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Modus Vivendi



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Rediscovering the Old Silk Road

Sara Babb

Democratization in Latin America

Lori Dowell

The Causes of Spanish Immigration

Laura Sellers

**Explaining Singapore's Government Linked
Corporation Stock Price Premium**

Andy Greer

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Letter from the Editors

Although its literal translation from the Latin is “way of life,” in international relations parlance, *Modus Vivendi* signifies “a state of affairs where two opposing parties agree to differ.” In a similar spirit of fostering intelligent discussion, *Modus Vivendi* attempts to provide a forum for diverse viewpoints on a variety of issues pertinent to the field of international studies. One of the few undergraduate journals of international relations, *Modus Vivendi* is published by the International Studies Department at Rhodes College, in conjunction with the Rhodes College chapter of Sigma Iota Rho.

This issue of *Modus Vivendi* includes four articles, representing a variety of theoretical and public policy issues. Sara Babb’s work begins the journal with a thorough discussion of collective security in Central Asia. The subsequent pieces *Democratization in Latin America* and *The Causes of Spanish Immigration* were written as requirements for the Buckman International Internship program. These two essays discuss more narrowly issues that Lori Dowell and Laura Sellers encountered in Mexico and Spain during their respective stays in these countries. Finally, Andy Greer’s paper takes a more statistical approach, investigating the political and economic effects of government linked corporations in Singapore.

Modus Vivendi is the product of enormous efforts on the behalf of many people. The editors would like to extend their gratitude to the faculty of the Rhodes College International Studies Department. Without their outstanding talents, teaching abilities, and tutelage, this journal would not exist. Additionally, special thanks must be given to Brenda Somes and the faculty advisor to Sigma Iota Rho, Professor Shadrack Nasong’o for their constant support and encouragement.

Tiane Leonard and Lori Dowell
Editors of *Modus Vivendi*

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Rediscovering the Old Silk Road: Central Asia's Path to Regional Collective Security

Sara Babb

When the Soviet Union collapsed in 1991, independence came to the Central Asian states of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan suddenly and unexpectedly. Previously, these five polities relied completely and exclusively on Russia for security, and since Russia guaranteed protection and provided the military and economic resources necessary to ensure stability, the leaders of Central Asia were not responsible for defining and confronting security threats and solutions. With autonomy, however, came the task of providing security and declining the option of working together as a Moscow-defined regional bloc. Instead, the newly independent states retreated to internal and individual considerations and began to view each other with suspicion.

To date, the Central Asian states have been reluctant to form regional collective security organizations. Two significant exceptions, which have been touted as the most promising and high-profile attempts at regional collective security in Central Asia, are the Commonwealth of Independent States Collective Security Treaty Organization (CIS CSTO) and the Shanghai Cooperation Organization (SCO). The organizations were established to manage regional collective security, but have largely failed in their aim of coordinating state behavior and addressing regional security issues. Instead of embracing regional institutions as a forum for cooperation, Central Asian states have severely contested borders, invaded neighboring territories, and allowed Islamic militants to gain a significant presence. Regional collective security organizations have also failed to tackle crises as they emerge – such as the rise of the Taliban and the Beslan school massacre, both of which will be discussed further in subsequent sections of this essay.

If Central Asian states fail to establish security in the region, severe tensions are likely to emerge between the United States, Russia, and China over how best to secure the region, possibly leading to a new “Great Game” in this already volatile region. Central Asia, the heart of the Old Silk Road, is in a pivotal geo-strategic location. The region boasts vast untapped and highly desirable energy reserves, and if the internal stability of the region collapses, the implications will be drastic and wide-reaching. Already home to significant numbers of Islamic militants, training operations are likely to increase as Islamists emerge from hiding in the Ferghana Valley and spread to Afghanistan and Pakistan.

It is important to define regional collective security when attempting to explain its failure. Regional collective security is a system in which member states pledge to confront any aggressor, even if aggressor is included within the agreement (Art, 2003). The functions include coordinating military endeavors and threat perceptions, sharing information, thwarting attacks, and maintaining internal peace and stability. To date, CIS CSTO and SCO have failed to meet these criteria and have proven ineffective as regional collective security organizations. Examining why these institutions have failed is supremely important in determining what may lead to the success of future regional collective security attempts.

This essay explores the reasons why regional collective security attempts have recently failed in Central Asia. Three leading explanations, based on institutionalism, elite theory, and neorealism are considered. The cases of CIS CSTO and SCO will serve as evidence of failed regional collective security attempts, and the relevance of the hypotheses will be analyzed in

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light of these cases. Possible solutions to the challenges of regional collective security in Central Asia will emerge from the investigation of these two organizations.

Brief Regional History

Figure 1: map of Central Asia



Kazakhstanⁱ

Kazakhstan is territorially the largest of the Central Asian Republics at almost four times the size of Texas. In terms of population, Kazakhstan's population of just over 15 million people makes it the second largest country in the region after Uzbekistan. President Nursultan Nazerbayev is an authoritarian leader who recently moved the capital from Almaty to Astana with little provided explanation. Both the shared border with Russia and the number of ethnic Russians living in Kazakhstan (approximately 4.5m) are considerable and have significant implications for Kazakh foreign policy. Kazakhstan has maintained close relations with Russia, including trade ties, and has emerged as the most economically prosperous state in the region.

Kyrgyzstanⁱⁱ

Kyrgyzstan is the region's fourth largest state in terms of population (5m) and territory. President Kurmanbek Bakiyev came to power in 2005 after massive demonstrations in both the capital of Bishkek and through the countryside led to the ouster of President Askar Akayev, the president since 1990. Internally very weak, the Kyrgyz central government barely maintains

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control, and much of the country's domestic stability is provided by Russia whose demands heavily influence Kyrgyzstan's decision-making processes (Bogaturov, 2004).

*Tajikistan*ⁱⁱⁱ

Though Tajikistan is territorially the region's smallest state, it has the third largest population (7m). The government is based in Dushanbe, and the president is Imamali Rahmonov. After the collapse of the Soviet Union, Tajikistan experienced a devastating civil war (1992 – 1997). Concerns over regional stability in the wake of the war in Afghanistan have brought substantial international aid to Tajikistan, and the country largely owes its stability to assistance from Russia and the United States. Tajikistan is currently attempting to strengthen democracy and transition to a free market economy, but remains the least developed of the former Soviet states.

Turkmenistan^{iv}

Turkmenistan is the region's second largest territory, but has the smallest population (5m). The capital city is Ashgabat, and the president is Gurbanguly Berdimuhammedov. Until his death in late 2006, the government was led by supremely totalitarian President Saparmurat Niyazov whose legacy has dramatic implications for the future of Turkmenistan. President Niyazov controlled virtually every facet of Turkmen society and designated himself "Turkmenbashi," or father of all Turkmen. He maintained a strict policy of isolation and neutrality for Turkmenistan and continually refused to participate in regional summits and meetings. Because of his extremely repressive actions, Turkmen economic development has regressed an estimated twenty years. He essentially replaced the education system with a book he authored entitled *Ruhnama*, and the lack of adequate education in the country will hinder Turkmen growth for numerous future generations. A possible economic boost to the country lies in Turkmenistan's significant oil reserves, but the difficulty of establishing secure and reliable pipelines has so far thwarted exploitation attempts and has allowed the Russian monopoly on energy reserves to remain.

Uzbekistan^v

Though Uzbekistan ranks third territorially, it is by far the region's largest state (27m). The government is based in Tashkent, where President Islam Karimov governs as an authoritative and oppressive leader. He was elected in 1991 and has continually extended his tenure in office. Karimov severely restricts the activities of his citizens, especially Muslims who are the significant majority in the country, and he brutally stifles all political opposition. Arguably, Karimov has contributed to Uzbek poverty because of strict border controls and ineffective economic policies. Uzbekistan has contentious relationships with its neighbors and has independently demarcated borders and reinforced them with unmarked landmines. Largely due to such actions, Uzbekistan and Turkmenistan formally severed relations in 2005.

Although the states of Central Asia share common cultures, ethnicities, and borders, each has significant and divergent concerns. Internal stability, border tensions, economic development, Islamic radicalism, relationships with external powers, and the exploitation of energy reserves are all differing state priorities. The fact that these countries do not allot the same level of importance to national issues, especially in the realm of security concerns, increases the difficulty of establishing regional collective security organizations. In the future, however, historical ties and cultural commonalities may serve to strengthen regional relationships if presently existing obstacles are overcome.

Literature Review

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Each of these five countries has failed to make the necessary commitments to regional collective security. These failures belie their stated interest in the process and their becoming signatories to various regional collective security agreements. Three theories – institutionalism, elite theory, and neorealism – must be considered in order to explain the actions of these states. Each theory makes predictions about state behavior and may be beneficial to understanding the motivations behind why Central Asian states have so far failed to embrace regional collective security.

Institutionalism

Institutionalism is a systemic theory of international relations which asserts that rules, norms, networks, and institutions guide, motivate, and restrict state behavior (Krasner, 1983; Keohane, 1989; Nye, 1977). Institutionalism maintains that states do not exist in an environment of anarchy, but instead are structured by “regimes” that dictate their actions (Brecher, 2002). Ultimately, institutionalists believe that these factors provide a coherent set of expectations for states and facilitate coordination (Keohane, 1989). They also posit that information can and should be made readily available for all actors through the existence of institutions and that equality of information can alleviate the security dilemma by greatly lowering uncertainty and transaction costs (Downs and Rocke, 1995). Such institutions provide incentives for cooperation and punishments for dissenters, distribute power, define roles, and influence state decision-making (Brecher, 2002). In short, institutions provide a framework in which states can cooperate without feeling threatened. Such cooperation leads to the emergence of trust, facilitates the establishment of joint bureaucracies, and serves as a catalyst for future collective action.

It may be in a state’s best interest to cede some degree sovereignty in order to reap the benefits of adhering to international institutions. If a state adheres to the conflict resolution strategy of a regional collective security agreement instead of tackling a security threat independently, increased resources and allies may be available to confront and hopefully negate the threat. As a result, national military and economic capabilities should be measured in absolute terms, not in relative terms. If a state has the means to defend itself in the face of an attack, the relative capabilities of another “trusted” state are largely immaterial.

If institutionalism is to be a relevant theory for explaining the outcomes of CIS CSTO and the SCO, several conditions must be met. In this essay, three such conditions are utilized when applying this theory, including: the presence of established meeting dates and locations; demonstrated financial and political commitments by member states; and the coordination of threat perceptions and solutions. In short, an institutionalist explanation posits that regional collective security has failed in Central Asia since the collapse of the Soviet Union because regional institutions have not provided the framework necessary for collaboration.

If this hypothesis is to be confirmed, the independent variables must be analyzed in the context of the current situation in Central Asia. First, dates and locations for meetings between member states may not be established. Physical structures and bureaucracies may be nonexistent, and rules and responsibilities may not be clearly defined. Second, states may not have met their financial obligations to the organization. They are also likely not to have ceded any of their sovereignty to the institution and probably do not devote a significant amount of time or effort to defining the state’s relationship to the particular institution. Third, member states are unlikely to have altered their threat perceptions or coordinated their decision-making processes with other member states. While this is the ultimate goal of regional collective security, it is also the most difficult task to accomplish. If the states of Central Asia have failed to coordinate their efforts at combating common threats, have failed to coordinate significant

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military exercises and commitments, and have failed to agree upon what constitutes a threat to the region, then institutionalism may not be a compelling explanation here.

Elite Theory

Unlike institutionalism, which uses the international system as its main unit of analysis, elite theory focuses on the influence of domestic actors on state policy decisions. Elite theory is thus an important analytical tool in this pursuit because it centers on the dominance of powerful individuals in guiding state behavior. Elite theory states that governments are run by small groups of people with a highly disproportionate amount of economic, political, and military influence (Mills, 1956). Because of their degree of control, elites stand to benefit greatly from their positions and often guide domestic and foreign policy so that it serves their particular interests and not necessarily the best interest of the state. (Domhoff, 1968).

Within the ruling elite, the members retain a strict consensus about the basic underlying norms of society, agree up on the “rules of the game,” and aspire for the continuation of the social system which they control (Domhoff, 1968). It is very difficult to become one of the elite, and garnering the necessary support to challenge the elite is often nearly impossible. In a country with divisions of power within and between political, economic, and military spheres, the role of the elite is generally weakened. In federal systems, for example, there are codified divisions between the branches of government and between government and business. It is therefore much more difficult for a small group to infringe upon the rights and responsibilities of other groups.

In a country dominated by a small group of people who control virtually every facet of society, the benefits of maintaining control are likely to be high. By directing both the political and economic workings of a country, the elite can form policies that advance their own investments and ensure the protection of their regimes. If the elite theory is to be a persuasive argument, we should expect to see full control in each of these spheres – political, economic, and military – by a small group of powerful elites who demonstrate little concern for the interest of the state apart from how decisions may be personally beneficial.

Since elites control domestic governmental institutions, determine which international institutions their country will be party, and decide the state’s degree of participation in them, the presence of elites may help to explain the failure of institutions to guide international relations. If international institutions had the power to dictate state behavior, then the elite would no longer be a valid consideration after the development of such institutions. Since international institutions are present in the region of Central Asia, yet powerful elites appear to control state policy, it is critical to consider elite theory.

For elite theory to be useful in explaining why regional collective security has failed to develop in Central Asia since the collapse of the Soviet Union, two conditions must be present. First, the president and his core group of elites must exert a dominant influence on most aspects of society, especially of political, economic, and military affairs. They alone will be responsible for determining the level of allowed public dissent and political participation, will decide upon and implement economic policies likely to advance their own investments, and will utilize the military as it suits their own interests. Second, there must be a low level of civil society development. Because the elites are primarily concerned with the preservation of their regimes, political opposition and a high degree of personal liberty cannot be tolerated as they might allow for the rise of organized resistance. Thus, the elite explanation posits that regional collective security has failed in Central Asia since the collapse of the Soviet Union because powerful

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domestic elites make decisions based on personal interests and not necessarily in the interest of state security.

Neorealism

Neorealism posits that states constantly face a security dilemma and act to promote their own interests while competing with other states for relative power gains (Keohane, 1986). The primary motivation for state action is providing security in the presence of international and domestic threats. Neoclassical realists such as Hans Morgenthau (1948) believe that states are always threatened by relative power gains in an anarchical system and are constantly vying for as much power as they can amass. Kenneth Waltz (1979), John Mearsheimer (1983), and Steven Walt (1987), however, believe that states differentiate between different types of threats, such as defensive and offensive threats, and that states act to balance and nullify these threats in various ways. Because states interpret developments within the international system according to their own interests, coordinating threat perception is often very difficult until a threat emerges on a potentially global scale.

Under the neorealist framework, cooperation between states is a rare occurrence. This results from the constant focus on state security and the belief that cooperation with other states can threaten security because concessions of resources and information are demanded. For a neorealist, surrendering autonomy for the purpose of a collective effort when a direct security threat is not involved is viewed as detrimental to the state. The loss of information and resources is viewed in zero sum terms as a gain for the receiving country. Because states view power in absolute and not relative terms, the concessions often required by cooperation as well as the threat of “free-riders” hinders the desire of states to work in conjunction with each other, especially in the realm of security.

Neorealism, with its focus on the sovereignty of the state, considers cooperation between states on security matters to be at best a temporary and self-centered necessity. At worst such cooperation is a detriment to the state’s best interest. Neorealism affords some credence to short-term alliances in which states coordinate efforts in order to fight a common enemy. However, neorealists believe that such arrangements should be dismantled as soon as the threat has been negated (Walt, 1987). The idea that security cooperation should continue to exist between states when no significant threat is present would be considered irrational by a neorealist scholar.

Neorealist theory is a very useful analytical framework in which to examine the failure of regional collective security in the states of post-Soviet Central Asia. It centers on simplifying the understanding of what motivates state behavior, focuses on security, and gives a somewhat narrow definition to what constitutes a security threat. It also offers a specific context in which to examine why security cooperation occurs and provides explanations as to why states sometimes form collective security arrangements and why sometimes they do not.

When a sufficient external threat arises, states often pool their resources to combat this common enemy. Because neorealism proffers that states are constantly concerned with the relative power capabilities of their neighbors, it would be self-defeating to provide them with the resources necessary to increase those capabilities during times of peace (Spiegel and Waltz, 1971). Instead, states are likely to rely on bilateral security agreements in which they have greater latitude in determining the guidelines and stipulations of the agreement. Since security cooperation is almost exclusively a military endeavor, it should be focused on immediate threats, not establishing long-term institutions.

If neorealism is to be a useful theory in explaining the failure of regional collective security, several conditions must be present. These conditions serve as independent variables.

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First, preserving and promoting sovereignty and security must be the dominant interest of the state. If any other concern is considered the top priority, then neorealism is much less relevant. Second, the level of involvement of external powers in the region must be considered. Since power politics are always at play, there will be a competition for supremacy in the region. Therefore, it could be argued that regional collective security has failed in this case because Central Asian states are more concerned with solidifying their newly-achieved sovereignty than with formulating effective multilateral security organizations. If this is to be confirmed, it should be observable that the states of Central Asia have preserved their scarce economic resources for state-specific endeavors. The states are also not likely to cede power and authority to international institutions. It is doubtful that they will collaborate on security measures unless a direct and mutual threat is perceived.

This approach posits that regional collective security may have faltered because of the attempts of external powers to create bilateral and multilateral security agreements in the region. Competition between external powers vying for influence in the region may offer the states of the region more options in terms of which organizations to join, but it may also hinder actions for fear of offending another external power. Regardless of how the external powers are involved in formulating such organizations, their efforts to create and dominate them will likely doom regional collective security as a “sphere of influence” begins to replace cooperative action.

Despite the advantages of applying neorealism to the exploration of why security cooperation has failed to develop in central Asia, there are problems with relying solely on this approach. One main weakness is neorealism’s failure to account for the emergence of several regional collective security organizations, regardless of their level of effectiveness. For this reason it is important to consider institutionalism. Another limitation is neorealism’s dismissal of the importance of other actors. For example, neorealism fails to account for the influence of powerful domestic elites in the state decision-making process. This necessitates considering elite theory. Ultimately, it is necessary to consider institutionalism, elite theory, and neorealism when analyzing the failure of regional collective security in Central Asia.

From Theory to Reality: CIS CSTO and SCO

When applying theory to reality in the case of regional collective security failure in Central Asia, the Commonwealth of Independent States Collective Security Treaty Organization (CIS CSTO) and the Shanghai Cooperation Organization (SCO) stand out as the most high-profile attempts. Both organizations were founded to accomplish the same goal – to provide and implement regional solutions to security threats. Both have many of the same members and a highly similar structural framework. Despite their initial acclaim, however, both CIS CSTO and SCO have faltered in securing adequate commitments from their member states and in confronting regional security threats.

In examining the failure of CIS CSTO and SCO, the theory of institutionalism will be applied first. The relevant independent variables resulting from the consideration of this theory are: the presence of established meeting times, locations, and organizational structure; demonstrated financial and political commitments by member states; and the coordination of threat perceptions and solutions. The resulting hypothesis is that regional collective security attempts have failed in Central Asia since the collapse of the Soviet Union because institutions have failed to provide the necessary framework for collaboration.

