

About This Journal

"Modus Vivendi" is Latin for "way of life," but in international studies parlance, it signifies "a state of affairs where two opposing parties agree to differ." Therefore, we feel that *Modus Vivendi* is an appropriate name for a journal dedicated to an intelligent discussion of global issues, and this journal is designed to be an open forum for any views concerning international affairs.

Modus Vivendi is published under the auspices of the Theta Chapter of Sigma Iota Rho, the International Studies Honor Society. The staff of the journal selects articles which are submitted anonymously by students of Rhodes College. The evaluation process is extensive and each paper is graded by the editors according to the highest standards of research and scholarship. In this way, *Modus Vivendi* serves as a vehicle for recognizing outstanding papers pertaining to international affairs. Further, it is one of only a few journals which recognize undergraduate scholarship in this field.

This year's journal contains articles covering vastly different cultures and issues. This is the essence of international studies- to analyze and learn from other societies. We are often struck at how international affairs pervades the daily life of the intellectual. The international environment affects the way in which students of all disciplines view themselves and others. The international political arena provides countless discussion topics, among all people, not just I.S. majors. To arrive at some level of understanding in this arena, we must have open discussion of these issues. Further, an intellectual eclecticism is necessary for the adequate study of international phenomena. Thus, we encourage students of all disciplines to submit to this journal.

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Although it has taken many long hours of reading, re-reading, editing, re-editing and printing, the process itself has been worthwhile and rewarding. We hope that you enjoy the result. Also, please visit us via the International Studies Web Page at "<http://www.is.rhodes.edu>".

The Editors of *Modus Vivendi*

The Communist Face of the Russian Mafiya

Blake Rollins

In 1993, the Russian Ministry of Internal Affairs (MVD) estimated 25% of the Russian gross national product about 44-45 trillion rubles derived from 5600 separate organized crime syndicates.¹ Projecting criminal earnings for the following year to reach 280 trillion rubles,² President Boris Yeltsin responded with the June 1994 decree "On Urgent Measures to Protect the Population Against Gangsterism and Other Manifestations of Organized Crime." The unpopular measure expanded police power to conduct arrests and searches without warrants, incarcerate citizens for 30 days without formal charges, and in the tradition of Stalin's NKVD, allowed police to legally submit the testimony of secret government informants at trial whose identities could be concealed. Though declared unconstitutional by the State Duma, Yeltsin refused to withdraw his largely unsuccessful decree. In 1993 alone, deaths resulting from criminal violence topped the total number of Russian casualties during the nine years of Afghan war.³ Banking, progressively the most hazardous occupation in Russia, witnessed 84 assaults on prominent figures since 1991, 46 of which resulted in death.⁴ Proceeds from mafiya controlled business surpassed the income of many UN member nations, including former Soviet Republics.⁵

The term "mafia", in popular lingo, applies to any underground group that conducts illegal business with the complicity of legitimate government.⁶ In this sense, "mafiya" (the Russian phonetic transliteration of mafia) first applied to the underground economy of Russia in the 1970s.⁷ Yet the patterns of bribery, violence, and privilege date back to the foundation of the Bolshevik party. Indeed, United States law enforcement officials recognize the distinctly communist character of contemporary mafiya activity. Jim Moody, Deputy Assistant Director of the FBI Criminal Investigation Division testified in February 1996 before a House Panel to discuss the opening of an FBI branch office in Moscow:

Under communism, it was philosophically and politically impossible for the ruling bodies to recognize the activities of organized crime. In addition, elements of the communist regime functioned as organized crime groups conducting routine corruption, another fact which could not be admitted by the government. As a result, appropriate legal tools were not created to control organized crime.⁸

Criminal enterprise on the complexity and scale of the Russian mafiya is attainable only through the support of government on every level. A 1992 government report indicated that more than half of mafiya groups enjoy government ties.⁹ Together with the former Soviet Party elite called "nomenklatura capitalists", the mafiya probed into the profitable export of raw capital such as oil and minerals and extorted protection money from legitimate business.¹⁰

The Russian mafiya represents an outgrowth of communism rather than rampant capitalism. The political instability of a nascent Russian Republic in 1991 allowed organized crime to fill the power vacuum and assume economic control of the country.

The 1995 GDP real growth rate of -4% reported by the CIA.¹¹ reflects the desperation of a nation incapable of sustaining market reform. The strong showing of Ultra-Nationalist Vladimir Zhirinovskiy in the 1993 parliamentary elections, as well as the resurgence of the Communist party under Zuyganov in the 1996 presidential run, indicate a growing trend among Russian voters: the desire for law and order.¹² In order for Russia to develop a legitimate market economy, the nation must first retrace the precepts of Soviet law incapable of effectively dealing with concepts of private property and internal corruption.

Soviet Politics as Precursor to Mafia Proliferation

Abuse of bureaucratic power and illegal markets have punctuated the Soviet state since its inception in Russia. When interviewed in 1994, Georgian gangster Otari Kvantrishvili boasted: "They write I am the mafiya's Godfather. It was Vladimir Lenin who was the real organizer of the mafiya and who set up the criminal state."¹³ The traditional gang structure, fortified by an oath of allegiance, became the model for the early Bolshevik party in the Tsarist era. During the November Revolution of 1917, the Red Army employed bandits to "expropriate" money from banks in the Caucasus an activity taken up by a young Josef Stalin.¹⁴ During Stalin's tenure as First Secretary, he considered the criminal fringe an ally, often enlisting them in his secret police. Nowhere was the influence of an organized criminal element stronger than in Stalin's gulag prison system. Because the state distinguished between common crime and political crime (treason), the Cheka utilized common criminals as informants and spies against the "enemies of the people."¹⁵

Scholars often cite Soviet prison camps as the birthplace of modern organized crime. Colluding with Soviet authorities who considered common thieves "socially close" to state institutions, informants would swear an oath of allegiance to the state and often legitimize their pledge with a tattoo. *Vory v Zakone*, the prison honor code that Russian thieves profess to this day, swears all loyalty to the syndicate over family and promises never to reveal the secrets of the organization.¹⁶ The Sicilian Mob, which Russian groups today strive to emulate, professes a similar oath to sustain order. The favoritism shown compliant prisoners by the Communist state emerges in the study of Gulag tattoos. One common design called "The Informant Gets His Reward" satirizes the benefits of conspiring against state enemies in prison which includes extra rations of vodka and wine.

Interestingly, after the Great Patriotic War Russian prisoners split on the issue of loyalty to the state. Many inmates forsook their *Vory v Sakone* to join the patriotic cause of defending the Motherland but suffered a loss of prestige upon returning to prison. When veteran prisoners felt threatened by their less patriotic counterparts, they sought protection from prison authorities. The ensuing "Bitches' War" between old and new criminal groups resulted in the defeat of the old *Pakhan* crime bosses who refused collaboration with the state. By the war's end, the "bitches" codified a new oath that allowed collaboration with state authorities. Thus, the first successful union between bureaucracy and organized crime transpired under Stalin's rigid gulag system.¹⁷ The tattoo of the victorious new-sprung breed of *Pakhan* reflected the optimistic attitude of

essentially state-sanctioned delinquency. Often accompanying this image was the saying: "How am I worse than the Communist thieves?" In the 1990's Russian gangs still utilize tattoos for identification designs which strikingly resemble the early gulag designs.

Politically, Stalin's Five Year Plans institutionalized corruption as everyday economic activity. Factory managers contended with continual shortages and strict production targets and often bribed fellow factory managers to obtain needed supplies. Usually, industrial products would be labeled defective and then shipped as payment to the source of needed capital.¹⁸ Shortages of essential consumer services and goods like construction, automotive/household repair, tailoring, gasoline, tools, and medicine created a substantial black market into the Soviet economy along with a populace willing to supplement its income illegally. The concept of the private agricultural plot under Khrushchev enhanced the legitimacy of an underground market economy.

Former Soviet defense attorney Konstantin Simis first used the term "mafiya" to describe the Russian economy of the 1970s. He reported district level corruption within the Party, encompassing public works (fire, public health, and sanitation), the KGB, and district chairmen. Criminals perpetrating crimes often paid public officials who doctored their records or simply looked the other way.¹⁹ Simis recalled one experience of three brothers running a leather factory while cheating the state. Bribing scientists in laboratories, the brothers received inflated raw material requirements and allowable waste which profited their off-the-books business. When prosecuted, the brothers refused to testify against each other in typical mafiya fashion. The scope of legitimate government corruption assumed a national scale in Uzbekistan, where during the Cotton Affair party bosses raked in massive profits by falsifying agricultural reports.²⁰

Perestroika witnessed the legalization of free market economics through the Law on Individual Labor Activity of 1987, and soon thereafter the underground economy surfaced as a legal and viable entity. However new freedoms multiplied the necessity of bribery as a means of obtaining necessary permits, contracts, and even office space in Moscow.²¹ In addition, Russian authorities failed to adjust communist law to fit new concepts of private ownership. Stephen Handelman, the foremost expert on Russian organized crime, describes the conversion to a free market under Gorbachev as disastrous:

Russian policymakers committed a fundamental mistake: they tried to develop a free market before constructing a civil society. Provisions for settling disputes between private companies have not yet been clarified, and no guidelines yet exist for establishing contracts or declaring bankruptcy. Russia has no independent judiciary and no way of tackling more sophisticated varieties of white collar crime.²²

The Communist Face of the Modern Russian Mafiya

Even in the modern era economic power still rests in the hands of government officials, and herein lies the source of Russian organized crime. Controlling export licenses, business permits, and subsidized credits, the Soviet nomenklatura still manipulate the

flow of capital to achieve its own ends. Accusations run so high that when former member of the Supreme Soviet and then Russian Vice President Alexandr Rutskoi removed several corrupt reform ministers from office, documents surfaced implicating him of similar crimes. Russian banking suffers greatly from a dependence on state-run enterprises: to authenticate a loan, the bank must first seek permission from the state, and approval normally carries a fee.²³ The Sicilian and Colombian cartels use Russian banks to launder billions of dollars, often purchasing real estate, casinos, and state-run industries as front operations.²⁴ A resultant annual inflation rate of well over 100% in the early 1990's exceeded the level of most developing nations in Africa and South America.²⁵

Worse still, the former Soviet military/KGB establishment illegally exploits state subsidies for profit. Often utilizing the Red Army's massive airlift capacity, military leaders trade in vast resources of oil, timber, diamonds, zinc, copper, and the occasional supply of uranium.²⁶ The trade developed so quickly that Estonia became one of the world's largest exporters of refined ore without operating a single metal plant.²⁷ Controversy surrounding the assassination of popular investigative journalist Dmitrii Kholodov punctuates the active role of the Russian military in organized crime. Kholodov had planned to testify against powerful Defense Ministers before the State Duma when he was killed by an exploding suitcase in October 1994. Reportedly, a source in Russian intelligence informed him that the attaché contained evidence against the military establishment.²⁸

The strong performance of Zhirinovskiy's Liberal Democratic Party (LDP) in the 1993 Parliamentary elections dramatized the plight of a nation where 49% of the population rated crime a more crucial political issue than unemployment.²⁹ The popularity of strong arm leaders like Zhirinovskiy, whose crime bill included on-sight execution of suspected gangsters, indicates a growing frustration with elected government and unregulated capitalism. In the late years of Perestroika, the Soviet media viciously assaulted the emerging entrepreneurial class, and the Soviet pessimism towards capitalism continued into the ensuing years of the Russian Republic.³⁰ In addition, Communist authorities changed licensing, hiring, pricing, and taxation rules while failing to protect private business from criminal extortion.³¹ With typical Communist rhetoric, Yevgeny Tuinov, an LDP Deputy in the Duma, blamed Russian turmoil on Western style capitalism:

Initially, I think I should say that it's strange that you [interviewer] should be so interested in the Mafia's effects on the economy because the Mafia arose from the reforms and policies implemented in Russia following the abortive 1991 hard-line Communist coup. It is strange because these models of reform and privatization all came from you people in the West. With this in mind, I find it very strange that you are studying the consequences of your actions after the fact.³²

For the Russian mafiya to flourish without state approval in the areas of exporting raw materials and banking seems ludicrous. The ingrained system of bribery and stealing that the Soviet system permitted gave organized crime the key to gaining market control in an essentially state run economy. Politically, little has changed in Russian governance.

Paradigms in Sicilian Mafia and America's *Wild West*?

Comparisons between the Sicilian and Russian Mafia abound. In actuality, these forces conspire together in the international heroin trade, as the central Asian republics grow substantial crops of opium, heroin, and hashish.³³ The conditions which fostered Sicilian and Russian organized crime both depend on political instability. In Sicily, the Mafia traces its roots to the reunification of Italy in the late 1800s. Because no legitimate body existed to enforce business contracts and property rights, people turned to paid protection. *The Economist* reported that the power vacuum gives the "Mafia its staying power in Italy. It has become an economic enforcement agency similar to the state."³⁴ The same often held true for Russian businesses which received no assistance from an antiquated law lacking any concept of private ownership.³⁵ The Russian example is unique because of its persecution of private enterprise for the 70 years of Communist existence. Discounting disorder, the political repercussions of the Soviet mentality have yet to materialize.

Nearly 80% of legitimate Russian businesses report paying extortion money to local gangs for protection.³⁶

While the Sicilian Mafia today operates in largely illegal operations like drug trafficking and money laundering, Russian Mafia proves quite adept at white collar crime. Economists usually identify organized crime as controlling the entryways into illegal operations, but Russian criminal syndicates efficiently control entrance into many legitimate ventures as well.³⁷ The saturation of an economy with ill-gotten cash should concern Western powers who stand to receive large investments of devalued rubles.

"Russia right now is a bit like Dodge City in the 1800s," wrote George Melloan in 1992.³⁸ Yet the minimal national budget of antebellum Nineteenth Century America and the stigma placed on bribery and corruption highlights a pervasive cultural distinction between America and the former Soviet Union. America adopted property and contract laws from the British system which had evolved into an effective code through centuries of practice.³⁹ The Constitution identified bribery as grounds for impeachment and the United States became the first state in the history of the world to make bribing officials of another nation a crime with the Foreign Corrupt Practices Act of 1977. For the most part, Russians lack the American acrimony toward bribery and corruption. Though America experienced an age of political corruption in the big-city machine politics of Boss Tweed and Tammany Hall, government expenditure measured only a minuscule fraction of US gross national product; therefore, corruption proved inconsequential in scope compared to the 25 percent of Russian GNP infected by the mafiya.⁴⁰

Russia entered a stage of capitalism in 1991 where almost all GNP originated within the government structure. In Frontier America, money flowed through privately owned banks, and citizens used government capital. Russian bureaucracy often controls the distribution of capital, which seriously hampers economic growth.⁴¹ The Russian state must contend with market reform with an already bloated national budget that still cannot manage to pay its workers. In its genesis the United States enjoyed low levels of taxation

which may have increased compliance with the law and fostered low levels of corruption in tax authorities.⁴² Russia must cope with budget dilemmas in a full blown condition.

Conclusion

"The Russian mafiya's connection with government, born of its symbiotic relationship with the former communist establishment, makes organized crime a dagger pointed at the heart of Russian democracy,"⁴³ writes Stephen Handelman. The flourishing criminal fringe in the post-communist era represents the ultimate failure of the Soviet system. The concentration of bureaucratic power in the party hierarchy in conjunction with institutionalized graft promotes the expansion of the mafiya into legitimate business. The result: failed investment opportunity in crime-controlled markets where competition is not an option. In her essay "The Red Mafia: A Legacy of Communism," Ariel Anderson quotes a source that compares the current Russian economy to the privately adjudicated Law Merchant of Medieval Europe. In the Law Merchant system, a community of traders voluntarily entered into agreements that forced compliance on contracts sometimes carrying a penalty of death.⁴⁴

In Russia, the Law Merchant system digressed into an order in which entrepreneurs no longer enjoyed the option of voluntarily signing a mutual pact. Extortion with threats of violence still pose the longest inroad of organized crime into the legal economy. With the great power of centralized bureaucracy, the contemporary Russian economy resembles a feudal system with boyar politicians determining the course of national funds rather than the unregulated capital flow of the United States. Businesses increasingly play the submissive role of serfs who find self-liberation a near impossibility within restrictive government bodies. Though the Russian Republic boasts an elective government, the vast level of corruption and inability to enforce law neutralizes the positive effects of regulation.

