

KAS INTERNATIONAL REPORTS

MAJOR CITIES IN EMERGING COUNTRIES



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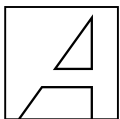
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■ **Qatar between Marketing and Realpolitik – A Smart Business Model for a Micro-state?**

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EDITORIAL

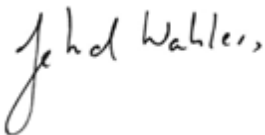
Dear Readers,

At the invitation of the Konrad-Adenauer-Stiftung, German and Chinese experts met last November to discuss political approaches to sustainable development in major cities. The German-Chinese Symposium on Urbanization was held in a new development in Xuzhou. Located between Beijing and Shanghai, this city is probably unknown to most people outside China – yet it has a population of nine million. It is steadily growing thanks to state-funded construction projects. The government investments are so extensive that they far exceed existing demand. High-rise blocks and streets of houses are being built without any tenants or buyers to occupy them. Mira Luthe, Project Assistant in our Representative office in Beijing and author of an article in this issue, reports on her visit to the unknown metropolis: “I had previously read that entire new city districts are being built, but to be in a vast, newly developed but as yet unoccupied part of the city myself and see the skeletons of houses and bare tower blocks was something else. I asked myself who was supposed to live there and fill the concrete with life.” She continued: “Xuzhou was an interesting example of what is happening all over the country. I will be interested to see how much progress the urbanisation process will have made in five to ten years and particularly how sustainable it will be.”

Sustainable integrated urban development represents an enormous challenge to the People’s Republic of China. While the Chinese urbanisation rate is still below the global average of 55 per cent, it has assumed dimensions in the world’s most populous country that are difficult to conceive. The number of cities with a population in the millions increases steadily and has already reached 175. Every year, 60 million Chinese villagers move into cities searching for work and better infrastructure. Many of the cities are growing in an uncontrolled manner, with serious consequences for the ecosystem as well as the food supply. Speaking at

an event organised by the Shanghai office of the Konrad-Adenauer-Stiftung, Wang Hui, a professor at Xiamen University, pointed out that 53 per cent of the area used for expanding Chinese cities consists of arable land.

The trend towards urbanisation is not just a Chinese phenomenon, but can be observed around the world. The United Nations estimate that two thirds of the global population will live in cities within 30 years. This will pose a variety of challenges to politicians and administrators: road congestion, air pollution, water shortages, difficulties with waste disposal as well as an increased risk of negative impacts from environmental disasters due to climate change particularly in coastal areas. Megacities and conurbations have joined forces at a global level to compare approaches to shaping economic growth and urban development in more sustainable ways and to collaborate in the search for solutions. The KAS office in Rio de Janeiro has initiated and supported one project aiming in this direction: the CB27. This network brings together the heads of the departments for environmental affairs from the capitals of all Brazilian federal states and the Federal District. Project Manager Kathrin Zeller writes in this issue: "The measures taken in dealing with growth in these new centres of the emerging economies, which will combine an increasing part of the world's population as well as its economic output, will be instrumental in determining the level of sustainability of global development." The shape of the future will not be determined solely in Berlin and Washington but also in Xuzhou and São Paulo.



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EMERGING MEGACITIES IN LATIN AMERICA

INSTRUMENTAL IN SHAPING A GLOBAL DEVELOPMENT

Kathrin Zeller

"Cities will be on the front lines of the battle for sustainable development",¹ at least in the opinion of Jeffrey Sachs. The U.S. economist, who came to be best known for his work as Special Advisor to the Millennium Development Goals, sees cities as playing a decisive role, seeing that they are directly affected by climate change themselves on the one hand and offer the best opportunities to identify solutions for sustainable development on the other. Numerous statistics appear to confirm his view. According to the United Nations Human Settlements Programme, UN-Habitat, cities cover no more than two per cent of the earth's surface, but cause up to 70 per cent of worldwide harmful greenhouse gas emissions.² Approximately 90 per cent of cities are situated in close proximity to the sea and are therefore particularly at risk from the potential consequences of climate change.