The second theory to be considered is elite theory. The relevant independent variables for this theory are: the dominance of the president in political, military, and economic affairs and the lack of civil society development. The resulting hypothesis is that regional collective security has

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failed in Central Asia since the collapse of the Soviet Union because powerful domestic elites make decisions based on personal interest and not necessarily in the interest of the state.

The third and final theory to be applied is neorealism. The independent variables to be considered are: the presence of state sovereignty concerns as the main interest of the state and demonstrated interests in the region by external powers. There are two resulting hypotheses. The first is that regional collective security in Central Asia has failed since the collapse of the Soviet Union because Central Asian states are more concerned with solidifying their sovereignty than with establishing multilateral security organizations. The second is that regional collective security in Central Asia has failed since the collapse of the Soviet Union because external powers attempt to create bilateral and multilateral regional collective security arrangements that to promote their own interests and not the interests of the region.

Commonwealth of Independent States Collective Security Treaty Organization (CIS CSTO)

CIS CSTO has its roots in the establishment of the Commonwealth of Independent States Collective Security Treaty (CIS CST) in 1994. Initiated by Moscow after the collapse of the Soviet Union, member states pledged to abstain from threatening or using force directed at fellow member states. In doing so, CIS CST forbade members from joining other military blocs or alliances and sought to coordinate military endeavors between its members (Moroney, 2004). Aggression lobbied against any member state was considered an aggression against all member states. The aggression would demand a collective response from the organization even if the aggressor was a signatory to the treaty (Saat, 2005).

The original membership of CIS CST included Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Armenia, Azerbaijan, Georgia, and Belarus. In 1999 when the treaty was due for re-ratification and possible expansion, Uzbekistan and Azerbaijan formally withdrew their memberships citing a complete failure of progress (Saat, 2005). In 2002, CIS CST was renamed CIS CSTO, but the changes did not extend beyond an expanded acronym. In 2006, Uzbekistan rejoined CIS CSTO and received open and harsh criticism from Moscow labeling it an unreliable partner. Although membership of CIS CSTO has remained relatively consistent, commitments to the organization have been waning and the organization has failed to gain the membership of Turkmenistan (Bogaturov, 2004). This is especially problematic considering both Turkmenistan's proximity to Afghanistan and Pakistan and its notoriously porous borders.

Institutionalism

This section provides evidence for the claim that regional collective security in Central Asia has failed since the collapse of the Soviet Union because institutions have not provided the necessary framework for cooperation.

Established Meeting Times, Locations, and Organizational Structure

The first independent variable considered under the institutionalist theory is the presence of established meeting times, locations, and organizational structure. Upon investigation of CIS CSTO, it becomes apparent that established annual meeting dates do exist. The attendance at these gatherings, however, is often minimal despite the understanding that attendance is mandatory (Saat, 2005). Leaders continually fail to show up for summits although such meetings are infrequent, previously established, and member states have pledged to send delegations. CIS CSTO also has established locations. It is headquartered in Moscow and has an Anti-Terrorism Centre in Dushanbe, Tajikistan. The failure here, however, is that the physical structures are much more impressive than the work that goes on inside them. The organizations housed in these locations are understaffed and little work is accomplished outside of menial bureaucratic tasks and propaganda production ("Central Asia," 2001).

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The lack of attendance and progress relates to the lack of established organizational structure of CIS CSTO. There are no clear and codified agreements as to what specifically CIS CSTO is attempting to accomplish under the umbrella of providing regional collective security. The Anti-Terrorism Centre in Dushanbe has accomplished practically nothing, and there are very few other subgroups within CIS CSTO to tackle specific issues.

There are also no mechanisms to ensure that power is equally shared. Equality of membership was one of the principle tenets at the founding of the organization, but so far the chairmanship has always been held by either Russia or its close ally Belarus (Bogaturov, 2004). One of the most important aspects of institutional organization is the presence of enforcement mechanisms to punish defectors, but these too are lacking within CIS CSTO framework. States have not been fined for failing to comply with rules, and membership status has not been revoked for those who continually neglect to pay dues or send representatives to meetings.

Demonstrated Financial and Political Commitments by Member States

Institutionalism suggests the demonstrated financial and political commitments by member states. To date, Central Asian states have failed to fulfill their financial obligations to CIS CSTO. Most member states have paid nothing, and Russia and Belarus have paid little (Saat, 2005). None of the organization's member states are wealthy, and some, such as Tajikistan and Kyrgyzstan, rely on Russian contributions to retain viable economies and to preserve internal stability. The lack of contributions to CIS CSTO demonstrates the relatively weak sense of attachment many of these states have to the organization. In terms of political commitments, the Central Asian states do not fare much better. Belarus and Armenia have openly refused to deploy troops to Central Asia despite the fact that one of the central conditions of a regional collective security organization is the commitment to defend any member state (Bogaturov, 2004).

Two of the most pressing examples of the failure of CIS CSTO members to politically commit to the organization are the Tajik civil war from 1992 – 1997 and the Uzbek invasion of Tajik and Kyrgyz territory in 2000. In the first instance, CIS CSTO failed to assist Tajikistan in ending its civil war primarily because member states were not willing to make concessions to the Islamist opposition until forced to do so in the late 1990's (Saat, 2005). CIS CSTO also failed to send troops or financial assistance to Dushanbe. In the second instance, CIS CSTO neglected to defend two of its member states from direct invasion. After Uzbekistan withdrew from CIS CSTO in 1999, it invaded Tajikistan and Kyrgyzstan in the pursuit of members of the Islamic Movement of Uzbekistan, a terrorist organization seeking to overthrow the Karimov regime in Uzbekistan and to establish a caliphate in Central Asia (Craig, 2003). Its members often hide in the Kyrgyz mountains and the Ferghana Valley, an area shared by Uzbekistan, Tajikistan, and Kyrgyzstan. The borders in this area are very complex, and many Tajik and Kyrgyz citizens were killed when Uzbekistan put land mines on un-demarcated areas of the borders. Although this was a clear aggression against two of its member states, CIS CSTO failed to publicly rebuke Uzbekistan for its actions. The sudden withdrawal of Uzbekistan from CIS CSTO and its invasion of Tajikistan and Kyrgyzstan clearly indicate the lack of political commitment that Uzbekistan exerts toward regional security alliances.

Coordination of Threat Perceptions and Joint Solutions

Institutionalism also emphasizes coordinating threat perceptions and joint solutions between its member states. On this level, CIS CSTO fails most egregiously. Instead of incorporating the new security environment present after the collapse of the Soviet Union, CIS CSTO merely attempted to recreate the relations between Russia and its satellite states while attempting to publicly display CIS CSTO as a joint effort among equals (Zviagel'skaia, 2005). The organization encompassed countries locked into conflict with each other, such as Uzbekistan and Kazakhstan both vying for the position of regional hegemon. When states within an organization view each other as a threat, it is very difficult to form a consensus on the major threats to regional stability.

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A major threat that CIS CSTO refused to acknowledge or confront was the emergence of the Taliban in Afghanistan in 1996. While a neighboring country disintegrated and became a training site for Islamists, CIS CSTO did nothing (Craig, 2003). This is especially problematic considering stated concerns about the increasing strength of the IMU in the Ferghana Valley and the 1999 IMU bombings in Tashkent.

Other terrorist threats have also been inadequately handled. In March of 2004, a small scale military exercise was held between Russia and Kyrgyzstan which focused on responding to a terrorist attack (Saat, 2005). It was hailed as a major success until a few months later when a situation very similar to the practiced scenario occurred in Beslan, Russia when Islamist forces attacked a local school. CIS CSTO again failed to act and the crisis was unsuccessfully tackled by the Russian military. This unilateral response to a potentially regional threat again signals both the complications of creating a system of regional security cooperation in Central Asia and the weakness of CIS CSTO.

Elite Theory

This section evaluates the region's collective security failures based on the elite theory's claim powerful domestic elites make decisions based on personal interest and not necessarily in the interest of the state.

Dominance of the President in State Affairs

An extremely high level of residential control is evident in all of the Central Asian states. The five residents possess a "corruption fusion" of capital and political power, and authoritarianism is so dominant that it has become largely systematized (Rumer, 2005). It is widely expected that when these leaders die or are expelled from office, new authoritarian leaders will assume their positions. In Kazakhstan, President Nazerbayev has ruled since 1992. He maintains tight control over the economy, often takes money from public coffers to fill his numerous off-shore bank accounts, and uses the military as his personal security force. Nazerbayev has continually extended his presidential tenure and has stated that he desires to see his daughter assume power when he is no longer in office (Rumer, 2005). In Kyrgyzstan, the weakness of central authority promotes citizens to support the continued governance of President Akayev, brought to power in a democratic "revolution" in 2005. Although the leader changed, the authoritarian style of leadership has remained. The country's stability is essentially provided by Russia and little control exists beyond Bishkek (Rumer, 2005). The people have few opportunities to participate in politics, and the President dictates domestic and foreign policy with little input from Parliament. The situation in Tajikistan is very similar to that in Kyrgyzstan. Severely weakened by the civil war of 1992 – 1997, Tajiks seem content to retain their long-standing President Rahmonov. He retains firm control over the country's economic and political policies, and only shares power with the Islamic party in Parliament when forced (Saat, 2005). Tajiks have few outlets in which to form social groups or private businesses, and participation in politics is virtually nonexistent.

Turkmenistan is the most extreme of the Central Asian authoritarian regimes. President Niyazov withdrew the country from international relations and enacted a policy of strict neutrality (Moroney, 2004). He has renamed himself "Turkmenbashi," or father of all Turkmen, and has essentially replaced the education system with a book on this personal philosophy. He has failed to secure Turkmenistan's borders and Islamic militants and potential IMU recruits from Afghanistan and Pakistan are continuously transiting through Turkmenistan on their way to the Ferghana Valley (Bogaturov, 2004). Virtually every aspect of a Turkmen's life is dictated by the government, including housing, education, employment, and internal movements. Similarly, Uzbekistan's President Karimov is arguably the most brutal of the Central Asia rulers. He represses all political opposition and has in effect outlawed the practice of Islam (Rumer, 2005). For example, all religious groups must register their members with the government, religious groups may not form political

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parties, praying and the Koran are banned in prisons, the government controls the content of imams sermon, and in many places women may not wear headscarves (Craig, 2003). The threat of Islamic radicalism, however, arguably does not necessitate this level of severity. Like Karimov, several leaders of the Central Asian states have used the rationale of combating Islamic terrorism as a means to increase their control over society.

For all of the region's leaders, succession remains a top priority. To ensure this end, the leaders of the five former Soviet republics have utilized state resources and institutions to safeguard their regimes. As they have amassed political and economic power, they have changed laws to ensure that they will maintain positions of authority and that their assets will be protected if they eventually step down from the Presidency (Rumer, 2005). They are able to retain such a tight grip on state control partially because of the low levels of civil society development in Central Asia, the next independent variable to be discussed.

Civil Society Development

In conjunction with presidential dominance, there is a severe lack of civil society development in Central Asia. This is the case for three predominant reasons: pervasive corruption, nomadic traditions, and presidential oppression. The lack of civil society development in Central Asia is telling because if the citizens were able to participate in state-level politics, they might determine that a regional collective security was beneficial for state security and elect leaders to affect this end.

Rampant corruption hinders civil society development in Central Asia. Bribes are involved at virtually every level of society, especially when dealing with the state bureaucracy (Abdullaev, 2005). Bribery thwarts entrepreneurship as permits become too expensive, people are unable to cross the often arbitrary borders because bribing border guards is prohibitively expensive, and social and political groups cannot develop because people cannot afford the extortions demanded by officials (Rumer, 2005). The elite do not attempt to tackle corruption largely because civil servants who are rich from bribes are likely remain loyal to the state.

The nomadic traditions of Central Asia also discourage civil society development. For thousands of years, the people who are now citizens of these states roamed the Central Asian plains and relied on their tribes and families for support (Zviagel'skaia, 2005). Although the state has become the primary authority in this region, many people are reluctant to relinquish their traditional dependence upon the family for financial support and protection. Political and social groups are consequently of little value.

The third and most significant factor hindering civil society development is presidential oppression of the people of Central Asia. There are few guarantees on property rights, people are restricted from participating in politics, religious groups are limited and closely supervised, the economy is run by the state, and people are not free to express their opinions in a variety of areas (Rumer, 2005). This oppression has forced social organization underground. It has also led many people to seek political action in the form of religious radicalism (Craig, 2003). This lack of civil society development has disallowed the region's citizens to participate in the workings of their states and has strengthened the ability of the elites to dictate state policy.

Neorealism

The neorealist explanation contends that regional collective security has failed in Central Asia because states are more concerned with promoting sovereignty than with establishing multilateral security organizations and that external powers attempt to create bilateral and multilateral security arrangements in the region that promote the interests of such powers.

Predominance of Sovereignty Concerns

In Central Asia, the predominance of sovereignty as the primary concern of the state is evident in the continual assertions of independence. These states seem to prefer unilateral and

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bilateral cooperation rather than multilateral cooperation and are often in competition with each other for regional power positions (Rumer, 2005). As discussed previously, Kazakhstan and Uzbekistan are vying for regional hegemony, and Uzbekistan has invaded Tajikistan and Kyrgyzstan and mined its borders in the name of promoting state security (“Central Asia,” 2001). In theory, the more secure a state is, the more able it is to protect its sovereignty. Uzbekistan has taken this theory to heart with the recent expansion of its military and its incursions into other states, events which greatly concern Uzbekistan’s Central Asian neighbors.

The states of Central Asia have also retained differing threat perception concerning regional security threats depending on what they view to be the most significant threats to their individual security. For example, in Kyrgyzstan, the primary concerns are internal stability and water access, and in Uzbekistan the primary concerns are Islamic radicalism and the IMU. CIS CSTO was intended to provide a forum for consensus on regional threat perceptions and solutions, but so far has failed in this aim.

The Central Asian nations are desperate for aid and seemingly will pledge and do anything, including changing policy and alliances, to secure it. They have cooperated with NATO (North Atlantic Treaty Organization) and numerous other regional security organizations despite forbiddance by CIS CSTO. A few examples of such organizations are GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova), CACO (Central Asian Cooperation Organization), and the Central Asian Economic Community, all of which have met with the same failure as CIS CSTO and SCO. Uzbekistan in particular has revolved in and out of regional institutions – withdrawing from CIS CSTO to join GUUAM and later withdrawing from GUUAM to rejoin CIS CSTO all while pursuing bilateral agreements with both Russia, NATO, and the United States (Zviagel’skaia, 2005). This is especially problematic in that Uzbekistan possesses the region’s strongest military and its presence is therefore vital to any effective regional collective security organization.

Interest of External Powers

The interest of external powers in Central Asia is evident in their efforts to create and sustain regional collective security organizations. In regards to CIS CSTO, Russia’s interest in the region is highly apparent. Russia initiated the establishment of the organization, has provided the majority of its funding, and maintains CIS CSTO headquarters in Moscow. Scholars point out that Russia has attempted to use CIS CSTO to exert influence in Central Asia, but they are unable to posit a rational reason as to why Central Asia remains a Russian security concern (Rumer, 2005). This is especially troubling considering that other interests such as rebel provinces and potential collapse of Russia’s armed forces seem much more pressing.

Several examples aptly illustrate how Russia is attempting to use CIS CSTO to promote its own interests. First, CIS CSTO was launched in 2002 just two months before the annual meeting of SCO (of which Russia is also a member) (Bogaturov, 2004). SCO is a regional collective security organization dominated by China, and by announcing the formation of CIS CSTO just before the annual summit of SCO, Russia sought to establish CIS CSTO as the region’s predominant security organization and has outwardly stated this ambition (“Central Asia,” 2001).

Second, through CIS CSTO, Russia aims to regain a military foothold in Central Asia. Russia has even demanded that it has the right to deploy troops and a nuclear arsenal in the region without prior consent of the region’s leaders. CIS CSTO Central Asian member states, however, steadfastly refused this request (Moroney, 2004). Another way in which Russia is using CIS CSTO to advance its own interests is by forcing CIS CSTO to focus its attention and resources on regions such as Chechnya and Dagestan, Russian problem areas, instead of more regionally relevant problem-areas such as the Ferghana Valley.

Despite the relative weakness of its armed forces and economy, Russia continues to provide significant military assistance to Central Asia. This puts a heavy strain on an already desperate

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domestic situation, and Russian citizens seem to be growing increasingly weary of commitments to Central Asia (Rumer, 2005). To Moscow, however, these resource allotments are the most effective way to maintain a presence in Central Asia and the government seems determined to remain there despite staggering costs.

A final way in which Russia has demonstrated that it is much more concerned with realizing its own interests in Central Asia than with enacting a successful regional collective security organization is by creating bilateral security agreements with four of the five former Soviet republics. While CIS CSTO prohibits negotiations with external organizations such as NATO, Russia seems to have no issue with creating bilateral agreements outside the confines of the organization. The presence of such agreements undermines the collective nature of CIS CSTO and has significantly contributed to its weakness. Russia also seeks to use CIS CSTO as a means to minimize American influence minimal in the region despite the potential benefits that military training and NATO Partnerships for Peace could bring to the struggling states of Central Asia (Brannon, 2004).

In applying institutionalism, elite theory, and neorealism to the pursuit of analyzing the failure of CIS CSTO, it is evident that the inadequacy of institutional frameworks, elite control over policy decisions, concerns for sovereignty, and interference in the region by external powers have contributed significantly to its weakness. The failure of CIS CSTO, however, is part of a regional trend. In order to fully understand why organizations such as CIS CSTO have repeatedly failed in Central Asia, it is important to consider another high-profile regional collective security attempt – the Shanghai Cooperation Organization.

Shanghai Cooperation Organization (SCO)

The SCO has its roots in the Shanghai Five established in 1996. Initially founded to grapple with border issues along China's southern boundaries, the Shanghai Five's original members were China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan. In 2001, Uzbekistan joined the Shanghai Five and its name was formally changed to the Shanghai Cooperation Organization. The stated aims of SCO subsequently changed and are arguably expanding faster than they are being accomplished. SCO now seeks to be the most influential security organization in the region and has touted itself as a forum for regional power sharing (Hu, 2005). Although SCO has been credited with slightly more success than CIS CSTO, it has still failed as a regional collective security organization. The possible reasons for why this is the case will be discussed in the following sections.

Institutionalism

In order for the first hypothesis to be confirmed – that regional collective security in Central Asia has failed since the collapse of the Soviet Union because institutions have not provided the necessary framework for cooperation – it is important to analyze SCO in the context of the three relating and previously discussed independent variables. Each independent variable will be assessed in relation to the dependent variable as well as to the corresponding hypothesis. Ultimately, these variables will be the determining factors in assessing the validity of the resulting hypothesis

Established Meeting Times, Locations, and Organizational Structure

The first independent variable considered with the institutionalist theory is the presence of established meeting times, locations, and organizations structure. SCO does have established meeting locations. There is a Secretariat in Shanghai and an Anti-Terrorism Centre in Bishkek, much like CIS CSTO Anti-Terrorism Center in Dushanbe. SCO also has agreed upon meeting dates on a rotating schedule. As with CIS CSTO, however, leaders continually fail to attend annual summits, often rendering such gatherings unproductive (Craig, 2003). SCO also lacks the organizational structure to put words into practice. There is no clear agreement on staffing, payment schedules, or future direction, and no enforcement mechanisms exist to punish those who dissent or to reward those who cooperate.