A monopoly on power and technology allowed the Soviet government to maintain law and order. Now the tables have turned for the law enforcement agencies which find that gangs with cellular phones and Glock firearms can outgun and outmaneuver authorities.⁴⁵ Auspicious training programs between United States law enforcement agencies and the former KGB educate Russians on advanced crime prevention techniques. The International Criminal Investigative Training Assistance Program (ICITAP) conducts highly successful training programs for Russian police officers. A shared data system linking Russian police with the FBI, the German Police, and Scotland Yard also hopes to curb international expansion of the Russian mafiya.⁴⁶ Yet the rampant corruption of police agencies where an estimated four out of five officers accepts some form of kickback,⁴⁷ threatens to eliminate any Western effort at reform. Attempting to reform a political institution through economic aid is nearly impossible when the benefactor cannot control the final destination of funds. For true reform to occur in Russian governance, the West must negotiate a means of maintaining autonomy on their investment. Otherwise, the gulf between rich and poor in the former Soviet Union will progressively widen.

NOTES:

¹ Victor Shabalin. "The New Stage of the Fight Against Organized Crime." *IASOC* (Winter 1995) : n. pag. Online. Internet.

² Ibid.

³ Ariel Cohen. "Reexamining Russia: Crime Without Punishment." *Journal of Democracy*. Vol. 6, no. 2 (April 1995), p 34.

⁴ Victor Shabalin. "The New Stage of the Fight Against Organized Crime." *IASOC*.

⁵ Ariel Cohen. "Reexamining Russia: Crime Without Punishment." p. 34.

⁶ Annelise Anderson. "Red Mafia: A Legacy of Communism." *Economic Transition in Eastern Europe and Russia: Realities of Reform*. (Stanford, CA: The Hoover Institution Press, 1995). p. 8.

⁷ Ibid.

⁸ Moody, Jim. "FBI Warns Crime Threatens Russian Liberty, Economy." US Government News Service: United States Mission to Italy. (2 Feb. 1996) : n. pag. Online. Internet.

⁹ Stephen Handelman. "The Russian 'Mafiya'." *Foreign Affairs*. Vol. 73, no. 2 (March-April 1994), p. 84.

¹⁰ Ibid., pp. 87-88.

¹¹ "The World Factbook on Russia." CIA Publications (1996) : n. pag. Online. Internet.

¹² Ariel Cohen. "Reexamining Russia: Crime Without Punishment." p. 35.

¹³ William Norman Grigg. "Russia's Global Crime Cartel." *The New American*. Vol. 12, no. 11 (27 May 1996), p. 12.

¹⁴ Stephen Handelman. "The Russian 'Mafiya'." p. 86.

¹⁵ Ariel Cohen. "Reexamining Russia: Crime Without Punishment." p. 36.

¹⁶ Joseph D. Serio and Vyacheslav Stepanovich Razinkin. "Thieves Professing the Code: The Traditional Role of *Vory v Zakone* in Russia's Underworld and Adaptations to a New Social Reality." *CJ Europe Online* 5.04 (July-August 1995) : n. pag. Online. Internet.

¹⁷ Joseph D. Serio and Vyacheslav Stepanovich Razinkin. "Thieves Professing the Code: The Traditional Role of *Vory v Zakone* in Russia's Underworld and Adaptations to a New Social Reality."

- ¹⁸ Annelise Anderson. "Red Mafia: A Legacy of Communism." *Economic Transition in Eastern Europe and Russia: Realities of Reform*. p. 9-10.
- ¹⁹ Annelise Anderson. "Red Mafia: A Legacy of Communism." *Economic Transition in Eastern Europe and Russia: Realities of Reform*. p. 10.
- ²⁰ Stephen Handelman. "The Russian 'Mafiya'." p. 86.
- ²¹ Annelise Anderson. "Red Mafia: A Legacy of Communism." *Economic Transition in Eastern Europe and Russia: Realities of Reform*. p. 13
- ²² Stephen Handelman. "The Russian 'Mafiya'." p. 89.
- ²³ Annelise Anderson. "Red Mafia: A Legacy of Communism." *Economic Transition in Eastern Europe and Russia: Realities of Reform*. p. 23.
- ²⁴ Nigel South. "Cooling 'Hot Money': Transatlantic Trends in Drug-Related Money Laundering and its Facilitation." *IASOC* (Winter 1995) : n. pag. Online. Internet.
- ²⁵ Michael Kidron and Ronald Segal. *The State of the World Atlas*. (Hong Kong: Penguin Books, 1995), pp.106-7.
- ²⁶ Ariel Cohen. "Reexamining Russia: Crime Without Punishment." p. 37.
- ²⁷ Stephen Handelman. "The Russian 'Mafiya'." p. 88.
- ²⁸ Ariel Cohen. "Reexamining Russia: Crime Without Punishment." p. 35.
- ²⁹ Stephen Handelman. "The Russian 'Mafiya'." pp. 91-2.
- ³⁰ Annelise Anderson. "Red Mafia: A Legacy of Communism." *Economic Transition in Eastern Europe and Russia: Realities of Reform*. p. 14.
- ³¹ *Ibid.*, p. 13.
- ³² Grant Felgenhauer. "Criminals, Russian Nationals, and Dostoyevsky." *Committee for a Safe Society: Organized Crime Menu*. n. pag. Online. Internet.
- ³³ United States State Department. Russia: "State Narcotics Figures." *US Department of State* (1996) : n. pag. Online. Internet.
- ³⁴ "Criminals as Insurance Salesman." *The Economist*. 8 July 1995. p. 52.
- ³⁵ *Ibid.*

³⁶ Mike Bruner. "Russians shine at white collar crime." MSNBC (1997) : n. pag. Online. Internet.

³⁷ Annelise Anderson. "Red Mafia: A Legacy of Communism." *Economic Transition in Eastern Europe and Russia: Realities of Reform*. p. 4.

³⁸ Ibid., p. 18.

³⁹ Ibid.

⁴⁰ Ibid., p. 20.

⁴¹ Ibid.

⁴² Ibid.

⁴³ Stephen Handelman. "The Russian 'Mafiya'." p. 90.

⁴⁴ Annelise Anderson. "Red Mafia: A Legacy of Communism." *Economic Transition in Eastern Europe and Russia: Realities of Reform*. p. 11.

⁴⁵ United States State Department. Russia: "State Narcotics Figures." *US Department of State* (1996) : n. pag. Online. Internet.

⁴⁶ Ariel Cohen. "Reexamining Russia: Crime Without Punishment." p. 42-3.

⁴⁷ Victor Shabalín. "The New Stage of the Fight Against Organized Crime." *IASOC* (Winter 1995) : n. pag. Online. Internet.

The Threat of Liberties:

Great Britain and Its Missing Bill of Rights

Courtney Spivey

Great Britain stands as one of the oldest democratic nations in the world. As such, it has been an example of liberty and democracy for many other nations in the international arena, many of which began following this tradition as British colonies. As many of these colonies became independent, Britain ensured that they adopted a Bill of Rights into their founding constitutions.¹ In fact the very phrase "Bill of Rights" and the concept of such a document were invented by Britain.² Despite its role in forming and advocating this idea of a codified protection of civil liberties, Britain stands as one of the few countries in the world today who does not have its own Bill of Rights.³ This perplexing state of affairs leads to the question: Why is there no Bill of Rights in Great Britain? The reason for the absence of a codified Bill of Rights will be the focus of this study.

This question is significant to the field of international studies for a variety of reasons. To begin with, understanding why there is no codified protection for civil liberties is extremely important to the British citizen who fears that his rights will be or have been denied him. Only by uncovering the reason for the lack of civil rights protection can the British public hope to establish such protections in the future. Establishing the primary cause for the absence of a Bill of Rights in Great Britain may also have a significant impact on the United States as well as other democracies. If the causal element of the absence of a Bill of Rights in Britain is found in or will soon be found in these other nations, than these countries may learn how to identify the warning signs of a tendency toward the formation of laws restricting civil liberties. The case of Great Britain, therefore, may provide insight into how other democracies might avoid possible civil rights abuses.

The third reason why this question is significant is related to Great Britain's integration into the European Union. As the only nation in Western Europe without a guaranteed protection of certain rights, the appeal of Britain integrating into the European Union may decline.⁴ Other nations may fear the ramifications of integration with a nation wherein protection of some basic rights are not guaranteed.

This study begins by analyzing the historical background of the notion of parliamentary sovereignty, assessing the present state of civil rights in Britain today, and examining international and domestic pressures for the establishment of a British Bill of Rights. Following this, an explanation of the hypotheses and the theoretical justification for them will ensue. Next, in the evidence portion of the study, a clarification of the precise tests required to thoroughly assess these hypotheses will be undertaken. At this juncture, an analysis of gathered evidence, a significant portion of which will include opinion poll results and public survey data, will be employed in order to determine which hypothesis is most accurate. Finally, the essay will conclude with a thorough analysis of the study's

findings as well as an examination of the implications of these results. In addition, further research questions resulting from the findings of this study will be discussed.

Parliamentary Sovereignty

Throughout British history, the primary idea was that violations of rights would come from the Monarch. It was the King that needed to be checked, and Parliament was the organ by which this review of power would be administered. During the Glorious Revolution of 1688, legislation was produced which institutionalized the notion that redress of grievances would be sought through Parliament.⁵ Furthermore, it was established that Parliament would become the protector of "free-born Englishmen," fulfilling its mission to defend the rights and liberties of citizens.⁶ Since this time, the notion of parliamentary sovereignty has been the cornerstone of British government.⁷

The freedom given to the British Parliament is quite unique. Few other regimes possess parliaments which enjoy such a complete embodiment of the modern concept of sovereignty. Britain's unwritten Constitution bolsters this notion, as it sets no limits on the power of the British Parliament. In fact, the central tenet of the British Constitution is the "legal omnipotence" of Parliament.⁸ This notion of parliamentary sovereignty continues to this day. The preeminence of the idea of parliamentary sovereignty has resulted in the absence of a codified Bill of Rights protecting the individual citizens from possible rights violations enacted by Parliament. Despite the belief that Parliament's primary duty is to protect the rights and liberties of British citizens, there is evidence that this is an obligation which Parliament has at times neglected.

Present State of Civil Liberties in Great Britain

Throughout British law, many violations of citizens' civil rights exist. By comparing British rights violations to liberties guaranteed to American citizens by means of the United States' Bill of Rights, an explanation of the numerous civil rights abuses which are manifested in British law will be facilitated. In the First Amendment of the U.S. Constitution, freedom of the press is established. In Britain, the law of libel is so stringent that it has earned the country the nickname "Libel Capital of the World." An example of this harsh legislation is seen in an incident involving John Major and the magazine *New Statesman*. Major was able to sue the magazine for libel when it published an article concerning a rumor about him, even though the article stated that the rumor was not true. Another right given to Americans under the First Amendment is the right to peaceably assemble. However, in Britain, organizations cited as terrorist are banned and prohibited from meeting. Additionally, anyone who is thought to be linked to their activities can be expelled from the country.⁹

The Fourth Amendment in the U.S. Bill of Rights prohibits unreasonable search and seizure. British citizens are afforded no such protection. In Great Britain, the police or secret service can enter an individual's private residence without obtaining any type of judicial warrant.¹⁰

In the Fifth Amendment, Americans are protected from being denied life, liberty, or property without due process of law. It is here that when looking for a similar protection in Britain one finds perhaps the most blatant violation of civil rights. These rights violations are imposed via the Prevention of Terrorism Act. Through this piece of legislation, British police can arrest and detain an individual, without charge, for up to seven days. During this time, the detainee has no right of access to an attorney.¹¹ Perhaps what is most shocking about this legislation is the manner in which it has been used. Of the over 5000 people who were arrested under this Act between the years 1974-1980, ninety-four percent of them were never charged with any offense.¹² In Northern Ireland, ninety-seven percent of those detained under the Prevention of Terrorism Act in 1990 were never charged with an offense.¹³

In the United States, citizens are given the right to remain silent via the Fifth Amendment to the Constitution. This means that an individual must not be forced to be a witness against himself. This does not hold true for citizens in Great Britain. In Britain, the right to remain silent is virtually abolished.¹⁴ If an individual chooses to remain silent, the jury is allowed to draw inferences regarding guilt from the person's refusal to testify.¹⁵ The Sixth Amendment in the American Bill of Rights guarantees an impartial jury in all criminal prosecutions. However, not all British citizens are provided with this right. In Northern Ireland, jury trials are suspended for terrorist offenses.¹⁶

The status of civil liberties in Great Britain are not only deficient when compared to civil rights guarantees in the United States. Recently, a group of attorneys and academics conducted an examination of the current state of civil liberties in Britain. Through their study, they identified forty-two violations of international human rights obligations under British law or practices. Additionally, another twenty-two laws or practices very nearly violated the international standards.¹⁷

Demands for a Bill of Rights

Great Britain is the only country in Western Europe who either has not incorporated the European Convention on Human Rights into its law or does not already possess a bill of rights which provides similar legal protection.¹⁸ The effects of this are clearly seen in Britain's record before the European Court on Human Rights. Between 1966 and 1993 the Court had heard forty-five cases involving Britain. Of these, Great Britain lost thirty-one.¹⁹ This has earned Britain the distinction of having a worse record than any other European country before the Court. Britain has been ruled against twice as often as any other nation.²⁰ In fact, approximately one-third of decisions which have found against governments have been against the government of Great Britain.²¹ A large number of these cases deal with the rights of detainees and prisoners. Other instances wherein Britain was found guilty involved issues such as corporal punishment of students, labor rights, homosexual rights, rights of mental health patients, women's rights, freedom of the press, and phone tapping.²²

The European Court of Human Rights is not the only institution which has asserted that civil liberty protections in Britain are not at an acceptable level. The United Nations

Human Rights Committee has also come to this conclusion. After conducting an in-depth study of the British system for securing civil liberties, the Committee concluded that the state of civil rights protections in Britain are "defective."²³ This negative record has resulted in the country being placed under great pressure from other European nations to do something about these abuses of power.

There has also been support for a British Bill of Rights domestically. Most notably, support for the adoption of a codified bill of rights is seen in a document entitled Charter 88. This document, which was constructed by "an informal, open community of people of different opinions, faiths, and professions," supports the adoption of a Bill of Rights which would incorporate the European Convention on Human Rights into British law.²⁴ The document has been published in various magazines and newspapers throughout the country. The recent publication of this document has caused the issue of a British Bill of Rights to be pushed firmly into the forefront of public debate.²⁵ However, regardless of the international pressure being placed on Great Britain to adopt a Bill of Rights, in addition to the issue being addressed by some individuals on the domestic level, Britain fails to adopt such a document.

HYPOTHESES

First Hypothesis: Parliament will not allow the establishment of a Bill of Rights

The first hypothesis asserts that the primary reason for the absence of a codified Bill of Rights is that Parliament refuses to allow the establishment of such a document. In other words, regardless of current pressure for the establishment of a Bill of Rights from either internal or external sources, the British government will continually strike down any formidable attempts to enact this type of legislation. The theoretical justification for this belief is quite varied.

Throughout many of his writings, Karl Marx asserts the idea of the class conflict, a basic tenet of which is that capitalists control the state and use it to exploit the working class. The state works to keep the lower classes suppressed in order to dominate and manipulate society so that it may successfully pursue its own interests.²⁶ Along these lines, a state, or Parliament in this instance, would constantly attempt to severely limit the rights of the citizens. Maintaining control over the lower classes would be facilitated by the absence of a document which specifically enumerates the rights of the nation's citizens.