Over 50 per cent of the world's population already live in cities today – a proportion that is due to rise to 67 per cent by 2050 according to the UN.³ And the megacities will also gain in importance economically. The combined economic

- 1 | Cf. Jeffrey Sachs, "Cities and Sustainable Development", 25 Nov 2013, <http://project-syndicate.org/commentary/jeffrey-d--sachs-argues-that-urban-areas-must-lead-the-way-toward-environmentally-healthy-and-socially-inclusive-economies> (accessed 23 Dec 2013).
- 2 | Cf. "Hot Cities: Battle-ground for Climate Change", United Nations Human Settlements Programme (UN-Habitat), 29 Mar 2011, <http://www.unhabitat.org/downloads/docs/GRHS2011/P1HotCities.pdf> (accessed 10 Nov 2013).
- 3 | Cf. "World Urbanization Prospects, the 2011 Revision", The United Nations Department of Economic and Social Affairs (UN DESA), <http://esa.un.org/unup/CD-ROM/Urban-Rural-Population.htm> (accessed 13 Nov 2013).

output of Rio de Janeiro and São Paulo constitutes some 40 per cent of Brazil's total GDP.⁴ At some 450 billion U.S. dollars, São Paulo alone has a GDP approaching that of countries such as Poland and Norway.

Furthermore, over two thirds of urban centres are located in less developed countries.⁵ The list of the 30 largest cities thus includes 22 so-called emerging megacities from newly industrialised countries, among them some of the largest in Latin America such as Mexico City, São Paulo and Buenos Aires. According to the World Bank, Latin America and the Caribbean form the most urbanised region of the world today, with approximately 80 per cent of the population living in cities there already.⁶ The measures taken in dealing with growth in these new centres of the emerging economies, which will combine an increasing part of the world's population as well as its economic output, will be instrumental in determining the level of sustainability of global development.

This debate is giving new impetus to the fundamental idea of the subsidiarity principle and thereby local self-government. Sachs therefore considers the cities to be centres of innovation for new approaches in policy making, given that their mayors need to search for solutions to a multiplicity of problems. Supplying citizens with water, establishing professional waste management and transport infrastructure as well as planning for disaster mitigation and the supply of provisions in emergency situations become real challenges in view of an annual influx of new residents frequently running into the hundreds of thousands. Bogotá in Colombia, for instance, which has a population edging towards seven million, is growing at a rate of about 2.9 per cent per year.⁷ Not all areas are equipped with sewage systems or schools; the metropolises tend to lag behind

4 | Cf. *Megacity Challenges. A stakeholder perspective*, Siemens, Munich, Jan 2007, http://siemens.com/entry/cc/features/urbanization_development/all/en/pdf/study_megacities_en.pdf (accessed 12 Nov 2013).

5 | Cf. n. 3.

6 | Cf. "Data. Urban Development", World Bank, <http://data.worldbank.org/topic/urban-development> (accessed 23 Dec 2013).

7 | Cf. Thomas Brinkhoff, "Major Agglomerations of the World", <http://citypopulation.de/world/Agglomerations.html> (accessed 23 Dec 2013).

the advancing urbanisation and are more akin to structures sprawling in an uncontrolled manner, totally inadequate in their capability to fulfil the requirements of modern municipal management.

CONGESTION, CONGESTION AND MORE CONGESTION

The new middle class, which is emerging particularly in the cities of the newly industrialised countries, has created demand for consumer goods that had been out of reach for the great majority until recently. In 2000, fewer than 14 per cent of Brazilians had a mobile phone, for instance. Today, the number of mobile phones even exceeds the number of people. According to the state agency ANATEL,

While the proportion of households owning a car in 2008 was approximately 45 per cent, it was already 54 per cent by 2012.