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Demonstrated Financial and Political Commitments

Again as with CIS CSTO, member states, especially those of the Central Asian region, have made almost no financial contributions to SCO. China, and to some extent Russia, remain much more dedicated to the organization and have so far provided the majority of the funding. If SCO is to be a viable organization, its member states will have to start making significant financial contributions (Oresman, 2004).

So far, these states have also not made the political commitments necessary for the organization to function. SCO has stated that membership is open to all countries, but when Nazerbayev of Kazakhstan reportedly invited Japan to join, he was rebuked by China and Russia who retracted Nazerbayev's offer (Craig, 2003). China and Kazakhstan have also publicly criticized each other via their media instead of relying on SCO to alleviate regional tensions. Kazakhstan accuses China of abusing its Uighur Muslim minority, and China in turn accuses Kazakhstan of harboring Uighur separatists.

Coordination of Threat Perceptions and Joint Solutions

SCO has remained largely a forum for discussion rather than an effective agency through which threat perceptions are coordinated and joint solutions are formulated (Zhao, 2004). The Central Asia states continue to allot priority to a variety of regional security issues, and most retain an opinion of "persisting ambivalence" toward SCO (Hu, 2005). SCO has yet to address significant regional issues such as water rights. Water in Central Asia is scarce, and the two main sources are controlled by the two smallest states, Tajikistan and Kyrgyzstan. The other states have threatened to use force to secure water access, but this issue has still not been confronted by SCO (Craig, 2003).

Although SCO saw small joint military exercises occur between China and Kazakhstan and between China and Kyrgyzstan, they were minimal in scale and dominated by China (Craig, 2005). Kyrgyzstan is too weak and relies on Chinese aid too heavily to deny the request, and no further integration resulted from these exercises. The joint exercises with Kazakhstan had the potential to be significant, but were limited by both Chinese dominance and their small scale. Also undermining the importance of these exercises is the fact that in the same month as the joint Chinese exercises, Kazakhstan also participated in "Operation Steppe Eagle," a joint military exercise with the United States (Saat, 2005). This occurred outside the boundaries of SCO and indicates that Kazakhstan does not rely exclusively on SCO to guarantee regional security.

Elite Theory

In order for the second hypothesis to be relevant - that regional collective security in Central Asia has failed since the collapse of the Soviet Union because powerful domestic elites make decisions based on personal interest and not necessarily in the interest of the state – it is important to analyze SCO in the context of the two relating and previously discussed independent variables. Each independent variable will be discussed and assessed in relation to the dependent variable as well as the corresponding hypothesis. Ultimately, these variables will be the determining factors in assessing the validity of the hypothesis.

Dominance of the President in State Affairs

As was discussed previously with CIS CSTO, the rulers of Central Asia maintain strict control over the affairs of the state. Government ministries have no power apart from presidential dictate, and the president alone is most often responsible for setting the budget, determining foreign policy, and establishing social norms. Almost no political dissent is allowed and people in the region are constantly monitored. Arbitrary torture and invasion and confiscation of private property by the state are common.

Civil Society Development

Pervasive corruption, nomadic traditions, and presidential oppression have severely thwarted civil society development in Central Asia. It has become too costly, both financially and in terms of

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personal safety, to form grass roots social, political, or religious organizations. People have very few opportunities to interact with each other in groups outside of the family unit, and this keeps them heavily reliant on the state. Civil servants, wealthy from bribes, remain loyal to the state and are often encouraged to extort as much as possible from the citizenry (Abdullaev, 2005). Even political opposition is controlled by the state and the president always selects his largely titular rival.

Neorealism

In applying the neorealist theory to the pursuit of why regional collective security has failed to develop in Central Asia, two independent variables and two hypotheses emerge. The first of these is sovereignty as the primary focus of the state. The resulting hypothesis is that regional collective security has failed in Central Asia since the collapse of the Soviet Union because states are more concerned with promoting the sovereignty than with establishing multilateral security organizations. The second independent variable to be explored is the level of interest of external powers in the region. The resulting hypothesis is that regional collective security has failed in Central Asia since the collapse of the Soviet Union because of attempts by external powers to create bilateral and multilateral security arrangements in the region which promote their own interests.

Dominance of Sovereignty Concerns

In Central Asia, the preoccupation with asserting sovereignty and independence has been the guiding concern of state policy. States have invaded each other's territory, threatened military action over the denial of water resources, refused multilateral cooperation, and hoarded state resources even when they have been pledged to regional organizations. Because of border disputes, Turkmenistan and Uzbekistan officially severed relations in 2002 instead of taking their concerns to CIS CSTO or SCO (Abdullaev, 2005). States have appeared willing to forgo the potential benefits of cooperation in order to retain autonomy. They have also chosen to sever potentially lucrative relations when their autonomy is threatened. An example occurred in 2005 when the United States criticized Uzbekistan for human rights abuses and as a result Uzbekistan ended bilateral negotiations with the United States and ordered the evacuation of the US airbase at Khanabad. Karimov perceived the American demand that Uzbekistan improve its human rights record as a threat to Uzbek sovereignty. Despite the wealth and prestige brought by the American military base, Karimov ordered the United States out of Uzbekistan.

Interest of External Powers

Both China and Russia have demonstrated that they view SCO as a means to advance their own interest in Central Asia. China has used SCO predominately to ensure that Uighur separatists in the western Xinjiang province do not receive aid from Central Asian Muslims (Hu, 2005). SCO has yet to tackle any significant regional security issues, but has continually been used as a forum for discussion on relations between the Uighurs and residents of Central Asia (Oresman, 2004). China has also used SCO as a means to gain a foothold in Kazakhstan where significant portions of ethnic Uighurs reside.

Russia has attempted to use SCO as a means to secure borders along its southern boundary and as a way to keep track of Chinese interests in Central Asia (Saat, 2005). While Russia has made some moderate political and financial concessions to SCO, it is apparent that Russia desires to see CIS CSTO emerge as the predominant collective security organ in the region.

One way in which Russia and China are attempting to use SCO as a tool for seeing their interests realized is by rejecting American presence in the region through the voice of SCO. The United States could offer immense potential security benefits to the region with NATO's Partnerships for Peace program, military and economic agreements, and anti-terrorism training (Zviagel'skaia, 2005). Many of the Central Asian states seem eager for the United States to have a presence in the region and have made bilateral agreements with Washington despite forbiddance by CIS CSTO (Brannon, 2004). Russia and China, however, are more interested in exerting influence

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in the region and seem content with denying Central Asian states access to potentially beneficial relations with the United States.

In examining SCO through the analytical framework of institutionalism, elite theory, and neorealism, it is evident that SCO has failed to provide regional security. Institutions have not impacted states behavior, elites continue to dictate state policy, states remain primarily interested in promoting their sovereignty, and external powers are utilizing SCO as a means to advance their own interests. In order to understand how each of these conditions has impacted the failure of SCO, it is important to assess each hypothesis and to offer criticism as to its relevance.

Conclusions

Ultimately, through the process of examining why regional collective security has failed in Central Asia since the collapse of the Soviet Union, we find that not all explanations are helpful to the same degree. The institutionalist explanation is the least useful. It is apparent that while meeting times and locations have been established, organizational structure, demonstrated financial and political commitments, and coordinated threat perceptions and joint solutions are absent. Institutions may have emerged, but they have been almost completely ineffective. Because institutions have failed consistently in Central Asia, it is more helpful to analyze the specific reasons why that is the case rather than to exclusively focus on how specific institutions may be improved.

This leads to the consideration of the elite theory as applied to Central Asia. There is support for the claim that collective security has failed in Central Asia because powerful domestic elites make decisions based on personal interests and not necessarily based on state interests. The demonstrated dominance of the president in state affairs and the lack of even basic civil society development are pervasive factors in this case. Powerful leaders have been reluctant to commit to regional collective security organizations and have largely neglected their obligations because of the hesitancy of relinquishing any degree of control. While this explanation is useful in explaining the failure of regional collective security organizations in Central Asia, there is more evidence to support the neorealist explanation.

Applying neorealism is arguably the most useful to understanding this puzzle. The neorealist contention that states are more concerned with promoting sovereignty than with participating in multilateral security organizations is supported because states have demonstrated that they are willing to sacrifice the potential benefits of cooperation in the interest of preserving autonomy. They have withdrawn from lucrative agreements when criticized for domestic policies, disregarded the rules of agreements when beneficial, and refused to commit state resources to collaborative efforts. This explanation is useful in that it predicts the motivations and actions of policy-makers, and it may also be generalized to other failed collective agreements.

The other neorealist claim that regional collective security has failed in Central Asia since the collapse of the Soviet Union because external powers use such organizations to advance their own interests and not necessarily the interests of the state is supported by the prevailing influence that China and Russia continually exert in the region. They have forced CIS CSTO and SCO to focus on Russian and Chinese concerns and have thwarted opportunities to confront significant issues such as Islamic radicalism, water shortages, and the development of energy resources. They have also prohibited the region from benefiting from partnerships with Western institutions such as NATO, the European Union, and the United States. Just as external powers are responsible for both the emergence and continuance of CIS CSTO and SCO, they are also primarily responsible for their continued failure.

The fact that each explanation offers some insight indicates the complexities of providing regional collective security in Central Asia. It also indicates the significant hurdles that these states must overcome if future attempts at regional collective security are to be successful. Because these

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states do not have the ability to guarantee their security independent of either each other or external powers, it is imperative that effective regional collective security solutions are developed (and sooner rather than later). The best chance for success will come if the five former Soviet republics form a regional collective security organization that contains only those five states. They should initially focus on modest aims such as information sharing, the coordination of security initiatives, and building regional confidence. In this manner, they are likely to discover an adequate forum for confronting the numerous, complex, and ultimately resolvable security concerns that exist in the region.

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ⁱ All statistics taken from the CIA World Factbook – www.cia.gov/cia/publications/factbook/geos/kz.html

ⁱⁱ All statistics taken from the CIA World Factbook (2006)

ⁱⁱⁱ All statistics taken from the CIA World Factbook (2006)

^{iv} All statistics taken from the CIA World Factbook (2006)

^v All statistics taken from the CIA World Factbook (2006)

Democratization in Latin America: Mexico's Chances for Democratic Bliss

Lori Dowell

After over two months of debate concerning the legitimacy of Mexico's July 2006 election, the electoral court in Mexico deemed Felipe Calderon and his government from the *Partido Acción Nacional* (PAN) to be the future leaders of Mexico on September 5, 2006. Despite the finality of the judges' decision, opposition leader Andres Manuel Lopez Obrador continues to contest the validity of the election process and its results. Furthermore, members of Mr. Lopez Obrador's political party *Partido de la Revolución Democrática* (PRD), as well as more general followers of his ideological message, have flocked to the nation's capital in Mexico City to participate in a number of political rallies against the election.

The decision made in Mexico's electoral court has already made an impact on the lives of many Mexicans. When one woman was asked by BBC correspondent Duncan Kennedy why she and her children had been living on the streets of Mexico with thousands of other protesters, she responded, "Because I want to secure their freedom. I believe that is only possible under the leadership of Mr. Lopez Obrador."¹ Additionally, the debate over the 2006 election is not the only political or electoral issue that Mexico has struggled with over the years. Many scholars have questioned, for instance, the legitimacy of Mexico's democratic system after analyzing the country's single-party system and the multiple claims of electoral corruption over the years. Based on these questions and the importance of the current debate on Mexico's 2006 election, this paper examines the process of "democratization" in Mexico, seeking to define the principal contributing factors. To accomplish this, it begins by briefly defining the concept of democratization and introducing a number of competing explanations for interpreting democratic transitions, including cultural/historical and domestic theories. This paper also outlines an original theory that examines the impact of international influences on domestic democratization. Most importantly, it concludes with an evaluation of my findings, highlighting their significance within the field of international studies.

Defining Democratization

Before beginning any discussion of the elements leading up to a stable democratic system, it is important to identify the term "democratization". Juan J. Linz and Alfred Stepan (1996) explain their notion of the concept using the term 'democratic transitions' to represent the movement towards stable democratic systems, which they call 'consolidated democracies'.² The indicators Linz and Stepan use to evaluate democratic transitions include measures for the presence or absence of an electoral system, the extent to which the electoral system actually represents the desires of the public, and the capacity of the government to fulfill its role and successfully implement policies.³ Linz and Stepan also explicitly distinguish between the concepts of 'liberalization' and 'democratization.' For instance, the acceptance of political opposition or an increasing openness among individuals and the media would be considered steps toward liberalization under Linz and Stepan's rubric. Democratization includes (but is not limited to) these efforts towards liberalization, therefore causing some confusion over the

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distinction between the terms. Unlike liberalization, which applies to a wide variety of socio-political issues, democratization focuses on the political and electoral freedoms of nations, such as the transitions of power between leaders using free and fair elections.⁴ Thus, as the authors describe, transitions to democracy are complete when “democracy has become the ‘only game in town’.”⁵

Dankwart Rustow further simplifies this definition of democratization by outlining four stages countries must undergo before becoming consolidated democracies: 1) the development of a “sense of national unity”; 2) an indefinite period of political struggle and debate called the “preparatory phase”; 3) the “decision phase” in which leaders agree on the importance of certain elements of the democratic system, such as the electoral process; and 4) the “habituation phase” when “democracy becomes ingrained in a country’s political culture and enjoys widespread popular and elite support.”⁶ This paper utilizes Rustow’s four stages and directly applies them in its analysis of Mexico. It argues that the first stage of national unity occurred during the Mexican Revolution in the early 1900s. Individuals within the country continue to view this event even today as a key turning point in defining their national history, and revolutionaries like Pancho Villa and Emiliano Zapata are still revered as national heroes and symbols of freedom. Matthew Kenney (2001) reasons, and this paper concurs, that the seventy-year period of single-party dominance accounts for Rustow’s second phase of political contestation and struggle.⁷ Additionally, Kenney claims that Mexico is currently transitioning through the third stage based on the fact that political leaders within the state are still continuing the processes of electoral reform. Most importantly, though he hopes these reforms will eventually lead to the final phase of habituation, he ultimately questions this possibility.⁸ Contrary to Kenney’s analysis, this paper contends that the democratization of Mexico has, in fact, reached a significant point and that the likelihood for habituation is high, if not inevitable.

Competing Hypotheses

In the past, several scholars have posited theories about democratization and the factors that produce stable or consolidated democracies. Some believe the variation among countries’ levels of democratization can be understood using cultural or historical explanations. Kenney, for example, examines the history of elections in Mexico arguing that the years of fraudulent electoral practices have prevented Mexico from completing a democratic transition because of the instilled distrust of Mexican voters.⁹ Furthermore, Linz and Stepan believe that previous governments impact a nation’s democratic development by determining how countries undergo the transition process. Authoritarian regimes, they argue, undergo an entirely different process of democratization than communist states, based on distinctions between the leadership styles and institutions of the two types.¹⁰

Scholars like Jonathon Rosenberg, on the other hand, point to domestic groups, including political parties and interest groups, as the primary factors affecting democratization. Rosenberg claims that the relationships held by the *Partido Revolucionario Institucional* (PRI) with three key interest groups, including the Confederation of Mexican Workers (CTM), the National Peasant Confederation (CNC), and the National Confederation of Popular Organizations (CNOP), led to the seventy year duration of the PRI’s power within Mexican politics.¹¹ This structure (which Rosenberg

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describes as “party corporatism”) ultimately constricted Mexico’s transition to democracy by preventing the country from passing the second phase of democratic development, the preparatory stage of political struggle and liberalization.¹² To substantiate this claim, remnants of the party’s hegemony are still very noticeable. The city was covered with political posters and advertisements during the election, the overwhelming majority of which promoted PRI candidates.

Other theories examine the influence of domestic political institutions on democratic transitions. David J. Myers, for instance, advocates the significance of political institutions, focusing on the impact local and municipal politics can have on national democratization. He explains that for many Latin American countries, including Mexico, municipal leaders were originally selected by presidential appointment instead of popular vote. This practice continued in most countries until the late 20th century, when mayors and city officials began to run in local elections. Myers correlates this shift from national appointment to popular elections with an increase in participation in politics on all levels of government and even further to an increase in democratic development.¹³

While these explanations certainly do not constitute the entire breadth of theories posited by scholars in terms of democratization, they represent some of the most important in the context of Mexico and Latin America. Moreover, although this paper acknowledges the value of domestic groups and political institutions described by Rosenberg and Myers respectively, as well as the significance of historical regimes articulated by Linz, Stepan and Kenney, each has failed to recognize the effects of international influences on democratic development. Particularly, there are a number of international factors that have impacted democratization in Mexico, none of which were discussed by the aforementioned theorists. These factors include, but certainly are not limited to: Mexico’s affiliation with the World Bank as a recipient nation and the North American Free Trade Agreement signed between the U.S., Mexico, and Canada. To illuminate this argument, this paper analyzes the democratization of Mexico from each theoretical perspective, ending with an examination of these international variables.

Analysis

Cultural/Historical Explanations

Linz, Stepan, and Kenney base their cultural and historical theories on the premise that decisions and actions made by the Mexican government in the past have shaped the present political culture of Mexican voters and political participants.¹⁴ Thus, as discussed earlier, Kenney argues that the history of electoral fraud produced a lack of trust in Mexican voters, preventing Mexico’s transition to the “habituation phase” in which democratic processes and ideals are internalized by citizens and leaders.¹⁵ According to Linz and Stepan’s hypotheses, Mexico’s political history dictates that its transition to democracy will be much different than in other nations, such as Cuba or Chile because of the broad differences in each country’s historical regimes.¹⁶ Additional cultural or historical arguments might also focus on the history of colonialism in Mexico, the effects of Catholicism and the church-state relationship in Mexico, or the impact of the Mexican Revolution on citizens’ views of governance. Nevertheless, all of these factors are centered on the idea that Mexico’s past has directly shaped its current state and will continue to affect democratization in the future.

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Considering these cultural and historical arguments can help define many aspects of Mexican politics and also contribute to the more general study of international relations. Kenney's theory, for example, is particularly significant given Mr. Lopez Obrador's current protest because it could explain the impetus for the allegations of electoral fraud during the July elections. Moreover, Linz and Stepan's belief that former regime types determine the path of democratic transitioning calls into question the idea that a standard model or formula exists for creating stable democracies. Based on this idea, many World Bank projects, which call for specific political and social reforms aimed at democratization, and the U.S. style of democracy building could be less beneficial than actually believed.

There are a few problems, however, associated with these cultural and historical explanations. On one hand, Kenney's argument that electoral fraud in the past weakened voter confidence in the state is supported by evidence from the 1998 Hewlett poll showing that only 12.6% of Mexicans showed high levels of confidence in their government.¹⁷ This claim also might explain why Mexico is experiencing protests over this most recent election. It does not clarify, however, why voters have continued to participate in elections despite the apparent lack of faith in the process. According to data presented by the International Institute for Democracy and Electoral Assistance (IDEA), approximately fifty-nine percent of registered voters participated in the 2006 parliamentary elections,¹⁸ which is considerably higher than the forty-two percent who voted in the 2003 elections or even the fifty-seven percent in 2000.¹⁹ Voters have thus continued, and even increased their participation in the electoral process, suggesting that they might have internalized a belief in the importance of democratic processes despite the history of electoral fraud.