This hypothesis is also supported by theories which may be more applicable to the specific case of actions of the British state. Edmund Burke contends that the role of the Parliamentary representative is to act on "his unbiased opinion, his mature judgment, his enlightened conscience" when making decisions. The representative is not to give in to the desires and opinions of his constituency, because this would cause him to sacrifice his own judgment. Through this concept of trusteeship, Burke presents the idea that political representatives fulfill their duty only by acting solely upon their own judgment, as opposed to acting upon the wishes of public opinion.²⁷ Burke's view is clearly seen when

he stated in a letter to his constituents in Bristol, "Your representative owes you, not his industry only, but his judgment; and he betrays, instead of serving you, if he sacrifices it to your opinion."²⁸

In keeping with this contention, if it can be established that British politicians are thoroughly convinced that a Bill of Rights would have a negative effect on the nation, they must continually vote against any such proposal regardless of current pressure for this legislation. If this is found to be true, then it would indeed be the case that the British government is the primary reason for the absence of a British Bill of Rights.

The justification for the idea that Parliament refuses to establish a Bill of Rights for Great Britain, however, runs deeper than simply theoretical backing. Rather, this idea must be examined due to the very nature of the British legislative process. All new legislation, such as a Bill of Rights, can come into existence by one route only - being enacted by parliament. Regardless of whether there is theory contending that the British government has a vested interest in keeping a Bill of Rights from coming into existence, procedural aspects of British law-making process demand an examination of the propensity of the nation's legislation-producing body to enact this piece of legislation.

Second Hypothesis: Deferential Political Culture

The next hypothesis asserts a lack of public demand for a Bill of Rights. Specifically, this lack of demand is believed to be rooted in British political culture. Gabriel Almond and Sidney Verba define political culture as "the specifically political orientations - attitudes toward the political system and its various parts, and attitudes toward the role of the self in the system."²⁹ In their comprehensive analysis of the political culture of five nations, Almond and Verba classify British political culture as "deferential." The authors go on to explain that there appears to be a balanced attachment to the political system in the United Kingdom, that is, there exists general pride and satisfaction with governmental performance. This has bolstered a strong deference to government authority causing the deferential subject role to be more developed and widespread in the country.³⁰

There are many possible roots of this deferential political culture. In their study, Almond and Verba make reference to the writings of D.W. Brogan. Brogan asserts that this deference is in part due to the combining of the country's culture of democratic citizenship with the older tradition of the obligations and duties of the subjects.³¹ More recently, in the article "The British Bill of Rights," G.W. Jones offers two primary reasons for this deference. To begin with, the country has not had any tyrannical governors in recent history. Additionally, the parliamentary government consisted of representatives of the people themselves. These factors led to a higher degree of trust in the government. Secondly, the population was rather homogenous compared to other nations. As the British people were forming a national identity, any religious, racial, or ethnic differences among them were very small. These similarities helped forge a "spirit of tolerance" and acceptance which played a part in producing the deferential political culture.³²

Almond and Verba ascertained the existence of a deferential political culture in Britain through analyzing extensive survey and opinion poll data which they gathered in the early 1960s. Following are some of the question results which lead to the assessment of the British people as being deferential toward government.

Expectation of Treatment by Governmental Bureaucracy and Police, by Nation*

(in percent)

Percent who say... U.S. U.K. Germany Italy Mexico

Bureauc. Pol. Bureauc. Pol. Bureauc. Pol. Bureauc. Pol. Bureauc. Pol.

They expect

equal treatment 83 85 83 89 65 72 53 56 42 32

They don't expect

equal treatment 9 8 7 6 9 5 13 10 50 57

Depends 4 5 6 4 19 15 17 15 5 5

Other - - - - - 6 6 - -

Don't know 4 2 2 0 7 8 11 13 3 5

Total percent 100 100 98 99 100 100 100 100 100 99

Total number 970 970 963 963 955 955 995 995 1,007 1,007

Percent who say they Can Do Something about an Unjust Local or National Regulation, by Nation

(in percent)

Nation Can Do Something Can Do Something

about Local Regulation about National Regulation

United States 77 75

Great Britain 78 62

Germany 62 38

Italy 51 28

Mexico 52 38

As can be seen from the above data, Britons have the highest amount of trust in governmental agencies such as the police and bureaucracy. This high degree of trust can also be seen in the large percentage of British citizens who believe that they can do something about a government regulation which they view as unjust. Seventy-eight percent of citizens of Great Britain believe they can change a local regulation which they view as a problem, as opposed to harboring the belief that they cannot change unfair legislation, which would be a common belief in a country run by a government which is not responsive to the will of the people.

The deferential political culture of the British people is one possible explanation for the continued absence of a codified bill of rights in the United Kingdom. Perhaps the British people have not demanded an official enumeration of their rights, because of their tendencies to trust authority figures and defer to the power of the state.

Third Hypothesis: Security Threat

The third and final hypothesis also maintains that there is no public demand for a British Bill of Rights. However, the explanation for the lack of public demand in this case is rooted in the British people's fear of facilitating terrorism in the country. Although Britons do value civil liberties, the weight that they put on them vis a vis security issues tends to result in a justified denial of civil liberties. Having no Bill of Rights facilitates any possible infringement on an individual's rights which may be necessary in order to protect the public from terrorist violence.

Since the 1970s, the Irish Republican Army (IRA) has performed countless terrorist acts against the British government and public at large.³³ Waves of violence have effected numerous English cities through deaths occurring as a result of the IRA setting off bombs in crowded pubs. Additionally, other IRA bombings have killed a relative of the royal family and two close associates of then Prime Minister Margaret Thatcher. They have interrupted cabinet meetings, reeked havoc on London's financial district, and continuously disrupted London's train and underground systems.³⁴ British citizens are undoubtedly under a continuous security threat manifested in terrorist violence.

Theoretical justification for people willingly giving up certain liberties in order to obtain security can be found in the works of various political philosophers. In *The Second Treatise of Civil Government*, John Locke asserts that a person's freedoms may not be taken from them without their consent. Rather, people willfully consent to give up their "natural liberties" by "...agreeing with other men to join and unite into a community for their comfortable, safe and peaceable living..."³⁵ Locke describes an event whereby individuals believe that ensuring security outweighs protection of some of their "natural liberties."

A similar theory is presented by Thomas Hobbes in his work Leviathan. Hobbes explains that the purpose of government is to provide security for individuals. When they give their obedience to a state, individuals must no longer rely on self-protection. Rather, they rely on the security provided by the State. In order to become part of the State, and thereby enjoy its protection from security threats, people willingly give up some of their individual rights and sovereignty.³⁶ The idea presented by Hobbes asserts that individuals are willing to give up some of their own sovereignty to the state for the purpose of insuring their security. It logically follows that British citizens might be willing to withhold the demand for a written guarantee of their civil liberties from the government if they believe that they need the assistance of the state in order to protect themselves from a significant security threat.

EVIDENCE

Parliament Will Not Allow a Bill of Rights

As set forth in the theory asserting the idea that Parliament refuses to allow a Bill of Rights, there are three main issues supporting this claim which must be either denied or affirmed through the evidence. In order for this hypothesis to be deemed correct, it must be established that either the British state is trying to keep down the lower classes, Parliament will never act in a way which would restrict their parliamentary sovereignty or their ability to fulfill their political agenda, or Members of Parliament are completely against the very notion of a Bill of Rights.

By examining the social composition of the House of Commons, it can be determined whether legislation is indeed being produced by capitalists trying to suppress the lower classes. An analysis of the social classes in the House of Commons in 1992 shows that this is clearly not the case:

Social class in the House of Commons, 1992 In Percent

Occupation Conservative Labour

Professional 39 42

Business 38 8

Miscellaneous (white collar, politics, journalism, farmer) 22 28

Manual Workers 1 22

Although there were a considerable number of MPs who are from the upper and upper-middle-class, there is also a substantial portion who come from the working class. Not only were one-fifth of the Labour party members manual workers, but over 50 percent of them were sponsored by a trade union. Additionally, there has been a decline in the percentage of Conservatives coming from the upper-class in parliament. It is also

important to note that since the House of Commons has a Labour majority at the present time, it is very likely that currently Parliament consists of more MPs coming from the working class or supported by unions than is indicated in the above data.³⁷ This evidence clearly shows that it is not the case that Parliament consists of Capitalists trying to suppress the lower classes. In fact, there is a significant portion of the working class, as well as individuals supported by workers' unions, in the House of Commons.

The next possible reason that Parliament would be against a Bill of Rights is the notion that MPs function under the theory of trusteeship and therefore would never act in response to a public demand. This idea can be proven false by examining the case of the Poll Tax enacted by Margaret Thatcher in 1990. This act was terribly unpopular among the British people. Because of its unpopularity, John Major, ten months after becoming Prime Minister, replaced the poll tax. This is just one example of the basic tenet that in a democracy, governments will quite often respond to large demands from the public if it is an unavoidable political necessity.³⁸ As further explained in *Politics and Government in Europe Today*, "Any reasonable government will partially base its decisions and initiatives on its likely impact on voters reflected in the next election. The system offers no better device for compelling responsiveness to shifts in the electorate's will."³⁹

The final possible justification for the idea that Parliament will not allow a Bill of Rights is the concept that MPs are completely against a Bill of Rights. That is, Members of Parliament are thoroughly convinced that producing a specific enumeration of the unalienable civil liberties of the British people would have a negative impact on the country. In order to examine the validity of this statement, it must first be established whether MPs in fact believe that there are certain civil liberties which citizens should have.

In 1990, David G. Barnum and John L. Sullivan conducted a study analyzing the levels of tolerance among the general public and political elites in Britain and the United States. As part of this study, Barnum and Sullivan conducted a survey asking both the general British public and Members of Parliament questions concerning what rights should be given to members of a "least-liked group," meaning the political group the individual survey respondent liked the least. The results of the survey showed that not only do politicians believe that even unpopular groups deserve protection of civil liberties, but also that the number of MPs who believe in the rights of all citizens to receive protection is substantially higher than the number of people holding this same view in the public as a whole.⁴⁰

Levels of Tolerance Among the General Public and Political Elites in Great Britain

Percentage Tolerant*

Least-Liked Groups Should: General Public Political Elites Difference

Be allowed to teach in state schools 14 36 22

Be banned from running for office 27 70 43

Be banned (outlawed) 31 75 44

Be allowed to hold a public rally 34 64 30

Be allowed to make a public speech 51 81 30

* The percentages shown are not affirmative responses to the statements made. Rather, they reflect the percentage of people whose responses indicated tolerance regarding the specific issue.

After analyzing the above data, Barnum and Sullivan asserted that on "key issues of democratic politics" national legislators are much more tolerant than the general public. They go on to conclude, "But for the involvement of political elites in the policy-making process, the status of political freedom in Britain might be considerably less satisfactory than it is."⁴¹ It is clear that Members of Parliament do in fact believe that there are certain civil liberties which British citizens deserve. Since it has been established that they do believe that these rights should be protected, the next step is to ascertain whether it is the specific notion of civil liberties being guaranteed via a written Bill of Rights that MPs believe would be negative for the country.

If it is the case that Members of Parliament are unequivocally against the notion of a written Bill of Rights, then the logical continuation of this idea would be that MPs would not openly consider the possible establishment of such a document. Furthermore, if an individual MP did try to bring the idea of establishing a Bill of Rights up for discussion, the subject would quickly be rendered mute as all of the other Members of Parliament who, theoretically, are so against such an idea would be opposed to discussing this subject. However, evidence shows that this does not occur.

In 1985, the House of Lords began discussing the Human Rights and Fundamental Freedoms Bill. The bill was entitled, "An Act to provide protection in the courts of the United Kingdom for the rights and freedoms specified in the European Convention for the Protection of Human Rights and Fundamental Freedoms to which the United Kingdom is a party." Discussion of this measure became an occasion of major debate amongst the Peers. The legislation was eventually passed in all its stages.⁴²

A year later, the Human Rights Bill of 1986 was introduced to the House of Commons. This bill was especially important, because the proposal reached the important stage of being the subject of a Commons' second reading. During this stage in the legislative process, the advantages and disadvantages of the proposed legislation were discussed in the Chamber. The Bill was discussed for five hours during which time Members debated vigorously about the proposal to establish a codified Bill of Rights for Great Britain.⁴³

One of the primary issues put forth by supporters of the Bill was that such a document was needed in order to protect the rights of British citizens since the constitutional

balance had been altered during the twentieth century. Member David Steel explained this view when he stated:

In my twenty years in the House I have come to recognize that the need for the Bill arises precisely because many of us feel that Parliament on its own can no longer adequately protect our citizens. The increase in the executive arm of Government and in the number of areas of Government activity, under Governments of all parties, and the increasing complexity and speed of modern life have meant that the individual is in need of greater protection, but is afforded less...⁴⁴

Although the bill eventually failed when it was not able to acquire the necessary majority vote needed to take it to a vote on its second reading, the very fact that it was debated for an extended period of time, in addition to the fact that it received a substantial amount of support from MPs, proves that Members of Parliament are not unequivocally opposed to the notion of an established Bill of Rights.⁴⁵

The hypothesis asserting that the reason for the absence of a British Bill of Rights is Parliament's refusal to allow the establishment of such a document regardless of public opinion is clearly not the reason for the absence of a Bill of Rights in Great Britain. Furthermore, what has been proven is that there is a precedent for Parliament to respond when strong public demand concerning a certain issue exists. Therefore, one would assume that there is not a substantial public demand for a Bill of Rights. It should be noted that although there are some British proponents for the establishment of a Bill of Rights, such as the supporters of Charter 88 outlined earlier, this does not necessarily translate into widespread public support for such a document. In fact, evidence shows that there is no substantial demand of this type. In his article "The British Bill of Rights," G.W. Jones supports this view when he states:

[Parliament] correctly notes that there is no widespread popular campaign for such a Bill to which it has to defer. The Bill is not a matter of great interest to the mass of the voters. It is of greatest concern to the legal profession which may hope for more work and higher fees; for academics, seeking new fields to study; and for some opposition politicians who, despairing of winning power through the ballot box, hope to constrain the government by other means.⁴⁶

A survey conducted by MORI regarding a British Bill of Rights further supports the idea that there is no wide-spread demand for such a document. When asked their opinion concerning the statement "Britain needs a Bill of Rights to protect the liberty of the individual," less than half (forty-seven percent) agreed with the statement.⁴⁷ However, this number most likely does not adequately reflect the actual degree of popularity behind the idea of a Bill of Rights. The reason for this is that most respondents to the poll presumably are not familiar with the details and issues involved. Rather, they see themselves as in support of the broad idea of civil rights and therefore automatically in support of a Bill of Rights. Due to this phenomenon, the actual number of individuals in support of a specific piece of legislation forming a Bill of Rights is most likely lower than the forty-seven percent who stated that they support it.⁴⁸ Therefore, it may be concluded

that the primary reason for the lack of a British Bill of Rights is the lack of public demand for such a document. Why there is no such demand must now be established.[Date]

No Public Demand - Deferential Political Culture

In order to determine if the notion that Britain has a deferential political culture is the reason for the absence of a bill of rights, one must first ascertain whether this characterization of the British people's attitude toward the government, established in the 1960s, still holds true today. In 1980, Almond and Verba produced the book *The Civic Culture Revisited*. This book is a critical analysis of the effects of, and any possible changes in, the results put forth by the authors' study of political cultures completed approximately twenty years earlier. One article found in this analytical text is "Political Culture in Great Britain: The Decline of the Civic Culture," by Dennis Kavanagh. In his article, Kavanagh asserts that the British deference and trust in government established by Almond and Verba's earlier study has decreased significantly.⁴⁹

Kavanagh begins by contending that some of the data collected by Almond and Verba in 1959 which was never reported showed that a great deal of cynicism toward British politicians existed at the time. A survey conducted twenty years later confirmed that, indeed, a great deal of skepticism concerning the motives of MPs did exist. When presented with the survey statement "People become MPs for their own gain and to further their own ambitions," fifty-eight percent of respondents agreed with this view and only twenty percent disagreed. Additionally, many people were likely to doubt claims and promises made by MPs during elections.⁵⁰ In 1974, the Essex Survey of the general elections presented evidence that the electorate had ambivalent views of parties and politicians. Nearly thirty percent of respondents expressed purely negative views (not satisfactory, unhappy, very unhappy). This was a higher proportion than those who expressed only positive views. A decline in the public's satisfaction with party leaders was also detected in Gallop Polls taken the same year.⁵¹

The specific concept of "trust in government" was examined in a 1974 study by Alan Marsh. The results of his survey, given below, present a clear picture of the decline in deference appearing in the 1970s.⁵²

Trust in Government

Few big interests All the people Don't know

Is country run by a few big interests

concerned only for themselves, or is 48% 37% 15%

it run for the benefit of all the people.