there are 136 mobile phones for every 100 of the country's Brazilian inhabitants. Thanks to rising incomes and new financing models, many households have also been able to fulfil their desire for a car. The number of car owners is shooting up. While the proportion of households owning a car in 2008 was approximately 45 per cent, it was already 54 per cent by 2012.⁸ Economic and social progress is therefore increasingly making itself felt on the roads as well. According to the Traffic Index published by TomTom, people with a 30 minute commute in São Paulo spend 102 hours a year in traffic jams.⁹

The metropolis therefore began taking countermeasures several years ago. Driving restrictions ban owners from driving their vehicles in the metropolitan area on one workday per week based on the last digit of the vehicle's number plate. The idea is to encourage car-sharing and the use of public transport. However, the city has become so congested that drivers are finding themselves in traffic jams even during supposedly quiet times of day. In addition, the alternating driving authorisation has had unintended consequences. Multi-vehicle households with different types of number plates can circumvent the problem. The policy has thus created an undesirable incentive for people to acquire

8 | Cf. Sérgio Mindlin, "Política de incentivos fiscais e mobilidade urbana", Instituto Ethos, 25 Dec 2013, São Paulo, <http://www3.ethos.org.br/cedoc/politica-de-incentivos-fiscais-e-mobilidade-urbana> (accessed 16 Nov 2013).

9 | Cf. "TomTom Traffic Index", TomTom International, http://tomtom.com/en_gb/trafficindex (accessed 12 Nov 2013).

an additional car instead of encouraging them to switch to public transport.

To alleviate the situation, there are plans to build further underground lines and expand the networks of the totally overloaded inner-city trains and the Bus Rapid Transit (BRT). This system, which consists of express buses travelling on specially marked lanes throughout the city, was first introduced in the Brazilian city of Curitiba in 1963. It has since been replicated numerous times, and after the export of the model to Istanbul, Jakarta and Bogotá, the BRT has now found its way back to other Brazilian cities such as São Paulo and Rio de Janeiro.

The BRT's initiator, Jaime Lerner, an urban planning expert and former mayor of Curitiba, has a vision that goes even further. According to Lerner, the car will become a societal nuisance on a par with smoking in public. He believes its use in public spaces will gradually be prohibited and tolerance will decrease until at some point in the future no one will be able to imagine that a means of transport causing not only thousands of deaths but also noise and pollutants had ever been people's favourite mode of transportation.

WASTE PICKERS IN THE SHADOW OF THE TRADING CENTRES – THE INTEGRATION CHALLENGE¹⁰

The cities' rapid growth also poses major challenges to their administrations in other areas as well. Not all inhabitants of Latin America belong to the new middle classes. Many continue to live in the precarious conditions of the huge slums in cities such as Lima and São Paulo. The waste pickers of these metropolises, who are a ubiquitous sight in Latin American inner cities moving around with their handcarts, exemplify the economic, social and environmental challenges of urbanisation. The informal sector makes up 51 per cent of the economy in Latin America's

10 | Cf. Stefan Schaltegger, Christian Herzig, Oliver Kleiber, Torsten Klinke and Jan Müller, *Nachhaltigkeitsmanagement in Unternehmen*, Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) et al., Berlin and Lüneburg, 2007, http://econsense.de/sites/all/files/nachhaltigkeitsmanagement_unternehmen.pdf (accessed 17 Nov 2013).

conurbations.¹¹ Millions of street vendors, domestic staff and waste pickers have no qualification or fixed employment contract. Their access to social security systems, which are underdeveloped in any case, is limited and they are particularly vulnerable to negative life events such as unemployment and illness.

People who are engaged in informal labour are particularly vulnerable to the effects of external shocks such as the global economic crisis of 2007.