Polls have also shown that confidence in the system has increased slightly. In 1995, for instance, seventy-nine percent of respondents felt that elections in Mexico were fraudulent, whereas the poll showed only sixty-one percent in 1998.²⁰ Since it is unlikely that Mexico's history of electoral fraud somehow changed between 1995 and 1998, some other factor must explain this variation. Thus, it would seem that the cultural argument is missing a key element.

Linz and Stepan's argument that historical regimes determine a nation's path for democratization does elicit interesting questions concerning democratic development; yet, this logic is difficult to apply throughout Latin America. Mexico, for example, remained relatively stable for seventy years with a single-party political system, giving Linz and Stepan a solid platform for understanding the nature of Mexico's democratic transition. Alternatively, many states in the South America, like Argentina or Peru, have experimented with authoritarian regimes, populist leaders, military juntas, and communist/socialist movements. Determining which type of democratic transition these nations will take becomes complicated by the number and fluidity of regimes they have experienced, which weakens the widespread use of this hypothesis in studies of democratization.

Domestic Factors: Interest Groups, Political Parties, and Institutions

Unlike the cultural/historical approaches, both Rosenberg and Myers examine democratic transitions using domestic factors to explain for the variation in democratic consolidation. Rosenberg's position is based on the fundamental logic that domestic

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interest groups and political parties are the most important influences on democratic development. In particular, he argues that a democratic transition in Mexico was prevented in the 20th century by strong connections between three key domestic coalitions (CTM, CNOP, and CNC) and the PRI party. These political ties resulted in the seventy year rule of the PRI party in Mexico, which contributed to citizens' distrust of political institutions and elections and led to low levels of openness within the society.²¹

To account for the more recent election of many non-PRI representatives and presidents, Rosenberg highlights the deterioration of the alliance between the PRI and some of its main domestic group supporters. Essentially, after a series of political reforms in the early 1980's that led to a fall in real wages, many CTM union members began to support political opposition parties, despite the fact that CTM leaders upheld the group's relationship with the PRI. The 1988 election in which PRI-party candidate Carlos Salinas de Gortari defeated Cuauhtémoc Cardenas by "the smallest margin in the party's history and under extremely suspicious conditions" most effectively demonstrates the effects the loss of CTM support had on the PRI party.²² The party responded to claims of electoral fraud after this election by enacting several electoral reforms and broadening the participation of opposition parties in the legislature, both of which improved public opinion of the PRI. Ultimately, however, the PRI's political influence was severely crippled, seen by the loss in 1997 of the PRI's majority in the lower house of Mexico's legislature and by the rise of the PAN party in 2000 with the election of Vicente Fox Quesada.²³

Myers also investigates domestic factors, but does so by looking to the effects of local and municipal politics on state-wide democratization. His theory suggests that the decentralization of Mexican government empowered local and municipal officials, particularly capital city mayors. Originally, these bodies were simply appointed by national officials; however, after the shift from presidential appointment to local elections, Myers claims that political leaders like mayors gained a significant amount of influence because of their new ability to interact with citizens and enact direct changes based on the complaints or desires of their constituents.²⁴ He even claims that "capital city mayors became the country's second most important political executive and the object of intense lobbying."²⁵ Dianne E. Davis, who applies Myers's theory within the context of Mexico's political system, clarifies that this process of decentralization and local empowerment was even unique for Mexico because of its relatively late shift from complete national control to increased local and municipal involvement.²⁶ Furthermore, she explains that among the "most notable policy successes" of the first democratically elected mayor in Mexico City, Cuauhtémoc Cardenas, was the fact that he literally "[multiplied] the opportunities for urban participation" during his tenure.²⁷

Both Rosenberg and Myers's arguments suggest significant ties between democratic transitions and various domestic factors, including political parties, interest groups, and domestic institutions. This paper agrees that these domestic elements highlighted by Rosenberg and Myers are pertinent for examining democratization, particularly because they serve as avenues for individual participation and the expression of political ideas. Before the electoral reforms and the breakdown of the PRI party's relationship with the CNC, CNOP, and the CTM, citizens in Mexico were effectively cut off from the most accessible channels of the state- local officials, interest groups, and political parties. For instance, using local institutions as an example, we find that in

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1988, approximately “ninety percent of public expenditures were controlled by the federal government.”²⁸ This meant that virtually all programs for education, healthcare, welfare, and infrastructure were handled and overseen by national instead of local officials, leaving citizens few opportunities for influence on the government projects that most directly affected them.

After a number of reforms, however, local and municipal governments have begun to offer “innovative strategies to engage citizens,” such as the creation of “citizen boards to oversee small community investments.”²⁹ Government bureaus have taken significant measures to provide opportunities and benefits for Mexico’s citizens. For instance, the Secretaria de la Economía (Secretariat of the Economy) has instituted a number of programs and coordinated conferences that seek to improve the strategies of small businesses throughout the country. As a consequence of these reforms and programs, citizens now have a much greater chance to participate in the political sphere.

Further investigation shows that several interest groups, such as indigenous organizations and youth movements, have recently been highly active in Mexico’s political sphere.³⁰ A series of negotiations in the 1990s between government officials and indigenous organizations led to the San Andrés Accord, giving indigenous groups “a measure of self-governance within their communities.”³¹ Moreover, Teo Ballvé (2005) describes how the *Red Nacional de Jóvenes con AMLO* (National Network of Youths with AMLO) actively participated in the debate over Mr. Lopez Obrador’s right to run in the 2006 presidential election.³²

International Influences

As previously explained, this paper agrees that domestic and cultural/historical factors can play a key role in the process of democratization. However, it argue that these theories have failed to consider the impact of a number of international influences on democratic transitions, including: Mexico’s affiliation with the World Bank as a recipient nation and both the economic and the North American Free Trade Agreement signed between the U.S., Mexico, and Canada. Other potential international influences might be Mexico’s involvement with international organizations, particularly the United Nations and its subsidiary bodies, and the presence of transnational activist networks (TANs), such as Amnesty International and Greenpeace, in the discussion of domestic politics. Given the scope of this paper, however, it has limited its research to only the World Bank and NAFTA.

The World Bank, an international institution focused on “reducing global poverty,” has undertaken a number of development projects in Mexico over the past fifty years.³³ The World Bank is currently funding twenty-eight projects in Mexico, totaling approximately two billion dollars annually. Furthermore, a recent coalition of Mexican officials from all levels of government, interest group representatives, and World Bank specialists collaborated to develop the ‘Country Assistance Strategy in Mexico’. This plan targets a number of goals for development over the next few years, including the reduction of poverty, promoting sustainable development, increasing Mexico’s international competitiveness, and (most significantly in terms of this paper) improving the quality and strength of domestic political institutions, particularly segments of Mexico’s judicial system.³⁴ All of these projects are significant indicators of the direct international influences on Mexico’s democratic development.

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The North American Free Trade Agreement (NAFTA) has also had a considerable impact on Mexican politics. Since the negotiation of the 1994 agreement, Mexico has become the U.S.'s second largest trading partner after Canada.³⁵ NAFTA has even impacted Mexico's economic relations with countries and private corporations outside of Canada and the U.S. To illustrate this, Joseph S. Tulchin and Andrew D. Selee explain that NAFTA "created immediate credibility for Mexico among international investors," and led to a substantial increase in trade flows and capital investment in Mexico.³⁶ For instance, FedEx, an international shipping corporation, developed within Mexico in the last ten to fifteen years, after the implementation of NAFTA.³⁷ Before this time, a number of domestic companies, including one called Estafeta, provided shipping services for citizens and businesses within Mexico. Another example of NAFTA's affects can be seen in FedEx's services. FedEx Transborder Distribution, a shipping option that transports solely from Mexico to any location within the United States, has its own price rubric (including discounts) apart from that of general international shipments. This service and its benefits demonstrate the special trade relationship Mexico has with the U.S.

Even aside from the economic and trade-related affects that NAFTA has had on Mexico, the increasingly "intertwined" nature of these countries has produced a number of interesting political and social changes.³⁸ Tulchin and Selee, for instance, describe how the interchange between Mexicans and friends or relatives who have migrated to the United States has influenced "ideas, identities, and cultural practices" within Mexico. Immigrants in the United States who have absorbed elements of U.S. culture and political ideas have then transferred these notions back to Mexico through their relationships with individuals in Mexico. Mexican citizens living in the United States have even continued to participate in Mexico's political process. Tulchin and Selee describe, for instance, how three U.S. residents ran in the 2000 congressional elections in Mexico, with one of the candidates actually winning the seat.³⁹

Conclusions: Evaluation of Evidence

Several scholars have focused in the past on why Latin American countries appear to be highly susceptible to radical political shifts. These theories, however, are less applicable within the context of Mexico since debate has centered less on political instability and more on developing the legitimacy of political institutions and the electoral process. Other scholars even questioned whether the idea of producing stable democracies was even possible or efficient within the region. Dianne E. Davis, for instance, suggests a connection between increased democratization and "deteriorating rule of law."⁴⁰ Fundamentally, she argues that as Mexico has slowly advanced towards the final stage of democratic consolidation, it has also correspondingly "suffered through explosions of violence, rising public insecurity, and deteriorating rule of law, much of it fueled by police corruption and impunity."⁴¹ Following Davis's theory, the benefits of democratization are certainly good reasons to support the process in Mexico; however, negative consequences, such as greater freedom for police corruption, might undermine these benefits in many ways.

Kenney also questioned the future of democratization in Mexico after outlining his claim that Mexico was currently in the third phase of development. However, my experiences in Mexico and analysis on the influences on democratization have led me to

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disagree with this assertion. Fundamentally, this paper agrees that Mexico has not achieved a completely consolidated democracy, but argues that this stage will be achieved in the future, perhaps even soon. Its rationale is supported on one hand by evidence from the Hewlett Poll that compares citizen views on democracy in the U.S. to those in Mexico. Approximately half of the U.S. citizens polled responded that liberty or freedom was the most important byproduct of democracy. Conversely, many Mexican citizens still answered that elections, equality, and progress were the most significant benefits they expected to receive from democracy. These results reveal that many Mexicans still lack faith in the electoral process and others even harbor feelings of political inequality.

Despite these hurdles, however, this paper maintains that Mexico will be able to complete its democratic transition. The fundamental impetus for this belief comes from a simple look at the most recent election results. Mr. Lopez Obrador, after spending months holding the highest percentage of the pre-voting polls, lost the election, and yet, as some scholars mildly predicted, there was not a revolution in Mexico. True, the PRD and Mr. Lopez Obrador have organized and conducted a number of protests; yet, nothing has proven this election or its review to be different or more radical than the 2000 presidential election in the United States. Furthermore, as shown earlier, citizen distrust in the electoral process and democracy in Latin America has decreased over the last several years. These facts, in combination with the continued influence of international and domestic factors, will lead Mexico to the fourth phase of consolidation and its democratic bliss.

¹ "Life in Mexico's Political 'Tent' City," *BBC News Online*, 23 September 2006, <<http://news.bbc.co.uk/2/hi/americas/5277442.stm>> (20 September 2006).

² Juan J. Linz and Alfred Stepan, *Problems of Democratic Transition and Consolidation*, (Baltimore: Johns Hopkins University Press, 1996), 3.

³ Linz and Stepan, *Problems*, 3.

⁴ *Ibid.*, 3.

⁵ *Ibid.*, 5.

⁶ Kenney, "Transition," 107-108.

⁷ *Ibid.*, 107-108.

⁸ *Ibid.*, 107-108.

⁹ *Ibid.*, 108-110.

¹⁰ Linz and Stepan, *Problems*, 55.

¹¹ Jonathan Rosenberg, "Mexico: The End of Party Corporatism?" in *Political Parties and Interest Groups*, ed. Clive S. Thomas, (Boulder: Lynne Rienner Publishers, 2001), 247.

¹² Kenney, "Transition," 107-108.

¹³ David J. Myers, "The Dynamics of Local Empowerment: An Overview," in *Capital City Politics in Latin America: Democratization and Empowerment*, ed. David J. Myers and Henry A. Dietz, (Boulder: Lynne Rienner Publishers, 2002), 1-5.

¹⁴ Kenney, "Transition," 108-110.

¹⁵ *Ibid.*, 107-108.

¹⁶ Linz and Stepan, *Problems*, 55.

¹⁷ Kenney, "Transition," 112.

¹⁸ It is important to note that these are all figures for the parliamentary elections, not presidential; however, both 2000 and 2006 were presidential elections years, which most likely accounts for the variation between 2000/2006 and 2003 statistics.

¹⁹ "Mexico: Electoral System," *International Institute for Democracy and Electoral Assistance*, <http://www.idea.int/vt/country_view.cfm?CountryCode=MX> (26 September 2006).

²⁰ Kenney, "Transition," 113.

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²¹ Rosenberg, "Mexico," 248-50.

²² Ibid., 259-260.

²³ Ibid., 260-263.

²⁴ Myers, "Dynamics," 3.

²⁵ Ibid., 3.

²⁶ Dianne E. Davis, "Mexico City: The Local-National Dynamics of Democratization," in *Capital City Politics in Latin America: Democratization and Empowerment*, ed. by David J. Myers and Henry A. Dietz, (Boulder, Lynne Rienner Publishers, 2002), 227.

²⁷ Davis, "Mexico City," 251.

²⁸ Joseph S. Tulchin and Andrew D. Selee, "Introduction," in *Mexico's Politics and Society in Transition*, (Boulder: Lynne Rienner Publishers, 2003), 12.

²⁹ Tulchin and Selee, "Introduction," 12-13.

³⁰ Ibid., 15-16.

³¹ Ibid., 15.

³² AMLO is the commonly used acronym to refer to Andrés Manuel López Obrador, PRD presidential candidate in the 2006 election.

³³ "History of the World Bank," *World Bank Online*, September 2006 <<http://web.worldbank.org>> (29 September 2006).

³⁴ Ibid., 29 September 2006.

³⁵ Tulchin and Selee, "Introduction," 5.

³⁶ Ibid., 347.

³⁷ This development began around the same time as NAFTA's negotiation and could be correlated with the international agreement; however, this is personal conjecture and not based on solid facts. Therefore, although I have not taken this leap in the context of the paper, it is important to point out.

³⁸ Ibid., 22.

³⁹ Ibid., 20.

⁴⁰ Dianne E. Davis, "Undermining the Rule of Law: Democratization and the Dark Side of Police Reform in Mexico," *Latin American Politics and Society*, 48 no. 1 (Spring 2006): 55.

⁴¹ Ibid., 55.

The Causes of Spanish Immigration: Geographic, Agricultural, Legal, and Economic Perspectives on the Rise in Spanish Immigration

Laura Sellers

The Centro de Orientación Social y Promoción Personal, (COSOP), is a non-governmental agency that serves immigrants in Madrid. Housed in a basement office with second-hand furniture, this agency helps the immigrants through the maze of paperwork to locate employment, gain job skills, and receive legal aid. In May, 189 new immigrants registered to find jobs or receive legal assistance. In June, 199 additional people came for assistance. By July 28, well over 130 new immigrants had come into the office—a pace that far exceeded the same period the previous year.¹

What is so special about Spain to warrant people risking their lives in barely seaworthy vessels to make it to Spanish soil? This paper does not seek to explain what factors drove the immigrants from their native lands, but why Spain was their destination. This paper will not differentiate between those seeking refugee status in Spain and those who are economic migrants because the question still remains, why would both of these groups be more likely to want to go to Spain now than they were several years ago?

In order to answer this question, it is necessary to explore several facets of the problem. The first part of the paper will explore the events surrounding the most current wave of Spanish immigration dating back to 2004 through news reports. The second part will examine Spain's complex history when it comes to immigration. It will explore how Spain has made the transition from a nation of emigrants to a nation of immigrants. This section will take into consideration the economic factors present during the Franco regime.

The third part of the paper will examine four possible explanations for the rise in immigration within the past several years. The first of these explanations is based on Spain's geography of a large Mediterranean coastline, two island archipelagoes, and two autonomous cities in Morocco. The second explanation is grounded in Spain's comparatively large agricultural sector and will compare it to other members of the European Union (E.U.). The third explanation looks at the immigration law and policies in Spain. This explanation will also compare Spain's policies to the rest of the E.U. The fourth possible explanation is focused on Spain's economic growth since the fall of Franco's dictatorship and especially since Spain's incorporation into the E.U. in 1986.

The fourth part of the paper will analyze which of the explanations provides the "best fit" for answering why Spain has experienced this increase in immigration. This analysis will encompass International Relations theories, personal experience, and data. The final part of the paper will examine some of the "bigger picture" questions: what can be done and what is being done to help alleviate the problem.

The Current Situation

The most recent wave of immigration into Spain started in late 2004 in the Canary Islands. From 2003 to 2004, the Canary Island of Fuerteventura, the island closest to Africa, saw 7,000 migrants.² In September of 2005, the autonomous Spanish cities in

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Morocco of Ceuta and Melilla experienced high numbers of immigrants jumping the fences that surround these two enclaves. In one night, at least 200 people were able to get over the fence and 100 were successful just the night before.³ By the end of September 2005, Spanish police had logged 12,000 attempts just to enter Melilla.⁴

This summer has led to a dramatic increase in the number of immigrants to the Canary Islands. Over 24,000 came into the Canary Islands this year and 3,000 people are estimated to have died while making the crossing.⁵ Most of these immigrants arrive in barely seaworthy rafts.⁶ On September 5, 2006 alone, almost 900 arrived in the Canaries—a single day record.⁷ What makes this figure even more astounding is that just the previous weekend, almost 1,400 immigrants made it to the Canaries.⁸

Historical Background

Spain has been dealing with immigration and emigration in one form or another for over seventy years. Even before the Franco regime, Spain was not a nation of immigrants, but rather of emigrants. At least half a million refugees crossed into France during the Spanish Civil War.⁹ During the 1940s, Spain went through “low wages, ration queues, expensive and adulterated food, rich blackmarketeers, infectious diseases, lack of transport, lack of petrol...Estimates put the number of deaths due to disease and hunger between 1939 and 1945 as high as 200000.”¹⁰ These hardships strained Spanish society and made the situation rife for emigration.

