiations between the state" and "business organizations where each side maintains their autonomy but the state sets broad developmental goals and monitors the achievement of those goals by businesses."[13] Michael Mann analyzes the threats to nation-states by looking at global capitalism, environmental danger, identity politics, and post-nuclear

[10] Sassen, S. (1996). *Losing control? Sovereignty in an age of globalization*. Columbia University Press.
[11] Cable, V. (1995). The diminished nation-state: A study in the loss of economic power. *Daedalus*, 23-53.
[12] Weiss, L. (2000). Globalization and state power. *Development and Society*, *29*(1), 1-15.
[13] Weiss, L. (2000). The Myth of the Powerless State. *Contemporary Sociology*, *29*(1), 265-265.

geopolitics. [14] Significantly, Mann found that capitalist transformation is slightly weakening the nation-states of the north, particularly the formation of the European Union is reconfiguring the sovereignty of the member-states. Considering these perspectives, what do the effects of globalization on the state mean in regard to transnational organized crime and the continuously increasing global illicit market economy?

Two of the most influential scholars to pose the line of reasoning that globalization is threatening the autonomous role of the nation-state are Paul Hirst and Grahame Thompson. These scholars offer valuable insight into this phenomenon, however, there are some specific disconnects found in their work that need to be addressed regarding what the contemporary function is of the nation-state. Most importantly, they have disregarded the effects of illegal activity operating nationally and internationally in conjunction with their argument. Hirst and Thompson have found it has become fashionable to assert that the "era of the nation-state is over and that national-level governance is ineffective in the face of globalized economic and social processes." [15] Essentially, states have become prisoners to increasingly powerful world market forces. Through this occurrence, Hirst and Thompson argue that states remain in control of their borders and the movement of people across them. [16] However, in overlooking the role of the shadow economy, they fail to acknowledge key characteristics that contribute to elements of their general argumentation. For

[14] Mann, M. (1997). Has globalization ended the rise and rise of the nation-state? *Review of international political economy*, *4*(3), 472-496.
[15] Hirst, P. & Thompson, G. (1996). Globalization in Question. Polity Press: Cambridge, p. 175.
[16] Ibid 181.

example, human trafficking is on the rise with association to the growth of the illegal economic sector. The smuggling of humans across borders for the purposes of divergent types of labour undermines the states' authority to control people moving in and out of its borders.

Another argument made by Hirst and Thompson is that "representative government reinforced and legitimated the state's capacities for taxation and, given this fiscal power and the removal of competing and subordinate authorities, it could create a uniform national system of administration."[17] Although states have the authority to tax their citizens as a source of revenue, there are many instances where tax evasion prospers in countries at domestic levels and international levels with reference to the shadow economy and off-shore banking, respectively. Hirst and Thompson expand by stating, "states define who is and is not a citizen, who may and may not receive welfare."[18] In most cases citizens receive welfare when they are below the poverty line, and in some countries unemployment insurance is administered when citizens are not employed in the formal labour force. Theoretically, the people receiving welfare and unemployment from the state can potentially still be employed in the informal sector. Thus, the citizens that are participating in illegal economic activity and receiving the benefits of social services are undermining the state's autonomy and resources to deliver these services to the citizens who genuinely require a welfare income to survive.

Hirst and Thompson's arguments, after indicating the inconsistencies in relation to the argument in this paper, provide a solid understanding of the phenomenon of globalization on the nation-state. Taking Hirst and

[17] Ibid 174.
[18] Ibid 181.

Thompson's arguments into respect, their concern involving the diminishment of the nation-state as a result of globalization is exemplified in this paper by addressing the growth of illicit economic activity. Hirst and Thompson make the argument that "states remain 'sovereign, not in the sense that they are all-powerful or omnicompetent within their territories, but because they police the borders of a territory and, to the degree that they are credibly democratic. They are representative of the citizens within those borders."[19] This idea is taken further by demonstrating that states are losing the capacity to control economic activity, as well as the labour produced by citizens within and out of the state due to the increase in illicit economic activity. Hirst and Thompson specify that although the state is losing authority over economic activity, the nation-state will persist as an important form of political organization in the sense that it is a primary source of enforcing law within a given territory.[20] The success of enforcement of state law has become less prevalent, which is strictly shown through the advancement of economic actions that are beyond the reach of the states "binding rules."[21] This paper contributes the argument that states are losing their capacity to enforce law and regulate a significant segment of economic activity flowing within and between countries.

It is noteworthy that states are creating this market scenario and institutional structure, as articulated by Susan Strange's Casino Capitalism, for System D to flourish.[22] As a

[19] Ibid 190.
[20] Ibid 192.
[21] It is important to mention that Hirst and Thompson conclude 'Globalization in Question' by establishing that there still exists opportunities for the development of governance at the international economy level that neither undermine national governance nor hinder the creation of national strategies for international control.
[22] Strange, S. (1997). *Casino capitalism*. Manchester University Press.

consequence of government action to create an effective trading environment by deregulating financial markets and shrinking the state's regulatory apparatus, the illicit market economy has been able to transnationalize. The UN Office on Drugs and Crime notes that "globalization has progressed faster than our collective ability to regulate it, and it is in the unregulated areas created by this disjuncture that organized crime opportunities have grown."[23] In "The Globalization of Crime: A Transnational Organized Crime Threat Assessment" most trafficking flows are the product of market forces, rather than the plotting of dedicated criminal groups. The UN stresses that the demand and consumption that exists for drugs, prostitution, cheap labour, firearms, wild animal parts, knock-off goods, hardwoods, and child pornography apparently carries little moral stigma and little chance of apprehension in the spheres where the consumers operate.[24] This demand thrives despite efforts to regulate and hinder the production and trafficking of the contraband.

The extent of illegal activity has "increased enormously in the wake of globalization and those involved in it have no respect for, or loyalty to nations, boundaries or sovereignty." [25] As profit and power are so interwoven, criminals have overwhelmed governments respective of stability and control threats, as expressed by Richard Friman.[26] Criminal businesses engaged in the offshore world thrive in locations that Ronen Palan calls 'antisovereign

[23] The Globalization of Crime: A Transnational Organized Threat Assessment. (2010). United Nations Office on Drugs and Crime: Vienna, p. 18.
[24] Ibid 18.
[25] Dobriansky, P. (2001). The Explosive Growth of Globalized Crime. *The Information Warfare Site.* Retrieved from http://www.iwar.org.uk/ecoespionage/resources/transnational-crime/gj01.htm
[26] Friman, H. R. (Ed.). (2009). Chapter 1: Crime and Globalization in *Crime and the global political economy*. Lynne Rienner Publishers, 16 (1-19).

spaces' – areas where central, legitimate authority is weak or has collapsed altogether.[27] Thus, there is a cyclical process at play where crime prospers in places where government authority is weak and the expansion and growth of criminal activity threatens the autonomy of the state. This occurs in a general context of declining governmental authority around the world.

In addressing this phenomenon more specifically in the context of the development of transnational organized crime Louise Shelley recognizes transnational organized crime as an imminent threat to the nation-state.[28] It does so by undermining the integrity of individual countries and hinders the development of coordinated international policies in the presence of the continuously growing transnational criminal community. She stresses that the seriousness of the problem "lies in the complexity of these organizations and their activities, their global penetration and the threat they pose to democracy and legitimate economic development," undermining the concept of the nation-state altogether.[29] This line of thinking is evident in the case of the European Union including illegal economic activity into its formal GDP accounts, as it can be assumed that the EU states have lost capacity in trying to diminish the illicit sector in an effort to regulate it. More significantly, the EU has found benefits in its ability to generate artificial revenue in accounting books (i.e. increase in GDP) and facilitate general economic growth for the countries in question.

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[27] Palan, R. (2009). Chapter 3: Crime, Sovereignty and the Offshore World in *Crime and the global political economy*. Lynne Rienner Publishers, 16 (35-48).
[28] Shelley, L. (1995). Transnational organized crime: an imminent threat to the nation-state? *Journal of international affairs*, *48*(2), 463.
[29] Ibid 463.

Various scholars refer to state-making as comparable to the development of organized crime in that "protection rackets have to be paid by citizens for the state to protect them."[30] In this model, the state taxes citizens for services that provide access to and endurance of markets, in addition to defending its existence against internal and external competitors. This tradeoff leads to the formation of a state system, as any ruler depends on external recognition for legitimacy. The internal and external 'oppressionary' actors (i.e. police and armed forces, respectively) require funds to support them. This leads to the formal development of an administrative system that collects taxes and organizes the means of violence. Notably "coercive exploitation played a large part in the creation of the European state" which shed light on the idea that popular resistance to coercive exploitation pushed potential power holders to compromise protection and constraints on their own action.[31] This model can be applied to explain the creation of transnational organized crime networks in which illicit actors take on similar roles to state actors. One mafia researcher explains the territoriality of "open air drug markets" run by different clans in Napoli.[32] These turf breakdowns are organized on a state-like basis between competing groups. This format of parceled distribution is carried over to drug trafficking all over Europe by different state-like clans with their cohorts of

[30] Kuhn, F.P. (2014). Two sides of a coin? Statebuilding and transnational organized crime networks in Afghanistan. In *Transnational Organized Crime: Analyses of a Global Challenge to Democracy,* p. 77-90; Tilly, C., Evans, P. B., Rueschemeyer, D., & Skocpol, T. (1985). *War making and state making as organized crime* (pp. 169-191). Cambridge: Cambridge University Press.

[31] Tilly, C., Evans, P. B., Rueschemeyer, D., & Skocpol, T. (1985). *War making and state making as organized crime* (pp. 169-191). Cambridge: Cambridge University Press.

[32] Saviano, R. (2007). The Secondigliano War. In *Gomorrah: Italy's Other Mafia*. CPI Group: Croydon, 60-135.

pushers, storehouse operators, distributors, hit squads and couriers.

After shedding light on state formation in Europe, it is important to address the rise of regulatory regimes in the EU. Giandomenico Majone argues that privatization and deregulation have created the conditions for the rise of a regulatory state to replace the past capitalist economy that had a strong directive, as opposed to merely regulatory role for the state.[33] There is reliance on loose regulation rather than public ownership, planning or centralized administration. Scholars have also drawn attention to regulation as a mode of state intervention in the economy and society, as there has been a significant loss of this type of control thoroughly explained above. The debate of regulation, in terms of what, how and at which level of government to regulate, has become the main compromise between the European Union and its member states that made the Internal Market programme reach implementation. The Internal Market programme of the European Union is

> A single market in which European citizens are free to live, work, study and do business. Since it was created in 1993, the single market has opened more to competition, created new jobs, defined more affordable prices for consumers and enabled businesses and citizens to benefit from a wide choice of goods and services.[34]

The reliance on loose regulation rather than public ownership and administration, cited by Majone, has allowed neoliberal deregulation to essentially remain in practice. There are

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[33] Majone, G. (1994). The rise of the regulatory state in Europe. *West European Politics*, *17*(3), 77-101.

[34] Internal Market. (2014). *Europa: Summaries of EU legislation.* Retrieved from http://europa.eu/legislation_summaries/internal_market/index_en.htm

negative consequences to having a free flow of internal markets within the EU, as it not only allows legal trade to take place, but it creates an environment in which illicit capital flows can move easily across borders. Especially since national law enforcement officials and criminal justice systems are generally limited to the boundaries of national borders. The EU has not quite succeeded in hindering the practice of illicit economic activity, but has managed to regulate it in terms of accounting for its revenues. The next section of this paper covers the regulation of crime through accounting instead of eradicating it by exploring the justification for including illicit economic activity into the GDP accounts of EU states.