Just about Most of Some of Almost Don't

always the time the time never know

How much do you trust the 7% 32% 47% 10% 4%

government in Westminster to

do what is right?

When people in politics speak to 3% 22% 60% 10% 4%

the public, how often do they tell

the truth?

How much do you trust a British 7% 28% 45% 15% 5%

gov't of either party to place the needs

of the people above the interests of their

own party?

These responses provide evidence that the British public's trust in government has declined significantly.

In addition to public opinion surveys, Kavanagh points to other factors which are indicative of a weakening of British deference and assumptions of the supremacy of Parliament. The first example is the June 1975 referendum on British membership in the EEC. Although the British people voted with a two-thirds majority to endorse Parliament's earlier decision to continue membership, the precedent was set for parties and other groups to call for such second guessing of a vote of Parliament. Next, there is evidence that lower-class deference has decreased drastically. Studies of workers' attitudes maintain that deferential or supportive statements are used more frequently when referring to abstract values, whereas dissent and alienation more adequately describe workers' feelings towards everyday life. Specific results of this have been the major collisions between parliament and trade unions during the late 1970s. Finally, Kavanagh asserts that evidence of a decline in deference to social elites is seen in the fact that the younger working class was voting for the Conservative party less because of tradition and deference and more because of more secular reasons. For example, many regarded them as more capable.⁵³

In addition to Kavanagh's analysis, there is other evidence that British deference began to decline in the 1970s. Although data from The Civic Culture shows that in 1959 a majority of Britons believed in the responsiveness of local and national government, by the 1974 Political Action study, there was a decline in those who harbored this belief. By 1979,

thirty-seven percent of voters felt that the country was in poor shape while twenty-nine percent believed something was seriously wrong in the country.⁵⁴

There is convincing evidence that the decline of deference which began to take hold in the 1970s has continued into the present. An extensive poll conducted by MORI in 1995 shows that there has indeed been a shift in British political culture away from the deferential nature seen in the past. The survey obtained the following data:⁵⁵

Question: Which of these statements best describes your opinion on the present system of governing Britain?

In Percent

1973 1991 1995

Works extremely well and could not be

improved 5 4 3

Could be improved in small ways but mainly works well 43 29 3

Could be improved quite a lot 35 40 41

Needs a great deal of improvement 14 23 35

Don't know 4 5 3

Works well 48 33 22

Could be improved 49 63 76

Question: In Britain, how much power would you say ordinary voters should have over government policies between elections?

Question: And in Britain, how much power would you say ordinary voters do have over government policies between elections?

In Percent

Should have Do have

A great deal 22 1

A fair amount 53 8

A little 16 52

None at all 4 33

Don't know 5 6

Question: Do you think that Parliament should decide all important issues, or would you like Britain to adopt a referendum system whereby certain issues are put to the people to decide by popular vote?

In Percent

1992 1995

Government decide 20 19

Referendum 75 77

Don't know 5 5

There is a clear decrease in overall approval of the system of governing from the year 1973 to 1995. Additionally, in the above data, it is apparent that voters now believe that they should have a great deal more power over government policies than they actually do. The decrease in deference is also seen through the high support for referendums as opposed to Parliament deciding all important issues.

It is quite evident that British political culture, which was once characterized as deferential to the authority of government, has undergone a substantial change beginning in the 1970s. Therefore, the hypothesis that the deferential nature of the British people is the cause of the lack of public demand for a British Bill of Rights cannot be correct due to the fact that British political culture is no longer very deferential. However, if any doubt remains concerning the validity of this conclusion, i.e. that a decline in British deference necessitates that any remaining degree of deference can not be the reason for the lack of demand for a codified Bill of Rights, the following MORI survey data ascertains the validity of this conclusion.

Question: I am going to read out a number of views about how fundamental rights and liberties can best be protected in Britain today. Can you tell me to what extent you agree or disagree with each?

"The good sense of elected politicians means a Bill of Rights isn't needed in Britain today"

In Percent

1991 1995

Strongly agree 2 2

Tend to agree 9 15

Neither agree nor disagree 14 17

Tend to disagree 45 38

Strongly disagree 23 22

No opinion 7 5

Agree 11 17

Disagree 68 60

"Governments with a large majority in Parliament cannot always be trusted to respect our rights and liberties"

In Percent

1991 1995

Strongly Agree 24 26

Tend to agree 46 48

Neither agree nor disagree 12 11

Tend to disagree 9 9

Strongly disagree 2 2

No opinion 7 4

Agree 70 74

Disagree 11 11

Clearly, a significant portion of British citizens do not believe the politicians can be trusted to protect their civil rights.

Security Threat

In order to test the hypothesis asserting that there is no public demand for the establishment of a Bill of Rights in Great Britain due to the British people's fear that such a document might facilitate terrorism in the country, one must analyze two key factors: the public's views regarding the civil liberties of individuals who pose a security threat,

and the reasoning behind the legislation which allows the civil rights violations. In addition to these two factors, insight into the validity of this hypothesis might be acquired by analyzing the British government's justification for the denial of civil rights and the specific nature of the violations, i.e. which individuals' civil rights are most often violated.

The first clue into the accuracy of this hypothesis is the British government's explanation for the civil rights abuses. As was explained earlier, the British government has been found guilty for numerous civil rights violations by the European Court of Human Rights. In response to this, the government has claimed that these violations were justified by a "public emergency threatening the life of the nation."⁵⁶ Although the fact that the government accepts violations of its citizens' rights as necessary due to security threats does not necessarily mean that this opinion is shared by the public at large, it does make the possibility of the public sharing this opinion more likely than if the government did not hold this view.

Additionally, although there are violations of civil rights throughout Great Britain, the protections given the civil rights of people in Northern Ireland are significantly lower than the protections provided in England and Wales.⁵⁷ Again, this alone does not prove or disprove the hypothesis. It is, however, worth noting that this occurrence would be consistent with the idea that Britons are willing to allow violations of citizens' rights in the name of bolstering their security. Because a great deal of the terrorism inflicted upon Britain is due to the conflict in Northern Ireland, it is likely that many citizens would be willing to accept a higher number of rights violations in the region believed to be the base for the terrorist acts.

The British people's views of rights violations upon individuals who threaten their security is crucial to analyzing this hypothesis. The study conducted by Barnum and Sullivan analyzing the tolerance levels of the British public and political elites, which was referred to earlier, will assist in determining this. During this study, Barnum and Sullivan asked respondents to identify a group in society that they liked the least. They then went on to assess the levels of tolerance that individuals had for their "least-liked group." When determining the groups that Britons liked the least, Barnum and Sullivan discovered that over fifty percent of the people interviewed picked groups by which they felt threatened. Specifically, Sinn Fein and the National Front were chosen by over half of the respondents.⁵⁸

The levels of tolerance that the British people have toward these groups is very telling.

Levels of Tolerance Among The General Public in Britain

Percentage Tolerant

Least-Liked Group Should: Britain (1986)

Be allowed to teach in state schools 14

Be banned from running for office* 27 Be banned (outlawed)* 31

Be allowed to hold a public rally 34

Be allowed to make a public speech 51

Have phones tapped by government* 62

* For these three items, disagreement was coded as the tolerant response

Except for the right to make a public speech and protection from having a phone tapped, no more than one-third of those interviewed believed that members of their least-liked group deserved any of the other rights. Through this information, one learns that British citizens do not believe that their least like group - a majority of which were groups which threatened citizens security - should be able to teach in state schools, run for office, hold a public rally, or make a public speech. In fact, sixty-nine percent believe that these groups should be completely banned.

This data is even more striking when compared to Britons' views about some of these rights in regard to citizens as a whole, as opposed to only the rights of their least-liked group. In 1991, MORI conducted a survey of the British public asking which rights they believed should be included in a Bill of Rights. Fifty-six percent of respondents believed that the right to hold an assembly for peaceful meetings or demonstrations should be guaranteed in a Bill of Rights compared to the sixty-nine percent of respondents in Barnum and Sullivan's survey who felt that the least-liked groups should not be allowed to hold a public rally. Furthermore, an overwhelming seventy-six percent of respondents in the MORI survey felt that privacy in a person's phone and mail communications should be a guaranteed right, whereas only sixty-two percent believed that this right should be extended to least-liked groups.⁵⁹ Clearly, the British people believe that individuals who pose a threat to the national security deserve fewer rights protections than do citizens as a whole.

It is also helpful to note another aspect of the MORI survey which supports the notion that there is no public demand for a Bill of Rights, because of the value that citizens place on security issues. MORI posed a question regarding the importance of various issues.

Question: If you had to choose, which one of the things on this card would you say is most important? And which would be the next most important?

In Percent

Most Next Most Most/next

Giving people more say in important

governmental decisions 36 27 63

Maintaining order in the nation 36 25 61

Protecting freedom of speech 14 26 32

Fighting rising prices 13 19 32

Don't know 1 2 1

Through this data, it becomes clear that a significant amount of British citizens, sixty-one percent, place a large importance on maintaining order and security. What is even more revealing, however, is the fact that sixty-one percent of respondents believe that maintaining order is one of the two most important issues, whereas less than half, forty-one percent, believe that protecting freedom of speech is a top priority.⁶⁰ This reiterates the point that British citizens place a higher value on ensuring security as opposed to protecting citizens' rights.

Finally, analyzing the reasoning behind some of the legislation which allows rights violations will provide immense insight into the motivation for the lack of a public demand for a Bill of Rights. One piece of legislation which is responsible for a very large number of civil rights abuses is the Prevention of Terrorism Act which was discussed in detail earlier in the paper. This Act came into being as the result of enormous public demand for the government to "do something" in response to a bombing in a Birmingham pub that took the lives of twenty-one people in November 1974. In response to the tremendous public demand, Home Secretary Roy Jenkins introduced the Prevention of Terrorism Bill into parliament. The bill passed through all of its parliamentary stages in only a little over twenty-four hours, becoming law on November 28, 1974.⁶¹ The reasoning behind the establishment of this Act, which facilitates the denial of many citizens' civil liberties, allows a conclusion regarding the reason for the lack of a demand for a Bill of Rights to be made.

It is clear that the reason the British public does not demand a codified Bill of Rights protecting them from rights abuses is because they are concerned about security from terrorism. This is the logical extension of the fact that it was fear of a lack of security from terrorism which caused the establishment of a mechanism to legally abuse civil liberties. In essence, we know why Britons do not demand protection from civil rights abuses, because we know the reason they demanded the abuses in the first place. It is also significant to note that it could not be the case that the British people demanded this legislation, but have since then changed their attitudes concerning the denial of citizens' rights. This is due to the fact that the Prevention of Terrorism Act must be renewed yearly. If the British people had changed their opinion concerning the justification for denying civil rights in order to increase their security, they could have placed pressure on Parliament to not renew the legislation. However, this has not occurred, and the Act has been renewed every year since its establishment in 1974.⁶²

CONCLUSION

Following a thorough examination of the evidence, it appears as if Parliament refusing to allow the establishment of a British Bill of Rights does not adequately explain the absence of such a document. This is due to the social composition of Parliament, the established possibility of British politicians responding to large public demands, Members' of Parliament positive view of civil liberties, and evidence of support for a Bill of Rights among some Members. A deferential political culture also fails to explain the absence of a codified Bill of Rights, because the very notion of Britain possessing a very deferential political culture does not seem to hold true since the decline in deference beginning in the 1970s has continued into the present. The lack of a public demand for a Bill of Rights rooted in the British people's fear of facilitating terrorism in the country and increasing a threat to their security appears to be the most convincing explanation for the lack of a British Bill of Rights. This is due in part to evidence of both the government's reasoning behind civil rights abuses and the existence of less protections of civil rights in Northern Ireland. Most telling, however, are the British citizens' views of rights violations brought upon individuals who threaten security and the reasoning behind the enactment of the Prevention of Terrorism Act.

[Date]The results of this study may have significant implications for several reasons. To begin with, any attempt to establish a Bill of Rights in Britain, whether motivated by the desire to protect citizens' rights or the desire to facilitate European Integration, would be enhanced if the cause of a lack of a codified British Bill of Rights has indeed been pinpointed to a lack of public demand rooted in a security threat. Furthermore, if fear of terrorism is the reason for the continued absence of a Bill of Rights in Britain, Americans and citizens of other democracies which have recently endured an increasing amount of terrorist acts may learn from this. Citizens in these countries should prepare for the possibility of a public demand arising to cut back on the civil liberties protections in the country in order to decrease the security threat.

During this study, some research problems did surface. The largest problem was attempting to gather evidence concerning the somewhat abstract concept of political culture. Additionally, gathering much of the necessary evidence required gaining information about the British public's views on specific issues. Although there was ample survey data, difficulties arose when trying to obtain the answers to certain questions by assessing the answers to whichever questions the conductors of the survey choose to ask.

This study may be improved by addressing the following research questions. What effect does the high degree of party discipline have on Parliament's responsiveness to public demands. By analyzing this point, a more thorough grasp of the actual effect that a public demand would have on Parliament's potential to act will be achieved. Additionally, analyzing the precise and actual effects which a codified Bill of Rights would have on the nature of British government, including the British judicial system, might help to further explore the issue of the absence of British Bill of Rights.

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- 2 "Why Britain Needs a Bill of Rights." *The Economist*. Vol. 337, (21 October 1995), p. 64.
- 3 Jones, "The British Bill of Rights," p. 28.
- 4 "Why Britain Needs a Bill of Rights," p. 64.
- 5 Jones, "The British Bill of Rights," p. 30.
- 6 Stuart Weir, "Talking Liberties." *New Statesman & Society*. Vol. 6, (12 November 1993), p. 15.
- 7 Nicola Lacey, "Are Rights Best Left Unwritten?" *Parliamentary Affairs*. Vol. 43, (October-December 1989), p. 434.
- 8 Samuel Beer, Adam Ulam, Suzanne Cerger, Guido Goldman. *Patterns of Government: The Major Political Systems of Europe*. (New York: Random House, 1973), p. 198.
- 9 Leonard Freedman. *Politics and Policy in Britain*. (White Plains, N.Y.: Longman Publishers, 1996), p. 294.
- 10 "On the Leash: Crime, justice, and civil liberties," *The Economist*. Vol. 342, (15 February 1997), p. 54.
- 11 Freedman. *Politics and Policy in Britain*. p. 195.
- 12 Patricia Hewitt. *The Abuse of Power: Civil Liberties in the United Kingdom*. (Oxford: Martin Robertson & Company Ltd., 1982), p. 52.
- 13 Leo J. Whelan, "The Challenge of Lobbying for Civil Rights in Northern Ireland: The Committee on the Administration of Justice." *Human Rights Quarterly*. Vol. 14, (1992), p. 152.
- 14 Jones, "The British Bill of Rights," p. 32.
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- 16 Whelan, "The Challenge of Lobbying for Civil Rights in Northern Ireland: The Committee on the Administration of Justice." p. 152
- 17 "On the Leash: Crime, Justice, and Civil Liberties." p. 54.
- 18 "Why Britain Needs a Bill of Rights." p. 64.