After this slow economic start, the Spanish economy grew tremendously from 1960-1970 when Gross National Product (GNP) and real salaries doubled and the “industrial sector of the economy grew at an average yearly rate of 15 percent.”¹¹ Coupled with growth in Spain’s industrial sector was a slackening in the agricultural sector. The Spanish state partially abandoned price-fixing for food and traditional produce which put Spanish farmers in a precarious situation.¹² In addition, the use of tractors on farms increased dramatically over the 1960s from about 57,000 in 1960 to around 260,000 in 1970.¹³ This increase in the use of machinery led to a decrease in the use of farm labor, “At the end of the 1950s, agricultural workers had represented 40 per cent of the total workforce; by 1975 they were less than 14 per cent of the active population.”¹⁴ Furthermore, by the early 1970s, the agricultural sector of the economy had dropped to 10 per cent of Gross Domestic Product (GDP).¹⁵ With these reductions in the agricultural labor force, Spaniards began to look elsewhere for jobs because the rest of the European economy was booming:¹⁶

Between 1960 and 1973, over one and a quarter million Spaniards, some 8 per cent of the active population, emigrated to Europe, most of them assisted by the Spanish Institute of Emigration. Their remittances to Spain in the same period totaled as much as \$5 billion.¹⁷

After the fall of Franco, Spain transformed itself from being a nation of emigrants to being a nation of immigrants. According to French political scientist Sami Nair, this change was fueled by economic growth, democratization, Spanish participation in the E.U., injection of foreign capital, infrastructural projects, agricultural aid, a strong middle class, small business growth, and a strong desire by the Spanish population to end its isolation from Europe.¹⁸ This transition was by no means easy. To fill the desperate need for workers during the 1980s, the political leaders turned a blind eye to illegal immigration and to immigrants.¹⁹

Possible Explanations

With this historical foundation, it is now possible to explore the factors that have contributed to the current situation. The general question this paper will explore is what domestic factors have caused immigration to Spain to increase over the last few years? Four possible explanations for this rise are Spain's geographic location, the comparatively large agriculture sector of the economy, favorable immigration laws, and Spain's economic growth since the fall of Franco and its integration into the E.U. Out of these four possible theories, the most plausible explanation for the increase in immigration is Spain's economic growth.

Spain's most enticing geographic feature, for both tourism and immigration, is its large coastline which is 4,964 kilometers long.²⁰ Spain has two island archipelagoes, the Balearic Islands in the Mediterranean Sea and the Canary Islands in the Atlantic Ocean in addition to two autonomous cities in Morocco: Ceuta and Melilla.²¹ For African immigrants, reaching Spanish soil is the closest (and therefore most logical) choice in order to gain access into Europe.

Spain's Mediterranean Coast is perhaps its weakest border because it is "separated from Northern Africa by only the narrow straits of Gibraltar."²² The Canary Islands are another target for immigrants. These 13 islands in the Atlantic Ocean are only about 60 miles northwest from the African mainland and have 626 miles of coastline.²³ Since patrols along the European mainland have increased, "the Canaries have become a very attractive destination."²⁴

In order to aid the Spanish Guardia Civil (National Police Force), the E.U. donated resources to the cause, "The European Border Control Agency, Frontex, has begun to deploying some patrol boats and aircraft inside the coastal waters of several West African countries."²⁵ Despite these efforts, the leader of the autonomous Canary Island government, Adán Martín, is not satisfied because the E.U. only sent "three boats, one plane and one helicopter to patrol more than fourteen hundred miles of African coastline."²⁶ The project, codename Hera II, has stopped 1,243 migrants en route to the Canaries.²⁷ While significant, it is only a drop in the bucket compared to the more than 23,000 that have arrived in 2006.²⁸ In reality this is a united Spanish, European, and Senegalese venture. The total deployment from both groups includes around a dozen ships and half a dozen planes or helicopters.²⁹ However, the needle in a haystack metaphor still applies.

Socialist party official Alfonso Perales puts it quite bluntly:

"We can say that this is not being handled well. That the Socialist government is doing a bad job, but this is a real problem. The reality is that we are the southern edge of Europe and the Canary Islands are the southern edge of the southern edge."³⁰

Nair echoes Perales in that the migratory pressures from sub-Saharan Africa will not cease and that Spain is on the doorstep of the world's poorest and most disinherited continent.³¹ Adán Martín views the problem on a much broader, European perspective when he asked: "How many more victims will be necessary? How many more photos of exhausted bodies are needed for Spain and Europe to see that this is a problem that affects all of us?"³²

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Ceuta and Melilla are the two autonomous cities on the edge of the African continent on the Mediterranean Sea. The border control for these two Spanish outposts consists of razor wire fences which, as seen earlier, can be easily surmounted. These two cities present a unique and relatively easy way for African migrants to reach Europe without ever leaving the continent. Many attempt to swim into Ceuta and Melilla, sometimes unsuccessfully.³³

A second possible explanation for the increased immigration into Spain is the large agricultural sector of Spain's economy: "About 60 percent of the land in Spain is used for farming, either as cropland or as pastureland. But agricultural production in most regions has always been low because of the poor soil and dry climate."³⁴ Despite the harsh climate, Spain is one of the world's leading producers of cork, lemons, olives, oranges, and wine.³⁵ Agriculture is not just isolated in the southern region of Andalusia: "Grain crops are grown mainly in Spain's northern regions. Farmers in the south and east produce most of the country's grapes, olives, and oranges and other citrus fruits. Bananas are grown in the Canary Islands."³⁶

In many ways, Spain's feudal past continues to influence current land holdings and labor use. Historically, land wealth was concentrated among the elite in Spain and this is still the case: "Less than 1 percent of all landowners hold about 50 percent of Spain's farmland. The poorest 50 percent of landowners own about 5 percent of the country's farmland...In the south, wealthy landlords hold most of the land."³⁷ Therefore, the owners are interested in acquiring the manpower necessary for harvest for the lowest price possible—immigrants.

As mentioned during the historical discussion, agriculture has traditionally been an important part of Spain's economy. Even with Franco's agrarian reforms, at the time Spain joined the E.U. in 1986, Spain's economy was one of the poorest in Europe and still had a substantial agrarian sector because it "enlarged EU fruit production by 48 percent and olive oil by 59 percent. The Spanish fishing fleet is 70 percent of the total EU fleet, and Spanish fishermen became one-third of all EU fishers."³⁸

In comparison with the rest of the E.U., the percentage of Spain's Gross Domestic Product (GDP) from agriculture (4 per cent) is much higher than the E.U. average of 2.2 per cent of GDP from agriculture.^{39 40} Furthermore, 5.3 per cent of the Spanish labor force is employed by the agricultural sector while only 4.4 per cent of the total E.U. labor force works in the agricultural sector.^{41 42} Granted, Spain's GDP is only \$1.029 trillion while the E.U.'s is \$12.18 trillion,^{43 44} but the important aspect to focus on is the allocation of resources within the economy. Even comparing two relatively similar-sized economies like those of the E.U. and the U.S., the E.U.'s agricultural output of 2.2 per cent of GDP dwarfs the 1 per cent percentage of the United States' GDP.^{45 46}

Spain's agricultural output seems to be the exception rather than the rule around the E.U. In Germany, only 0.9 per cent of GDP comes from agriculture,⁴⁷ while in the United Kingdom (U.K.), the agricultural proportion of the economy is 1.5 per cent of GDP.⁴⁸ France and Italy are about equal in their proportion of GDP from agriculture with 2.2 per cent and 2.1 per cent, respectively.^{49 50} What do these numbers mean for Spain? Spain's economy, although smaller, is more reliant upon the ground than other modern, liberal industrial democracies and would therefore be more likely to need low-paid workers to work the fields.

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The third reason for the increase in Spanish immigration is a legal explanation. As explored earlier, during the Franco regime, immigration and emigration were controlled. In an attempt to solve the recent program, the Spanish government launched a program in 2005 “granting legal amnesty to up to 800,000 undocumented immigrants. Applicants who can prove they arrived before last August, have a job contract and no criminal record, have three months to sign up as taxpayers.”⁵¹ The purpose of this plan was to bring immigrants out of the shadows.

As Nair points out, the point of this plan was to perfect and streamline the regularization of immigrants, but due to the large numbers involved, the law will be massive and extraordinary.⁵² Critics such as the opposition party and other European governments were concerned that Spain was turning itself into a gateway for immigrants.⁵³ The Spanish Socialist Government denied these charges because they were “already preparing to deport a group of 227 suspected illegal migrants found on a boat drifting off the Canary Islands.”⁵⁴ This program was fairly broad in terms of the eligibility requirements and sought to produce an optimal result: “Under the rules, an immigrant with a six-month work contract who is registered at the town hall and social security office is eligible for Spanish residency, the right to live and work legally in Spain.”⁵⁵

Once this special program expired, illegal immigrants still have a legal way to regularize their status within Spain through the process known as “arraigo,” literally, to root oneself. Through this process, illegal immigrants who have lived in Spain for three years continuously can petition for residency. In essence, it is a legal way to prove that their lives are now in Spain and not in their country of origin. In order to successfully complete this process, the immigrant must go through several hoops: First, they must register themselves with the city government. Second, the city government must write a report corroborating the immigrant’s registration. Third, they need to have a clean criminal record in Spain and in their country of origin. Fourth, the immigrant must present documentation to prove that they were in Spain for three years. This can take the form of bank statements; receipts for money sent home, medical bills, even police reports. Fifth, and most importantly, the immigrant must have a job offer. This need for a job offer is also necessary for work permit renovation which at some point allows for regularization.⁵⁶

The problem is that the Ministry of Labor and Social Affairs (Ministerio de Trabajo y Asuntos Sociales, MTAS) is now completely overwhelmed with those who have solicited “arraigo” and when they give answers, they may not do so for at least a year. In total, the process from preparing the documents until the final answer can take up to five years. In the words of one local attorney, “The Ministry is not working because the government does not want it to work. They do not want to deal with the issue. It is politically safer to do nothing.”⁵⁷

Furthermore, immigrants use European and international law to their advantage so they can stay in Spain:

many African migrants destroy their identity documents when they arrive in the country. They know that international law prohibits Spain from deporting them unless it can identify their home countries. So the government says it has no choice but to charter planes and fly them from the Canary Islands to cities on the mainland. (Socolovsky, 2006b)

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Clemente Aguado, the Deputy Minister of Immigration for the Madrid region and member of the opposition Popular Party, says immigration is out of control because of Spanish Prime Minister José Luis Rodríguez Zapatero's amnesty: "Let's not hide the truth, the truth is that it's organized crime that's sending these migrants to Spain because they know that Spain is going to give them working papers."⁵⁸

Spain may only hold the migrants for the "maximum legal internment period of 40 days. After that, they're released onto the streets with an unenforced expulsion order. Most have no alternative but to disappear into Spain's underground economy."⁵⁹ One Senegalese pointed out the problem with this arrangement: "You need papers to work and I don't have papers so I have to sell CDs, pirated CDs. It's not good because the police are trying to catch us all the time."⁶⁰ Recently, the Spanish authorities have begun to execute deportation orders.⁶¹ The first flight was small and only consisted of fifty Senegalese migrants but the Spanish government plans to deport 1,000 more.⁶² It is estimated that half of the migrants are Senegalese.⁶³

At the same time Spain was liberalizing its immigration system; other E.U. members were tightening their systems. For example, the UK had instituted a points system "designed to tighten immigration controls and ensure migrants wanting to work in the UK have the right skills."⁶⁴ Compared with the rest of Europe, Spain's immigration laws are fairly lax. Sami Nair's studies of Germany, France, and the U.K. make these differences quite apparent.

Up until the year 2000, Germany's immigration policy treated immigrants solely as guest workers who were obligated to return to their country of origin without the possibility of gaining German nationality.⁶⁵ In 2000, new legislation was introduced that reduced the waiting time for immigrants already in Germany who wanted to gain German citizenship from 15 years to 8 years—a revolutionary change in policy.⁶⁶ Despite these modifications, Germany refuses to become a country of immigration and refuses to see immigration as a possible response to counter the graying of the German population.⁶⁷ Although the process to gain citizenship in Germany has gotten easier, it appears draconian to the Spanish system.

In Nair's opinion, France presents an interesting case of a country founded on republican values of equality but with an inherently unequal immigration policy. Through much of its republican history, France resembled the U.S. and Australia in its immigrant makeup. France emphasized the similarities rather than the differences between immigrants. National culture was paramount to try and reduce cultural tensions.⁶⁸ Instead, France has actually raised the waiting period to get residency from three to five years, and made family reunification much more difficult.⁶⁹ In essence, while the government may hold egalitarian views in France, it is the political elite who continue the nativist mentality and the de facto racism present in the country.⁷⁰

The recent immigration history in the U.K. has not been simple either. The British have always seen emigration and immigration as matters of economic necessity. The old British attitude of ignoring the immigrant has been replaced by latent hostility by the British and the radicalization of the minority group.⁷¹ London's alignment with Washington since 9/11 has alienated the British Afghan and Indo-Pakistani populations. After the London bombings, British immigration policy was radically changed by restricting family re-groupment and permitting the immigration of highly skilled workers, such as executives.⁷² Ironically, the U.K. is one of the countries that has the greatest

number of illegal workers.⁷³ With these countries restricting entry, this makes Spain a much more attractive destination since its policies are less restrictive.

The fourth and final possible explanation for an immigration increase into Spain is tied to the country's economic expansion since joining the E.U. in 1986. Money received from the E.U. as well as economic growth made Spain's economy jump from one of the poorest in Europe to a rapidly growing one with the boost of the Euro.

After Spain joined the E.U., it "experienced an average growth rate of 2.9 per cent, above the E.U. average, and income per capita has risen an average of 3.5 per cent annually, or a total of 41.3 per cent in the 10 years between 1986 and 1996."⁷⁴ From 1985 to 1994, Spain saw its purchasing-power parity (PPP) (in comparison with the E.U.) increase from 66 to 77 per cent.⁷⁵ Spain also integrated itself into the E.U. in terms of trade when E.U. imports to Spain increased from 50 to 64 per cent and Spanish exports to the E.U. increased from 60 to 71 per cent.⁷⁶

A Senegalese woman interviewed on National Public Radio's *Morning Edition* program explained why young men from her country are willing to risk their lives to get to Europe: "That's why these young men are trying to leave Senegal and taking such risks it's not because they want to die and drown at sea, they simply want to help their families, that's the only reason."⁷⁷

Which Explanation Provides the Best Fit?

Of the four possible explanations, the economic argument makes the most sense. Before delving into why the economic answer provides the "best fit" to explain the situation, it is necessary to understand why the other explanations proposed do not fit. Geography is plausible on some levels, but Spain has had the same geography for a number of years, so that is a constant and not a variable. In fact, the patrols have increased since the rise in immigration, so geography is a factor, but not the determining one. As anecdotal evidence, countries that are not sub-Saharan were the most common in the COSOP office. The top five countries of people in the COSOP office were from Bolivia, Ecuador, Romania, Brazil, and Morocco. Most of the immigrants came to Spain because of the colonial and cultural ties. There were lower costs associated with this transition because the immigrants did not need to learn a new language or conform to a new culture. Furthermore, Spain's large agricultural sector is not sufficiently large enough to justify the rise in immigration. Most of the immigrants end up making their petitions for refugee status in Madrid rather than in the rural parts of Andalucia.⁷⁸

While the 2005 amnesty program made a big impact, the current disorganized state of MTAS, makes not assurances that anyone who petitions for regularized status through the "arraigo" process will get it. Most of the recent immigrants would only be looking for a job, they had no interest (at least at first) to try and regularize their legal status within the country.

Therefore, the economic explanation provides the best fit. The economic explanation can be supported by the theory of economic liberalism: "The central actor is the individual as a consumer and a producer. The market place is the open arena where individuals come together to exchange goods and services. Individuals are rational in pursuing their own economic interests."⁷⁹ The expanding Spanish marketplace, or the perception thereof, leads immigrants to want to improve their current situation by leaving

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home and moving to Spain. They must make a rational choice to leave their home country. The costs are too high for it not to be a rational decision.

With these large numbers of immigrants, Spain must work with their countries of origin, Morocco and Senegal, for example, to try and come to a solution. Spain's deputy Prime Minister, Maria Teresa Fernandez de la Vega, issued a statement in which she warned, "We are not going to tolerate that they keep coming. We are not going to continue accepting that bi-lateral and multi-lateral treaties are not complied with."⁸⁰ This is a good example of how this explanation also ties into the ideas of interdependence liberalism, because now that there are citizens of Senegal and Morocco living in Spain, Spain is less likely to go to war with these countries of origin partly because that would only lead to an increase in refugees wanting to come to Spain.⁸¹

The economic explanation also makes sense when taken into account what COSOP's priorities were. The job office was constantly humming. Granted, it did drop off in July since employers did not want to hire anybody new before the August vacations. Men were more likely to be able to find work in the construction sector. Fifty cranes were visible at one time on a drive around the outskirts of Madrid. Spain's rapidly expanding economy needs workers and often, Spaniards are unwilling to work these types of jobs. Women were more likely to find domestic work and even took positions where they lived with the person they worked for.

Another one of COSOP's focuses was to help integrate immigrants into the labor market by means of job skills. Classes taught at the center included caring for the elderly and learning to cook typical Spanish dishes. There was a major interest in gaining computer skills because they knew computer skills were essential in getting a well-paying job. The center also provided Spanish language skills so they could communicate with their bosses. There was even a course for mainly underage immigrants to gain skills for customized car washing and adding electronics to cars.

COSOP did have some legal assistance, but that was only two days a week in the afternoon. These were for more complicated cases or to aid someone in getting their paperwork in order to go through the process of "arraigo." The best way for immigrants to be able to improve and normalize their legal status was through their work. Finding a job is the main concern most immigrants had at the time to renew their paperwork.

Even though the economic explanation provides a thorough explanation as to why the immigrants arrive in Spain, there is no one easy solution to the problems caused by immigration. For instance, medical attention to those seeking normalization remains a significant concern. If Spain wants to control the issue, it must seek a comprehensive solution including active border patrols, clarity in the laws for those already in the country, while still encouraging workers to come and aid in their economy.

Nongovernmental Organizations in Spain, government ministries, and the Red Cross are stretched to the limit to try and cope with the situation. Sometimes it is the stories of the individuals that get lost when looking at the big picture. The real humanitarian cost of this migration can be summed up in this simple description, "Ninety-four passengers are huddled together along the entire length of the gunnels. Their bodies are motionless. There's absolutely no wiggle room on this boat; but, their eyes are filled with anticipation after a voyage of hundreds of miles."⁸² For these immigrants, the cost of a better life is well worth their trouble.