3. Formalization of Crime in the EU

It is quite difficult to obtain the exact reason for including illicit economic activity into the EU's GDP accounts without engaging in qualitative interviews with EU officials, which have not yet been conducted. However, journalists have made an effort to cover this question by speculating on the benefits obtained from adopting this specific economic framework. The Financial Times infers that the European Union made the decision to include illicit economic activity into their national accounts to raise the percentage of GDP growth estimates.[35] It is also articulated that the justification for including illicit activity is that it will allow countries with different rules on drugs and prostitution (i.e. the Netherlands, which considers these two activities legal to an extent) to be accurately economically compared.

[35] Sex, drugs and GDP – what's going on? (29 May, 2014). *The Financial Times.* Retrieved from http://blogs.ft.com/money-supply/2014/05/29/sex-drugs-and-gdp-calculating-illicit-trade/

The OECD offers a more detailed explanation as to why the EU decided the inclusion of illicit economic activity into GDP accounts is beneficial for states' economic estimates.

The OECD first tackles an important structural issue in regard to the description of an economy in itself – what GDP is designed to measure.[36] GDP is mainly designed to measure economic activity, making no judgment on the moral aspects of the type of activity. The production of goods and services and the income generated by these activities can take various forms: market and non-market; observed and non-observed; and legal and illegal. GDP therefore includes, and has been for many years, activities relating to tax evasion. However, the process for estimating illegal activities, as defined under the ESA stipulated above, has been slower due to the difficulty of measuring it. In recent years, many organizations (i.e. United Nations International Drug Control Programme (UNDCP), International Crime Police Organization (INTERPOL), Office for Drug Control and Crime Prevention (ODCCP), United Nations High Commissioner Refugees (UNHCR), International Narcotics Control Board (INCB), United Nations Office on Drugs and Crime (UNODC), Organised Crime Threat Assessment (OCTA), United Nations Surveys on Crime Trends and the Operations of Criminal Justice Systems (UN-CTS) have developed frameworks for trying to estimate illicit economic activity, which has led to more countries incorporating estimates of these activities into GDP accounts.[37] Thus, GDP

[36] Van de Ven, P. (2015). New standards for compiling national accounts: what's the impact on GDP and other macro-economic indicators? *OECD Statistics Brief*. Retrieved from http://www.oecd.org/std/na/new-standards-for-compiling-national-accounts-SNA2008-OECDSB20.pdf

[37] Hunt, P., Kilmer, B., & Rubin, J. (2011). Development of a European Crime Report: Improving safety and justice with existing crime and criminal justice data.

is a concept that is designed to be comparable across countries because of its broad scope of economic inclusion. If GDP were based on a narrow view of production in that it only measures legal activities, then it would not be possible to accurately compare GDP across countries with different legal frameworks. Moreover, international comparability has become more significant, as contributions to international organizations (i.e. the European Union), are based on levels of Gross National Income (GNI).[38] It is important to establish an equal starting ground in the sense that "all countries contribute on the basis of their income generating capacity and their capacity to pay."[39]

The OECD continues to praise the inclusion of illicit economic activity into GDP accounts by stating,

> Excluding monetary exchanges between two economic actors on the basis of their illegality may lead to inconsistencies in the full framework of national accounts. If, for example, income generated by production and trade in drugs is not recorded, double bookkeeping constraints would result in an inconsistency between estimates of income and assets accumulated, and also lead to misleading savings rates for producers and consumers of illegal goods and services.[40]

In addition to this, different national treatments would make it impossible to have consistency in international trade

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RAND Europe. Retrieved from http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/pdf/final_for_website_2tr936_color_ec_en.pdf

[38] Van de Ven, P. (2015). New standards for compiling national accounts: what's the impact on GDP and other macro-economic indicators? *OECD Statistics Brief.* Retrieved from http://www.oecd.org/std/na/new-standards-for-compiling-national-accounts-SNA2008-OECDSB20.pdf

[39] Ibid 13.

[40] Ibid 14.

statistics, as exports from a country where this type of activity was legal would not have equivalent entries of imports. The OECD concludes by addressing how the SNA tries to capture all economic activities, despite illegality. However, in practice this does not always occur, which is evident in the case of the EU adopting a different framework for calculating GDP apart from the rest of the world. Jochen Hartwig argues that although national accounts can be very useful, they can also be misused in the context of governance and international comparisons.[41] In his research he shows how the divergence in growth rates between the United States and the European Union since 1997 can be explained mainly through differing statistical methods. The differing framework for inclusion between the SNA 2008 and ESA 2010 only exemplifies this complication.

There are also more general critiques of the use of the UNSNA in which its concepts do not sufficiently reflect the interactions, relationships, and activities of the real world. This occurs because the system does not provide explicit detail for particular economic phenomena, suggesting that it does not exist; and it attempts to include all micro economic activity under general micro transactions. The most significant argument made against the UNSNA is with the concept and use of GDP by government, intellectuals, and businesspeople in public discourse.[42] In 'Mismeasuring our lives: Why GDP doesn't add up,' Joseph Stiglitz argues that a measure of "wellbeing" is needed to balance a measure of output growth to make the concept of GDP more applicable

[41] Hartwig, J. (2005). *On misusing National Accounts data for governance purposes* (No. 101). Arbeitspapiere//Konjunkturforschungsstelle, Eidgenössische Technische Hochschule Zürich.

[42] Sen, A., Stiglitz, J. E., & Fitoussi, J. P. (2010). Mismeasuring our lives: Why GDP doesn't add up. New York: The New Press.

and accurate to the national estimates of an economy. It is also recognized that measuring the economic prosperity of a country by GDP growth can be problematic, as GDP calculations say little about how that income is distributed among the population. Thus, there exists a clear need for a systematic reform in the way in which economies around the world are measured and compared.

4. Implications of Including Illicit Economic Activity into GDP Accounts

This section explores more deeply the challenges and disadvantages of including illicit economic activity into GDP accounts by specifically looking at the EU. In commencing this debate, the initial concern arises of how to define illicit economic activity. There have been scholars who have discussed this issue in academia,[43] but what this paper seeks to address is the issue of harmonization of understanding what activity is defined as illegal across all member states in the EU. As all countries hold the autonomy to legislate their own laws to define what is illegal and legal, it is difficult to articulate one overarching framework for what is considered illicit economic activity. This problem has been addressed across the European Union's member states.

Ever since the implementation of the Amsterdam treaty the EU has adopted the objective of providing a common area of freedom, security, and justice.[44] This goal was somewhat developed by the 2004 Hague programme,

[43] Kuhn, F.P. (2014). Two sides of a coin? Statebuilding and transnational organized crime networks in Afghanistan. In *Transnational Organized Crime: Analyses of a Global Challenge to Democracy,* p. 77-90.
[44] Crime statistics. (2014). *European Commission: Eurostat.* Retrieved from http://ec.europa.eu/eurostat/statistics-explained/index.php/Crime_statistics

which outlined 10 priority areas.[45] In an effort to facilitate practical judicial cooperation in criminal matters across nations in the EU, a range of tools have been developed. As part of this initiative to harmonize and develop statistic on crime and criminal justice systems, "EU member states agreed to approximate the definitions of offences and the level of sanctions for certain types of offences."[46] The European Commission has requested the development of a draft for a European Crime Report (ECR) which would pull together data and reporting on the County Court Judgment (CCJ) in the EU, allowing comparison and learning across and within countries.[47] While developing a new harmonization framework, it is important to consider the Stockholm Programme and Lisbon Treaty. The main objectives of the Stockholm Programme are to demonstrate "common priorities and objectives for the EU in the area of freedom, security and justice" and to develop a strategy to best achieve these objectives.[48] The overall objective of the Lisbon Treaty is to "provide the Union with the legal framework and tools necessary to meet future challenges and

[45] Ibid. These priority areas include: "strengthening fundamental rights and citizenship; anti-terrorist measures; defining a balanced approach to migration; developing integrated management of the EU's external borders; setting-up a common asylum procedure; maximising the positive impact of immigration; striking the right balance between privacy and security while sharing information; developing a strategic concept on tackling organised crime; ensuring a genuine European area of justice; and sharing responsibility and solidarity."

[46] Ibid.

[47] Hunt, P., Kilmer, B., & Rubin, J. (2011). Development of a European Crime Report: Improving safety and justice with existing crime and criminal justice data. *RAND Europe.* Retrieved from http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/pdf/final_for_website_2tr936_color_ec_en.pdf

[48] Council, "The Stockholm Programme- An Open and Secure Europe Serving and
Protecting Citizens," Document No 2010/C 115/01, Brussels: European Council, 2010.

to respond to citizens' demands." [49] The European Commission turned these objectives into the 2010-2014 Action Plan. We note that, "the policy context, shaped by the Lisbon Treaty, Stockholm Programme and 2010–2014 Action Plan, has created an environment that could both facilitate and be facilitated by progress in cross-national criminal justice data, research, analysis and reporting."[50] This is beneficial for making useful comparisons across countries and informing decisions about how to address certain challenges within and across countries in the case of transnational organized crime. The EU's efforts in harmonization of the definition of criminal acts have proven to be somewhat successful. Nevertheless, this problem still persists on an international level.

Since the EU is the only body of states that is including illicit economic activity into their GDP accounts, issues arise when comparing the economies of countries by way of national accounting calculations, as the frameworks for inclusion differ. Institutions, governments, central banks, and other "economic and social bodies in the public and private sectors need a set of comparable and reliable statistics on which to base their decisions."[51] National accounts data is required to support economic policy decisions, as it is often

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[49] "One way in which the Lisbon Treaty aims to achieve this is through the provisions of Chapters 1, 4 and 5 of Title IV of Part Three of the Treaty on the Functioning of the European Union (replacing Articles 29 to 39 of Title VI), which relate to judicial cooperation in criminal matters and to police cooperation" (2).
See Hunt, P., Kilmer, B., & Rubin, J. (2011). Development of a European Crime Report: Improving safety and justice with existing crime and criminal justice data. *RAND Europe.* Retrieved from http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/pdf/final_for_website_2tr936_color_ec_en.pdf

[50] Ibid.

[51] National accounts and GDP. (2014). *European Commission: Eurostat.* Retrieved from http://ec.europa.eu/eurostat/statistics-explained/index.php/National_accounts_and_GDP

used by analysts and researchers to examine economic situations and developments in countries around the world. Also, national accounts are used to study long-term economic cycles and relating these to economic, political or technological developments transnationally. All this information is exceptionally important for foreign direct investors, as a systematic and detailed description of a country's economy is essential before making important business agreements. Thus, there is a need for national accounting frameworks to be synonymous worldwide.

However, there not only exists issues with the initial international approach to using the System of National Accounts, but this new inclusion of illicit activity by the EU has stretched even further the disparities in comparing countries by GDP estimates. For instance, the inclusion of revenue made by prostitutes and drug dealers into Britain's GDP will give it a 5% (10 billion Euro) boost.[52] This is a significant increase that can potentially affect the economic policy decisions of the country, the EU, and of international institutions from both the public and private sector. The same can be said for Italy, which will be explained in greater detail in the forthcoming section of this paper. Thus, if the System of National Accounts framework continues to operate in practice, it is necessary to harmonize the standards for inclusion into these accounts across all countries, not just EU member states, for the purpose of accuracy in comparing economies around the globe.

Furthermore, the inclusion of illicit activity into the GDP of EU member states can be seen as an attempt to regain regulatory control over this criminal sector of the

[52] O'Connor, S. (29 May, 2014). *The Financial Times.* Retrieved from http://www.ft.com/intl/cms/s/2/65704ba0-e730-11e3-88be-00144feabdc0.html#axzz3U9hKmpUR

economy. As mentioned earlier, the size and capacity of the illicit economy is growing every year, and with the development of technology, it is becoming more difficult to hinder and/or eradicate. Thus, one of the simplest, yet still increasingly difficult, ways to regulate this type of activity is to attempt to measure it as a way to possess accounts on its growth.