- 19 "Unconventional: Human Rights." *The Economist*. Vol. 332, (24 September 1994), p. 61.
- 20 Robert Blackburn, "Parliamentary Opinion on a New Bill of Rights." *Political Quarterly*. Vol. 60, (October-December 1989) p. 472.
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- 29 Gabriel Almond and Sidney Verba. *The Civic Culture: Political attitudes and Democracy in Five Nations*. (Princeton, NJ: Princeton University Press, 1963), p. 13.
- 30 *Ibid.*, p. 455-56.
- 31 D.W. Brogan. *Citizenship Today*. (Chapel Hill, N.C., 1960), p. 9.
- 32 Jones. "The British Bill of Rights," p. 29.
- 33 David Beetham, "Political Theory and British Politics" in *Developments in British Politics*, Fourth Edition, eds. Patrick Dunleavy, Andrew Gamble, Ian Holliday and Gillian Peele (New York: St. Martin's Press, 1993) p. 369.
- 34 Freedman, *Politics and Policy in Britain*, p. 294.
- 35 John Locke. *The Second Treatise of Civil Government*. Chapter VIII, sec. 95. p. 48
- 36 Sabine, *A History of Political Theory*, p. 470.

37 Freedman, *Politics and Policy in Britain*, p. 166-67.

38 Campbell, Feigenbaum, Linden, Norpoth. *Politics and Government in Europe Today*, 2nd Edition. p. 103.

39 *Ibid.*, p. 45.

40 David G. Barnum and John L. Sullivan, "The Elusive Foundations of Political Freedom in Britain and the Blackburn," *Parliamentary Opinion on a New Bill of Rights*, p. 476.

49 Dennis Kavanagh. "Political Culture in Great Britain: The Decline of the Civic Culture," in *The Civic Culture Revisited*, eds. Gabriel A. Almond and Sidney Verba (Boston: Little, Brown and Company, 1980) p. 140.

50 *Ibid.*, p. 145.

51 *Ibid.*, p. 141.

52 *Ibid.*, p. 146.

53 *Ibid.*, p. 157-59.

54 Russell J. Dalton. *Citizen Politics in Western Europe*. (Chatham, N.J., Chatham House Publishers, Inc., 1988) p. 231.

55 "State of the Nation" survey conducted by MORI, London, England, June 1995.

56 Whelan, "The Challenge of Lobbying for Civil Rights in Northern Ireland: The Committee on the Administration of Justice," p. 151.

57 *Ibid.*, p. 153.

58 Barnum and Sullivan, "The Elusive Foundations of Political Freedom in Britain and the United States," p. 724.

59 "State of the Nation" Survey conducted by MORI, June 1995. p. 7.

60 *Ibid.*, p. 5.

61 Hewitt, *The Abuse of Power: Civil Liberties in the United Kingdom*, p. 165.

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Special Economic Zone Location:

A Study in Chinese Decision-Making

Chad Myers

Following the death of Mao Zedong, Deng Xiaoping rose to the position of paramount leader, and a new era began for the People's Republic of China. In 1978, Deng introduced the Four Modernizations, his plan for the Chinese economy that was designed to decentralize the economy and stimulate widespread economic growth. Deng's plan was extremely successful, and the Chinese economy began an era with annual growth which often reached double digits. One of the components of Deng's reforms established Special Economic Zones (SEZs) that were more open to foreign investment and were allowed more opportunities for foreign trade. The first Special Economic Zones were announced in 1979 and were to be located in the cities of Shenzhen, Zhuhai, and Shantou in Guangdong Province and Xiamen in Fujian Province. These zones were economically successful and became the basis for new economic policies that later applied to other areas within China, but the term "SEZ" still applies exclusively to these four areas. The success of the SEZs brought increased foreign capital and industry into the areas. The cities grew rapidly and offered new employment to thousands of Chinese. In addition, the standard of living increased dramatically compared to other areas within China. Why were these four cities chosen to be designated as Special Economic Zones and given the accompanying special economic and administrative guidelines?

The literature addressing the issue of the SEZs is vast, but most of the work has been published in journals from China or Hong Kong that are written in Chinese. The literature in English does contain a substantial amount of work on the economic and ideological implications of the SEZs, but the studies on the politics of SEZ creation are limited. This study will focus on the political considerations behind the Chinese leaders' decision.

Understanding the decision-making behind the choice of the SEZs is significant on several levels. For the citizens of China it is important to know what policies have positive effects on the economy so steps can be taken to promote further economic growth. Through its economic policies, the Chinese government has directly affected millions of lives within China and has the ability to continue to affect these lives. Still, there are over a hundred million Chinese living below the poverty level and struggling to maintain a sustenance existence,¹ and the Chinese government needs to address this poverty. The understanding of why particular economic policies have been implemented in limited areas is necessary before trying to apply the policies elsewhere. It seems clear, for example, that Guangdong's proximity to Hong Kong and Macau is important in its economic growth; however, the Chinese government has not given as much opportunity for open investment and trade to the inner regions of the country as it has given to Guangdong and other coastal provinces.

China has also become an important economic player in the international community. A primary purpose of the SEZs was to attract foreign investment, so many countries and

multinational corporations are directly involved with the economic growth of China. If the reasons for the economic growth disparity are arbitrary or trivial, the international community can apply pressure to the Chinese government to improve the conditions of the other regions within China. Also, understanding the political economy of China is essential for potential investors.

Understanding China in general is also important to the international community and to the United States in particular. With a population of 1.2 billion, the potential of the Chinese economy is huge, and China has shown in the last 20 years that it can grow and progress. China is currently not only one of the largest trading partners of the United States, but it also has one of the largest surpluses in trade with the United States. More open trade and investment in China may be able to help the United States recover some of its deficit with China.

To answer the question of why the SEZs were placed where they were, five hypotheses will be presented as possible answers. These hypotheses will be tested by gathering evidence from primary and secondary sources containing information on early SEZ development. Then, the results will be evaluated and conclusions will be made. First, a brief overview of SEZ development will be given.

PURPOSE AND EVOLUTION OF THE SEZ

The first SEZs were based on the model of Export Processing Zones (EPZs) that have been used by various countries since the first EPZ was established in Ireland in 1957. The idea behind the EPZ is to set aside a region of the country and exempt it from local policies such as import and export taxes or high domestic tax rates. Thus, an economic climate is established that is conducive to the growth of export-oriented industries, and enterprises in the zone can best exploit the inherent comparative advantage of the country.² The Chinese leadership was aware of the advantages of the EPZ, and they based the formation of the SEZs on this model.

The Chinese SEZ was established to have several specific functions: to attract foreign capital, advanced technology, and equipment; to train personnel in advanced technology; to promote competition between regions, between trades, and within trades to help develop the overall Chinese economy; to collect foreign exchange and to serve as the entryway for foreign exchange into the rest of China; to serve as experimental models of the market system; and to increase employment, especially among young people.³ Some of these roles fall within the framework of previous EPZs, but the combination of all of these functions called for a zone more comprehensive than a simple export zone. Thus, the establishment of the SEZs was not simple.

The SEZs were a result of the economic reforms of the late 1970s. This reform began in 1975 when Deng published a document entitled "Some Questions on Accelerating the Development of Industry," which incorporated twenty points of economic reform. Deng's twelfth point was "Increasing Export of Industrial and Mineral Products," in which he emphasized the necessity to decentralize economic decision-making. He also said,

In order to accelerate the exploitation of our coal and petroleum, it is possible that on the condition of equality and mutual benefit and in accordance with accepted practices of international trade such as deferred payment and installment payment, we may sign long term contracts with foreign countries and designate several production points, where they will supply complete sets of modern equipment required by us and then we will pay for them with the coal and oil we produce.⁴

Deng was talking specifically about the coal and petroleum industries, but his ideas of exportation and especially his idea of 'production points' laid the foundation for the SEZ concept. Deng's ideas were not politically expedient, however. In January 1976 he was ousted from power and his economic proposals were denounced.

In 1977, after the death of Mao, Deng was allowed to re-enter Chinese Politics, and Deng's economic reforms were partially incorporated by Mao's heir, Hua Goufeng. Hua could not stray too far from the political ideals he inherited from Mao, because the legitimacy of his leadership was based on Mao's endorsement.⁵ In keeping with Maoist ideology, therefore, it was announced in April 1977 that China would prohibit international loans, foreign assistance, or investment. Hua did eventually follow Deng's lead and suggested economic reform in February 1978 at the Fifth National People's Congress. There, Hua expanded on Deng's 'production points' and said: "We should build a number of bases for supplying industrial and mineral products and agricultural and sideline products for export."⁶ Hua's mention of possible export bases probably did not incorporate the idea of foreign investment, which was already denounced.

Economic problems, however, instigated change. In 1978 Chinese exports grew by 28 percent, but imports grew by 50 percent. This caused foreign reserves to fall from \$2.89 billion to \$2.14 billion.⁷ These economic concerns prompted reform-minded leaders such as Deng to suggest that the time was right to change the Chinese economic system. This time, the government acted upon these ideas. It was reported in October 1978 that portions of the economic system were decentralized, giving greater autonomy and authority to provincial leaders.⁸ Additionally, the first recognized joint venture with Hong Kong was announced in November.⁹ Hua's leadership did not agree with the reforms taking place, so a rift in the government developed. This rift was closed in December at the Third Plenum of the Eleventh Central Committee of the CCP. There, the power center shifted from Hua to Deng, and shortly afterwards it was announced that China would accept foreign investment.¹⁰

Deng's leadership opened the way for the establishment of the SEZs. The first step in SEZ formation took place in January 1979 when the China Steam Merchants Navigation Company was granted authority by the State Council and party Central Committee to set up an industrial park in Baoan County, the county in Guangdong that is adjacent to Hong Kong. In February another step was taken when Baoan County was set apart as a "special municipality" with Shenzhen at its center. In March, Zhuhai, which is adjacent to Macau, was also designated a special municipality, but concrete objectives and strategies for both of these municipalities were not firmly established.

The rest of 1979 saw more advancement toward the SEZ concept. In June, China passed its first joint-venture law, which set the legal framework for foreign business deals in China. In July, the central authorities approved the establishment of export zones in Guangdong and Fujian. China went public with its new reforms in September when Vice-Premier Gu Mu, at a press conference in Tokyo, mentioned the opening of special districts in Shenzhen and Zhuhai.¹¹ Finally, in December the Guangdong Provincial People's Congress passed a resolution to establish SEZs in Shenzhen, Zhuhai, and Shantou. This resolution was the first time the term "Special Economic Zones" was used. In August 1980, the Standing Committee of the Fifth National People's Congress ratified the provincial regulations for the SEZs. With this step the SEZs in Guangdong were given relative autonomy from the central government, and all previous regulations became officially binding.¹²

The fourth SEZ, located in Fujian, took a little longer to formally establish. Originally, efforts were made to locate the SEZ near the city of Fuzhou, but the location there was deemed too costly.¹³ The location of Huli island at Xiamen was eventually decided on, and the location choice was announced in May 1980.¹⁴ The controversy did not end there, however. Within Fujian and also between Fujian and Beijing, there were disagreements over the expansiveness of the SEZ. State officials argued that Xiamen should be a small EPZ as opposed to a more comprehensive SEZs such as those set up in Guangdong. Some leaders within Fujian felt that the reforms should be applied to the entire province. Eventually, an SEZ at Xiamen was agreed upon, but the disagreements caused delay. The Standing Committee of the Fujian Provincial People's Congress did not pass regulations for Xiamen until March 1982, and the National People's Congress did not ratify Xiamen regulations until July 1984.¹⁵

In Guangdong, the Shenzhen SEZ was immediately successful: about 300 new factories had been built and put into operation by the end of 1981, annual revenue in 1981 was five times the amount generated in 1978, and about 40 percent of the land designated for urban development was under construction at the end of 1981.¹⁶ This initial success of the SEZs prompted China to expand its zone concept to include more areas within China. In 1982 the Hainan Island Economic Zone was set up with regulations similar to the SEZs. The Hainan zone is much larger and has a larger population than any of the SEZs, so it operates on a much larger scale. In 1984, fourteen cities, mainly along the coast, were designated as Open Cities and three river delta regions along the coast were also given favorable arrangements to stimulate foreign trade.¹⁷

Today, the SEZs lead the economic growth of China. The average growth rate for SEZs from 1980 to 1994 was 35.9%, and despite losing some of the concessions originally given to the SEZs, the 1994 growth rate was 22.4%, twice as high as the national average. In 1995, the SEZs accounted for 12 percent of China's total export volume and over 14 percent of China's available foreign capital.¹⁸ Shenzhen alone, with a population of 3.5 million, accounted for 15 percent of China's foreign trade.¹⁹ In 1994, Zhuhai was the second largest land port and the busiest container port in China and it earned over \$1 billion in foreign trade. The SEZs' importance in China has not faded despite the opening of barriers across the country.²⁰

POSSIBLE EXPLANATIONS

To answer the question of why the four SEZ cities were chosen for special economic consideration, five hypothesis will be considered. In brief, power politics, economic development, Overseas Chinese investment, example regions, and ideology will be examined as possible causes for the policy decisions made by Chinese leaders.

The first hypothesis is that the specific cities were chosen because politicians in the central government wanted either to appease powerful businessmen in the chosen regions or to increase their own political influence within the chosen regions. Thus, the driving force behind the selection of the cities was power politics. Political scientist George T. Crane observes that the politics in the formation of the SEZs reflected the tensions between Chinese political coalitions.²¹ He asserts that, "as they design zone strategy, planners must be conscious of the effects their decisions may have on their positions. SEZ policy is defined so as to attract political allies and assuage potential adversaries."²² He also suggests that business was a motivating force in the creation of at least the SEZ in Shenzhen.²³ For politicians wishing to gain power in Beijing, it is important to have regional backing. Political power is determined by relationships, so developing strong relationships with regional politicians can help a rising leader. The granting of favors, such as a desirable economic policy, would be an excellent way to develop these relationships. This reasoning is consistent with William Riker's Theory of Political Coalitions in which he discusses the use of side-payments by leaders seeking to form a coalition.²⁴ In this case, the side-payment would be the benefit of having a special money-producing area within the politician's realm of control.

The SEZs have benefitted many Chinese firms by giving them special opportunities to raise foreign investment and develop export markets. Foreign firms have also benefitted by access to relatively low Chinese production costs and lenient tax concessions. Thus, it would have been in the interests of domestic and foreign firms to have SEZ locations that would best allow them to take advantage of the special policies. State-owned Chinese firms could use their connections within the state leadership to influence the decision, or privately-held foreign firms could use their economic power to influence the decision. One way for businesses to influence the decision could have been through corrupt means. In China, money can play an important role in government, so political leaders will listen to the suggestions of business leaders, who are often also part of the government. Corruption has been common in post-Mao China, and graft payments to politicians may also have been involved

Proving this hypothesis will be difficult because of the secretive nature of Chinese politics in general. Also, any politician involved in corrupt business dealings would make every effort to cover up any incriminating evidence. A noticeable gaining of influence in Guangdong and Fujian by a central politician or evidence of a strong relationship between a politician and a concerned company would, however, suggest a correlation that could show that power politics was a deciding factor in the selection of the cities.

A second possible explanation for the choice of cities is that the cities chosen were the only areas with the economic development needed to handle the increased foreign trade and investment. The development of China has not been balanced, and the coastal regions have had a greater degree of development than the inner regions. The Chinese government has addressed the issue of a greater degree of development in the coastal regions, so leaders were aware of the differences in development and would have wanted to exploit that difference.²⁵ Tzeng Fuh-Wen argues that the greater development of the coastal regions was the reason behind the economic opening of the coast during the creation of the SEZs and the subsequent policy changes that encouraged foreign trade in the coastal areas.²⁶ This argument relies on the logic that certain infrastructure is necessary to best utilize incoming foreign investment, technology, and goods. Thus, compared to other potential sites, the cities chosen should be shown to have more advanced communications systems, larger and more efficient port facilities to handle trade, more and better roads and rail systems, more existing banks to process increased transactions, and more existing industries and companies that could utilize the expected economic returns from the open economic policies. By choosing the most developed area, central planners would help the state most effectively benefit from the expected foreign investment and trade. Not only would a developed infrastructure attract more foreign interest, but it would also save the expense of having to build the infrastructure needed to handle the economic growth.