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- ³ “New Storming of Spanish Enclave,” *BBCNews.com*, 28 September 2005, <<http://news.bbc.co.uk/2/hi/africa/4289818.stm>> (24 September 2006).
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- ⁵ “EU Nations Clash over Immigration.” *BBCNews.com*, 22 September 2006. <<http://news.bbc.co.uk/2/hi/europe/5369986.stm>> (24 September 2006).
- ⁶ “Canaries in Record Migrant Influx.” *BBCNews.com*, 6 September 2006, <<http://news.bbc.co.uk/2/hi/europe/5321274.stm>> (24 September 2006).
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- ⁸ *Ibid.*
- ⁹ Salvador de Madariaga, *Spain, a Modern History* (New York: Praeger, 1958), 581.
- ¹⁰ Antonio Cazorla, “Early Francoism, 1939-1957,” in *Spanish History since 1808*, eds. José Alvarez Junco & Adrian Shubert (London, U.K.: Arnold, 2000), 274.
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- ¹³ *Ibid.*, 280
- ¹⁴ *Ibid.*, 279
- ¹⁵ *Ibid.*, 280
- ¹⁶ *Ibid.*, 279
- ¹⁷ *Ibid.*, 279
- ¹⁸ Sami Naïr, *Y vendrán...las migraciones en tiempos hostiles*, trans. María Cordon and Malika Embarek (Barcelona, Spain: Editorial Planeta, 2006), 125.
- ¹⁹ *Ibid.*, 125
- ²⁰ Central Intelligence Agency, *CIA World Factbook—Spain*, <<https://www.cia.gov/cia/publications/factbook/geos/sp.html>> (24 September 2006).
- ²¹ *Ibid.*
- ²² Tamsin Smith, “Policing Spain’s Southern Coast,” *BBCNews.com*, 18 May 2005, <<http://news.bbc.co.uk/2/hi/africa/3582217.stm>> (24 September 2006).
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- ²⁴ Martha Dixon, “Migrants Flock to Canaries,” *BBCNews.com*, 26 October 2004, <<http://news.bbc.co.uk/2/hi/europe/3950701.stm>> (24 September 2006).
- ²⁵ Socolovsky, Jerome, “Spain Disperses African Migrants across Country,” *Morning Edition*. Washington, D.C: National Public Radio, 30 August 2006.
- ²⁶ *Ibid.*
- ²⁷ Dominic Bailey, “Stemming the Immigration Wave,” *BBCNews.com*, 10 September 2006. <<http://news.bbc.co.uk/2/hi/europe/5331896.stm>> (28 September 2006).
- ²⁸ *Ibid.*
- ²⁹ *Ibid.*
- ³⁰ Socolovsky, Jerome, “Spain Disperses African Migrants across Country,” *Morning Edition*. Washington, D.C: National Public Radio, 30 August 2006.
- ³¹ Sami Naïr, *Y vendrán...las migraciones en tiempos hostiles*, trans. María Cordon and Malika Embarek (Barcelona, Spain: Editorial Planeta, 2006), 132.
- ³² Jerome Socolovsky, “African Migrants Pour into Spain’s Canary Islands,” *Morning Edition*. Washington, D.C.: National Public Radio, 6 September 2006.
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- ³⁶ *Ibid.*, 744

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- ⁴³ Central Intelligence Agency, *CIA World Factbook—Spain*, <<https://www.cia.gov/cia/publications/factbook/geos/sp.html>> (24 September 2006).
- ⁴⁴ Central Intelligence Agency, *CIA World Factbook—European Union*, <<https://www.cia.gov/cia/publications/factbook/geos/ee.html>> (24 September 2006).
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- ⁵³ “Spain Launches Immigrant Amnesty,” *BBCNews.com*, 7 February 2005. <<http://news.bbc.co.uk/2/hi/europe/4242411.stm>> (24 September 2006).
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- ⁶⁶ Ibid., 103
- ⁶⁷ Ibid., 105
- ⁶⁸ Ibid., 102
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- ⁷⁰ Ibid., 102

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⁷² Ibid., 102

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⁷⁴ Joaquín Roy and Aimee Kanner, “Spain and Portugal: Betting on Europe,” In Eleanor E. Zeff & Ellen B. Pirro, eds., *The European Union and the Member States: Cooperation, Coordination, and Compromise*. (Boulder, CO: Lynne Rienner, 2001), 243.

⁷⁵ Ibid., 243

⁷⁶ Ibid., 243

⁷⁷ Ofeibe Quist-Arcton, “Senegalese Make Dangerous Journey for Jobs,” *Morning Edition*. Washington, D.C.: National Public Radio, 10 August 2006.

⁷⁸ Comisión Española de Ayuda al Refugiado (CEAR). *La situación de los refugiados en España: Informe 2006* (Madrid, Spain: Catarata, 2006) 52.

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Explaining Singapore’s Government Linked Corporation Stock Price Premium: An Approach from Varieties of Capitalism

Andy Greer

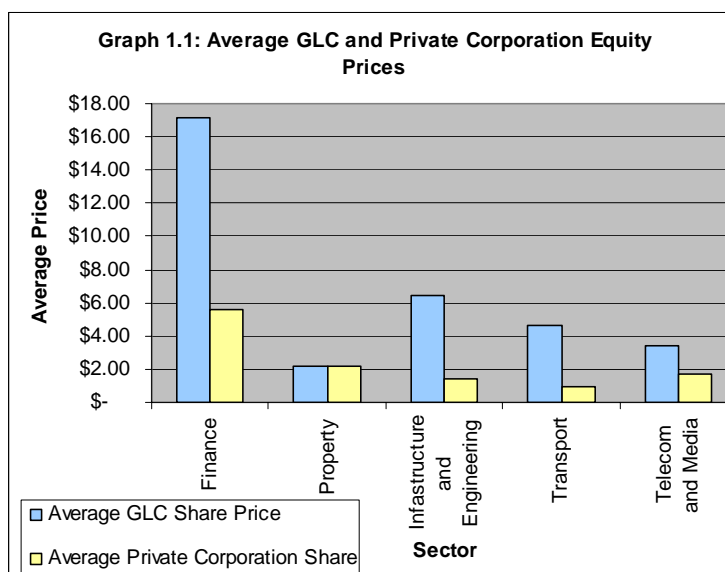
Partially-government owned corporations, or firms which are both publicly and privately owned, are neither anomalies in the global economy nor confined to operations in traditionally collectivist states. From French and German stakes in Airbus to the United States’ sponsorship of Freddie Mac and Fannie Mae, governments exert significant influence over many internationally-recognizable companies. Corporations such as these, imbibing both private and government investment, have been termed “quiet government subsidized enterprises” (or GSEs) whose presence is often overlooked but whose effects on other businesses and the economy are substantial.¹

Governments considering privatization of wholly-public industries must consider these effects to existing businesses to minimize economic disruption. In the United States, government-sponsored enterprises, with their “ambiguous relationship to the federal government,” concern some scholars for the advantage their government associations provide them over wholly privately-owned firms without such associations. Fannie Mae and Freddie Mac, they criticize, are believed to buy debt that “is implicitly backed by the U.S. government,” and as such, maintain “a funding advantage for the GSEs over private sector institutions” in the mortgage industry.²

Funding advantages such as this extend to other partially-owned government corporations. Singapore, despite a corporate attitude that has led scholars and business people alike to dub the state Singapore, Inc. for its liberal tariff system and limited restrictions on business ownership, is significantly affected by the operation of such corporations. The nation refers to its partially-government owned corporations as GLCs, or government linked corporations. Singapore’s economy shelters something approaching a dual-economy that contains on one side GLCs and on the other private corporations. All are actively traded on a relatively large capital market.

This former category of a hybrid government- and privately-owned corporation presents considerable economic challenges for Singapore. Their influence and the influence of the Singapore government as the “exclusive provider of infrastructure and social services” and holder of monopolies in many sectors of the economy has led some scholars to call the nation’s reputation as a bastion of free markets sheer “myth.”³

Affirming this myth, private companies claim a competitive disadvantage in their competition with Singapore’s government linked corporations. One frequently-cited disadvantage lies in their access to debt and equity financing. Equity financing is important for corporations because it provides additional capital to grow businesses. If some companies can more easily obtain equity financing than other companies, their funding advantage is a competitive advantage. Across the sectors of finance, property, infrastructure and engineering, transport, and telecom and media, Graph 1.1 shows that GLC’s in this



sample maintain much higher share prices than their privately-owned competitors. These higher share prices make it relatively easier for GLCs to raise money through selling stock, an example of equity financing. Singapore's government has attempted to respond to this problem in official documents, recognizing that the private sector perceives that GLCs are "crowding out" the rest of the private sector through their 'overwhelming dominance' in the Singapore economy."⁴

These anecdotal claims were recently substantiated by the International Monetary Fund. This study found that a substantial premium on the market exists for GLCs over their wholly private competitors.⁵ Furthermore, this premium exists after controlling for market attributes such as cash flows, industry size, price to earnings ratio, and business size. Thus, the market premium for GLCs exists independently of traditional business factors.⁶ In the process, these researchers also show that GLCs do not possess the attributes commonly complained about by the private sector counterparts: they have no better access to capital (measured in terms of cash flow) than their private sector counterparts.⁷ Another factor, or set of factors, is influencing this market phenomenon.

If the cause or causes of the premium could be solved, policy makers would have a better idea of the effects of privatization of government-owned industries elsewhere. The entry of a large, formerly wholly-government-managed enterprise into the private sector is a growing concern as financial institutions and manufacturing firms begin to break their ties to the governments that originally created them. Many modern political economy scholars note that "in a fundamental sense there is no path to prosperity outside of private property market economy."⁸ It seems contradictory, then, that Singapore, Inc. would burden the private sector with the costs of competing against the GLC model.

Privatization schemes that properly consider the concerns of existing private firms will cause less disruption, in terms of creating competitive disadvantages, for private firms. These firms fear the crowding caused by additional competition posed by former government firms whose new, private owners will demand better performance, better marketing, and better management from recently privatized industries.

Causation of the GLC premium stemming from strictly businesses or economic variables was marginalized by the IMF study. This paper submits that the market premium phenomenon of Singapore's GLCs must be explained by a more theoretical perspective whose implications can be more broadly applied as policy makers consider both partial privatization of public industries and as they attempt to mitigate competitive advantages stemming from privatization efforts already in effect. This approach requires analysis from a variety of disciplines, including finance, statistics, sociology, and political economy. A theoretically robust explanatory model, then, must be employed to truly capture these interdisciplinary considerations.

Literature Review

Although the GLC premium phenomenon has not been directly researched, more general scholarship provides a veritable haystack of potential causal explanations. Relevant to the subject is scholarship involving the GLC model itself, block-holding patterns and their effects on corporate governance, shareholding democratization, state-sponsored entrepreneurialism, and varieties of capitalism.

The Government Linked Corporations Model and Privatization

First, it is necessary to examine the precise components and characteristics of Singapore's GLC model. Its definition, working model, the justifications under which it was created, and economic impact are important considerations of the premium they enjoy.

SINGAPORE'S GOVERNMENT LINKED STOCK PRICE PREMIUM

A company is a GLC “if it is a subsidiary or associate, by virtue of share ownership,” of Temasek Holdings or a statutory board.⁹ The model emphasizes government-sponsored competition as a means of promoting public policy through economic vitality and is carried out through holding companies that provide oversight and coordination.

These holding companies are designed to coordinate activities among member firms and institutions through which the government can provide oversight. Currently, GLCs are held across four holding companies: Temasek Holdings, Singapore Technologies, MinCom Holdings, and MND Holdings. Through these holding companies, “the state still retains significant influence over their management control.”¹⁰ Temasek, the largest such company, remains the only holding company to publish financial statements outlining its complete ownership of member firms. Operating in media, transport, financial services, and property sectors, the looming presence of Temasek's GLCs are frequently cited as a barrier to entry and as a competitive disadvantage for private firms.¹¹

GLCs were created through the process of partial privatization. Privatization scholarship frequently references the importance of the state in its consideration of how countries structure their operations of hybrid or wholly-publicly owned corporations. The tidal wave of privatization, both total and partial, sweeping industrialized and industrializing nations during the 1980's was predicated by the collapse of collectivist market strategies. The failure of the ultimate collectivist economy, the Soviet Union's, made comparative political economic approaches to privatization a matter of urgency. The panacea for underdevelopment in industrializing nations seemed to be selling off publicly-held capital to the private sector and hoping that those investors could better manage companies in sectors as diverse as natural resources, manufacturing, and even those containing the national telephone systems. Many privatization projects were also initiated by governments strapped for cash and craving the cash selling off poorly-performing industries would provide.¹²

In many respects, Singapore's privatization efforts predated that of other countries. Its government began selling off chunks of government-owned businesses in the 1970's. In the process, Singapore turned government assets entirely over to private hands in some cases. GLCs were created when some companies were retained in pieces, with private investors holding significant minority stakes.

Singapore's government believes that it “is not ownership that determines how well a company performs, but the quality of its board [. . .] and senior management”.¹³ In other words, “competition, rather than ownership, is the government's path towards achieving economic efficiency.”¹⁴ Public or private ownership does not matter, according to this calculus. As long as the government board retains the competitive drive traditionally associated with private boards, the company will efficiently allocate society's scarce resources. Scholarship points out that there “are no longer compelling reasons for the government to own controlling stakes in these companies,” but uses only a statistic regarding the amount of value they add into the overall economy as the empirical basis for this position.¹⁵ However, policy makers in Singapore consider the long-term implications of GLC operations to outweigh any short-term pressures to fully privatize their stakes.

Their role is decidedly important in Singapore's economy. GLCs retain a “dominant market position in Singapore,” commanding 12% of total sales, 19.5% of profits, and 23% of assets out of Singapore's 500 largest firms.¹⁶ Internationally, their presence retains much of their domestic importance with GLCs managing significant operations in many Asian countries, including stakes in Chinese financial institutions, Indonesian technological companies, and Indonesia's telecommunication's sector.

Block-holding and Corporate Governance

Citizens have a vested interest in trusting the financial statements of corporations operating in their country. In industrialized economies, pension plans and nationalized savings accounts mean that an individual's savings is at least somewhat affected by the economic performance of corporations to which they are exposed. Public industries are monitored by the government. When total or partial privatization of a particular industry occurs, the ability of the new corporate monitor to govern faithfully the operation of that industry becomes extremely important to investors.

Block-holding patterns are a frequently researched issue in comparative political economy. Some scholars, particularly John Coffee, comparatively approach international regulatory policies in order to predict the transparency and performance of corporate governance.¹⁷ Large shareholders in a particular corporation address the agency problem of corporate governance because they have a "general interest in profit maximization" combined with enough control over the firm assets to have their interests followed.¹⁸ Investors have an option between voice (exercising strong corporate governance on a director's board), or exit (selling shares in a corporation to express dissatisfaction with its performance or leadership).¹⁹ Investors in a particular capital market exhibit behavior dependant on the structure of laws in place in their respective companies. Because of particular laws that govern institutional block ownership internationally, corporations are monitored in different styles according a rational actor choosing between voice and exit.²⁰

These institutional investors in this particular theory are, however, replaced by the government of Singapore in GLCs. If governments are better stewards of control for those corporations according to the public perception, a conceptual understanding can be had of the market premium.

Block-holding patterns influence corporate governance in individual firms because management cannot as easily manipulate income when outside block holders, especially institutional block holders, are present. These institutional block holders closely scrutinize management action.

Scholarship here predicts that earnings manipulation is often done in a desire to attract external financing at low costs. The reasoning extends to firms that have a large outside block holder (the government for GLCs): they are less likely to manipulate earnings. Corporations with higher levels of manager ownership have an incentive and the ability to massage earnings of corporations to suit their needs. These corporations also exhibit high informativeness of earnings when measured in terms of income-increasing discretionary accruals. This concept has significant relevance to GLCs because the government maintains controlling influence on the Board of Directors. GLCs "have close, non-transparent relationships with regulators" who "sit on GLC boards."²¹

For this research question, however, using accounting and finance explanations, such as corporate governance in terms of discretionary accruals, to explain the premium does not seem to address relevant social and institutional factors in the economy. This approach alone also suffers a data problem. Financial statements are not readily available for all government-owned corporations, making such an analysis complex and, in some cases, not possible at all.

Democratization of Shareholdings

Another approach from comparative political economy could explain the premium of government linked corporation share prices. Securities linked to partially privatized firms are subject to "external (market discipline)" that tracks investors' preferences of entry and exit according to rational choice models.²² Investors in any equity, regardless of its ownership, are influenced by their anticipated future earnings. Entry for an equity on these terms means that an

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investor has chosen to buy an equity based on her expectation that future earnings will be positive, and, probably, relatively higher than that of other equities in her choice set of equities. Exit for an equity means that an investor has chosen to sell an equity based on her expectation that future earnings will be negative, or, relatively lower than that of equities in her portfolio.

Corporations traded on stock markets expect their equities will be bought and sold based around the predictions of this calculating investor model. Larger corporations must therefore be sensitive to the demands of larger groups of individual investors than smaller corporations. Market efficiency is achieved when the interests of all shareholders is taken into account in firm decision making practices; narrow or regional considerations are necessarily broadened by active shareholders taking a stake in their investment entry choice through either voting or exit choices.

Governments such as Singapore who regulate an internationally-exposed economy "must sell their policies not only to domestic voters, but also to international investors."²³ In Singapore, government linked corporations by definition are a vestige of a government from which they take their dominant share of marching orders. Because Singapore is a representative democracy, the institutional policies, statutory regulations, and public policy that emanate from that government are in some degree responsive to public demands. It follows that government linked corporations are, too. Intuitions are the construct of "social rationality" in this model because they reflect more than just a "utility maximizing behavior" in their constitution.²⁴

By virtue of their ownership, the GLC model forces its managers and board to consider another constituent outside of local or international investors in its shares: domestic constituents. Instead of voting by the ballot box, investors vote by entry or deny votes by exit in investment decisions. GLCs "must respond to a set of signals from the government to which private managers are less alert. These goals may sometimes be in conflict with the commercial objectives of the enterprise."²⁵ GLC responsiveness to the domestic polity, though, necessarily broadens firm decision making in the same way that regional or sectarian concerns are mitigated through broad, active ownership in traditional capital market models. Citizens, regardless of their portfolio's equity composition, become shareholders and communicate management information with democratically expressive activities.

A possible generalization can be made from this scholarship relating to the premium. If a firm is so widely held that even non-investors are seen to be stakeholders in its success or failure, its share prices will reflect a premium this additional information confers on its management and board decision making process.

Unfortunately, this approach too seems to suffer from its narrowness and data problems. While broadening shareholder interests to improve returns appears to have grounding in finance, linking democratically expressive activities to individual firm performance seems difficult. Voting patterns on wide sweeping economic policies certainly has an effect on banking and financial institutions, but this approach is too narrow to account for other variations between firms that may affect performance. Additionally, coding voting patterns for the sorts of firms they might affect and their potential impact seems laborious and too prone to error. Deciding which votes count for which firms does not seem clearly defined.

State-sponsored Entrepreneurialism

Economies have also been characterized as either entrepreneurial or managed economies. Both categorizations assume a capitalist mode of production, but entrepreneurial approaches to economic categorization looks at the set of incentives, and culture preference ordering perceived by individuals in the market.

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Entrepreneurial economies are “characterized by less stability and more turbulence” than managed economies.²⁶ Singapore is a multi-ethnic state, comprised of ethnic Chinese and citizens from Sri Lanka, India, Malaysia, and Indonesia. The diversity of thought implicit in such a heterogeneous, stable society should create enormous potential for an entrepreneurial economy, whose

“[. . .] process of generating new ideas, both within and outside of R&D laboratories, creates a diversity of opinions about the value of these new ideas. Differences in the evaluation of new ideas, leads individual agents to pursue their commercialization external to the established firm in the form of a new independent venture”²⁷

The dynamism of GLCs in Singapore’s modern economy extends to transportation (Singapore Airlines and Neptune Orient Lines), electronics (SingTel), and banking (the Development Bank of Singapore). These companies and their subsidiaries consistently attract Singapore’s best and brightest talent. This preference is understandable given their position as market leaders in their respective industries and regional prestige.

However, Singapore’s institutional structure may direct employees towards GLCs in a way that places private-sector businesses at a competitive disadvantage. Institutions in place create higher incentives for young entrepreneurs to enter government linked businesses.

Cultural factors independent of institutions may also direct individuals to affiliate with GLCs. A critical component of an entrepreneur in literature is the ability to “accept risk and failure.”²⁸ GLC’s, because of their immense size in terms of market capitalization relative to most private firms, can insulate entrepreneurial initiatives from failure better than smaller firms. Additionally, GLCs claim to be motivated by long term considerations; short term failure and its detrimental effect on current profitability is a primary consideration for the private sector.