5. Case Study Analysis

The incorporation of illicit economic activities into national accounts in EU member states, such as Italy and Greece, have significant political factors that correlate with the nature of the sovereign debt crisis, each of which require further intensive study. These specific cases were selected in order to analyze the significance, if any, of the inclusion of illicit economic activity into the GDP accounts of countries that are economically stressed. Firstly, the incorporation of these activities into national accounts has the direct effect of artificially increasing the GDP of these states. A GDP increase would theoretically have the effect of increasing the credit rating of these states as the GDP would increase vis-à-vis the national debt. An increased credit rating means that these states would get access to cheaper loans on international money markets. However, the incorporation of illicit economic activity does not necessarily mean a structural increase in the states' ability to garner revenue from that GDP. System D activities, by definition, are not taxable as they exist beyond the realm of normal economic activities. Moreover, the specific size of the illicit economy is not something that can necessarily be gauged. Given the Eurozone crisis, incorporating System D into national figures could be a way in which politicians at the national and EU

levels are circumventing the need for structural changes in lieu of adding GDP figures that are imprecise and beyond the capacity of the state to generate revenues from. This notion then gives rise to the politics of the figures included as if the logic for the inclusion of illicit economic data into national accounts is to sustain artificially high GDP rates. The next subsection delves more explicitly into the repercussions of this economic framework inclusion in the cases of Italy and Greece.

Italy

Before addressing the effects of including illicit economic activity into the GDP of Italy, it is important to address the economic history of the country and why crime is able to flourish within and through its borders. Dennis McCarthy offers insight as to how the geographical assets of Italy have produced an environment for organized crime to prosper. He starts off by addressing that "Italy is a gateway for Latin American cocaine and Southwest Asian heroin entering the European market" and how "mountains […] offer both a place of refuge for those on the run and a haven for illegal business activities."[53] Moreover, the city of Naples has always been heavily involved in the transfer of illegal merchandise and tax evaded goods through the port from Switzerland and China. According to the Italian Customs Agency, 60 percent of the goods arriving in Naples evade official customs inspection, 20 percent of the bills of entry go unchecked, and fifty thousand shipments are contraband (99 percent from China).[54] This results in an estimated 200

[53] McCarthy, D. M. (2011). *An economic history of organized crime: A national and transnational approach*. Routledge, 32.
[54] Saviano, R. (2007). *Gomorrah: Italy's Other Mafia*. CPI Group: Croydon, 7.

million euros in evaded taxes every four months – a huge loss for the Italian government.

In addition, there exists a dualism in the economic development between northern and southern Italy, which contributed to the evolution of organized crime in the country. Southern Italy is less wealthy than the North. When the central government implemented a high-tariff policy in the late 1870s, it protected the northern industry as well as the wheat industry, a major export of the south. Vera Zamagni stated that there were large inconsistencies in the nature of the system, which led to an international tariff war.[55] France retaliated for Italy's high tariffs by expanding the list of southern Italian exports on which it imposed tariffs. This in turn damaged exports from southern Italy and many suffered as a result, turning to the underground market for reprieve.

Another fact from economic history that points to the development of organized crime is Italy's membership in the European Union.[56] As the major goal of a common market is to eliminate as many barriers as possible, it creates opportunities in the underground economy. The Schengen Agreements enacted in 1985 and 1990 created a free travel zone among member states. This made it easier for all travelers, notwithstanding their motives, to move goods and services across the borders of EU member states. Academics argued that the Schengen Agreement brought on fears about illegal immigration and drug trafficking, "particularly from countries such as Italy and Spain which have vulnerable

[55] McCarthy, D. M. (2011). *An economic history of organized crime: A national and transnational approach*. Routledge, 33.
[56] Ibid, 33.

coastlines."[57] The implementation of the euro exacerbated this fear.

The simplification of currency allowed the practice of money laundering to flourish, as it enabled efficiency in the illicit market economy.[58] The goal of money laundering is to separate the currency from the crime. When illicit actors start business in the euro it is already in the world's second largest reserve currency behind the US dollar, thus it is hard to know if the euros are the result of a crime. Furthermore, the higher denomination of euro notes are very convenient, since €500 notes are printed for use. Taking this history into consideration, it is clear that Italy possesses an environment ideal for organized crime to thrive.

Italy has a developed industrial north dominated by private companies, with an agriculturally dominated south much less developed and accompanied by a higher rate of unemployment.[59] A large portion of the economy is a result of the underground economy. Estimates show that Italy's illicit market accounts for as much as 17% of GDP.[60] Illicit economic activity is most prevalent within the agriculture, constructions, and service sectors. Although Italy is technically the third-largest economy in the euro-zone, its high public debt and structural barriers to growth have caused the country to be acknowledged as financially unstable by financial markets. Italy's public debt reached record highs of 133% of GDP in 2013 leaving the government with pressure from investors and European partners to sustain the countries' efforts to address long-

[57] Ibid, 34.
[58] Ibid, 34.
[59] Italy Economy Profile. (2014). *Index Mundi.* Retrieved http://www.indexmundi.com/italy/economy_profile.html
[60] Ibid.

standing structural impediments to growth.[61] These obstacles to economic development include labour market inefficiencies and nationwide tax evasion.

Aforementioned, the practice of tax evasion is universally known as the shadow economy. Frederick Schneider, the chair of the economics department at Johannes Kepler University in Linz, Austria, in many attempts to measure the size of the shadow economy in different countries, has also tried to understand the causes for its continuous increase. He makes the argument that the increase in the size of the shadow economy is due to "the rise of the burden of taxes and social security contributions; increased regulation in the official economy, especially of labor markets; forced reduction of weekly working time; earlier retirement; unemployment; and the decline of civic virtue and loyalty towards public institutions combined with a declining tax morale."[62] Schneider stresses that the increase of tax and social security contributions burdens is the most important contributor to the increase of the shadow economy.[63] Although this is not the case for all countries, it seems to be the case with Italy.

There is evidence to show that the illicit economic sector in Italy is rising in sequence with the increase of income taxes. Italy's unemployment rate has been steadily rising every year (i.e. 10.7 percent in 2012; 12.4 percent in 2013; 12.7 percent in 2014) to amount to 13 percent in

[61] Ibid.
[62] Schneider, F., & Enste, D. (2000). Shadow Economies Around the World Size, Causes, and Consequences.
[63] Schneider, F., Buehn, A., & Montenegro, C. E. (2010). Shadow Economies all over the World: New Estimates for 162 Countries from 1999 to 2007. *World Bank Policy Research Working Paper Series.*

2015.[64] Under President Monti, Italy's tax burden, defined as the ratio of tax revenue to economic output, rose from an overwhelming 45.1 percent in 2010 to 42.5 percent in 2011, and had no potential of dropping.[65] Monti's 20 billion-euro austerity package included the increase in retirement ages, measures to ease firing rules and promote competition, and increased rates of gasoline.[66] Ian Roxan, director of the Tax Programme at the London School of Economics and Political Science, recognizes that Monti's 'value-added tax' (VAT) receipts, although made the government approximately 100 billion euros over 12 months,[67] is not immune to evasion.[68] In a time of austerity people become less willing to pay VAT and the already existing tax burdens, which results in a loss of more than 120 billion euros in unpaid taxes every year. Scholars have proven that the size of the underground economy in Italy has steadily increased over the years and is primarily explainable by the persistent increase in taxation that has occurred in the country since the eighties.[69] Thus, the increase in unemployment rates can be explained by the push of employees out of the formal sector into the informal sector in efforts to avoid the tax burden.

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[64] Italy unemployment rate. (2014). *Expansion.* Retrieved from http://countryeconomy.com/unemployment/italy

[65] Frye, A. (12 June, 2012). Italy Tax Increases Backfire as Monti Tightens Belts. *Bloomberg Business.* Retrieved from http://www.bloomberg.com/news/articles/2012-06-12/italy-tax-increases-backfire-as-monti-tightens-belts

[66] Ibid.

[67] 12 month period ended March 31st, 2011.

[68] Frye, A. (12 June, 2012). Italy Tax Increases Backfire as Monti Tightens Belts. *Bloomberg Business.* Retrieved from http://www.bloomberg.com/news/articles/2012-06-12/italy-tax-increases-backfire-as-monti-tightens-belts

[69] Orsi, R., Raggi, D., & Turino, F. (2014). Size, trend, and policy implications of the underground economy. *Review of Economic Dynamics*, *17*(3), 417-436.

It can be articulated that an accompanying explanation for the presence of a large underground economy in Italy is the nation's path dependency to participate in the illicit market. As outlined earlier, Italy has a deep history of organized crime activities spread across the region and this *tradition* has carried on throughout the years into the modern era. Mafia groups like the Sicilian Cosa Nostra, the Neapolitan Camorra, or the Calabrian 'Ndrangheta have long had a tight grip on the Italian economy, generating profits equivalent to approximately 7 percent of national output.[70] Extortionate lending by these criminal cartels has become such a large, sophisticated, lucrative source of income in Italy that, with €65 billions in liquidity, the mafia can essentially be considered Italy's leading bank.[71] It was reported that small businesses that have struggled to survive Italy's economic instabilities have been increasingly tempted to turn to the mafia for financial support.[72] It was also reported that 56 percent of companies had seen banks tighten their lending requirements ($1=0.7826 euros) around the time the former report was released.[73] In order for these companies to obtain a loan, if any, and at a rate that would keep them financially resilient, they risked involvement with criminal organizations. Not only is the Italian population losing faith in their government to provide sustainable employment, but also entrepreneurs are detracting financial assistance from private enterprises to participate in the illicit economy.

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[70] Mackenzie, J. (10 January, 2012). Mafia now "Italy's No.1 bank" as crisis bites: report. *Reuters.* Retrieved from http://www.reuters.com/article/2012/01/10/us-italy-mafia-idUSTRE8091YX20120110

[71] Ibid.

[72] Ibid.

[73] Ibid.

For the purpose of this paper, the issue becomes understanding the effects of including illicit economic activity into the GDP accounts of the country. Due to the large illicit economy in Italy, the inclusion of this type of activity into GDP accounts makes the value of the economy appear to be increased substantially. The inclusion of illegal economic activities such as drug trafficking and prostitution made Italy appear to be out of recession.[74] GDP rose from a 0.1 percent decline in the first quarter of 2014 to a flat reading.[75] The Financial Express claims that this revision brought "a bit of extra breathing room for Prime Minister Matteo Renzi's government, which is struggling to boost the economy and implement reforms whilst keeping the deficit below the EU's 3 percent ceiling."[76] The sudden boost in economic growth may impact which economic policies are put into practice, making them more lenient to the crumbling economic environment. Prime Minister Renzi presented extensive tax cuts totaling 10 billion euros annually for 10 million low and middle-income workers starting back in 2014.[77] Scholars have suggested that "a moderate tax cut, along with a stronger effort in the monitoring process, causes a sensitive reduction in the size of the underground economy and positive stimulus to the regular sector that jointly increase the total fiscal revenues."[78] Contrary to this theory,

[74] Italy lifts out of recession thank to prostitutes, drugs. (15 October, 2014). *The Financial Express.* Retrieved from http://archive.financialexpress.com/news/italy-lifts-out-of-recession-thanks-to-prostitutes-drugs/1298787
[75] Ibid.
[76] Ibid.
[77] Jones, G. (12 March, 2014). Italy presents sweeping tax cuts, plans to raise deficit goal. *Reuters.* Retrieved from http://www.reuters.com/article/2014/03/12/us-italy-politics-idUSBREA2B17E20140312
[78] Orsi, R., Raggi, D., & Turino, F. (2014). Size, trend, and policy implications of the underground economy. *Review of Economic Dynamics*, *17*(3), 417-436.