This hypothesis can be tested by comparing the infrastructure of the chosen regions with other regions within China. If there is not a significant difference in the infrastructure, then the explanation would not be valid. Also, the level of infrastructure improvements needed within the SEZs will be examined. Large amounts of investment by the state in order to prepare the zones for use would be indication that the zones did not have an advantage over other possible choices.

A third hypothesis is that the chosen areas' geographic proximity to Hong Kong, Macau, and Taiwan could best take advantage of the investment of the Chinese within those territories. Leung C. K. suggests that the central government carefully chose Shenzhen, Zhuhai, and Xiamen to take advantage of the strong economies of Hong Kong, Macau, and Taiwan, respectively.²⁷ Also, locational economics theorizes that plants tend to gravitate towards a certain place when that place has favorable conditions that are present in few other locations.²⁸ According to this theory, industries from Hong Kong, Macau, and Taiwan that are expanding would seek to locate near the existing plants in these regions. Thus, by locating the SEZs near Hong Kong, Macau, and Taiwan, China could exploit this tendency.

Hong Kong has been a key source of investment within China, and many people in Hong Kong and Macau either have friends or family, living in Southeast China, particularly in Guangdong. By placing the SEZs in areas with economic and social ties and geographic proximity close to Hong Kong and Macau, China would attract more investment from the colonies. Links between Taiwan and China were not very strong in the late 1970s, but Deng attempted to improve China's relationship with Taiwan.²⁹ In December 1978, the Standing Committee of the National People's Congress called for economic ties with

Taiwan. In reaction to this call, the State Council approved the formation of the Huaga Corporation as a channel for foreign investment.³⁰ Even though Taiwan was not initially receptive to the friendly overtures coming from China, business was transacted between the two countries through third-party ports such as Hong Kong.³¹ From 1978 to 1979, it was reported that indirect trade between Taiwan and China increased from \$4.84 million to \$21.3 million.³² Taiwan had potential as a trading partner by 1980, and even though leaders in Beijing were still somewhat wary about a formal relationship with Taiwan, they might have realized that informal ties could be exploited until more formal ties were established. The Chinese government encouraged these ties with Taiwan, and they even broadcast encouragement from Fujian provincial officials to Taiwan. In one such broadcast, the chief of the transport section of the Fujian Foreign Trade Bureau spoke about trade:

The situation now exists for Taiwan and the mainland to exchange more supplies. Taiwan needs to import industrial raw materials which are available on the mainland for export in large quantities; on the other hand, Taiwan has some slow-selling goods which are needed on the mainland. Trade between Taiwan and the mainland would be mutually beneficial, with each supplying what the other lacks.³³

An examination of investment patterns in Southeast China would test this hypothesis. There must be a strong history of investment from Hong Kong and Macau into the chosen cities or regions, and some evidence of indirect investment by Taiwan. Also, the investment must be higher in these regions than in other regions within China. The statements of Chinese officials will also be examined to determine the reasoning for the placement by the government. Also, the attempt of the government to attract investment by those areas will be examined.

A fourth hypothesis is related to the third because proximity to Hong Kong, Macau, and Taiwan is a key factor. In this case, however, the chosen areas' geographic proximity to these territories can be used to show how China can operate different regions under different regulations. Under this hypothesis, the main reason for the areas' selection is their potential for use as showcases to display how unity with China would work. This idea is also suggested by Leung C. K. as a reason for the location of the SEZs.³⁴ The reasoning behind it, however, is fundamentally different than the reasoning behind the previous hypothesis.

Reunification with Hong Kong, Macau, and Taiwan has been standard Chinese policy since 1949. Even before joint talks with Great Britain on the Hong Kong issue began, China would not recognize Hong Kong as a British Colony, but maintained that Hong Kong was under Chinese sovereignty and was merely occupied by Great Britain.³⁵ In 1979, the governor of Hong Kong, Sir Murray MacLehose, met with Deng in Beijing. Publicly, Deng told Hong Kong businessmen that they had no need to worry about trouble with China, yet privately Deng told MacLehose that China had no alternative but to recover Hong Kong.³⁶ At this time, however, nothing official had been said regarding the specifics of the Hong Kong issue. Macau, because of its smaller population and

economy, was less prominent in allusions to reunification, but the fate of the Portuguese colony was closely linked to the fate of Hong Kong.

Reunification with Taiwan has always been a visible political goal for China. In January of 1979, Deng Xiaoping announced that after peaceful reunification, Taiwan would be autonomous and retain its administrative power, military forces, economic and social systems and its "way of life."³⁷ This was the first establishment of the "one country, two systems" principle, although this specific language was not used until July 1982.³⁸ This principle became the way that the Chinese were suggesting reunification not only with Taiwan, but also with Hong Kong and Macau. The showplace hypothesis suggests that the government would also link this principle with the SEZs and use them as examples for reunification.

To show that the primary reason these southeast China cities were chosen was to showcase possibilities of unification, it will be necessary to look at how the SEZs were publicized. The effect of the new economic regulations had to be known in Hong Kong, Macau, and Taiwan for the example to be effective. If this hypothesis is correct, therefore, a publicity push in those territories should have accompanied the actual creation of the SEZs. Furthermore, proof of continued publicity, especially aimed at the territories' business leaders would be necessary.

The final hypothesis also contains a geographic factor. It states that the chosen areas' geographic distances from Beijing served as buffer zones between the new capitalistic ideas that were being introduced and the ideological conservatives in the central government. The policies implemented by the government could be seen as departing from socialist values by allowing capitalist ventures into China. With their distance from Beijing, the SEZs would not feel as much pressure from conservatives in the central government, and, conversely, the conservatives in the central government would not feel as threatened by the perceived split from Maoist ideology. Historically, the South is a region where new ideas are formed. Both Sun Yat-sen and Mao Zedong grew up in South China, and the area served as a stronghold for their new ideologies. South China has a tradition of accepting new ideas, so it would be a logical place to try out the new economic policies.

Similar to the first hypothesis, the lack of valid information on internal politics in China will make it difficult to test this final hypothesis. Nevertheless, by first identifying the powerful conservatives of the time period, trying to determine how they felt about the economic reforms, and then examining their influence in economic decision-making, it can be shown that ideology did influence the location of the SEZs. Thus, the ideological debate surrounding the SEZs will be examined. In addition, other economic policies of the period will be considered.

FINDINGS

Power Politics

In support of the power politics hypothesis, there was one noticeable business connection with the establishment of the SEZs, and that connection was with the China Merchants Steam Navigation Company of Hong Kong (CMSN). This is the Hong Kong branch of a state shipping company which is run under the Chinese Ministry of Communications. CMSN wanted to escape the high cost of renting land in Hong Kong,³⁹ so Communications Minister Ye Fei suggested that CMSN use an area of Baoan county, called Shekou, for an industrial park.⁴⁰ As mentioned previously, the zone CMSN started at Shekou was the first industrial zone set up in Baoan county and is now part of the Shenzhen Municipality. Ye Fei had seen export processing zones (EPZs) in use during his travels abroad, and he used this idea as the basis for this industrial zone.

In July 1979, after Ye Fei's suggestion for the use of Shekou, the State Council approved the establishment of this industrial zone, and CMSN financed the preliminary work done in the zone. In fact, it was CMSN that first announced the development of the zone in January 1980.⁴¹ Thus, CMSN played a major role in this first zone experiment. The location of the Shekou Industrial Zone was ideal for CMSN because it already had existing offices and plants in Hong Kong. Expansion directly over the Chinese border would allow CMSN to take advantage of cheaper land and labor, while still being near the economic center of Hong Kong.

Another business connection, although tenuous, was evident in early 1980. In March it was reported that the chairman and vice-chairman of the Hong Kong Worldwide Shipping Group met with Hua Guofeng Vice-Premier Gu Mu in Beijing. The business and political leaders held discussions on ship building and a joint shipping venture.⁴² The use of the infant SEZs would have probably come up, but by that time, the placement of the SEZs was already established. Therefore, the connection probably did not have an effect on the location of the SEZs.

There was not any evidence that the other SEZ locations had initial business connections, but the establishment of the Shantou SEZ was closely linked to a political figure. At the end of 1978, Wu Nansheng, later head of the Administrative Committee for the Special Economic Zones of Guangdong Province, traveled to Shantou in order to explain some recent rulings of the Communist Party that would allow for further opening of the Guangdong economy. While there, Wu saw that Shantou faced economic problems that were left over from the turmoil of the Cultural Revolution. Seeing the opportunity for growth and noting Shantou's history as a key trading port, he suggested in January 1979 that Shantou be set up as a zone similar to Taiwan's EPZs.⁴³ His initial proposal was rejected, but Shantou was distinguished as an SEZ by the province in July 1979.

In general, political leaders were split over the idea of the SEZs, and those who supported the zones were conscious of its political effects. Ye Fei, the previously mentioned Minister of Communications, was a strong supporter of the SEZs. His support for the SEZs can be explained as a desire to help his ministry be more successful by helping CMSN.⁴⁴ The only other national politician who linked himself closely with the SEZs

was the Vice Premier Gu Mu, who had been linked with the purged former premier Hua Guofeng. Gu Mu's support of the SEZs was a risk taken to keep himself from suffering the same fate as Hua.⁴⁵ With success of the SEZs, Gu Mu increased his political standing enough to remain an important part of the ruling elite. The failure of the SEZs probably would have led to his political downfall, but he was in danger of that fate already.

Other political support for the SEZs came from provincial leaders, most notably from Xi Zhongxun and Yang Shangkun, the first and second party secretaries in Guangdong. They were early supporters of the program, and Xi has been referred to as "one of the founders of China's SEZs."⁴⁶ Their support can be seen as a desire to obtain more administrative control over their province. Their strong support of the SEZs helped the development of the zones, but their lack of a national political base suggest that they did not make key decisions in the placement of the zones.

The placement of the SEZs could be considered side-payments to Ye Fei, Gu Mu, or the provincial leaders, but Deng, the ultimate decision maker, had no apparent reason to approve the project simply to reward these leaders. Gu Mu might be seen as a member of Hua's former camp who would require some payments to ally himself with Deng, but Gu Mu had already willingly allied himself with the reformists. His move was motivated by self-interests, and Deng did not need to offer further incentives for Gu's loyalties. Therefore, there is no solid evidence that coalition building was the compelling reason for the placement of the SEZs. Ye Fei's involvement with CMSN, however, does suggest that business interests were involved with the placement of the Shenzhen SEZ.

Economic Development

Evidence to support the economic development hypothesis is based on statistics that would indicate infrastructure: electricity output, number of industries, and freight travel, which shows the ability to move goods. Data for the individual cities was unavailable, so data for Guangdong and Fujian were looked at and compared to data from other provinces. The provinces chosen for comparison were Guangxi, Hunan, and Sichuan. Guangxi was chosen because it is a coastal province that borders Guangdong and would therefore have the same advantages of a coastal province as Guangdong and Fujian. Hunan was chosen since it is a southern province bordering Fujian and near Guangdong. Sichuan was chosen since it is the province with the largest population, has a high degree of development, and is the home province of several influential leaders such as Deng Xiaoping and Zhao Ziyang. The years preceding the establishment of the SEZs were examined to see how the existing infrastructure could have affected the 1980 decision.

Guangdong has a slight advantage over the other provinces in the area of electricity output, and Fujian is also strong in this category (see figure 1). A province's capacity to produce electricity is an essential component of economic growth. The existing number of industries within the province is indicative that the infrastructure within the province is sufficient for new industries. The overall number of industries is considered because a large number of industries suggests that the province's infrastructure could handle the increase of industries that would occur within an SEZ. In this category, Fujian lags well

behind the other provinces, but Guangdong has over twice as many industries as Fujian. Guangdong is deficient compared to Sichuan and Hunan. In freight travel, Fujian is again deficient, but Guangdong has a huge advantage. This shows that Guangdong is well able to move goods within the province. Overall, this data shows that Guangdong has an advantage in infrastructure over other provinces; however, Fujian does not show this same advantage.

The cities themselves do not appear to have an advantage. Even though Guangdong was one of the most prosperous provinces in 1980, the chosen SEZ sites were isolated cities. By 1981, even after the announcement of the SEZs, population in the cities was tiny. Shenzhen had a population of 30,000 and Zhuhai had a population of 25,000. Shantou and Xiamen's populations were negligible at that time.⁴⁷ Obviously, cities with such small populations would not have an advantage in infrastructure over any of the large metropolitan centers of China.

In the very beginning of the development of Shenzhen, for example, CMSN did not want to build a construction facility there because of Shekou's lack of infrastructure.⁴⁸ CMSN was mainly looking for a place to store equipment and dispose of its aged and obsolete shipping, and even with that modest use, CMSN had to finance the removal of a small hill, levelling certain areas, dredging navigation channels, building a dock, and installing water and power supplies.⁴⁹ Even in later development, poor infrastructure in the SEZs was a concern brought up by investors.⁵⁰

In Fujian, officials originally wanted the SEZ to be located near Fuzhou at Lingqi Island. The costs to develop that area, however, were seen as too expensive for the time, and the SEZ was developed instead at Huli, near Xiamen.⁵¹ Even there, there was not much infrastructure, but its location near a harbor development project and food, rail, power, and warehouse facilities made it a less expensive choice. This problem with infrastructure was a factor in the previously mentioned delay of the SEZ in Fujian.

The Chinese government warned that it would take time to build infrastructure in the areas, and other sources detailed the need for infrastructure improvements in general. A member of the Guangdong Provincial Committee for SEZs warned that it takes time to reform economic systems and to build the necessary infrastructure for the SEZs.⁵² Better roads, ports, and airports, and construction of new commercial buildings, hotels, and high-rise residential-commercial complexes were needed in Shenzhen; in Xiamen two new port berths, a railroad, road, water supply facilities, and loading and unloading equipment were needed.⁵³ Overall, by 1982 China had invested nearly 2.5 million U. S. dollars in the four SEZs.⁵⁴ Even though this large investment by the Chinese could be expected in the attempt to attract foreign investment, the cities' lack of infrastructure would have forced most of the investment to be used to build up basic infrastructure.

The evidence shows that the SEZs did not have an infrastructure advantage over the surrounding areas. Xiamen had no advantage at all, and even though Guangdong had an infrastructure advantage, its specific SEZ cities themselves were not ready for the expected business.

Investment

In the years leading up to the establishment of the SEZs, Guangdong was a key province in attracting foreign capital (see figure 2). Compared to Guangxi, Hunan, and Sichuan, Guangdong clearly attracted more foreign capital, making it the likely starting point to attract even more foreign investment. Fujian, on the other hand, did not attract much capital at all even compared to the inner provinces. The evidence also shows that Guangdong and Fujian have a strong connection to the Overseas Chinese population throughout Southeast Asia (see figure 3). Chinese leaders could also best take advantage of foreign investment from these countries by placing the SEZs in Guangdong and Fujian. This is an aspect of the hypothesis that was not originally considered but would add to its validity.

Chinese leaders saw the potential for foreign investment from Overseas Chinese, especially from Hong Kong, and sought to exploit it. One of the main purposes of the Special Economic Zones was to attract foreign investment. Xu Dixin, a prominent Chinese economist (Vice President of the Chinese Academy of Social Sciences), claims that the "SEZs are set up when a country delimits a special area where, through exemptions of customs duty, it formulates various preferential conditions and provides public facilities so as to attract foreign investors to set up factories whose finished products are mainly for export."⁵⁵ Thus, along with promoting export, the SEZs are geared toward attracting investment. In July 1979, China made public its first guidelines for foreign investors.⁵⁶ For the first time, the guidelines allowed for foreign investment in China while also allowing repatriation of part of the profits of joint-venture companies. By setting up legal guidelines for investment, the Chinese leaders showed their desire to attract foreign capital, a recent desire introduced with Deng's economic reforms.