A second cultural factor that may constitute a competitive advantage for GLCs lies in their ability to better define ambiguous business ventures because of their resources and political motivations. “Risk taking propensity” and the “tolerance of ambiguity” are important characteristics of the entrepreneur.²⁹ If individuals in Singapore can be shown to be less able to deal with ambiguity than private sector employment requires, they will chose employment in the stability and quantifiability found in the GLC model.

Also relevant to the question of the GLC premium and cultural explanations is the ability of firms to attract talented, skilled employees. More specific is the ability of firms to attract employees with an entrepreneurial spirit, or, the competitive landscape seen by entrepreneurs who wish to begin their own business.

Entrepreneurialism “spurs the expansion of business, creates new employment potential and fuels economics growth”³⁰ The traits of the entrepreneur include “psychological traits, attitudes, attributes, and values of an individual motivated to initiate a business venture.”³¹ Not all self-employed individuals, though, are classified in literature as entrepreneur. Instead, those individuals who principally demonstrate “innovate behavior” are classified as such.³²

However important entrepreneurialism is in “achieving societies” that place an emphasis on individual innovation, cultural factors catalyze individuals differently according to the society to which they claim membership.³³ Entrepreneurial studies bifurcate between cultural and universalist claims. Cultural arguments for entrepreneurialism claim that traits and attributes of entrepreneurs in a country vary across cultures.³⁴ Universalist claims assert that the entrepreneur looks similar whether he or she originates business from Singapore, the United States, or India. In a nine-country study which included Singapore, researchers found” no statistically significant different in the likelihood of an innovate orientation as cultural distance from the United States increases,” which

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suggests that “regardless of culture, entrepreneurs are individuals who [...] need to be innovative [...] and exploit new niches in the industry.”³⁵ However, researchers found that as the cultural distance between the United States and other nations increased, individuals felt less in control of their own destinies, had less risk tolerance, and exhibited a lower energy level in terms of productive time use. In Singapore, as well as those countries with a low ILOC, RTP, and Energy Level value in Table 1, “people are more likely to identify with the group to which they belong, diminishing the degree of control they have over their environments, but not necessarily diminishing their entrepreneurial propensity.”³⁶

TABLE 1							
COUNTRY LEVEL DATA							
	Sample Size	% Males	Cultural Distance	ILOC	Innovative	Risk-Taking Propensity	Energy Level
United States	476	55	—	.61	.47	.33	.62
Canada	253	49	15	.57	.38	.24	.49
Ireland	90	77	27	.33	.37	.34	.50
Germany	84	73	31	.23	.37	.38	.42
Belgium	271	62	57	.39	.38	.25	.57
China	172	53	78	.22	.20	.30	.29
Singapore	99	12	88	.15	.24	.28	.25
Croatia	123	31	94	.20	.27	.15	.33
Slovenia	278	54	94	.29	.44	.22	.39

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This approach from scholarship appears appealing because it lies at the intersection between cultural considerations and business considerations. Although insulation from failure is important, further tests need to be devised to determine whether this literature can predict success when talented entrepreneurs join a GLC and if correlation exists among GLC premiums in aggregate.

Stability and the Going Concern

Rational choice models also predict a second possibility that could explain the premium on equity issues from government linked corporations in Singapore. Perhaps the most fundamental element of an investor’s decision making process is an assessment of the firm’s going concern. This accounting terminology signifies the implicit assumption made by external users when evaluating a firm’s financial statements that the firm will continue into perpetuity and that the assets listed on the balance sheet are therefore being used for a productive capacity.

Firms who have a solid going concern should exhibit a premium in their equity prices over firms who are not guaranteed existence into perpetuity. It is plausible that GLCs, as former statutory boards, perform valuable business in areas deemed by the government to be strategically important. Because of their initial missions, the government protects against firm failure. Investors, in other words, would have much more serious issues with which to concern themselves if Singapore, a significant or controlling shareholder in GLCs, went bankrupt. Instead, investors are confident that government can “enhance corporate earnings” through activities such as “subsidies and regulatory inducement” or can invoke Keynesian demand inducements through the timing of public expenditures.³⁷ The control that a government explicitly has in affecting monetary supply is a critical asset for firms connected to the government who can take advantage of their exclusive foresight into planned expansionary or contractionary fiscal policy.

Stability also has social implications as well. Although individuals respond to incentives, it is not reasonable to assume that all individuals regardless of their nationality respond to the same incentives in the same manner. A national regulatory policy in a democracy reflects the broadly-constituted aims of its polity. Institutions such as regulatory policy direct individuals to “respond

rationally to the incentives they face” because institutions mirror a particular preference-ordering of the individuals in a polity.³⁸ Examining these incentives, though, requires an understanding of how a particular culture to which an individual expresses membership interprets and values particular incentives. A market economy, then, does “not exist in a vacuum; it is embedded within a broader set of institutions” that codify something approaching a horizontal sum of social factors outside of those which most economic analyses would consider.³⁹ These individual summation points do not only add to an “amalgamation of individual atomistic decision-makings,” but to a “structure constitute of ongoing social relations.”⁴⁰

An analysis of GLC failure is important in studying Singapore’s case from this theoretical angle. If GLCs could be shown to not only not fail, but be prevented from failure by a line of credit for continuing operations and restructuring, GLCs have a decided competitive advantage over their private counterparts. Private firms are subject to the calculations of a market whose financiers may call back bonds during a time of corporate distress or marginal cash availability to pay off interest owed. Their access to last-resort lending is simply not as luxurious as that offered to corporations whose owners manage the treasury. In Singapore’s case, the owners manage the treasury and the largest bank in Southeast Asia. This represents a meaningful lender of last resort for failing companies. Also of concern is Temasek’s track record of subsidies to its companies that creates a sense that GLCs “rarely, if ever, fail.”⁴¹

Significant data and explanatory problems exist with this literature, however. The circumstances surrounding GLC failure or last resort bailouts by the government of struggling GLCs could not be found at the time of this paper’s writing. Furthermore, this approach appears to limit conclusions it draws from data to a particular culture by heavily weighing culture and institutions aside from other economic factors. Labor fluctuations and union activity do not seem to be adequately accounted for in this model, but are extremely important economic factors.

Varieties of Capitalism and Comparative Political Economy

Comparative political economy has also yielded several important theories that could potentially causally relate the GLC premium phenomenon with a broadly applicable, theoretical argument. With a significant comparative and technical portion of the field proven obsolete by the collapse of the central planning command and control economies of Eastern Europe and the Soviet Union itself, researchers are now able to commit more of their time to looking within capitalist markets for comparative work.

Important research relevant to Singapore has been published because of these developments. This paper will draw heavily from Hall and Soskice’s political economy scholarship regarding varieties of capitalism. The varieties of capitalism approach considers firms to be the actors responsible for aggregate economic performance. This field distinguishes between two categories of market coordination among firms. The first, market coordination, views firms coordinating with other actors through competitive capital markets.⁴² Inter-firm relationships are defined through formal procedures guided by “relative prices, market signals, and familiar marginalist considerations.”⁴³ This latter factor is the focus of neo-liberal economists and directs attention to the familiar concepts of marginal analysis in the firm’s output and employment choices.

The second, strategic coordination, depends on factors outside of the firm for capitalist competition. Interaction is modeled by game theoretical models and firms depend “on the institutional support available for the formation of credible commitments.”⁴⁴ *Inter-firm* information sharing, more than *intra-firm* marginal analysis, determines where market equilibriums will be found by individual firms. Formal contracting is still important, but is based around a normative

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environment founded in institutions that whose “monitoring, sanctioning, and deliberation” orient firm behavior towards established norms.⁴⁵

Comparative political economy literature in this field realizes that in a well developed capital market, firms can be expected to employ both types of cooperation. The matter of coding of one or the other for the purpose of research, then, is one of degree. Firm behavior is coordinated at one pole by “liberal market economies,” whose high degree of market coordination shapes competitive behavior, while “coordinated market economies” shape competitive behavior through extensive information sharing.”⁴⁶ In reality, corporate systems located somewhere between these poles can be coded according to their characteristics. These characteristics are defined broadly in scholarship, including the degree of industry associations, collaborative employee training schemes, and standard setting boards present in the broader economy to which firms belong.

Institutional complementaries, those institutions whose operations increase the returns available to other institutions or firms, are also a critical factor in the field. Complementaries are beneficial for a nation's total economic growth and “enhance the coordinating capacity of actors” inside and outside those institutions.⁴⁷ Theory is quick to note, though, that a complementaries' function can be just as economically beneficial to a market-coordinating as a strategic-coordinating firm. In other words, one should not confuse coordination with being an asset only exploited by strategically-coordinating operating firms. The *type* of information shared among cross-linking complementaries, however, is different between each paradigm.

High levels of strategic or marketing coordination in a particular sector of a nation's economy will complement high levels of strategic or market coordination in other sectors. The sharing of information through complementaries increases market efficiency measured in per capita GDP growth per year.⁴⁸ Strong strategic cooperation, operationalized in terms of managerial prerogatives, employment tenure, and firm strategy, is a predicator of strong per capita GDP growth.⁴⁹

Singapore's own market presents a variation on this theoretical comparative model. Comparing Singapore's government linked corporations with private corporations within the same national system is different from comparing the aggregate of firms in a nation with the aggregate firms in another nation. However, an analysis can still be made by operationalizing proxies indicative of either market or strategic coordination in the varieties of capitalism approach.

Because scholarship in varieties of capitalism looks at many institutional complementaries in its classification scheme, many components of an economy are potentially relevant to this theoretical framework. Some scholars, such as Casper and Kettler, focus on entrepreneurialism as an indicator of coordination schemes. Their study predicted that strongly entrepreneurial behavior would flourish under the “liberal market institutions” in the United Kingdom because such market-coordinating strategies could “readily accommodate entrepreneurial patterns of business organization.”⁵⁰ Likewise, Germany's strategically coordinating economy, with its emphasis on “highly regulated and predominantly “non-market” form of business coordination,” should “hinder” development of highly entrepreneurial activities in favor of “more longterm (sic) and incremental innovation strategies” in developing innovative business practices.⁵¹

Unions are also frequently studied in varieties of capitalism literature because they are an important non-market coordinator between workers and management. Unions are important in maintaining training systems and “negotiating industry skill categories and training protocols” within sectors of the economy.⁵² In this field, Hall and Soskice look at trade union density and the level of collective bargaining by unions as determinants of the level of strategic or market coordination observed in a particular economy.⁵³ Bargaining is an important strategic coordination device because it achieves wage coordination by negotiation, thus preserving “cross-class

coalitions” that stabilize wage levels when market forces would normally necessitate their fluctuation.⁵⁴

These characteristics extend beyond a single sector of the economy. Strategically-coordinating economies are “more likely to be involved firms in strategic interaction within corporate networks” because they contain relatively concentrated block holdings, structured wage rates, employee networks, and a pervasive union network.⁵⁵

Singapore’s GLCs fit strategically-coordinating characteristics. Managers and top employees are “senior civil servants and political appointees” and undergo little turnover.⁵⁶ Many question “whether the best managers are running corporations” because of management stability, while few key employees are fired each year.⁵⁷ Second, in the sample set of sectors of the economy relevant to this paper’s research design, 27.5% of unions are unions for those employees of GLCs. Numerous other government employee unions supplement these groups and constitute government employees of statutory boards, educational services, public utilities, and urban redevelopment programs. Third, a significant portion of GLC ownership, by definition, is constituted by the government. Thus, large block holding prevails.

Economies whose corporate networks are highly coordinated towards either market or strategic cooperation correlate with relatively higher per capita GDP growth rates per year. Literature also predicts that economies whose corporate networks are not as coordinated towards either market or strategic cooperation correlate with relatively lower per capita GDP growth rates per year. Because private firms cannot enjoy the same levels of strategic coordination that their government linked competitors do, theory predicts that their share prices will grow at a slower rate than GLCs. Lacking the institutional complementarities of being directly linked to the government’s financing and regulatory network that GLCs enjoy, stock performance suffers.

Characterization of firms as either strategic or market coordinating allows a tentative causal connection to be made between degrees of coordination and economic growth cast in a firm’s individual performance. GLCs in Singapore are explicitly and implicitly linked to a network constituted in the very same terms that theory characterizes as a strategic coordinating firm. The research design will be cast from this literature’s approach.

Research Design

The varieties of capitalism approach that classifies economies as either market-coordinating or strategic coordinating depending on their internal economic characteristics appears theoretically appealing for its robust explanatory framework that links seemingly disparate concepts under a single model. The approach also avoids possible data problems noted with other scholarship in the preceding literature review and expands on their explanatory power and potential applicability outside of Singapore by considering common economic factors (such as unions and labor market fluctuations) in its approach.

Though scholarship primarily uses varieties of capitalism under a comparative framework, by which whole economies are compared to other economies, this paper argues that the approach can likewise be trained on a single economy, Singapore’s, to explain the market phenomenon of the premium in share prices of government linked corporations. Using the varieties of capitalism approach from political economy to examine one economy is not rare in scholarship and has been used for European economies, especially Germany’s, often.⁵⁸

Further modification must also be made because varieties of capitalism suggests that per-capita GDP increases in step with increasing strategic coordination *or* increasing market coordination as long as the two are not mixed. Per-capita GDP is not meaningful for a firm’s operations, but its contribution to total market capitalization in a given year is meaningful for the

research question. Replacing per-capita GDP growth with the percent premium in GLC share price for Singaporean firms yields a relevant dependant variable for the research question.

GLCs, whose “access to external finance and negotiating [. . .]” is highly coordinated, whose industries contain few entrepreneurial business starts, are relatively insensitive to labor fluctuations compared to their private counterparts within the same industries, and whose employees have access to a relatively larger union structure than their private counterparts are more strongly strategically coordinating than their private counterparts.¹⁴ Thus, this paper's hypothesis is as follows:

The GLC premium (dependant variable) will positively correlate with increasing degrees of structural coordination measured by net entrepreneurial starts, union availability, union arbitrations, and the stock's beta coefficient (independent variables).

Selection of Independent Variables

Because structural coordination cannot be directly measured, proxies must be chosen that are representative of these types of linkages to serve as independent variables. The proxies net entrepreneurial starts and union availability for this research hypothesis will track those used by existing scholarship in literature. Union arbitrations and stock betas are new tests that are not directly considered in literature, but seem justifiable inclusions under the varieties of capitalism approach. The proxies chosen for this research hypothesis will track those used by existing scholarship in literature. Sectors are defined along the guidelines set by Singapore's Ministry of Manpower statutory board. Consistently used in the Singapore Stock Exchange's classification of equities, they will be the primary means of variation.

First, net entrepreneurial starts in a sector will be used as a proxy. The research design will consider entrepreneurial behavior in a particular sector along the lines of Casper and Kettler in their comparative study of British and German entrepreneurial activities using the varieties of capitalism approach.⁵⁹ This study of entrepreneurial activity shows that other scholarship has also incorporated entrepreneurialism as a proxy of a market-coordinating activity. Additionally, the test will consider more qualitative data as well to test if GLCs are more able to foster entrepreneurialism within the strategic network of existing firms. This test will examine institutions and cultural implications of the GLCs use of entrepreneurialism. The research hypothesis predicts that increasing net entrepreneurial activity outside of existing firms in a sector, a market coordinating activity, will decrease the GLC premium in that sector.

Second, union availability will be used as a proxy in the test. Union availability is judged by the number of unions available in a particular sector. Those unions registered with the National Trades Union Congress will be categorized by sector during testing to correspond to those sectors in which the sample set of GLCs operate.⁶⁰ The research hypothesis predicts that increasing union availability in a sector, a strategically coordinating activity, will increase the GLC premium in that sector.

Third, union arbitrations will be used as a proxy for laborers and management taking their demands outside of a strategically coordinating network. The research hypothesis predicts that increasing numbers of union disputes in a sector, a process of circumventing the existing strategic network, will reduce the market premium for GLCs in that sector.

Finally, beta, the measurement of stock price volatility relative to the volatility of the stock index of which it is a part, will be used as a proxy for stability. This test has not been directly addressed in varieties of capitalism scholarship, but seems justifiable given the cultural conditions at stake in this theoretical model. Some researchers, such as Busch, view investment stability

generally as a positive characteristic in a strategically coordinating economy such as Germany's.⁶¹ In scholarship's emphasis on a strategically coordinating economy's stability in other areas such as labor turnover, stock price stability seems a logical proxy for investment stability. Additionally, this test incorporates some of the implications of *Stability and Going Concern* in the literature review.

This test will examine correlation between the GLC sector betas, relative to the Singapore Stock Exchange, and the GLC premium in that sector. Then, it will test if the beta observed in all GLCs is statistically different from the beta observed in private companies. This secondary test will therefore examine if GLCs enjoy a lower beta than their private sector competitors in a society that highly values stability.

These proxies chosen represent a compromise between the data available and the coordinating factors referenced by varieties of capitalism literature as indicative of a particular type of coordination. Although Singapore has an extensive policy of the collection of statistical data, few data offers segmentation by economic sector that is necessary for this research question.⁶²

Data Sources

All publicly-traded firms on the Singapore Stock Exchange (SGX) were sampled from the period October 7th, 2005 – October 6th, 2006 at biweekly intervals at the time of the market's closing on Fridays. This set represents the population of publicly-traded companies during the sampling time period. Next, fifteen of these privately-traded companies were chosen to represent the sample set to which private equities in the same sector would be compared. These sectors are property, finance and banking, infrastructure and engineering, telecom and media, and transport.

To determine the private companies for comparison, those privately-held companies in the 75th percentile by volume was selected by sector. When a GLC was present in the sample set in the 75th percentile (a GLC nearly always was), it was removed from the sample set and the next largest equity in terms of trading volume was selected.

To determine the GLC companies for comparison, Temasek's published holdings list was used. Temasek Holdings, the largest GLC holding company, is the only government holding company to have published a full disclosure of equities in which it held a stake.

These GLCs are some of the largest and most actively traded equities on the SGX, so it is necessary to compare them to comparable equities. Simply using the entire population of companies in a particular sector would distort any possible conclusions because smaller companies operate differently from larger companies. Though this selection approach would alleviate sample size problems in the accompanying statistical analysis for the research hypothesis, any conclusions inferred would be questionable because newer, smaller companies would be compared against established, government linked corporations.

Using market capitalization as an indicator of comparability would be more preferable than using trading volume. At the time of the data collection, market capitalization for an individual equity was not available, however.

A final note on each test: the terminology used in each test is consistent, but for brevity, wholly-privately owned public companies traded on the Singapore Stock Exchange are simply termed *private companies* throughout the tests. Private companies, of course, are not publicly traded. However, to call them public companies seems even more confusing because GLCs are in part publicly owned themselves.

Empirical Evidence for the Research Hypothesis

Test One: Net Entrepreneurial Starts

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Net entrepreneurial starts represents the number of new businesses started each year in a sector minus the number of business failures in that year. Using starts alone in this test would overestimate market coordinating activities in a sector because it does not account for failures. Beginning a new firm outside of the existing network is a market coordinating activity. Many entrepreneurial starts in a year represent a shift in the competitive landscape seen by existing firms as they must deal with increased competition and new products and services created by start-ups. Strategically coordinating sectors innovate from within or from sharing trade practices. These sectors do not contain the emphasis on individual entrepreneurialism present in a market coordinating system.