Daniel Gros, the head of the Brussels-based think tank CEPS, stressed that tax cuts are not what Italy needs to boost economic growth.[79] Given the country's huge public debt, the government cannot afford more deficit spending and will only hurt its current financial position. The artificial boost to GDP growth can do serious damage to Italy's fragile economic environment through miscalculated policy decisions. It must be recognized that this type of activity has been present in Italy's economy for centuries and the recognition of it will not influence the size of economic growth on a practical level. Most of these complications and disadvantages can be generalized and expanded on as the next case study will indicate.

Greece

It is not news that Greece has been in economic turmoil for quite some time, owing substantial debt to the International Monetary Fund (IMF) and various European banks. The Greek economy was averaging approximately 4 percent in growth between 2003 and 2007, but the economy fell into recession in 2009 during the global financial crisis.[80] The country met the EU's Growth and Stability Pact budget deficit criterion of no more than 3 percent of GDP in 2007-2008, but violated it in 2009 when the deficit reached 15 percent of GDP.[81] However, austerity measures (i.e. cutting government spending, decreasing tax evasion, overhauling

[79] Jones, G. (12 March, 2014). Italy presents sweeping tax cuts, plans to raise deficit goal. *Reuters.* Retrieved from http://www.reuters.com/article/2014/03/12/us-italy-politics-idUSBREA2B17E20140312

[80] Greece Economy – overview. (2014). *Index Mundi.* Retrieved from http://www.indexmundi.com/greece/economy_overview.html

[81] Ibid.

health-care and pension systems, and reforming the labour market) managed to reduce the deficit to about 4 percent in 2013. In May 2010, the IMF and Euro-Zone governments provided Greece with emergency short and medium term loans (worth $147 billion) so that the country was able to make debt repayment to creditors. In exchange for this enormous bailout, Greece announced various spending cuts and tax increases – a huge driver for growth in the illicit economic sector. Greece then went on to struggle to meet the 2010 targets set out by the EU and the IMF. This led to an agreement in October 2011 to provide Athens with a second bailout package of $169 billion accompanied by the capitalization of Greece's banking system and an additional $7.8 billion in austerity measures.[82] The massive austerity measures have extended Greece's economic recession and considerably decreased tax revenues. In June 2013, Greek Prime Minister Antonis Samaras' efforts to meet bailout conditions led to the withdrawal of the Democratic Left party from the governing coalition when his government made the controversial decision to shut down and restructure the state-owned television and radio company. Despite the many reforms, austerity measures, and bailouts, Greece's economy remains in disarray.

In the presence of Greece's economic struggles there exists a contributing force to these financial disparities that is of great significance – the underground market. The underground economy has increased substantially since Greece adopted the euro in 2001.[83] Scholars have studied the effects of a large underground economy in conjunction with

[82] Ibid.

[83] Berger, W., Pickhardt, M., Pitsoulis, A., Prinz, A., & Sardà, J. (2014). The hard shadow of the Greek economy: new estimates of the size of the underground economy and its fiscal impact. *Applied Economics*, *46*(18), 2190-2204.

debt burdens. Theoretically, a study found that a large underground economy contributes to a serious misallocation of resources and the suffering of public finances due to the erosion of the country's tax and social security bases.[84] Empirically, the study indicates that an increase in the size of the underground economy exerts an impact on the debt-to-GDP ratio in two ways: 1) it pushes up aggregate debt relative to GDP directly, as the base for direct taxation is eroded; 2) it broadens the base for inflation tax and results in the exertion of a downward pressure on the debt-to-GDP ratio.[85] The scholars conducting this study strongly suggest that fighting the underground economy will benefit Greece in several ways; the reduction of the size of the illicit market should rank highly on the political agenda to lessen pressure on public finances to avoid the repetition of the euro-crisis.[86] Accordingly, illicit economic activity proves to be a significant burden on the Greek economy and the best policy path to engage in is the hindrance of the growth of the underground market, and not to encourage it by recording its revenues into formal economic accounts.

Once more, the question arises of what the impacts are of including this type of activity into the formal GDP accounts of a country – in this case, Greece. It is important to note that the increase in Greece's GDP as a result of including illicit activity is not as significant as that of Italy's and this is due to the difference in law. There are currently an estimated 20,000 legal working prostitutes in Greece. Although street prostitution is illegal, working in brothels where women can register and are granted a license, issued

[84] Ibid, 13.
[85] Ibid, 16.
[86] Ibid, 18.

by the state, is legal.[87] Thus, illicit activity in the form of prostitution has been formally recorded in economic accounts ever since it was legalized in Greece in 1999. As all EU members are required to start including illicit activity into their GDP accounts, Greece will have to attempt to measure/estimate the size of their underground economy (i.e. tax evaded activity, drug smuggling, etc.). Many scholars have attempted to calculate the size of the underground economy in Greece with the most widely accepted estimate to be 60.04 percent of GDP in 2009.[88] Similar to Italy, the underground economy in Greece boosted when the country joined the European Monetary Union. It can be assumed that the simplification of currency and the openness of borders assisted in the fluctuation in illicit economic activity. The significant size of the illicit sector in Greece can have detrimental effects on the public. As mentioned earlier, there is an immense loss of tax revenue detracting from funding social services. Also, this artificial boost to GDP may affect important policy decisions, which would have otherwise been different dependent on the real growth of the economy.

Interrelated to the political effects of an artificial GDP boost comes a concern revolving around austerity. The response from the European Central Bank (ECB) and many national level governments across the EU to the Eurozone crisis has been, across the board, austerity. Countries such as Greece, Italy and Spain are key examples of this. A high GDP rate may provide an economic rationale for increasing

[87] Reid, R. (26 January, 2015). Prostitution: The hidden cost of Greece's economic crisis. *The Telegraph.* Retrieved from http://www.telegraph.co.uk/women/womens-politics/11370049/Greek-election-Prostitution-is-the-hidden-cost-of-economic-crisis.html

[88] Berger, W., Pickhardt, M., Pitsoulis, A., Prinz, A., & Sardà, J. (2014). The hard shadow of the Greek economy: new estimates of the size of the underground economy and its fiscal impact. *Applied Economics*, *46*(18), 2190-2204.

austerity. Incorporating illicit economic activity into national accounts can boost the GDP. This may lead to some politicians saying that the economy is strong and well, and social services are not needed or rather, despite the cuts, the economy is still technically growing. This growth, however, is not "real" GDP growth that governments can turn to for an accurate representation of the economy. The implicit use of System D for growth in this regard means that governments can either continue austerity or justify it by claiming that these policies have not had real effects on the population, broadly speaking.

While the practice of austerity may result in short terms benefits (i.e. privatizing public assets to obtain revenue to pay off public debts), the continuation of these measures results in certain disparities for Greek citizens. In an effort to reduce expenditures to shrink growing deficits, the government typically makes cuts to social services and bureaucratizes public finance by distancing control from elected political officials over the financial sector. Enforcing austerity is a great struggle for Athens, as pushing through unpopular reforms is difficult given the country's dominant labour unions and outspoken general public.

6. Conclusion

This paper has demonstrated how the European Union has attempted to regain regulatory control over economic activity by estimating and including illicit economic income into their formal GDP accounts. The formalization of crime, in the sense of calculating the revenues obtained from illicit economic activity, has been seen to be advantageous for the purpose of being able to compare the economies' of EU member states more accurately, despite divergent legal frameworks. However, there exists a systematic disadvantage within the decision to include this activity. The increase of

GDP in EU member states affects economic policy decisions, which would have been contradictory to decisions made based on the lower GDP estimates that did not include illicit economic activity. The artificial GDP growth has the potential to increase national credit ratings, having long term consequences for the case countries put under study. Additionally, it has been established that reform is required in regard to harmonizing the measurement framework of national accounts internationally in order for EU member states to be equally compared to non-member states.

Throughout this paper it has been articulated that states are losing the capacity to control and regulate areas of the economy, contiguous with enforcing certain facets of the law. It is suggested that states focus on regaining this regulatory control over the economy in order to expedite the process of hindering the growth and decreasing the size of the illicit economic sector. Despite the particular benefits that the underground market can bring to a country's economy (i.e. reintegrating illicit revenue to stimulate the formal economy; immense job creation), it is crucial for governments to allocate time and effort to hindering the growth of illicit economic activity to uphold the integrity of the law to maintain state power.

The concept and study of transnational organized crime is quite contemporary in international relations and therefore leaves a vast amount of issues to be explored. Further research should elaborate upon the optimal international and regional policies that should be adopted in order to limit the negative effects of transnational organized crime. In relation to this, further exploration should also be done in regards to micro concerns such as the way policies and systems in diverse countries affect how crime is transnationalized, as well as the relationships between

accounting practices and the illicit sector. Future research should seek to resolve these queries in the realm of transnational organized crime and the global political economy.

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Fuelling the Debate: Senator John Hoeven, Keystone XL, and the Canadian Connection

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Abstract:

Since TransCanada first applied for a Presidential Permit to build Keystone XL in 2008, the completion of the pipeline has become one of the most heated debates in the United States. In this paper, we examine how John Hoeven, a Republican U.S. Senator from North Dakota, has constantly invoked the friendly image of Canada as part of a rhetoric in favor of the project, and we try to understand how it affected the construction of the U.S. national interest. To do so, and drawing inspiration from the field of Congress and foreign policy, as well as from constructivist approaches of international relations, we conduct a discourse analysis. We examine Hoeven's interventions on the Senate floor, during Senate Committees hearings, on his website, and in the media. We find that (1) Senator Hoeven constantly described Canada as the United States' "closest friend and ally"; (2) this allowed him, by effect of contrast, to describe other oil suppliers as unfriendly and, thus, as unreliable; (3) he made frequent references to the international context, in order to prove that United States' supply of oil might be in jeopardy if it relies too much on unreliable suppliers; (4) that led him to conclude that the construction of Keystone XL, by helping the United gaining energy independence, would be in the United States' national interest.

> Let me be clear: if it wasn't for hockey I wouldn't have a bad word to say about Canada. In my eyes, Canadians take the game a little too seriously.
>
> Chris Chelios (2014, p. 274).

As former Team USA captain Chris Chelios' comment suggests, ice hockey is one of the few areas in which Canada is perceived as a serious rival or adversary for the United States. However, when it comes to foreign affairs, defense, environment, trade, and especially energy, members of the

U.S. Congress see Canada as a benevolent sidekick (Moens & Gabler, 2011). The "friendship" between the two countries is a theme that has been featured in one of the most heated debate on matters of energy and environment of the Obama presidency: the Keystone XL pipeline.

In September 2008, TransCanada, a Calgary-based energy company, applied for a Presidential Permit that would allow it to begin the construction of the Keystone XL (KXL) Pipeline system. This new infrastructure would, among other things, bring tar sands crude oil extracted in the Canadian province of Alberta to a market hub in Nebraska, and then to Gulf Coast refineries. While a Presidential Permit is usually not required to build pipelines in the United States, the fact that the proposed route for KXL crossed the Canadian-American border made it mandatory for TransCanada to obtain this authorization, delivered by the State Department, whose decision needed to be based on the determination of the United States' national interest (Parfomak *et al.*, 2013, p. 1). In January 2012, the State Department denied the Presidential Permit for Keystone, stating that it did not have sufficient time to determine if the project was in the United States' national interest (Ibid., p. 10). In May 2012, TransCanada applied a second time for the permit, with a different proposed route. This second application is still, as of September 2015, pending approval.