Speaking for all of China, Gu Mu cautiously stated in 1979 that "we are ready to accept loans from all friendly countries and financial organizations provided they do not affect China's sovereign rights and the terms are appropriate."⁵⁷ In May of 1979, the establishment of the Fujian Provincial Investment Enterprise Company was announced, making it the first time that a Chinese company had been set up to accept foreign investment.⁵⁸ The announcement noted that the state-owned company was intended primarily to recruit investment from Overseas Chinese and Hong Kong funds. By 1980, the Guangzhou branch of the Bank of China took advantage of the new opportunities and began receiving currency deposits from foreign sources.⁵⁹

Despite the government's early attempts to attract investment, the early laws were vague and were instituted slowly. This caused investors to be wary.⁶⁰ As a result, clearer new investment guidelines were set forth in January 1982. New investment incentives were also established specifically in Shenzhen in October 1982.⁶¹ These second attempts demonstrate the government's determination to attract foreign investment.

As new regulations were allowing China to open to the rest of the world, government leaders stressed the importance of using the SEZs to take advantage of investment from Overseas Chinese, especially from those in Hong Kong, Macau and Taiwan. Xi

Zhongxun, the chairman of the Guangdong provincial revolutionary committee specifically mentioned Hong Kong and Macau when saying that the SEZs were set up to encourage special investments or joint ventures.⁶² A government publication in 1980 claimed that 90 percent of the Hong Kong population are of Guangdong origin and are friends and relatives of the people of Guangdong. The publication then urges Guangdong to take advantage of the Hong Kong connection to obtain foreign capital.⁶³ Another Guangdong provincial committee member was quoted as saying that, "the SEZs constitute an important measure for bringing into full play two outstanding features of our province - our proximity to Hong Kong and Macau and the presence of a large number of returned Overseas Chinese to bring in foreign investments and promote the four modernizations."⁶⁴ These statements show that the Guangdong government stressed using its economic ties to Hong Kong and Macau. They also show that China stressed investment when publicizing the SEZs. Actually, even before the SEZs were officially established, Shenzhen officials made informal visits to Hong Kong to solicit investment from Hong Kong firms.⁶⁵ Later, it will be shown that China did not heavily publicize the SEZs, so Chinese business connections seemed to be the way that investment for the SEZs was initially produced.

The official press did not stress overseas economic ties as much in Fujian, but Fujian officials did meet at the beginning of 1980 to call for increased trade, transportation, and postal services directly with Taiwan.⁶⁶ This was an important step since nearly all economic interaction with Taiwan took place indirectly through Hong Kong. Economic interaction between Taiwan and Fujian was still limited throughout the 1980s, but action was taken later in the decade on both sides of the strait to increase the economic ties between China and Taiwan.⁶⁷

The importance of Hong Kong investment in the SEZs was correctly emphasized. In China's economy as a whole (see figure 4), Hong Kong was the leading foreign investor from 1979-1993, with Taiwan, the United States, Japan, and Macau filling the next four slots. More specifically, Hong Kong investment was extremely important for the SEZs (see figure 5). Over 79 percent of investment into the four cities for 3 years came from Hong Kong. This compares to 48 to 68 percent for the country as a whole.

The evidence shows that Hong Kong, Macau, and Taiwan, and especially Hong Kong, invest heavily in China and control a large percentage of the investment in the SEZs and the surrounding areas. Government officials also emphasized the attraction of investment from these sources. The early regulation legislation was not well distributed, and when it was it was in Chinese volumes only.⁶⁸ Thus, any non-Chinese investors had to rely on Chinese partners to be able to understand the guidelines for investment. This suggests that officials were primarily concerned with attracting the Chinese investor. Officials knew the importance of Chinese ties with Hong Kong, Macau, and Taiwan, and they worked to exploit that link.

Showplaces

The publicity necessary to show that the government was using the SEZs as showplaces was hard to find. Gu Mu was positive yet vague when he announced the establishment of the SEZs in September, 1979. He stated that,

China has decided to set up a special district in Shenzhen near Hong Kong and another at Zhuhai near Macau where compatriots from Hong Kong and Macau or foreign investors may participate in joint undertakings or run various enterprises independently. We shall take a more open approach towards the administration of the two special districts than in other parts of China.⁶⁹

Gu Mu mentioned the "more open approach," but he also emphasized foreign investment from Hong Kong and Macau. In general, government publications did not give much publicity to the establishment of the SEZs. When the zones were first being established in Shenzhen and Zhuhai, they were publicized primarily as tourist centers and producers of export commodities.⁷⁰ The pertinent legislation for the establishment of the zones occurred in 1979, yet in the *Chronicle of Major 1979 Events in China* by Xinhua, the official news agency, no mention was made of the SEZs.⁷¹ A 1980 report on the economy to the NPC Standing Committee also contained no mention of the SEZs.⁷² In 1980 there was some publicity for the SEZs which focused on the economic aspects of the zones and stressed that the SEZs supplement the "socialist economy under administration by the People's government."⁷³ This statement emphasizes the SEZs' administrative similarities to the rest of China, not their administrative autonomy.

The lack of publicity can be explained by the fact that Chinese leaders were not certain how the SEZ experiment would turn out. Even though supporters of the SEZs hoped that success would build trust among compatriots which could lead toward unification, they were unwilling to closely link the zones with reunification, as such a linkage would mean that failure of the SEZs would be a blow to the reunification efforts.⁷⁴

The hesitancy of Chinese leaders to tie SEZs to reunification is also evident in the name that was chosen for the zones. "Special Economic Zone" is an apolitical term that emphasizes the economic nature of the experiment. China already had the term "Autonomous Region," which was used for outer areas such as Tibet and Mongolia. Even though it can be argued that the Autonomous Regions within China have little, if any, autonomy, the central government did not even imply the idea of autonomy with the SEZs. In 1982, the Chinese constitution was changed to allow for another special region called a "Special Administrative Region" (SAR).⁷⁵ The SAR was set up as a mechanism to incorporate Hong Kong, Macau, and Taiwan into the provincial system of China. This term emphasized the independent administration that the incorporated regions would have. The SEZs were not emphasized in this manner, showing the differences that the government wanted to maintain among the regions.⁷⁶ Therefore, even though they were aware of the unification issue, officials did not want to link it with the establishment of the SEZs.

Ideology

Throughout the Post-Mao era in China, many economic reforms were taking place. The SEZs were not the only areas undergoing economic reform. In 1980, for example, industry was suiting production to demand, there was restructured economic management, and over 100 state farms formed combined agricultural, industrial and commercial enterprises.⁷⁷ Thus, there were many areas of reform that may have been seen as threats to traditional Chinese socialism. In response to this perception of an influx of capitalist ideas, economists and government leaders explained that the changes occurred within the realm of socialism. Early in the reform efforts, reformists used Mao to support their ideas. Mao was quoted as saying that China should learn "all that is genuinely good" from foreign countries.⁷⁸ Later, when announcing the reforms in 1980, Vice-Premier Yao Yilin justified the reforms within a planned system by saying:

All such experiments give expression to the principle of regulation through planning combined with regulation by the market, the principle of taking into account the interest of the central and local authorities, the enterprises, and the individual workers and the principle of closely linking the material interests of the workers with the results of enterprise operation. This is to stimulate the enthusiasm and initiative of the enterprises and workers to improve management, increase production and practice economy.⁷⁹

The first "principle" that Yao mentions is the "principle of regulation through planning," which emphasized the importance of the planned economy despite the capitalistic reforms. Yao does point out that market forces are at work in the reforms, though, so a widening of ideology by the conservative leaders would be necessary. The ideological conflicts inherent in the new reforms were at the base of political events surrounding Deng's rise to power.

In 1978, at the Central Committee for the CCP, Hua Guofeng was ousted, and Deng Xiaoping established himself as the primary power holder. Deng led the economic reform camp that advocated the Four Modernizations and later endorsed the use of SEZs. With the rise of Deng in 1978, the Party Central Committee endorsed the practice of bringing foreign capital to China. This move by the Central Committee can be seen as a major policy shift, and the formations of the SEZs could simply be a logical extension of this new policy.⁸⁰ It has also been argued that the central authorities regarded SEZ formation as part of the new foreign policy and saw no direct relation between the SEZs and a change in domestic policy.⁸¹ Not all of the central authorities agreed on the nature of the reforms, however. Chen Yun led a more conservative camp, and he opposed the establishment of the SEZ's. He did not agree that reforms should be on the local level and advocated the continued domination of state planning. He was willing to accept foreign trade, but only if it did not undermine the integrity of the national plan.⁸² Chen specifically opposed the SEZs because he felt that the best way to improve China's international economic status was through trade, not investment.⁸³ Chen's arguments, however, were answered by the reformists. They argued that zones could relieve domestic budget deficits by attracting foreign exchange and providing for new sources of foreign investment. Chen's arguments were not strong enough to stop the SEZs since the

reformists, led by Deng, had more power. Eventually, Deng Xiaoping gave approval for the SEZs, but, as mentioned earlier, even he did not tie himself too closely to the zones because of the chance of SEZ failure. So, the ideological debate was not entirely resolved.

The SEZs were given specific justification that allowed them to fit into a socialist economy. As mentioned before, the SEZs were said to supplement the "socialist economy under administration by the People's government."⁸⁴ Economists used traditional Leninist thought to explain the SEZs within the realm of the socialist economy. Lenin himself justified the use of foreign capital to bolster socialist economies without surrendering state independence.⁸⁵ When addressing the question of foreign concessions within Russia, Lenin argued that such concessions to capitalist countries were necessary for economic growth. He added that, "we have no right to scorn anything that may, in however small a way, facilitate an improvement in the condition of the workers and peasants."⁸⁶ Not everyone was easily persuaded by the arguments for SEZs. Apparently, leading Chinese Economist Xu Dixin could not even persuade himself. The Beijing Review quotes Xu as saying that "with the socialist economy holding the dominant position, the economy in the SEZs is only a very minor supplement, and the kind of [foreign] exploitation involved is nothing to be afraid of."⁸⁷ Later, however, he is quoted in a Hong Kong journal as saying that the SEZs represent state capitalism, not socialism and that the SEZs are contradictory in nature.⁸⁸ D. K. Y. Chu claims that it was because of this contradiction that SEZs were placed in remote corners of Guangdong and Fujian.⁸⁹ Later, the financial considerations outweighed the ideological considerations, and the economic reforms that the SEZs were based on were allowed to expand.

An ideological debate existed not only about the SEZs, but about other economic reforms as well. Because of the widespread use of other reforms, it is unlikely that the SEZs would have been singled out as the sole focus of conservative criticism. For example, Sichuan Province, then led by Zhao Ziyang, gained international attention as an economic laboratory for market reforms.⁹⁰ The ideological debate probably did contribute to limiting the SEZs to just a few small areas, but it is unlikely that the geographic distance from Beijing would have been a crucial factor in the SEZ locations.

CONCLUSION

In conclusion, with the findings presented, the most likely factor contributing to the location of the SEZs was the cities' proximity to Hong Kong, Macau, and Taiwan, which encouraged investment from those areas. The ties of the SEZs to Hong Kong were especially strong, but the potential for investment from Macau and Taiwan also contributed to the decision. Political connections relating to the first hypothesis also played a factor in the specific location of the cities. The role of CMSN is significant, which implies that other companies may have been involved less publicly. In addition, the overall development of Guangdong compared to other provinces within China was probably a contributing factor in the broader decision to allow such zones in Guangdong. The showplace and ideology hypotheses were shown to have little effect on the location of the SEZs. Chinese leaders were unwilling to overtly link SEZ success with Chinese

reunification efforts, and although an ideological debate did exist, that debate was broad and did not appear to directly affect the SEZ location.

With respect to the Xiamen SEZ in Fujian, less evidence was found all around, so the conclusions are less certain. No specific political or business connections with the Xiamen SEZ were found, so any conclusions made would have to rely on the information gathered for SEZs in general and for the province of Fujian. This would mean that the choice of Xiamen over other locations in Fujian such as Fuzhou could not be explained. Only an explanation of why an SEZ was placed in Fujian as a whole could be given. Doing so, a hesitant conclusion would be to attribute the choice of a city within Fujian to the desire to attract investment.

Even with the above reservations, this evidence gives a surprising result. In Maoist times, all economic decisions were political, and the results included economic failures such as the Great Leap Forward and the Cultural Revolution. In the past, therefore, personal and political motivations often overshadowed technical and economic criteria in Chinese policy-making. This is still true today in China, but it may be changing.

Robert C. Hsu of Clark University groups Chinese economics into three broad categories which can also be used to evaluate the theories behind economic policies.⁹¹ These areas are: diagnostic, functional, and technical. Diagnostic economics principally uses Marxist ideals such as historical materialism and the dialectical method. This type of economics has been used in the recent reforms, as seen in the phrase "socialism with Chinese characteristics." It is heavily ideological and emphasizes the ideas of state ownership and state planning. Functional economics is concerned with the policies and methods used for planning and managing the economy. While this approach is less ideological than the diagnostic approach, it is still not quantified and is concerned with economic relationships to politics. Technical economics is the newest type of economics within China. It is free of ideology and uses quantitative methods. This is also the least-used type of economics within China, and it is not widely accepted.

In the post-Mao era, diagnostic economics has dominated the thinking of political leaders and economists, and functional economics has worked complementary to the diagnostic economics. The results of this study show, however, that political-economic decisions may be using technical economics as well. Using investment in the decision of the location of the SEZs is an analytical decision, not one based on ideology or political considerations. Functional economics was also shown to be important in the decision, but the ideology inherent in diagnostic economics was not shown to be as important. This possible shift toward technical economics is promising from an international viewpoint. If technical economics is used as a basis for policy decisions, then Chinese economic policy will be more rational, and other countries will be better able to interact with China and to anticipate its economic climate.

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Privatization in the Czech Republic

Barry Fullerton

In 1990, Vaclav Klaus launched his plan for the economic transformation of the Czech Republic. The goal in these early stages was to ensure macroeconomic stability through a tight monetary and fiscal policy. This policy was coupled with a mass voucher privatization plan, transferring the state property into private hands. The koruna, the Czech currency, was devalued and simultaneously pegged to the Deutchmark and the US dollar.

It was not until the 1992 Velvet Revolution that the Czech Republic began to reap the benefits of its programs. In 1993, there was zero growth in the Czech GDP, but this changed with a 2.6 percent increase in 1994. The GDP grew by an estimated 4 percent in 1995. The exchange rate stabilized, while foreign reserves reached almost US\$ 15 billion. Remarkably, unemployment hovered around 3 percent. The Czech Republic even fulfilled all of the Maastricht conditions, with the exception of the inflation rate.¹ It emerged as perhaps the most successful free market economy of the post-communist nations.

The 1997 fiscal year has brought considerable changes to the Czech economy. The Czech banks now have the highest percentage of nonperforming loans in Eastern Europe. The formerly stable currency has been continuously depreciating while interest rates have risen.² In addition to all of this, on November 30, along with eight members of his sixteen-member Cabinet, Prime Minister Vaclav Klaus resigned.³ What has caused such a successful state, the "model" for the transition economies, to take such a drastic turn for the worse? This paper will analyze the effects of privatization, especially voucher-style privatization, on the economy in both macroeconomic and microeconomic terms to address these current problems facing the Czech Republic.