The data used for this test must be explained before its results can be considered as evidence. Only the net business starts and exits by sector for 2000 and 2001 could be located at the time of this paper's writing. This timing problem is important to consider as the results of this test are reviewed. It seems logical that starts and stops could have changed significantly from year to year and that averaging two years together for this test against the premium for 2006 is problematic.

If starts and exits could be shown to be relatively constant, however, during this time, it is possible that they are constant over other years as well. To test that the means of the samples from 2001 and 2002 are constant, the paper proposes the following hypothesis test for their equality for $\alpha = .05$:

$$H_0: \mu_1 = \mu_2$$

$$H_a: \mu_1 \neq \mu_2$$

Where μ_1 = the true mean of 2001 net entrepreneurial starts and μ_2 = the true mean of 2000 net entrepreneurial starts.

Chart 1.1 summarizes the results of this hypothesis test.

Chart 1.1	2001	2000
Mean	874.5	871.5
Variance	736586.6364	653448.6364
Observations	12	12
Hypothesized Mean Difference	0	
df	22	
t Stat	0.008814526	
t Critical one-tail	1.717144335	
P(T<=t) two-tail	0.993046561	
t Critical two-tail	2.073873058	

At the .05 significance level, the true means of the 2001 and 2000 sample sets are statistically equal; H_0 cannot be rejected.

Assuming that this hypothesis test remains true and that net entrepreneurial starts and exits remain relatively stable over time, Table 1.1 shows that the relationship between entrepreneurship and the GLC premium is negatively correlated. The correlation coefficient of these variables (.8943) indicates that as net entrepreneurial starts in a sector increase, the premium of GLCs in that particular sector decreases.

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Table 1.1

Sector	Entrepreneurial Net Firm Starts	Premium
Financial	1351.5	206%
Engineering/Manufacturing	267.5	351.419%
Transport and Communications	195	293.353%
Correlation Coefficient		-0.894364138

Entrepreneurial starts were not available for all sectors in which GLCs operate. Therefore, three sectors are used for which data was available. In the case of Transport and Communications, the average premium of Telecom and Media and Transport was used to arrive at the premium listed.

This data shows a significant correlation between net entrepreneurial starts in a sector and the premium. It suggests, as varieties of capitalism would predict, that increases in entrepreneurial activity, a characteristic of a market coordinating sector, decreases the premium observed in that particular sector. The data set shows therefore that this market coordinating scheme mixing with a strategically-coordinating industry reduces the premium.

Additionally, important qualitative aspects are present in this analysis because entrepreneurialism is multifaceted and is emphasized differently by institutions and cultures in different economies. For however difficult entrepreneurialism is to quantify, government-led initiatives and government institutions can be used as proxies to determine if their presence and work directs entrepreneurs to GLCs. Their ability to do so maintains the strategic network by influencing individuals to experiment within existing firms. By doing so, disruptions from new business upstarts, a market coordinating activity, is minimized.

Singapore’s GLCs seem ostensibly well positioned to direct entrepreneurial activity within their firms. Risk-taking is seen as a state-sponsored initiative, not an individual-sponsored one: “Singapore does not have an entrepreneurial class; state-led or multinational-led management has crowded out private initiative.”⁶³ The prevalence of government-driven foreign initiatives is not simply relatively large just for Singapore’s population, either. Temasek is the largest single foreign investor in Chinese financial institutions.⁶⁴ This risk-averse climate is reflected in media that frequently describe Singapore as having a “climate that does not encourage risk-taking.”⁶⁵

Institutional factors abound that channel risky activities into large corporations. For example, the Singapore Economic Development Board is charged to “deal directly with private sector investors.”⁶⁶ In practice, though, the private sector investors it assists are “multinationals” embarking on “big projects,” spheres in which small business owners are unable to enter.⁶⁷

However, this qualitative data appears to not appear to entirely explain why the GLC premium survives because GLC investment abroad has experienced very public failure. GLCs have failed to provide insulation against failure. In the technology sector, SingTel’s \$1.9 billion dollar purchase of a controlling stake in Thailand’s Shin Corp from the country’s Prime Minister in 2006 created “nationalist outrage” there.⁶⁸ After the highly publicized ouster of Thailand’s prime minister, Temasek, the holding corporation for SingTel, lost \$700 million in the deal.⁶⁹

Second, GLCs have not been successful in creating a business atmosphere in which ambiguity-avoiding individuals can enjoy more freedom from ambiguity than in the private sector. They have failed to be a secure place in which risk-averse employees find refuge in quantifiable business decisions and insulation from possible failures that would otherwise expose them to societal shame if they were employed at a smaller firm. Where “top political and business leaders” have been successful at negotiation the first stages of massive business acquisitions and mergers, those “lower down the chain” have exhibited a “lack deftness when the regulations overseas are

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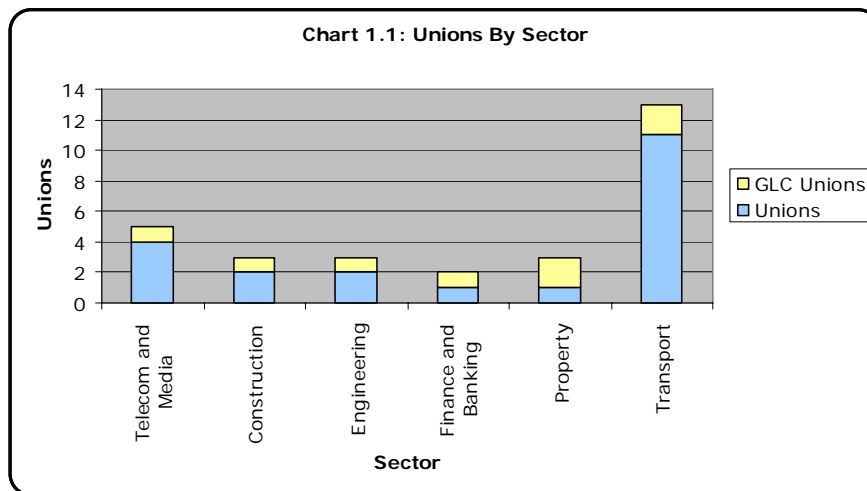
amorphous.”⁷⁰ Thus, as private firms largely avoid globalization of their operations, they avoid the ambiguity associated with unfamiliar laws, business climates different from their own, and delicate political considerations of that domestic polity with which they would enter in an international business venture.

This test shows that while the market coordinating activity of beginning businesses in a particular sector correlates to a reduced premium in that sector for GLCs, the government's institutional arrangements and cultural considerations do not seem to be successfully creating an environment where experimentation is insulated from failure. In fact, failure is evident and widely publicized. Entrepreneurial behavior seems likely to happen infrequently given these considerations, whether it occurs outside of an existing strategic network or from within.

Test Two: Union Availability

Unions are also an important component of strategically coordinating system. They allow employees a means for collective bargaining on terms of wage rates, work conditions, and work security.

Unions composed of GLC employees are prevalent in the sample sectors. Chart 1.1 shows this relationship:



Their presence, critical to a structural coordinating system, appears to have a relationship to the GLC premium. Through private corporation employees have access to union membership, the additional unions available to GLC employees places private firms at a disadvantage for additional strategic coordination between management and employees.

In the property sector, the prevalence of GLC-associated unions is staggering: the Keppel Corporation along with the statutory Housing and Development Board comprise most of the available unions in the sector.

Table 1.2 shows that the relationship between union availability in a particular sector and the GLC premium are positively correlated.

Table 1.2

Sector	Unions By Sector	Premium
Infrastructure and Engineering	6	351.419%
Transport	13	385.547%
Finance and Banking	2	206%
Property	3	0.263%
Telecom and Media	5	201.160%
Correlation Coefficient		0.720604547

The correlation coefficient of .7206 indicates that the presence of relatively more unions in a particular industry translates into a higher GLC premium in that industry. This correlation seems predictable for the relatively higher strategic coordination available from unions for GLCs over the private sector. It confirms for a second time that the varieties of capitalism approach could explain the premium because increasing strategic coordination in an already strategically-coordinating sector increases the premium.

Test Three: Union Arbitration

The negative relationship between union disputes with management and the GLC premium in those sectors is interesting and complex because of the statistical nature of the available data and the variety of meanings that union disputes could be interpreted as. First, union dispute statistics are not available exactly along the sectors used for the research question. To account for this problem, premiums in sectors such as Transport and Telecom and Media were averaged out to approximate the sectors listed by the Ministry of Manpower statistical database for the years 1995-2005.

Union arbitrations are most accurately interpreted as a sign that structured, collective bargaining between management and groups of employees has not successfully resolved a dispute and the strategic network of which both groups of a part are being left for redress in the courts. Fissures have formed in the labor and wage structures indicative of strategic coordination such that arbitration becomes necessary. Laborers and management seek redress for their demands outside of the strategic network of which they are a part.

Table 1.3

Correlation Between Disputes by Sector and GLC Premium By Sector		
Manufacturing and Construction	45.09090909	351.419%
Transport, Storage & Communications	30.27272727	293.353%
Financial, Insurance, Real Estate, Business Services , Community	74.36363636	103%
Correlation Coefficient		-0.846200458

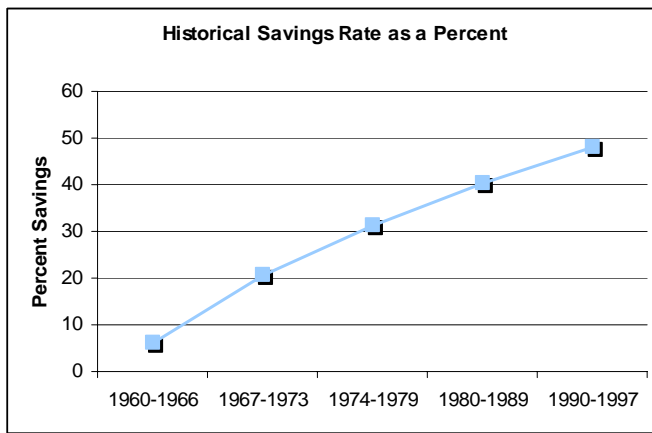
There is a strong negative correlation (-.8462) between union disputes and the GLC premium, indicating that as arbitrations in a sector increase, the premium in that sector for GLCs decreases. This finding supports the predictions of the research hypothesis because the strategic network is being circumvented in that sector.

Test Four: Share Price Stability

Finally, the stability of securities issued by GLCs and by the private corporations in Singapore must be assessed. Stability is difficult to quantify. The culture of stability inculcated in

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culture is a concern for businesses and policy makers. This paper considers first that Singaporean society is extremely risk averse. Empirically, Singapore has an enormously high savings rate, having increased five fold since 1960.

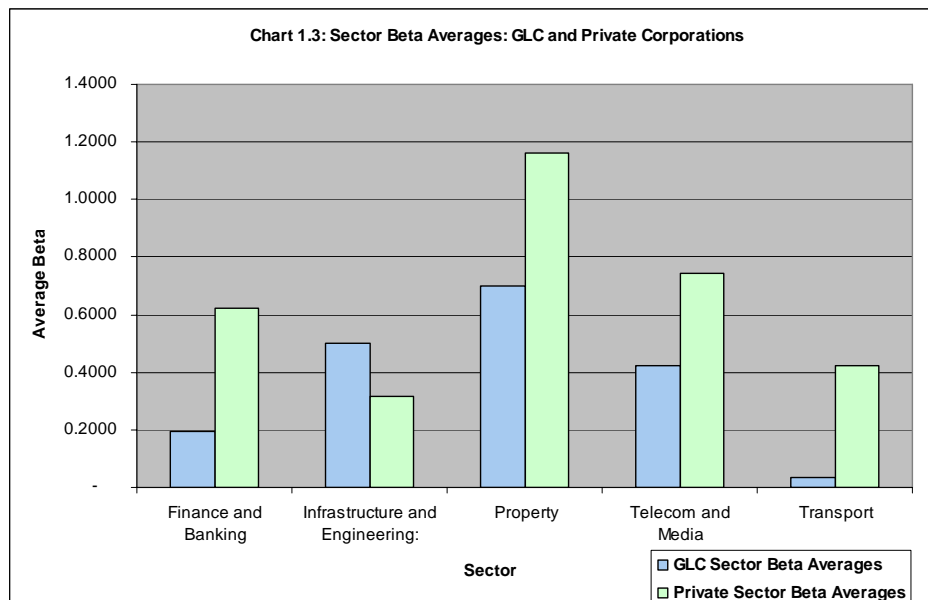


Stability has important implications for the market and is measured by beta, an estimate of an equity's volatility relative to the market indices of which it is a part. Table 1.4 shows the relationship between volatility and the GLC premium.

Sector	GLC Premium	Beta
Finance and Banking	206%	0.1968129
Property	0.263%	0.7020044
Infrastructure and Engineering:	351.419%	0.5027219
Telecom and Media	101.614%	0.4215098
Transport	385.547%	0.0335924
Correlation Coefficient:		-0.672266

There is a strong (-.672) correlation coefficient for this data. This correlation coefficient indicates that as the volatility of a GLC's share price increases, its premium decreases. This negative relationship implies that individual investors place significance in the stability of the GLC share price relative to the rest of the market, buying low-volatility shares and selling higher-volatility shares.

This significance, however, must also be considered relative to the stability of share prices of non-GLC companies. In a society that values stability generally, companies that enjoy lower betas will likely be valued more than those with higher betas by the public. Mathematically, the GLCs beta is far smaller than the private corporation



beta: 0.4128 and 0.7852, respectively. Chart 1.3 shows this relationship.

To test if the betas of GLCs are statistically different than the betas of private corporations, this paper proposes the following hypothesis test for their equality for $\alpha = .05$:

Ho: $\mu_1 = \mu_2$

Ha: $\mu_1 \neq \mu_2$

Where $\mu_1 =$ the true mean of GLC company betas $\mu_2 =$ the true mean of private company betas.

Chart 1.4 summarizes the results of this hypothesis test.

Chart 1.4	GLC Beta	Private Company Beta
Mean	0.398822	0.785411829
Variance	0.176128	1.396503815
Observations	14	25
Hypothesized Mean Difference	0	
Degrees of Freedom	33	
t Stat	-1.47772	
P(T<=t) two-tail	0.148963	
t Critical two-tail	2.034515	

At the .05 significance level, the true means of the GLC beta and the private company betas are statistically equivalent. Ho, therefore, cannot be rejected. This result may be surprising given the seemingly significant mathematical different between these betas. However, the large variance of the private company beta suggests that there is too much variation in private sector betas to conclude any statistical difference.

Concluding Remarks and Going Forward

The research hypothesis was largely correct in estimating that the GLC premium will positively correlate with increasing degrees of structural coordination measured by net entrepreneurial starts, union availability, union arbitrations, and the stock’s beta coefficient. These tests in aggregate also largely vindicate varieties of capitalism’s explanatory framework and broaden it with the research design’s tests for beta and union arbitrations.

Where the hypothesis was not strongly explanatory was in the government’s ability to direct entrepreneurial activity within its strategic network of existing firms and in the statistically equivalent betas of GLC and private corporations. Each of these failures, however, does not appear to justify qualification of the research hypothesis’s overall success. First, the government’s failure to direct entrepreneurial activity within its strategic network is mitigated by the finding that fewer net entrepreneurial starts in a sector correlate to increases in the GLC premium. In other words, this failure seems to have little impact on new firm starts outside of the strategic network because individuals are not starting many businesses in those sectors anyway.

Second, the statistically equivalent betas of private and GLC corporations in the research design could be dismissed as a result of the relatively small sample size used for the test. Future work could be done to expand the sample size of both private and GLC corporations to include prices over more than one year. This expansion could reduce the high variances observed in the private sample set for 2005-2006 and prove that a statistical difference exists.

Further expansion of the research design is possible by using a regression analysis to include all independent variables suggested into one predictive equation. This expansion would require far

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more and better segmented data than this paper considers in its individual tests. Incorporating a variety of the strategically-coordinating institutions that encourage information sharing within networks into one design with predicative power seems possible given the relatively strong correlation coefficients observed in the four independent tests this paper's research design explores.

Going forward, this paper recommends broadly that Singapore's GLCs open up their strategically coordinating mechanisms to the private sector. Specifically, unions accepting membership from only GLCs laborers could broaden their focus towards accepting membership from a particular *sector*, not simply one *firm* in that sector. Second, government institutions such as the Economic Development Board should make good on their initial charge towards helping smaller firms and even individuals gain access to the information and financing necessary to begin or grow their businesses both domestically and abroad. By opening up the strategic network of information sharing implicit in the GLC model to other entities, further coordination and the economic gains associated with it can be realized among all firms.

To the degree that education can overcome the Singaporean citizen's inculcated aversion toward risk, the government should likewise offer the same educational resources and political connections enjoyed by GLC managers to the private sector as their managers look towards expanding businesses domestically and internationally.

Last, it seems plausible that most of the elements of the research design's findings can be applied to other partial-privatization cases outside of Singapore. With the exception of the qualitative, cultural considerations employed in one section of test one in the research design, the strategically coordinating characteristics chosen as proxies for use as independent variables can easily be found in other economies. It is reasonable, in other words, that entrepreneurial activity, union activity, union arbitrations, and betas can be computed in non-Singaporean tests using this paper's adaptation of the varieties capitalism approach. Characteristics of low entrepreneurial activity, high union activity, low union arbitrations, and low betas are indicative of sectors in which other companies under partial ownership by their governments represent potential strategic information sharing institutions that increase strategic coordination. The ability to supplement wholly private firms with this additional coordinating information should be important to policy makers who seek the most robust growth possible in the economies they influence.

Labor Fluctuations

Private corporations and the press sometimes express frustration that GLCs are not as responsive to the demands of a competitive market in the same way that the private sector must be. This anecdotal evidence expresses generally the type of coordination of a structurally-coordinating system and appears to also be supported by fact. Table 1.3 shows no statistically significant relationship between the GLC equity growth rates and net job creation. Net job creation is an average by sector of net job creation per year from 2002-2005.

Table 1.3

Sector	Net Job Creation, 2002-2005	GLC Share Price Growth, October 2005-October 2006
Construction / Engineering	-812.5	18.436%
Transport and Storage	3025	5.676%
Financial Services	3525	27%
Real Estate and Leasing	475	17.168%
	Correlation Coefficient	-0.008095056

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The sample set of the private sector, by contrast, is much more responsive to changes in the labor market. The rate at which private equities gained or lost value during the sample time period strongly correlated with the net job creation from 2002-2005.

Table 1.4

Sector	Net Job Creation, 2002-2005	Private Growth, October 2005-October 2006
Construction / Engineering	-812.5	16.903%
Transport and Storage	3025	26.898%
Financial Services	3525	27%
Real Estate and Leasing	475	21.835%
	Correlation Coefficient	0.976931374

Firm size is another possible contribution to the GLC premium. Unlike in other countries attempting to grow domestic industries by generous subsidization, Singapore had few problems insuring that the subsidies it doled out to private investors. Instead, “international pressures to remain competitive answers the need for the market-conforming behavior” codified in law by other developing states for subsidy-receiving firms.⁷¹

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