Meanwhile, KXL has become a major issue in the United States where a national debate involved policymakers, environmentalists, unions and oil interest groups. Proponents of the project stressed that the building of the pipeline would create many jobs in the states where it would pass. They also argued that Keystone would help the United States to be

more energy independent, and that it would ultimately lead to a decrease of energy prices in the country. Opponents, in the meantime, argued that the building of KXL would have major, irreversible, and harmful consequences on the environment, especially regarding climate change. This debate found its way on the national political stage. On the one hand, many (but far from all) Democrats have taken position against KXL[1], and that includes President Barack Obama. The Democratic president, who was elected for the first time a mere six weeks after TransCanada first applied for the Presidential Permit, has frequently expressed his doubts about KXL being in the United States' national interest, stating that it would do nothing to help the country gain greater energy independence (Avila, Good, & Bruce, 2014). He was also concerned with the project's impact on greenhouse gas emissions and its consequences on climate change (Schor, 2015). On the other hand, Republicans in Congress have unanimously taken side in favor of KXL and have repeatedly tried to force the State Department to deliver its authorization. The House of Representatives, where the GOP holds the majority since 2011, has voted no less than 10 times to authorize the construction of the pipeline (Barron-Lopez & Marcos, 2015). In both chambers, legislators have introduced bills that sought to change permitting authority[2], without success.

Among the legislators that chose to actively promote the KXL project, John Hoeven, the senior senator from North

[1] Many "Red-State" Democrats have publicly stated their support for KXL, including Senators Mark Begich (Alaska), Joe Donnelly (Indiana), Heidi Heitkamp (North Dakota), Mary Landrieu (Louisiana), and Mark Pryor (Arkansas).

[2] See Parfomak *et al*., 2013, p. 15-16, for some examples of those bills.

Dakota and former governor of that state, became one of the leading Republican voices on the issue in the upper chamber. Like many of his colleagues, he developed a rhetoric stressing that the pipeline would help to create jobs and insure the United States' energy security. What set him apart were his frequent references to the special friendship shared by the United States and Canada. While not being the only one to rely on this favorable image of America's northern neighbor in his speeches, Senator Hoeven's invocation of the image Canada in his rhetoric was distinctive. First, because it was much more present in his speeches than in the ones of his colleagues, and second, because Hoeven showed no shortage of superlatives in order to describe Canada's relations with the United States, as expressions like "our closest friend and ally" were present in almost every interventions he made regarding KXL.

When it comes to explaining why Senator Hoeven has been so eager to invoke a favorable image of Canada, one obvious answer seems to be that he was trying to frame the debate as a matter of international trade between two states, which would fall under the jurisdiction of Congress according to Article 1, Section 8 of the U.S. Constitution. This is, at least, one explanation that mainstream theories on the role of Congress in foreign policy would suggest. Furthermore, several proponents of KXL in Congress have also relied on this strategy (Parfomak *et al*., 2013, p. 15). But there seems to be more to it. The constant references in his speeches to Canada as a reliable friend and partner set Senator Hoeven apart from other advocates of KXL in Congress in another way. This situation leads us to asking the following question: How did Senator John Hoeven's construction of the identity of Canada as a "friend" and an "ally" of the United States

allowed him to define the U.S national interest in the case of the Keystone XL pipeline? Not only did he intend to convince his colleagues that the building of the pipeline would be in the national interest, but Hoeven also proposed a discourse that ultimately sought to offer his own definition of the national interest. While most of KXL's supporters have linked the completion of the pipeline to the national interest by references to domestic factors, such as job creation and lower gas prices, Senator Hoeven tried to define the United States' national interest with a discourse that featured many references to the international environment.

In this article, we will conduct a discourse analysis of Senator Hoeven's interventions regarding KXL during the 112th and the 113th Congresses (2011-2014) in order to find out what purposes were served by his constant invocations of the image of "Canada-as-a-friendly-neighbor-and-reliable-partner". To do so, we drew inspiration from theories on the role of Congress on foreign policy, as well as from constructivist theories of international relations. We focus on speeches delivered by Senator Hoeven on the Senate floor available in the *Congressional Record*, on his interventions during hearings of various Senate Committees on which he served, on op.-eds. he published in various media outlets, and on statements that can be found on his senatorial website. Our analysis shows that (1) Senator Hoeven constantly described Canada as the United States' "closest friend and ally"; (2) this allowed him, by effect of contrast, to describe other oil suppliers as unfriendly and, thus, as unreliable; (3) he made frequent references to the international context, in order to prove that United States' supply of oil might be in jeopardy if it relied too much on unreliable suppliers; (4) that led him to conclude that the construction of Keystone XL, by

helping the U.S. reach energy independence, would be in the country's national interest.

Congress and foreign policy: A matter of behaviour

The study of Congress and foreign policy has predominantly aimed at answering three questions: How do Congress and its members behave on foreign policy and defense issues? Which factors best explain their patterns and changes of behaviour? How can Congress influence the elaboration and conduct of U.S. foreign policy? Presenting the answers given in the literature to these broad questions will allow us to offer an overview of the field's dominant approaches.[3]

Defining Congress's foreign policy behaviour

Deference and *defiance* (Weissman 1995; Lindsay 2003), *decline* and *resurgence* (Sundquist 1981; Ripley and Lindsay 1993; Rudalevige 2006) are examples of dichotomies that have been used to characterize the legislature's behaviour on foreign policy since the dawn of the Cold War. Accounting for both the level of activity and assertiveness of the institution, Scott and Carter have designed a two-dimensional model of congressional foreign policy behaviour that proposes four portraits of Congress: *competitive*, *disengaged*, *supportive*, and *strategic* (2002, p. 164-165). As for individual members of Congress, these authors argued that much of the institution's activity and influence on foreign policy results from the work of congressional foreign policy entrepreneurs, who are among the most active and assertive

[3] In her book *Foreign Policy and Congress: An International Relations Perspective*, Marie Henehan (2000) proposes a similar overview of the literature.

on these issues within the House and Senate (Carter & Scott, 2009; 2010; Scott & Carter 2014).

Explaining patterns and changes in foreign policy behaviour

These conceptualizations of different patterns of behaviour represent only one side of the coin in the study of Congress and foreign policy.[4] The other side comprises the explanatory factors that allow a better understanding of why Congress and its members sometimes are assertive on specific issues while they defer their authority to the executive on other issues. The literature has put forward factors ranging from events occurring on the international stage to parochial concerns of a representative worried with his re-election as key explanations of these patterns and changes of behaviour. These factors can be regrouped in three different categories depending on the level of analysis that they privilege: international, domestic and individual factors (Gagnon, 2013; Wittkopf & McCormick 1999). [5] Factors from the international level include events or changes happening outside of the U.S. borders, the existence of a threat to national security that is rooted abroad (ex. communism and terrorism) (Lindsay 2003, p. 531), and "critical foreign policy issues" (Henehan, 2000, p.65). At the domestic level, the partisan composition of both chambers of Congress (Howell

[4] For the purpose of this paper and considering the international dimensions of the KXL debate, we will approach energy policy as part of foreign policy. For a summary of the role of Congress in energy policy from 1960 to 2010, see Bruce I. Oppenheimer (2012).

[5] Ralph Carter illustrates the necessity of considering different levels of analysis in order to take into account the multiple influence that can influence the behaviour of representatives and senators: "Like all foreign policy makers, members of Congress exist in a multifaceted setting and react to a wide variety of stimuli... international factors, societal factors, institutional factors, and individual factors." (1998, p. 116).

& Pevehouse, 2005; 2007; Kriner, 2010; Wittkopf & McCormick, 1998), public opinion (Hendrickson, 2002, p. 165; Scott & Carter, 2014, p. 6), and election cycles (Kingdon, 2003, p. 145) have been prominent explanatory factors of foreign policy behaviour.[6] As for individual factors, the electoral explanation of legislators' general behaviour (Mayhew, 1974) has been applied to foreign policy issues (Burgin, 1991; Lindsay, 1994). Nevertheless, ideology (Howell & Pevehouse, 2005; Hildebrandt *et al.*, 2013; Wittkopf & McCormick, 1999), policy preferences (Burden 2007; Carter & Scott 2009; Hendrickson, 2013a; Lamb, 1998), and individual characteristics such as religion, race, and gender (Swers, 2013; Uscinski *et al.*, 2009; Walker, 1996) are other individual factors that are considered to be increasingly important in the field of Congress and foreign policy.[7]

Influence: legislative means and beyond

Any discussion of the means by which Congress can shape foreign policy must start with the powers in the areas of diplomacy and defense that are granted to the legislative

[6] Ryan Hendrickson (2002) has demonstrated that in the instances of the uses of force in Somalia, Haiti, Bosnia, Iraq, and against terrorist organizations during the Clinton presidency, Congress and its leaders' behaviour were influenced by the prevailing *domestic political conditions*. The American public's attitudes toward the president and specific military interventions, as well as partisan politics, are some of the main factors that played in congressional leaders' decision to defer to the Clinton administration rather than to be assertive on most of these aforementioned cases. Hendrickson (2013b) also noted the role played by legislative leaders in the deference of congressional war powers in the case of Obama's 2011 military intervention in Libya.

[7] "Endogenous" or "individual-specific" factors such as formative experience, family background, core values, and desire for institutional influence are other examples of the motives studied to explain senators and representatives' action on foreign policy issues (Carter *et al.*, 2004, p. 280-281; Carter & Scott 2009, p. 33-35).

branch by the U.S. Constitution, but it should not be limited to them. The "power of the purse", the powers to legislate, to declare war, and to provide advice and consent for treaties negotiated by the executive are among the most prominent legislative means of influence available to members of Congress (Deering, 2005). Even though these powers are crucial to congressional influence on foreign policy, any study that limits its focus to them overlooks a great deal of what legislators do to try to shape foreign affairs and defense. In this sense, James M. Lindsay brought the field's attention to the indirect means by which senators and representatives achieve influence: anticipated reactions, changes in the decision making process in the executive branch, and media interventions (1992, p. 613-626).

Members of Congress rely heavily on non-legislative avenues of influence when it comes to foreign policy, be they direct (hearings, oversight activities, behind the scenes contacts) or indirect (agenda setting, framing, and foreign contacts) (Carter & Scott 2009, p. 14).[8] Activities that aim at registering an issue on the political agenda and framing the debate about that particular issue are now considered as essential parts of their tool-kit to influence foreign policy (Carter & Scott 2009; Kingdon, 2003). Position taking in Congress and in the media can even help members of Congress reclaim some prevalence in executive dominated

[8] Building upon Lindsay's indirect means of influence and Eileen Burgin distinction between legislative and non-legislative actions (1993), James M. Scott elaborated a conceptualization of congressional avenues of influence on matters of foreign policy that takes into account both dimensions (1997, p. 49). Legislative actions relate to the passage of a specific piece of legislation, while non-legislative ones do not imply any legislation. Direct actions are used to influence policy on a specific issue, while indirect actions "seek to influence the broader political context" (Carter & Scott 2009, p. 13-14).

areas such as decisions to use force and the conduct of war (Howell and Pevehouse, 2007; Kriner, 2010).

Consequently, position taking, the use of rhetoric, debate framing, and agenda setting are all activities that have received increasing attention in the field of Congress and foreign policy. As David Mayhew has shown, members of Congress have been, since the early days of the Republic, intervening in the *public sphere* on many issues including foreign affairs and defense (2000; 2005). These individuals take stands and, as the public figure of Congress, get noticed by the American public (2005, p. 67).[9]

Beyond traditional approaches of Congress and foreign policy: Discussing national interest through constructivism and discursive analysis

Borrowing insights from constructivism

Taking stands on issues and making their position known through appearances on television and radio, or by publishing an op-ed in a major newspaper are interesting ways for members of Congress to frame the debate, but these statements can have a much larger impact that is not captured by the dominant approaches in the field of Congress and foreign policy. Another way of analyzing these interventions in the public sphere is to borrow elements from international relations theories such as critical constructivism in order to

[9] Mayhew notes that the actions accomplished in the public sphere on foreign policy between 1789 and 1988 illustrate the importance of the non-legislative side of congressional influence: "It is impossible to appreciate the place of members of Congress in foreign policy history without considering these non-lawmaking-role." (2005, p. 81).

demonstrate that members of Congress propose foreign policy discourses that compete for the definition of the U.S. identity (Hansen 2006) and its national interest (Weldes ,1996; 1999).[10] As elected representatives that serve in the House or the Senate, they "play a special role in constructing the meaning of the national interest." (Weldes, 1999: 11).[11] A constructivist approach is particularly suitable to study the competition between different definitions of the national interest. In contrast to realists' and neo-realists' accounts, who take the State's national interest as a given[12], many constructivist scholars argue that the construction of a state's national interest is made by its foreign policy actors and is a reflection of the world as they conceive it (O'Meara, 2010).