A survey by the WIEGO organisation conducted in ten cities in emerging economies, including Lima, Bogotá and Santiago de Chile, shows that economic crises do not merely cause the informal sector as such to expand. People who are already engaged in informal labour are particularly vulnerable to the effects of external shocks such as the global economic crisis of 2007. Drops in demand are felt on the black economy as well. 65 per cent of respondents reported a decrease in their sales volume, 41 per cent had to lower their prices. The impact appeared to be strongest on waste pickers, whose products are affected directly by fluctuating raw material prices due to the global trade in these commodities. Prices dropped by up to 50 per cent within Latin America.¹² This means that the very actors who are engaged in recycling in Latin America, which is at a low level in any case, are particularly vulnerable to economic and social risks.

The increase in consumption by the new middle classes is fuelling a general trend towards a rapid rise in the volume of waste. Today, cities around the world already produce 1.3 billion tonnes of waste per year. By 2025, this figure is expected to nearly double, rising to 2.5 billion tonnes.¹³ The problem of vast volumes of waste is

- 11 | Cf. "Urban Informal Economy Statistics", African Centre for Cities (ACC), <http://africancentreforcities.net/programmes/applied-urban-research/informal-economies/urban-informal-economy-statistics> (accessed 12 Nov 2013).
- 12 | Cf. Zoe Elena Horn, *No Cushion to Fall Back on the Global Economic Crises and Informal Workers*, Women in Informal Employment: Globalizing and Organizing (WIEGO), Cambridge, Aug 2009, <http://wiego.org/sites/wiego.org/files/publications/files/Horn-Global-Economic-Crisis-1.pdf> (accessed 12 Nov 2013).
- 13 | Cf. Daniel Hoornweg and Perinaz Bhada-Tata, "What a Waste. A Review of Global Waste Management", in: *Urban Development Series*, No. 15, World Bank, Washington D.C., Mar 2012, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/07/25/000333037_20120725004131/Rendered/PDF/681350WP0REVIS0at0a0Waste20120Final.pdf (accessed 12 Nov 2013).

a typically urban phenomenon. Statistically speaking, city dwellers produce at least twice the amount of waste as the inhabitants of rural areas, who consume fewer industrial products, waste less food and are generally less affluent.¹⁴ Due to the enormous logistical effort involved, waste disposal quickly becomes one of the most cost-intensive services in the cities' budgets. One symptomatic fact is that the cost composition of urban waste management in the cities of the emerging countries still differs greatly from that in industrialised countries. In the latter, the largest part of the expenditure goes on waste disposal, in industrial waste incineration facilities for instance, while the majority of the costs in poorer cities tend to be incurred in connection with the actual waste collection.¹⁵ In many cases, this task is delegated to municipal companies, which do not always work with the greatest market economy efficiency or simply do not have adequate capacities. In locations without organised waste disposal sites, the collected waste is deposited at waste dumps, which cause relatively low costs due to their simple structure. As soon as the cities take measures to close the dumps and switch to waste disposal sites run in accordance with environmental or safety standards, the costs to the city administration explode. When a modern waste disposal facility was opened in Rio de Janeiro, for example, the price per tonne of waste rose to approximately 13 euros. Previously, the waste had been disposed of at a waste dump in the middle of Guanabara Bay, which had only involved direct costs of some two euros. With 8,000 tonnes of waste daily, the city therefore incurs extra costs upwards of 32 million euros per year. To Europeans, this amount may seem manageable considering the enormous costs the city will save in the long term elsewhere. But in the megacities of the emerging economies, which are still faced with dramatic social problems, environmental protection has not been at the top of the priority list to date. In many cases, decision-makers may be willing, but they lack funding from the municipal administration as well as

City dwellers produce at least twice the amount of waste as the inhabitants of rural areas, who consume fewer industrial products, waste less food and are generally less affluent.

14 | Cf. Daniel Hoornweg, Perinaz Bhada-Tata and Chris Kennedy, "Environment: Waste production must peak this century", *Nature*, 30 Oct 2013, <http://nature.com/news/1.14032> (accessed 12 Nov 2013).

15 | Cf. Hoornweg and Bhada-Tata, n. 13.

the sheer political capital to implement measures whose opportunity costs are difficult to convey to the voters.