PRIVATIZATION RESTITUTION

Although no formal distinctions exist, economists often differentiate between small and large-scale privatization and between classical and voucher-style privatization. Small-scale programs often target smaller companies, while large-scale ones tend to focus on transferring ownership of large enterprises and corporations. The classical methods of privatization, often called the standard methods, are auctions, direct sales, and tenders. The non-classical approach uses the voucher-style, or coupon method, and will be discussed later in this paper. The first forms of privatization to occur in the Czech Republic were restitution, a return of specific assets to their former owners, and small privatization, ownership transformation in the retail trade and services sectors.⁴

The reprivatization laws provided for restitution of property that had been nationalized after February 25, 1948, the date that the communists assumed power in the parliament.⁵ That date is important for several reasons. Between 1945 and 1948, all firms employing more than 500 people were seized by the state. By 1948, over 82 percent of the industrial

sectors had been nationalized, excluding them from the restitution laws. Despite this exclusion, many shops, hotels, apartment buildings, and other small properties were returned to their former owners. Kristian Palda, a professor at Queen's University, estimates that 10 to 25 percent of all state-owned property was returned during the restitution process, valuing between US\$ 2.5 and 4.3 billion. No exact amount can be figured because much of the property was not appraised prior to restitution.⁶

SMALL PRIVATIZATION

The small privatization program began in late 1990 and was completed by the end of 1993. It targeted primarily the trade and services sector of the economy, focusing on "definable" business units such as hotel and retail chains.⁷ Public auction was decided as the sole method of small privatization. District privatization commissions, whose members were appointed by the Ministry of Privatization, selected these businesses. The businesses were then appraised by the Ministry of Finance and auctioned off by standard means. By the end of 1993, approximately US\$ 1.1 billion had been collected by the Fund of National Property, where the proceeds were kept in a special account.⁸

The effects of small privatization on the economy are perhaps best enumerated by Karel Dyba, Czech Minister of Economy. He stated, "Small businesses, especially shops and other retail establishments, were auctioned off to new, private owners, thus giving our people the opportunity to practice capitalism at the grass roots level, while at the same time greatly expanding the range and quality of goods and services available in our economy."⁹ Both restitution and small privatization reestablished this new class of small-scale entrepreneurs which had been completely eliminated during the communist era. As Dyba said, the privatization programs gave the Czechs "the opportunity to practice capitalism" in the early stages of transformation.

LARGE PRIVATIZATION

The legal framework for the large privatization program was created in 1991. In contrast to small privatization, this program employed a variety of methods including both the classical methods of auctions, public tenders, and direct sale, and the nonclassical coupon method. Its plan centered on the transfer of the state-owned enterprises (SOEs) into the private sector.¹⁰

Czech Law No. 92/1991, "On Conditions and Terms Governing the Transfer of State Property to Other Persons," required the management of 4500 SOEs in the Czech Republic to submit detailed privatization projects to the Ministry of Privatization. These proposals were to include a business plan and the preferred method of privatization. Other interested parties were allowed to submit their competing projects, often representing either the interest of a smaller unit within the enterprise or sometimes the opinion of a foreign investor. Over 23,000 projects were submitted to the Ministry of Privatization, of which only 4,500 were adopted. Direct sales and the voucher method appeared as the two most preferred privatization methods. Some management teams chose direct sales to allow them to maintain some control of the transfer, while others

hoped the voucher scheme would disperse ownership amongst a large number of shareholders, thus leaving the management still in control.¹¹

The selection of the final project was at the discretion of the Ministry.¹² In the trade and services sector, voucher privatization emerged as the primary method with 42 percent of the projects. Direct sale was selected for 21 percent, share transfers accounted for 20 percent, and auctions for 7 percent. The voucher method was chosen primarily in projects for wholesale trade stores, restaurants, and travel agencies, while direct sales were used for warehouses, department stores, and supermarkets.¹³ After the selection process was completed, the SOEs were transferred to the Fund of National Property (FNP) and made into joint stock companies. The FNP also reserved a controlling share in about 50 "strategic" companies. These "strategic" companies were mainly banks, mines, insurance companies, airlines, and other major industrial sites.¹⁴

The large privatization plan was completed in two waves. The first wave privatized 2,200 SOEs and was completed in May 1993. The second wave handled the remaining SOEs and was finished by the end of 1994. By this point, Palda estimates properties valuing over 700 billion koruna had been transferred due to the large privatization program, approximately 400 billion koruna from the classical methods and 350 billion koruna from the voucher program.¹⁵

A CLOSER LOOK AT THE VOUCHER METHOD

The Czech privatization scheme was developed on two premises that it would be made available to the population at large and that it would improve the general productivity of the economy. The shortage of investment capital in the state was also a primary concern. Considering these reasons, the Czechs, under the leadership of Vaclav Klaus, chose a combination of methods that would allow for rapid privatization, while recognizing the need for domestic investment capital.¹⁶ The vouchers were intended to "create a stock of savings that matches the stock of state assets being privatized."¹⁷ Karl Dyba, Minister of Economy, further explained the decision to support the voucher method:

The use of the novel voucher method was undertaken because we believed that neither a bureaucratic government-run program to restructure firms and then sell them, such as the German Treuhand, nor an effort to maximize foreign revenues by selling firms gradually to foreign investors was appropriate. The former because we did not believe that a government agency could restructure firms as well as private shareholders, the latter because we believed that the value of our firms would be maximized by letting owners and their managers get on with the job of reorganizing production and finding markets for their products.¹⁸

While there were no general restrictions on the participants in the direct sales and auctions in the large privatization program, the voucher program was limited to Czechoslovak citizens over the age of 18. Under the program, each citizen could buy a book of vouchers with 1000 investment points. The books cost 1000 koruna, which was about one-fifth of the average monthly wage. The fees covered administrative costs and

the computer networking system used during the bidding. Separate books could be purchased for each of the two large privatization waves.¹⁹ During the first several months of selling the books, only about 700,000 people registered them. The Ministry of Privatization became very concerned that the project was going to fail. In January 1992, the outlook drastically reversed when the first investment privatization funds (IPFs) began to appear. These investment funds, similar to mutual funds, were to decrease the risk of investment by spreading one's investment points over many enterprises. The banks supporting most of the IPFs began a competitive advertising campaign, promising to pay tenfold profits within one year.²⁰ Over 260 investment funds were soon created, and the sales of the voucher books began to soar. Approximately 77 percent of the Czech population participated in the voucher program, 5.95 million in the first wave and 6.16 million in the second wave.²¹

Bidding took place in rounds, five in the first wave and six in the second. "A computerized system matched bids and supply, adjusting the prices according to certain preset rules."²² After the bidding was completed, the IPFs gained about 74 percent of the available investment points in the first wave and about 64 percent of points in the second wave. Almost 80 percent of the formerly state-owned properties were privatized.²³ Individual wealth of citizens began to increase soon thereafter. Vaclav Klaus was praised for his program, at least temporarily.

THE ROLE OF INVESTMENT PRIVATIZATION FUNDS

To understand the Czech privatization process one must carefully analyze the role of the investment privatization funds. As mentioned earlier, the Ministry of Privatization was not expecting these mutual funds to emerge. On the other hand, the creation of the funds is in large part what saved the voucher privatization program in its early stages.

Investment funds or mutual funds exist in many nations' economies, including the United States. They are usually created "to diversify risk rather than to exercise control over the companies in which they hold shares."²⁴ In the Czech Republic the funds were created to diversify risk, but measures were not taken to prevent the investment funds' control over the companies. In many countries, laws restrict the percentage of shares that can be held by a mutual fund. In Germany, for example, this ceiling is 5 percent. The Czech Republic did create such a law but placed the maximum percentage of shares in a privatized company at 20 percent.²⁵ Why was this high ceiling so damaging to the situation?

Many economists at the time overlooked the 20 percent ceiling considering the high number of mutual funds that were competing. Approximately 260 funds were created during the first wave, and over 350 participated in the second wave. The funds, due to the general scarcity and unreliability of information about the SOEs, emerged with a majority of the investment points 74 percent in the first wave and 64 percent in the second wave. The damaging situation was that the largest fourteen investment groups controlled 55.5

percent of all the vouchers available in the first wave. These same fourteen groups maintained 38.2 percent of the investment points in the second wave.²⁶

Most of these IPFs were founded by Czech banks. One of the goals of privatization was to increase the productivity of the economy through effective corporate governance. The strong emergence of the IPFs prevented any form of a corporate governance system. Palda believes that "the most serious consequence of coupon privatization... is the dispersion of ownership that brings in its wake the problem of corporate governance."²⁷ Many of these mutual funds contained hundreds of firms within their holding. Exerting their governance over these firms was simply impractical.

Many assess the forming of a Czech corporatism as similar to the bank-centered model of ownership in Germany and Japan. The proponents of this idea emphasize the dual function of the banks as creditors and owners. Brada suggests that the slowness of restructuring the former SOEs was perhaps related to this situation. He suggests that "rather than pushing for share price maximization, banks may view the IPF as a way to increase the bank's financial transactions with a firm" or a way of "protecting the bank's loans to the firm."²⁸ This assessment has merit, but one must consider several more aspects before making this conclusion.

A CLOSER LOOK AT THE OWNERSHIP SYSTEM

In a bank-centered model, one must closely analyze the banks to understand the situation. Surprisingly, the controlling shareholder in the five largest financial institutions of the Czech Republic is the Fund of National Property, which is controlled by the state. The top four banks in Table 1.1 held 71 percent of the Republic's banking assets as of mid-1995. Naturally, these financial institutions have their own investment privatization funds. These four banks along with the Czech Insurance company, each listed in Table 1.1, gained 41.4 percent of all the investment points given to IPFs in the first wave and 18.8 percent in the second wave.²⁹ This situation of state ownership questions the entire success of the voucher privatization scheme. In addition to these financial institutions, the Fund holds more than thirty percent of the shares in most of the "strategic" enterprises, such as Czech Airlines, West Bohemian Mines, and Vitkovice Steel Works.³⁰

Table 1.1.

Percentage Held By the FNP

Komerční Banka 45%

Investiční Banka 33%

Česká Sportovní 45%

Československá Obchodní Banka (CSOB) 20%

Ceska Pojistovna 26%

Source: Kristian Palda, "Czech Privatization and Corporate Governance," *Communist and Post-Communist Studies* 30, no. 1 (March 1997): p. 91.

The situation continues to get more complex. Despite the existence of laws to prevent banks from owning shares in other banks through the IPFs, subsidiaries have bypassed these regulations. In addition to the state control, an interlocking system of ownership has also been discovered. In November of 1995, it was reported that Ceska Pojistovna, the largest insurance company, was allegedly owned by CSOB

(10 percent), Komerční Banka (10 percent), Investiční Banka (10 percent), and Ceska Sportelna (10 percent). How did this mass interlocking ownership arise? The primary impetus behind the situation was the Klaus's government's lack of stringent regulations over the process. Also, it can be said that Klaus's voucher privatization program assisted in creating this spiderweb of confusion. Through voucher privatization, these financial institutions were able to become co-owners of themselves.³¹

The Czech government controls the FNP, which has controlling power in the major financial institutions. These financial institutions founded the investment privatization funds that now own most of the formerly state-owned enterprises. These banks and insurance companies have significant cross-ownerships, making any assessment all the more complicated.

Due to these relationships, many problems have surfaced. Many of the IPFs which are run by banks have many conflicts of interest. The debtor companies' shareholders are linked to their lenders through the investment funds.³² Corporate indebtedness in the Czech Republic creates much of the tension between the various groups. When an enterprise is near bankruptcy, the government intervenes in an attempt to alleviate the debts. The government interests primarily focus on the success of the banks, considering their large share holdings. If a former SOE declares bankruptcy, the bank suffers as both the lender and as the owner. Because of this interconnectedness in the system, banks are not pushing for the restructuring of firms because they are often more concerned with the "doubtful debts" of their clients' enterprises.³³

The investment privatization funds have become a major pillar in the economy. Their original mutual fund role in diversifying risk has significantly changed as they are now prime components in the system, along with the state, banks, and the former SOEs.

CURRENT ISSUES

1997 has brought remarkable changes in the outlook on both the Czech economy and the republic's political situation. Many of the problems are deeply rooted in the privatization programs as devised by Klaus, especially the voucher method with its effects on the financial institutions.

At the start of the year, it was announced that 35 percent of Czech bank loans were nonperforming, surpassing all other Eastern European nations.³⁴ The industrial sector is facing a tremendous slowdown after years of growth. The complex web of ownership is obviously not effectively controlling the former SOEs. The shareholders have no voice in the governance of the firms. The IPFs cannot represent themselves in all the various firms of which they hold the controlling shares. Many firms are on the verge of bankruptcy and are looking to the state for assistance.

In May, the Central Bank attempted to defend the koruna by "spending billions of dollars fending off speculators." They were forced to terminate the koruna's ties to the US dollar as it began depreciating by up to 10 percent daily.³⁵ The depreciation of the koruna also drove down the price level of bonds, of which the banks hold many. The currency problems have also been coupled with rising interest rates.

During July, the region was plagued with mass flooding. The floods caused an estimated 30 billion koruna worth of damage to Czech industry.³⁶ This damage implies major consequences for the banks who made loans to these firms, an indirect effect of the voucher privatization.

Due to these problems and to the legacy of voucher privatization, the situation at the banks is getting worse daily. They posted horrible results for the first six months. "Net profits at Komerčni fell by 35 percent... Sporitelna's earnings slumped by 55 percent, Investicni a Postovni Banka by 55 percent."³⁷ There are great concerns that the government will have to spend billions of dollars to bail out the failing banks. Last year, eleven medium-sized banks shut down operations and it looks as though the large banks may meet the same fate.

In July, the Czech government decided to sell its shares in the IPB bank to a Japanese securities house, Nomura. On August 20, the finance minister Ivan Pilip announced the government's desire to sell the state's holdings in Komerčni, Ceska Sporitelna, and CSOB. These three banks have an estimated assets value of US\$ 29 billion. Pilip's reasons for the sales are "lack of capital" and "quality of management."³⁸ These problems could have been detected several years ago, but the focus upon the macroeconomic successes of the Republic caused many to overlook the underlying microeconomic situation. The problem still remains of how to attract buyers to failing banks without additional government assistance to alleviate the debts.

On November 30, Prime Minister Vaclav Klaus, the vehicle behind the economic transformation, resigned along with most of his Cabinet due to allegations of a campaign finance scandal.³⁹ This places the Czech Republic in a very precarious situation. The government as we know it is collapsing, while at the same time the economic conditions of the country are worsening. What has happened to the model for economic transformation and democratization in Eastern Europe?

CONCLUSIONS

In 1993 MIT Professor of Economics Rudiger Dornbusch wrote, "History suggests the Czech Republic is bound to be the winner. ...By the year 2000 the Czech Republic will be ahead of Spain in a generation or less, this country will be fully part of the core high income at the heart of Europe."⁴⁰ When analyzing the macroeconomic success and the formation of democratic institutions, the Czech Republic became the center of discussion. Conclusions similar to Dornbusch's had become accepted thought. The apparent surface successes overshadowed the microeconomic instability in the nation. Unemployment remained at 3 percent; the currency was stable and pegged to the dollar and the DM. Government regulations might have made the microeconomic transition easier, but one can only speculate at this point. Christopher McIntosh, UN Information Officer, foresaw in 1994 that the "absence of a legal framework governing the conduct of business" was going to be an obstacle to success in Eastern Europe.⁴¹ Klaus was adamantly opposed to any government regulation, however, because he believed it would hinder market reform.

President Havel recently stated regarding the current situation, "This does not mean that the fall of a particular government or politician means that the system is in crisis." He went on to add that the changing of governments shows that the democratic system is working. At the time of this writing, in opposition to Havel's statement, it is only possible to say that the economic future of the Czech Republic depends greatly upon the political outcomes of the government changes.

Under the direction of former Prime Minister Vaclav Klaus, the original privatization laws were signed. His programs brought the Czech Republic to the forefront of the European economic environment. His programs, as this paper has sought to demonstrate, also brought about changes in the role of financial institutions in the economy. Positive or negative, the programs themselves have permanently impacted the political and economic culture of the Czech Republic. Klaus and many of the ministers have now resigned without finding solutions to the problems that privatization has created. The change of governments will perhaps determine the future economic direction of the Czech Republic; however, an assessment of the long term effects of privatization on the Czech economy will have to wait.

NOTES:

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28. Brada, "Privatization Is Transformation,"
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30. Ibid., p. 92.
31. Ibid., p. 91.
32. "Mass Privatization in Eastern Europe: Accident and Design," *The Economist* 337 (25 November 1995): p. 80.
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