Discourse analysis and the making of national interest

More than their realist and liberal counterparts, constructivists are interested in discourses, their use and influence in international relations. *Discourses* can be defined as "(…) sets of socio-cultural resources used by people in the construction of meaning about their world and their activities" (Ó Tuathail & Agnew, 1992, p. 92-93). They

[10] David Patrick Houghton has already advocated in favor of a dialogue between "social constructivists" such as Roxanne Doty (1993) and Jutta Weldes (1999) and traditional approaches of foreign policy analysis (2007, p. 35-39). No such call has been made in the field of Congress and foreign policy, where positivist approaches (behavioralism and rational choice theory) predominate. Interpretative approaches that look at how Congress and its members convey discourses that participate in the construction of crucial concepts of U.S. foreign policy like identity and national interest are marginal in this field.

[11] Senators and representatives are in a privileged position to compete for the definition of the national interest: "They (state officials) have legitimacy especially in the construction of foreign policy, since the 'national interest' is understood to be the quintessential business of the state and the identification of threats to the state's interests is thus a task rightly belonging to its officials." (Rowley & Weldes, 2011, p. 191).

[12] The quest of power for the former and the security for the latter.

emerge "(…) from multiple sources that form a system of signification—that is showing how the context is constructed and organized — which gives meaning and value to the social world." (Sjöstedt, 2007, p. 237). The meanings of identities and national interest are the results of discourses that aim at defining these concepts. Fixity and stability are not characteristics of these discourses and meanings need to be constantly stabilized considering that competing discourses can offer alternative meanings for these concepts (Hansen, 2006, p. 26). Members of Congress are thus active participants in the definition of both the national interest of the United States and its identity through the diffusion of foreign policy discourses. Identities are formed by the processes of linking and differentiation of one Self to one or many Other(s). Hansen states that identification of negatively connoted qualifiers to the other(s) allow the legitimation of the self and gives these examples: terrorist/freedom fighters (Campbell, 1998), developed/underdeveloped (Doty, 1996) emotional/rational; simple/complex (Hansen 2006, p. 17-18).

Discourse analysis is one of the most commonly used methods among constructivist scholars (Milliken, 2001, p. 136). It focuses on the way representations and linguistic tools are used by foreign policy actors in order to discursively construct reality and compete for the definition of national interest. It has often been used to study American representations of neighboring countries. For example, Weldes and Saco (1996) have shown how generations of American politicians have discursively constructed Cuba as a "problem" for the United States, even after the fall of the Soviet Union. Skonieczny has studied how American representations of Mexico were used by politicians in the midst of the debate about the acceptance of this country as an

equal partner before the signature of the North American Free Trade Agreement (2001). Drawing inspiration from cultural theorist Stuart Hall, she argues that "discourse is established through representational elements that consist of certain phrases, visual images, myths, analogies, and metaphors." (Skonieczny, 2001, p. 438). Linguistic tools are an essential component of language because "meaning is produced and assigned through language that constructs a cluster of ideas" which "gain currency based on the association they evoke." (Ibid.) Therefore, she argues that "a discursive approach to foreign policy analysis implies that language has a productive power" (Ibid., p. 439). More recently, Salter and Piché relied on a discourse analysis method to study the securitization of the Canadian-American border. They turned their attention to the language used by American politicians who were pushing for the securitization of the border. "Focusing on the language that is used to describe political events and situations follows from a constructivist and post-structuralist critique of epistemic realism, they argued. Interest, roles, and rationalities are all constructed within language, and these language games make certain policy and identity choices possible" (Salter & Piché, 2011, p. 935).

Constructivism, Discourse Analysis, and Keystone XL

Some scholars have already chosen to use constructivist and discursive analysis in order to study aspects of the Keystone XL debate. Shum (2013) argues that constructivism is much more suitable than realism as an approach to study this issue, since it allows to understand that competing visions of the United States' national interest make it possible to have such

an intense debate surrounding the construction of the pipeline. Séguin used a constructivist and post-structuralist approach in order to examine these contrasting points of view that were put forward by participants of the public hearings organized by the State Department regarding KXL during the Fall of 2011 (2013). Like most constructivists, he argues that political conflicts are essentially conflicts about meaning (Séguin, 2013, p. 46). Below did a discourse analysis about the concept of "energy security" and how it was defined by Congress and the White House (2013). She found out that the two institutions "have constructed energy security to mean relying on diverse sources of energy, not being overly reliant of foreign sources as well as on ensuring a reliable energy infrastructure" (Below, 2013, p. 866). Finally, Littlefield (2013) has worked on the language used by politicians in the many debates surrounding energy issues in the United States. He has shown how loosely defined terms have contributed to the political recuperation of those debates and how language can be used for political means. While we borrow some insights from these previous works that used critical constructivism to analyze the KXL debate, we rely on key concepts of critical constructivism, such as identity and national interest, and the method of discourse analysis to study the action of one U.S. senator on this issue. By doing so, we aim at establishing a bridge between constructivist theories of international relations and the field of Congress and foreign policy, in order to open new horizons for the latter. Scholars who study the behaviour and influence of members of Congress on U.S. foreign policy tend to pay more attention to what these individuals say in the public sphere, but they are not interested in trying to understand what their discourses mean for the politics of identity and national interest construction. Our research demonstrates

how critical constructivism can be useful to study the non-legislative actions of members of Congress on foreign policy issues by focusing on the discourse of one senator, John Hoeven, in the case of the KXL debate.

Studying Senator Hoeven's interventions in the KXL debate

With Executive Order 13337 giving the State Department the responsibility "(…) to determine if granting a permit for the proposed pipeline would serve the national interest." (U.S. State Department, 2014), the Obama administration launched an all-out race for opponents and advocates of Keystone XL to make their case. Since 2008, legislators have been key actors of that race and have offered their own definitions of the U.S. national interest. Following the 2010 midterm elections, Republican John Hoeven was elected as a U.S. senator for the state of North Dakota. Alongside Senators Mary Landrieu (D-LA), Mark Pryor (D-AR), Lisa Murkowski (R-AK), John Thune (R-SD), and Mike Johanns (R-NE), he became one of TransCanada's pipeline project's most vocal proponents. Prior to his election in the Senate, he served ten years (2000-10) as governor of North Dakota, a state that shares a border with Canada. It thus may come as no surprise to hear him regularly talk about the United States' northern neighbor in his speeches about Keystone. His personal policy position on energy issues and his party affiliation would be possible factors to explain his stance on the pipeline using standard approaches to the study of the role of members of Congress and U.S. foreign policy. Similarly, his rhetoric invoking the close relationship between Canada and the U.S. could be linked to his former office. Nevertheless, as the following discursive analysis will demonstrate, Hoeven's Keystone XL discourse conveyed a

representation of Canada as a “close friend and ally” that serves in a definition of what was the country’s national interest.

The method we used in order to conduct a discourse analysis of John Hoeven's interventions in the Keystone XL debate was rather simple. We read the Senator’s many interventions in which he took a position in favor of the completion of the pipeline, defined it as part of the United States’ national interest, and made references to Canada as a friendly neighbor and reliable partner. Those interventions, ranging from 2011 to 2014, were taken in the *Congressional Record*, in the transcripts of the Senate Committee on Energy and Natural Resources hearings, in the statements and news releases from his official website, and from the media in which the Senator has written in order to make his position known. We did a predicate analysis, which, according to Milliken (2001, p. 141-145) is particularly suitable to study discourses as systems of signification. Predicate analysis focuses on predication, i.e. the way nouns (Canada, United States, China, Middle East, Venezuela) are linked to verbs, nouns and adjectives and are thus constructed “as a particular sort of thing, with particular features and capacities” (Ibid., p. 141). These “things” are always constructed in relation to other things. By studying Senator Hoeven’s discourse, we thus saw how Canada was constructed as a friend and an ally of the United States, but also how China was constructed as a rival of the United States and a potential economic partner of Canada, and how Venezuela and Middle Eastern countries were represented as unfriendly countries that benefited from the United States’ dependence on foreign oil.

Senator Hoeven, Keystone, Canada and the United States' national interest: a discourse analysis

Canada and the United States share the longest international border in the world. They also maintain the largest bilateral commercial relationship in the world (Ek & Fergusson, 2014, p. 23). The energy market between the two countries is unique in its degree of integration (Davis, 2005, p. 430; Hale, 2012, p. 4). Canada is the largest supplier of the United States' crude oil imports[13]. This leads to a situation of interdependence, in which the United States rely heavily on Canadian oil, while Canada also rely on its exportation to the United States, and thus, to the strength of American economy (Hale, p. 308; Thompson & Randall, 2008, p. 5).

Throughout the years, many scholars have contributed to the study of the relation between Canada and the United States (Behiels & Stuart, 2010; Hale, 2012; Mahent & Mount, 1984; Moens & Gabler, 2011; Molloy, 2012; Thompson & Randall, 2008). However, most of these works have been written from a Canadian perspective. This may come as no surprise, since, as former Canadian Prime Minister Joe Clark puts it, "Canada is rarely in the minds of most Americans; at best, Canada is part of the background, like the weather, or a sound off-stage, despite being the next-door neighbor, despite being the largest trading partner" (Clark, 2005, p. 465). One of the most constant features of the Canadian-American relation has been its asymmetrical character, which is a consequence of the two countries' "imbalance in power" (Thompson & Randall, 2008, p. 2). However, this lack of

[13] 21.5 percent of the US' oil import come from Canada. That is more than the next two suppliers – Mexico and Saudi Arabia – combined (Ek & Fergusson, p. 19, 54-57; Hale, p. 303).

attention of Americans directed toward Canada does not mean that there is not a general favorable feeling for the northern neighbor. Most American politicians do not hesitate to invoke the special relationship, even the friendship between the two countries (Hale, 2012, p. 3; Thompson & Randall, 2008, p. 1). This favorable view of Canada is widely shared by Americans, even if they generally do not possess solid knowledge about this country. It has been suggested that Americans' goodwill attitude toward Canada originates from a national imaginary which put forward myths of Canadian benevolence (Molloy, 2012, p. 4). A 2013 *Gallup* poll shows that 91% of Americans back then had a "very favorable" opinion of Canada, making it the most favorably viewed country in the survey[14] (Newport & Himelfarb, 2013).

As a senator and former governor of a state located on the Canadian-American border, we might expect that John Hoeven had a good knowledge the many issues relevant to this relationship and was fairly conscious of the interdependence and the links between the two countries in the energy field (Hale, p. 4 & 90-91). Considering the favorable view most Americans and their politicians shared toward Canada, it was somehow coherent for Senator Hoeven to discursively construct Canada as America's "closest friend and ally" and thus a reliable partner when it came to dealing with energy issues on the international stage. This representation of Canada allowed him to point out that Canada was different, in a good way, compared to America's other suppliers of oil. Hoeven also evoked elements of the international context in order to show how relying too much

[14] The least favorably viewed being Iran.

on unstable sources (unlike Canada) may pose a threat to the United States' energy security. This led him, ultimately, to argue that the building of Keystone XL, by allowing greater quantity of crude oil to be delivered to American refineries, would considerably help the United States to gain energy independence, which was in the country's national interest.