In the cities of the South, public debate tends to focus much more on social issues. Waste management illustrates the conflict between the priorities of social and environmental policies. In locations where there are no institutionalised structures for waste separation in private households, the poorest of society make a living by selling raw materials they retrieve from waste bins and city dumps. Millions of people in the megacities wage a daily battle for survival, earning no more than two euros a day. Dire sanitary conditions in the waste heaps visited by flocks of vultures, where the waste sorters compete for the most valuable materials such as cans and other metals among poisonous or contaminated materials and around unsecured refuse trucks, also ruin the lives of children and adolescents even before they can take advantage of the opportunities offered by the new emerging world.

Over the last few years, the waste pickers in many cities have begun to organise in associations. Some cooperatives now provide a basic structure for the professionalisation of the workers and facilitate investment in more efficient equipment. Besides making for greater job security and more regular incomes, the political involvement has also increased. Brazil's 2010 National Solid Waste Policy specifically mentions waste pickers as actors within the national strategy. In Bogotá, meanwhile, an association of waste pickers, who are also referred to as "recyclers" these days, has been awarded the Goldman Prize, a major environmental award.

In Bogotá, meanwhile, an association of waste pickers, who are also referred to as "recyclers" these days, has been awarded the Goldman Prize, a major environmental award.

However, political measures in the area of waste disposal are not always aimed in the direction of modernisation. Fearing for what is already a meagre livelihood, waste picker associations from Brazil to Mexico are organising protests against the construction of modern waste incineration plants or the replacement of informal waste dumps by organised waste disposal facilities, to which waste pickers generally have no access for safety reasons. Reconciling the needs of a socially disadvantaged sector of the population with the urgent need for development in tune with the

environment represents one of the major challenges facing the cities in these emerging economies.



Backbone of the recycling chain: Waste separation in a public building and a waste picker in Belo Horizonte. | Source: © Kathrin Zeller.

Innovative models attempting to integrate social, economic and environmental aspects are already being tested in various locations. In Rio de Janeiro, for instance, there are plans for the remuneration of the waste pickers to be improved by the trade in CO₂ certificates at a regional exchange. The system envisages the creation of certificates for all types of valuable materials, thereby enhancing the pickers' income on the one hand and providing incentives against them competing for particularly valuable materials such as aluminium.

CITIES AS VICTIMS AND PERPETRATORS

In 1992, the UN identified Mexico City as the most polluted city in the world. Within a single generation, one of the cleanest in the world had turned into the absolute opposite, causing some 1,000 additional deaths per year. While the situation has since improved through measures relating to transportation as well as local industry, the problem persists. And not only in Mexico – the smog is also becoming denser over Santiago de Chile and Quito, for instance.

The fact that major cities are hit particularly hard by the global impact of climate change is also apparent on the coasts. Some 90 per cent of all urban areas around the

world are situated near the sea. Recent storm surges have illustrated the vulnerability of settlements close to the sea. According to a study by the magazine *Nature Climate Change*, flooding in coastal cities already caused damage in the order of six billion U.S. dollars in 2005. The study anticipates annual costs to potentially rise to a trillion U.S. dollars or more by 2050. Latin America is also vulnerable. Due to the low social and economic resilience of poorer countries, the city of Guayaquil on the Pacific coast of Ecuador, for instance, is the third most vulnerable city worldwide.¹⁶

In this context, the capability to deal with crises is becoming ever more important. For this reason, cities are increasingly focusing on the capacity to withstand external shocks from environmental events, i.e.

One important idea is that taking proactive steps in preparation for risks will facilitate dealing with the occurrence of events and managing the aftermath.

resilience. Compared to mere adaptation to climate change, this concept goes one step further. The idea is that taking proactive steps in preparation for risks will facilitate dealing with the occurrence of events and managing the aftermath. Local decision makers are therefore learning to identify the cities' vulnerabilities and to acquire tools to mitigate against them. These tools include measures such as the collection of data on risk factors as a basis for making decisions on investments as well as communication centres for coordinating interventions in crisis situations.

OPPORTUNITIES OFFERED BY MEGACITIES

All in all, cities offer a number of advantages particularly due to their high population density. Public transport is thus far more difficult in rural areas as far as cost-efficiency is concerned because utilisation is too low. The collection of household waste is also less cost-intensive in cities with large housing estates. Experts are looking at models for holistic sustainability strategies for cities to examine the integration of the various areas of responsibility. The European Union, for instance, is attempting to enhance the quality of life in cities through the concept of "Smart

16 | Cf. Stephane Hallegatte, Colin Green, Robert J. Nicholls and Jan Corfee-Morlot, "Future flood losses in major coastal cities", *Nature Climate Change*, No. 3, 18 Aug 2013, <http://nature.com/nclimate/journal/v3/n9/full/nclimate1979.html> (accessed 23 Dec 2013).

Cities". The expectation is that various measures such as innovations in town planning, greater involvement of the local population, higher levels of energy efficiency and improved transport solutions will improve people's health and reduce greenhouse gas emissions.¹⁷



High-rise blocks at the Copacabana: Rio de Janeiro was home of several civil society meetings in which questions of sustainability have been discussed. | Source: © Kathrin Zeller.

Modern sustainability management in cities involves attempts to include civil society to ensure both efficiency as well as long-term acceptance of investments. Citizens in emerging cities demand a right to participate in the decision-making regarding their living space. Contrary to more abstract discussions on issues such as tax legislation at a national level, the problems of the cities are immediately tangible to all citizens. It is not for nothing that local issues sparked recent protests both in Turkey and in Brazil. While a city park was the bone of contention in Istanbul, it was initially the price of a bus fare in São Paulo.

The role played by major events such as the FIFA World Cup is therefore being questioned with increasing frequency. Particularly the marginalised groups of the population with extremely low to average incomes in the cities of the emerging economies, who still number in the

17 | Cf. "Smart Cities and Communities. Support for a better future", European Commission, http://ec.europa.eu/eip/smartcities/index_en.htm (accessed 12 Nov 2013).

millions, weigh up investments in new stadiums against things such as the badly needed expansion of the medical infrastructure or more social housing. The population does not necessarily figure potential positive and more long-term effects on the regional economy, which are not immediately obvious, into their calculations. Recent events have shown that unlike metropolises such as Madrid or London the cities in the emerging economies are limited in their ability to channel capital efficiently to the benefit of the whole of society. Due to corruption, mismanagement of major construction projects and the prioritisation of locations that produce a great deal of prestige but suffer from a lack of demand for the new structures when the sporting events are over, the initial euphoria for mega events is giving way to cautious reluctance.

In actual fact, the events offer considerable potential for local development and specifically for local infrastructure, which is frequently poorly developed. The huge marketing

International reporting on the events is providing opportunities for local civil society actors to come to international attention and to emphasize their demands for greater participation.

machinery accompanying the events is being used purposefully to promote concepts relating to sustainability. Since the World Cup was awarded to Brazil, for instance, various international organisations have been holding workshops in Rio de Janeiro on a variety

of topics such as sustainable consumption, social inclusion of poorer sections of the population in the restructuring of the city, recycling and the expansion of the network of cycling paths. International reporting on the events is also providing opportunities for local civil society actors to come to international attention and to emphasize their demands for greater participation. In spite of all the issues, the mega events can therefore also help to bring about positive developments in the cities, which would otherwise have hardly got off the starting blocks or only much later.

CITIES AS NEW PLAYERS ON THE WORLD STAGE

A number of networks linking cities have been established in an attempt to provide mutual support. These generally focus on an exchange of good practices, such as those relating to "Smart Cities". In spite of the great diversity of conditions from the tropical zones in Central America to the Andes Mountains, the cities are facing similar challenges.