Senator Hoeven's Canada: close(st) friend and ally

Shortly after his election to the United States Senate, freshman Senator John Hoeven was eager to show his enthusiasm toward an increase in the import of oil from Canada. He "had the pleasure to work with that friendly country" while he was governor of North Dakota, at a time in which his state began experiencing its energy boom. In the midst of a hearing of the Senate Appropriations' Subcommittee on State, Foreign Operations, Related Programs, he told then-Secretary of State Hillary Clinton that he hoped the Obama administration would give its approval to the KXL project: "I understand you declined to comment at this point, but I just wanted to tell you that I think it is very good to be bringing down more oil from Canada for our country's needs (…) we (North Dakotans) work a lot with our Canadian neighbors on energy issues" (United States Congress. Senate Committee on Appropriations…, 2011).

Like most Americans, members of Congress generally show goodwill toward Canada, especially on energy issues (Moens & Gabler, 2011, p. 2). Consequently, Hoeven was not the only member of Senate who invoked a friendly image of Canada in the midst of the KXL conversation. Other senators who spoke favorably of Canada included John Barrasso (R-WY), Roy Blunt (R-MO), John Cornyn (R-TX), Kay Bailey

Hutchison (R-TX), Mike Johanns (R-NE), Mary Landrieu (D-LA), Mitch McConnell (R-Kentucky), and John Thune (R-South Dakota). However, what set Hoeven apart on this matter was both quantitative and qualitative: not only did he invoke Canada's friendly image in nearly all of his speeches on the Senate floor – and far more than his colleagues[15]-, but he was never afraid to use superlatives to describe the United States' relation with Canada. In Hoeven's discourse, Canada was not only a friend, an ally, and a partner to the United States, it was *the* closest friend, ally and partner.

In the course of his many interventions on the Senate floor, Hoeven did a bit of "fine tuning" in order to find out what was the best way to describe Canada. On November 30 2011, he described Canada as the United States' "best friend and ally." (United States Congress. Congressional Record, November 30, 2011). Then, on February 1st 2012, he talked about "our closest ally" (CR, February 1st, 2012). Then, for some time he chose to put the emphasis on the two countries' bilateral trading relation and described Canada as "our closest friend and our No.1/strongest/closest trading partner (CR, February 7, 2012; February 14, 2012; March 8, 2012). After a somehow mild description of Canada as a "good friend" (CR, March 28, 2012), he settled for "our closest friend ally [in the World]" (CR, August 1st, 2012; January 30, 2013; February 7, 2013; March 5, 2013; September 19, 2013; December 11, 2013).

[15] While at this point that we did not conduct a systematic survey of all of Hoeven's colleagues interventions regarding KXL, a preliminary analysis show that Canada was seldom mentioned in others proponents of KXL's speeches on the Senate floor. Hoeven, for his part, mentioned Canada's friendship with the United States in more than 80% of his speeches regarding the pipeline on the Senate floor.

Thus, Senator Hoeven's discourse about Canada described America's northern neighbor as: (1) a partner, with whom the United States did trade on a large scale; (2) an ally, against international malevolent forces; and more importantly (3) as a friend. In Hoeven's speeches, the United States close friendship with Canada was taken for granted. Compared to the concepts of "ally" and "partner", the concept of "friend" or "friendship between states" has not received a substantial amount of attention in international relations (Wendt, 1999, p. 298). Of course, there is this old saying that "Nations have no friends, only interests", but for many Americans and Canadians, this does not seem to apply to the relation between the two North American countries (Thompson & Randall, p. 1). In fact, a majority of Americans see Canada as a "friend" and an "ally" (Gravelle, 2011, p. 5-6). But Canada is not only a friend among others, according to Hoeven. It is *the* closest friend of the United States, and the senator was making sure to include this representation in almost every speech he delivers on KXL[16].

In Senator Hoeven's KXL discourse, the Canadian-American friendship was mostly invoked as an argument (although an essential one) that pleaded in favor of building the pipeline. However, this friendship was put at the center of his rhetoric in a speech delivered on the Senate floor in January 2013, which featured a surprising display of intertextual rhetoric (Hansen, p. 60-61):

> Recently, I attended the movie "Argo". (…) It is about the Iran hostage crisis in 1979. Six American diplomats fled to the Canadian Embassy when the

[16] The identity of the United States' best friend is of course a subjective matter. Many Americans would argue that America's most "special relationship" is with the United Kingdom.

> U.S. Embassy was stormed by the Iranians. (…) It really is a great story. It is a story of how the United States and Canada worked together when a Middle Eastern country that define the United States as the "Great Satan" was holding our people hostage. Here we are today continuing to rely on oil from the Middle East. We cannot continue to rely on the volatile countries of the Middle East for our energy. (…) We can and we must rely on ourselves. We must rely on those we can count on, such as our closest friend and ally, Canada. (CR, January 30, 2013)

This reference to a Hollywood blockbuster[17] can draw a smile at first, but this speech was very revealing of the way Senator Hoeven described, in his discourse, the durable friendship between Canada and the United States as the exact opposite of the relation the latter has with "volatile countries in the Middle East" like Iran. A discourse is seldom about constructing only one object. On the contrary, the construction of an object usually goes along the construction of other objects, by way of implicit or explicit (as in this case) parallels and contrasts (Milliken, p. 142). Thus, while exposing how Canada was such a close friend to the United States, Senator Hoeven also wanted to show that Canada was precisely what America's other oil suppliers were not: friendly, stable, and reliable.

A "friendly" Canada versus the "not so friendly" others

The representation of Canada as the United States' "closest friend and ally" was just one part of the story of Senator

[17] Ironically enough, those praises by a Republican politician were intended toward a movie directed by one of Hollywood's most prominent liberal voice (Ben Affleck).

Hoeven's discourse on Keystone XL. The construction of Canada's identity as a "close ally", a "reliable source of crude oil", a "neighbor", and a "friend" in the Senator's discourse was presented in opposition to "volatile", "unstable", and "hostile" countries from the Middle East and Venezuela. Whereas the completion of KXL and the collaboration with Canada can help the U.S. achieve energy *independence*, the rejection of the project would mean a continued *dependence* on oil from "volatile places like the Middle East and Venezuela", according to Hoeven (Hoeven Joined…, 2013). Only the completion of the pipeline would enable the U.S. to "break" or even "eliminate" that dependence (CR, 2013, p. S2519; Hoeven Presses…, 2013). [18] As he stated in a February 16, 2012 Senate Committee on Energy and Natural Resources (SENR) hearing, John Hoeven's own definition of *energy independence* implied this emancipation from Middle Eastern oil: "But however you want to define it, (sic) but certainly no longer relying on oil from the Middle East." (United States Congress. SENR, 2013).

Not only did the Senator from North Dakota propose such a discourse on the Senate floor and in hearings of the Committee on Natural Resources and Energy, he also went on to discuss the need to decrease the dependence on Middle Eastern oil with Israeli Prime Minister Benjamin Netanyahu in Jerusalem in January 2012 (Hoeven Meets…, 2012). In February of the same year, he was part of a Senate delegation that met with Egyptian and other Middle Eastern government

[18] Searching through the statements and news releases available on the Senator's website (*hoeven.senate.gov*), we found 43 statements, ranging from 2011 to 2014, in which Hoeven mentions directly the need to reduce the United States' *reliance* or *dependence* on oil from the Middle East.

officials in Cairo. It was a great opportunity for Hoeven to reaffirm the need to approve KXL in order to put an end to the current need for oil from that region:

> Volatility and tensions in the Middle East create real security issues for the United States. This is particularly true while we remain dependent on Middle Eastern oil (…) That's why I'm committed to North American energy independence through work on projects like the Keystone XL pipeline. In the meantime, we must seek to build stable relations with these nations and find common ground with their leaders for the benefit of our people. (Hoeven, Senators…, 2012)

Interestingly, during his first year in Congress, Hoeven mostly referred to the Middle East in general and rarely mentioned specific countries when speaking about KXL. From 2012 to 2014, he started to invoke specific countries, like Iran and Syria, when crisis involving these countries received increasing attention from policymakers and the media.[19]

Linking the Self to one or several Other(s) is an essential part of the process of identity construction and stabilization (Campbell, 1998; Hansen, 2006). In the case of Canada and KXL, the identity of the U.S. "northern neighbor" was directly linked to the ones of the countries upon which the

[19] Other senators who advocated for Keystone XL, like Richard Lugar (R-IN), referred to a larger number of countries when talking about instability in the Middle East: "Consider, for example, some of the flashpoints in oil-rich countries over the more than three years that the Obama Administration examined the Keystone XL pipeline application: Iran threats against Israel, the Strait of Hormuz, and the U.S. Navy; Venezuelan antagonism; war in Libya; hostilities in Iraq; a stalemate in Sudan; unrest in Russia; the Arab Spring; strained relations with Saudi Arabia; violence in Nigeria; and the ongoing threat of terrorism against energy infrastructure." (CR, 2012, p. S1519)

U.S. were *dependent* for their oil supply. Canada is clearly differentiated from these countries. While words like "friend" and "friendly" were frequently used by Hoeven to describe Canada, expressions like "hostile" and "not friendly" were associated with the Middle East and Venezuela (CR, 2011, p. S8026). The constructions of identities conveyed in his discourse were not without impact on the debate on KXL and on the orientations of U.S. energy and foreign policies.

By representing Canada as "our closest ally" and Venezuela and Middle Eastern countries as "volatile" and unreliable regions, Hoeven's discourse portrayed the completion of the pipeline as the only logical policy to adopt: "We do not want to depend on the Middle East for oil when we can produce it at home, along with our closest ally Canada." (Hoeven Statement…, 2014) Not only was such a policy constructed on the basis of these identities constructions, but this policy also reinforced the representation of Canada as a friend and ally while exacerbating the representation of countries deemed as hostile and volatile.[20]

The geopolitics of energy according to Senator Hoeven

By emphasizing the "otherness" of Venezuela and Middle Eastern countries, Hoeven's discourse allowed him to represent Canada as the go-to partner for the United States and to define the country's national interest in terms of energy independence. But this was not the only dimension of his discourse involving a vision of U.S. foreign policy

[20] Hansen explains how identity is both the foundation and the product of policy: "Identities are thus articulated as the reason why policies should be enacted, but they are also (re)produced through these very policy discourses: they are simultaneously (discursive) foundation and product." (2006, p. 19).

towards Middle East and other regions of the world. North Dakota's former governor also proposed a representation of the place of the U.S. in the global geopolitics of energy. This aspect of his discourse can be divided into three parts. First, he suggested that without KXL, Canada's oil would be shipped to China. Second, he updated his argument of the "Middle East as an unstable region" with the events occurring in Iran, Syria, and Iraq. Third, the turmoil in Ukraine, the ensuing Russian invasion and annexation of Crimea, and the dependence of European countries on Russian energy were used in Hoeven's rhetoric as justifications to achieve energy independence through KXL.

The rejection of the pipeline project would not only mean a continued reliance on oil from Venezuela and the Middle East, but also a greater energy trading partnership between Canada and China. Hoeven's discourse even established this scenario as an element of "common sense": "For starters, let's use some common sense on that one. I am pretty sure if we don't build the pipeline, it is for sure going to China. That is just flat-out common sense, for starters." (CR, 2012, p. S1516) For him, the crude oil from Alberta's tar sands would have been extracted with or without a pipeline. If Keystone was to be rejected, the resource "(…) will be shipped by sea to China (…)" (Hoeven: CRS…, 2012).[21] China would certainly want to buy it considering that the country was driving the growing global demand for oil (U.S Senator…,

[21] Hoeven is more nuanced when it comes to representing China than the Middle East. Despite his position, some Senators proposed stronger stances to represent this country. Lugar (R-IN) stated that China had a "voracious appetite for energy" (CR, 2012, p. S1519), while Mary Landrieu (D-LA) portrayed it has a potential threat for the U.S. in reference to the administration's position on KXL: "Does America ever want to be too weak to stand up to China? No." (CR, 2014, p. S2772)

2012). Senator Hoeven's discourse suggested that this was a worrying scenario for the U.S. on an environmental standpoint because the crude oil "(…) shipped via tankers across the Pacific (…)" will be "(…) refined in higher emission refineries." (Hoeven: The…, 2013) By doing so, he also played on the field of KXL opponents who claimed that KXL would lead to greater emissions in the U.S. Hoeven stated that in fact the pipeline would have positive consequences on the environment because it would prevent the refining of Canadian crude oil in China: "It will go to China, and we will have worse environmental stewardship, not better. Building the project will actually help us provide better environmental stewardship because we don't need to haul that oil overseas, around the world." (CR, 2012, p. S165) On February 6 2012, Senator Hoeven warned his colleagues that Canadian Prime Minister Stephen Harper was on a trade mission in China and that the Obama administration's policy was driving the U.S. number one trade partner into the arms of the Asian power: "He left on a trade mission to China. And what is at the very top of his list? At the very top of his list in his trade mission to China is selling Canadian oil to China." (CR, 2012, p. S366) In the Senator's discourse, the specter of China clearly loomed over a potential rejection of the KXL project.