The empowerment of local decision makers was initiated back in 1992 at the Rio de Janeiro Climate Conference with Agenda 21, a programme to encourage participatory governance and the planning of sustainable regional development. In Germany, for instance, the local implementation of sustainable development is conducted in part through action platforms such as the Landesarbeitsgemeinschaft Agenda 21 NRW e.V. (LAG 21 NRW), whose members include communities, districts and associations. In a project entitled "50 local-level climate partnerships by 2015", German local authorities collaborate with partner regions and communities in developing and newly industrialised countries to devise programmes of action for climate protection and climate adaptation. This project is one of numerous examples illustrating that city partnerships go far beyond mere cultural exchange nowadays. There are also bilateral city partnerships in place that are focused on joint projects relating to environmental and climate protection. The purpose of the city partnership between Cologne and Rio de Janeiro, for instance, which has been in place since 2011, is to produce concrete results through projects on urban sustainability management.

Multilateral networks in particular are becoming ever more popular. As early as 1990, during a first UN meeting on a sustainable future, a worldwide association of 200 local governments from 43 countries was founded, the Local Governments for Sustainability (ICLEI). In addition to the Cities for Climate Protection campaign, ICLEI successively included further key topics such as biodiversity and renewable energy in its work. ICLEI now represents over 1,000 cities, communities and districts and offers various services including technical upskilling and tools for local environment management such as climate action plans. The international network of megacities called C40 pursues similar goals. Set up in 2005 by the former Mayor of London, Ken Livingstone, the initiative joined with the Clinton Climate Initiative one year later to form the Climate Leadership Group with the goal of helping to reduce greenhouse gases and mitigate climate risks.

Set up in 2005 by the then Mayor of London, Ken Livingstone, the initiative C40 later joined with the Clinton Climate Initiative with the goal of helping to reduce greenhouse gases and mitigate climate risks.

At the C40 summit in Rio de Janeiro, the mayors set themselves objectives of an annual reduction in greenhouse gas emissions of one billion tonnes, equivalent to 45 per cent, by 2030.

Today, the world's largest cities, including metropolises such as Tokyo, Moscow, Paris, São Paulo, Lagos and Bangkok, are working towards a joint climate goal through the exchange of good practices and mutual support with advanced training for actors involved in the project management to implement local environmental policies. At the C40 summit in Rio de Janeiro, which took place in conjunction with the 2012

World Climate Summit, the mayors set themselves objectives of an annual reduction in greenhouse gas emissions of 248 million tonnes by 2020 and of one billion tonnes, equivalent to 45 per cent, by 2030.¹⁸ Contrary to the representatives participating in the meeting of nation states, they thus returned home with clear results from their negotiations. Since the network was founded, the cities, which now number 58, have already implemented over 5,000 measures. Beijing, for instance, announced a new plan in September 2013, which envisages a reduction in the use of vehicle fuel of five per cent by 2017. The target is to be reached through a combination of investments in public transport, the gradual phasing out of older vehicles via emission standards modelled on EU standards and improvements in the city administration management systems. Lagos in Nigeria started organising an "Energy Conservation Month" for the first time in October 2012 to increase awareness of their energy usage among the city's over ten million inhabitants. Under the slogan "Conserve Energy. Save Money", the campaign used step-by-step instructions to demonstrate ways for households to save energy. New partnerships with ICLEI, the World Bank and Siemens increased the capability of the network to implement concrete measures.

The C40 network is also having an impact by other initiatives following its lead. In Brazil, for instance, a forum modelled on the C40 has been established combining the 27 regional capitals, which are now also collaborating through the exchange of good practices and technical knowhow and are known as the CB27. The importance of the cities is not necessarily fully reflected in their budgets. In Brazil and

18 | "Megacities Slash Greenhouse Gases, Share Best Practices", Environment News Service, 19 Jun 2012, <http://ens-news-wire.com/2012/06/19/megacities-slash-greenhouse-gases-share-best-practices> (accessed 6 Jan 2014).

in numerous other countries the cities are controlled by a centrally organised administration, which determines the allocation of large parts of the public funds. In many cases, there is little financial flexibility for cost-intensive measures in public transport or waste management, typical municipal responsibilities. Links between local administrations should therefore also result in a greater awareness of the importance of the local authorities within the countries and thus to a redistribution of funds in favour of the cities.