The second aspect of geopolitics in Hoeven's discourse was the frequent references to instability in the Middle East. These references evolved between 2011 and 2014 to capture the events that were reinforcing the idea that the region was an unreliable source of oil for the U.S. Until the beginning of 2012, he mainly referred to Middle East as an unspecified collection of countries that were hostile to the U.S. interests. When Iran threatened to close the Hormuz Strait in late 2011

and early 2012, Hoeven began to associate higher gas prices with the *unstable* Middle East, and the need to complete the KXL pipeline to the situation in Iran:

> Yet the President is saying 'no' to the Keystone XL pipeline, he's saying 'no' to a project that will bring more than 700,000 barrels of oil a day from our friend and ally, Canada, and he's virtually assuring continued reliance on the Middle East. That makes no sense, and it's a matter of great concern for our national security, particularly with what's going on in Iran. (U.S Senator…, 2012)

In January 2013, he began to include other countries in his discourse in reaction to the unfolding Syrian civil war and the turmoil in Egypt: "How can we continue to depend on energy from the Middle East when we see what is going on in Syria, when we see what is going on in Egypt and we see what is going on in Iran?" (CR, 2013, p. S391) Then, in September of the same year, after the Obama administration had considered conducting air strikes to punish Bashar al-Assad's regime for its alleged used of chemical weapons, Syria became associated with the region's volatility: "Right now, we're determining how to respond in the Middle East, specifically Syria, and it shows, with the volatile situation there, how important it is that we can produce our own energy in North America and not have to get it from the Middle East." (Horwath, 2013)

Hoeven also reacted to the emergence of terrorism from ISIS in the American political debate. Marking the sixth anniversary of "inaction on the Keystone XL permit" along with all 45 Republican Senators in mid-September 2014, the Senator from North Dakota linked the terrorist organization operating in Syria and Iraq to the need to approve the

pipeline: “After more than six years of study, five favorable environmental reviews, numerous polls showing the support of the American people, ISIS and the turmoil in the Middle East, it is way past time we take off the blinders and do what is in the best interest of the United States: approve the Keystone XL pipeline” (Hoeven, McConnell…, 2014) Multiple crisis were thus integrated in Hoeven’s discourse on the pipeline to demonstrate the extent of the Middle East volatile and hostile character.

The political unrest in Ukraine that started at the end of 2013 and the ensuing invasion of Crimea by Russia was the third set of international events that made its way into John Hoeven’s KXL discourse. Appearing alongside Canadian ambassador to the U.S. Gary Doer on March 19 2014, Hoeven directly linked the events in Ukraine to the need to achieve U.S.-Canada energy independence (Hoeven, Doer…, 2014). Discussing his recent participation in a Senate mission to Ukraine, he also invoked the specter of energy dependence: “In Ukraine, we saw a people fighting for freedom, but frustrated and fearful in their aspirations because of their energy dependence on Russia” (Ibid). Not only were Ukrainian leaders’ hands tied because of this dependence, but Hoeven stated that Western Europe could barely react to Russia’s behaviour because of its own reliance on Russian energy: “One of the reasons Russia is able to take that kind of action and the European Union is reluctant to put sanctions in place as a response is because Europe, Ukraine, are dependent on Russia for natural gas for energy.” (CR, 2014, p. S1902)

By talking about the situation in Ukraine, Hoeven’s discourse suggested that the U.S. should act to attain its own energy

independence with Canada through KXL. It also implied that projects like the pipeline would in the long term reduce energy costs and thus weaken Russia who was dependent on revenues from oil and gas (Hoeven: Russia…, 2014). The idea of weakening Putin's Russia and strengthening Ukraine and European allies was also put forward in an op-ed Hoeven and Senator John McCain (R-AZ) published in the *Wall Street Journal* on July 29, 2014. They stressed the need to adopt Senators Lisa Murkowski (R-AK) and John Barrasso's (R-WY) *North Atlantic Energy Security Act* that would, among other things, approve KXL (Hoeven & McCain, 2014). In John Hoeven's discourse, KXL's completion was a way for the U.S. to achieve energy independence with its northern neighbor, but it was also part of a geopolitical "leverage" to help Ukraine and other European countries free themselves from their dependence on Russian energy.

Canada and the United States: partners toward energy independence

Energy independence is, in Senator Hoeven's view, an essential part of the United States' national interest. This very idea underpined most of his interventions in support of the construction of Keystone XL. The pipeline was the cornerstone of a strategy which consisted of increasing the amount of crude oil imported from Canada, a reliable friend and ally, in order to free the United States from their dependence with oil coming from volatile regions of the world and hostile suppliers. This, argued Hoeven, will allow the United States to be fully energy independent.

In a speech delivered on the Senate floor on February 2012, Hoeven asserted this specific goal of energy independence.

Following a complaint that the United States were importing too much oil from "places such as the Middle East and Venezuela", he stated that:

> The reality is, we can have North American energy independence. We absolutely can do it. I believe we can do it within the next 5 years. (…) But we need pipelines to get that product to refineries in the United States. That is what Keystone XL would do. (…) Between the United States and Canada, and some from Mexico, building infrastructure such as the Keystone XL Pipeline, we can produce more than 75 percent of the crude oil we need in our country, and that is growing. When I talk about North American oil independence or North American energy independence, that is very attainable. It is something we can absolutely do, but we need the infrastructure to do it. (CR, February 14, 2012)

It is interesting to see that Hoeven talked about North American, and not only American, energy independence. As a former governor of a state that shares a border with Canada, Hoeven was conscious of the two countries' interdependence when it comes to energy issues. But there may be more to it. By talking of North American energy independence, Hoeven seemed to suggest that Canada (and, to a lesser extent, Mexico), shared a common interest toward this goal with the United States. Cooperation with Canada would thus, in Hoeven's discourse, be part of the United States' national interest. Here we can draw insights from the concept of *security complex*, described by Barry Buzan (1991, p. 186-229) as a geographically coherent group of two or more states that are linked by security interdependence. In this case, the economic security of Canada is mutually dependent with the United States' energy security. According to Buzan,

energy complex may be characterized by rivalries between the states it comprises, but also by cooperation, when those states have common interests.

The idea of energy independence is one that is greatly appealing to the American people, since it implies not only less dependence toward oil supplies from hostile countries, but it also brings the promise of cheaper gas prices. So it is not surprising that Senator Hoeven has put the emphasis on this idea in his interventions outside of Congress. As an example, in an op.-ed. published on *CNN.com*, he argued that:

> The Keystone XL pipeline represents a big step toward true North American energy independence, reducing our reliance on Middle Eastern oil and increasing our access to energy from our own nation and our closest ally, Canada, along with some oil from Mexico (…). That decades-long goal for our country is finally within reach, but we need to stay focused on the big picture, and we need to act. This $7 billion, 1,700-mile, high-tech transcontinental pipeline is a big-time, private-sector job creator, and it will also hold down the gas prices for consumers and reduce our energy dependence on an unstable part of the world. (Hoeven, 2012)

His own senatorial website (*hoeven.senate.gov*) contains several statements stressing that the building of KXL was an essential step in the quest toward energy independence. Some examples include: "(…) it is clear that the United States should seize the opportunity to band with its closest neighbor and ally, Canada, to ensure true North American energy independence. What could be more in the national interest?" (Sept. 12, 2013); "With our closest friend and ally Canada,

we can produce more energy than we use, but we can't get to the point of energy independence without the infrastructure necessary to achieve it" (Sept. 16, 2014); "We do not want to depend on the Middle East for oil when we can produce it at home, along with our closest ally Canada" (November 12, 14, & 18, 2014); "It will make our country more secure and energy independent because we will be getting more oil domestically and from our closest friend and ally Canada (…)" (December 16, 2014).

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While many of his colleagues have insisted on the domestic context of the KXL debate, Senator John Hoeven has chosen to represent the bigger picture: America's neighbor to the north, Canada, has one of the largest estimated crude oil reserve in the world. It is a country with which the United States has long maintained a friendly relationship and it is also America's biggest trade partner. Canada shares American values and has many mutual interests in the oil market. In the meantime, the United States relied too much on volatile countries for their oil supplies. Therefore, the completion of the KXL pipeline would allow the United States to further its good relation with Canada, to stop being too dependent on unstable and hostile suppliers, and would, ultimately contribute to the United States gaining energy independence, which is presented as a goal that serves the country's national interest.

Conclusion

This study of Republican Senator John Hoeven's discourse on the completion of the KXL pipeline demonstrates how

members of Congress, as foreign policy makers, are active participants in the construction of the U.S. national interest and other States' identities. These processes both have outcomes for and are influenced by U.S. foreign policies. Hoeven presented the completion of KXL as essential to the national interest because it meant closer cooperation with Canada, a friend and an ally, while breaking the country's dependence on oil from volatile and even hostile countries from the Middle East and Venezuela. Consequently, Canada's identity as America's "closest ally" was constructed in opposition to countries deemed as unreliable upon which the U.S. *depend* for oil. Senator Hoeven's discourse reinforced the idea that the KXL debate could only have two outcomes and excluded any other possible ones. Either the U.S. approves the construction of the pipeline that would cross the U.S.-Canada border and achieve energy independence along with its northern neighbor, or it continues to depend on sources of oil characterized by their instability like the Middle East and Venezuela, while Canada would sell the crude oil it would have extracted anyway to China.[22]

As part of the research on the role of Congress in the formulation of U.S. foreign policy, this article proposed a possible path to reach a better understanding of what is going on when members of Congress rely on non-legislative

[22] This dilemma is best illustrated in this March 8, 2012, John Hoeven quote: "Here we are faced with a very clear choice. Do we go ahead and get oil from our closest friends and trading partner, Canada, or say no to them and have them send it to China? Do we reduce our dependence on Middle Eastern oil and reduce the price of gas for hard-working American consumers? How about national security? Would you rather rely on oil from the Middle East or from Canada? Would you rather have oil produced here, in North Dakota, Montana, and in Canada, or would you rather get it from the Middle East?" (CR, 2012, p. S1516)

avenues of influence, like speeches, media interventions, and foreign contacts. The Congress and foreign policy field already have shown how public interventions are potential avenues for members of Congress who try to set issues on the political agenda and frame the debate on these same issues. International relations theories like critical constructivism can help understand how these individuals, who have legitimacy as elected state officials, are taking part in the competition to define important foreign policy concepts like national interest and identities. The dominant definitions of these concepts are not fixed and always need to be stabilized, considering the existence of challenging definitions. Senators and representatives are participants in that process and can either express discourses that contribute to the stabilization or that offer alternate meanings for the national interest and identities. More discussions between positivist approaches that study the behaviour of Congress and its members and post-positivist theories like the one displayed in this article would be interesting and stimulating for the research on Congress and foreign policy, but the epistemological chasm between them is an obstacle that must not be underestimated.

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