The C40 already represent a twelfth of the world's population and some 18 per cent of global GDP. Strengthening the role of megacities within international cooperation is one of the key goals of the network. New York's former Mayor Michael Bloomberg, Chairman of the C40 until December 2013, put forward the following idea: while international negotiations are hardly producing any real progress, the city association has already implemented thousands of measures for climate protection. Other cooperation projects between cities are arguing in a similar vein. Rahm Emanuel, Mayor of Chicago, founded the new partnership with Mexico City so as not to remain hostage to what he considers a dysfunctional national policy. The hope is that the intensification of investments will generate new jobs on both sides.

The cities are thus turning into a form of coalition of the willing through numerous partnerships and networks. With cities being the main sources of global CO₂ emissions, the initiatives therefore originate from the very actors that can probably exert the greatest influence over the future course of events. Even though there are still many problematic issues, achievements made by numerous initiatives provide some hope that the megacities are proving to be new actors capable of working towards sustainable ways of shaping the future through effective cooperation.



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UNPRECEDENTED SOCIETAL TRANSFORMATION

HOPES AND CHALLENGES FOR CHINA'S URBANISATION

Mira Luthe

In 2012, the degree of urbanisation in China exceeded the 50 per cent mark for the first time.¹ This influx of the population into cities is considered politically desirable; the Communist Party of China (CPC) has promised it will have positive effects on economic growth. By 2030, an estimated 70 per cent of the Chinese population will live in cities. To reach this target, 230 million more people must move to cities. This is indicative of a social transformation taking place at a pace and to an extent the world has never before seen. The Chinese leadership talks of a new, smart urbanisation and of sustainable development that places people at its centre.² The 12th Five-Year Plan (2011 to 2015) already envisages urbanisation as a driver for growth in China. Energy efficiency and resource conservation are intended to be the guiding principles of the urbanisation process. "Urbanization is a historical task in China's modernization drive," said former Prime Minister Wen Jiabao at the opening of the twelfth National People's Congress on 5 March 2013.³

Thus urbanisation is at the top of the government's agenda, installed in March 2013. Premier Li Keqiang has made it a central theme of the upcoming reforms. On numerous

- 1 | In 2012, urbanisation measured 52.57 per cent. Comparatively, this was only 17.9 per cent in 1978. The rate of growth is just over one per cent per year.
- 2 | Cf. Zheng Yangpeng, "Premier calls for new urbanization strategies", *China Daily*, 8 Sep 2013, http://usa.chinadaily.com.cn/business/2013-09/08/content_16952310.htm (accessed 18 Dec 2013).
- 3 | "China to control of megacities: Wen", *China Daily*, 5 Mar 2013, http://chinadaily.com.cn/china/2013npc/2013-03/05/content_16280414.htm (accessed 18 Dec 2013).

occasions, he has stressed that providing the rural population that has moved to cities with access to public services is an important task.⁴ Millions of people have been driven into cities since the early 1980s in hopes of a good job and a better life.⁵ The government intends to selectively drive the influx in the coming years, though without completely abandoning control of migration flows. This is a gigantic and interdisciplinary undertaking. It relates to both social and economic policy, reform of land use rights, the administration and the tax system, as well as environmental protection and innovation. The social and economic scale of urbanisation affects two key issues of China's reform policy: the reform of the household registration system and land rights.

The social and economic scale of urbanisation affects two key issues of China's reform policy: the reform of the household registration system and land rights.

In June 2013, Xu Shaoshi, chairman of the influential National Development and Reform Commission (NDRC),⁶ gave a speech on China's urbanisation process at the CPC Standing Committee's third meeting. In his speech he pointed out that, while China was gaining in comparison with international urbanisation, the quality of its urbanisation is insufficient. This deficit is noticeable in five key areas: First, migrant workers are not sufficiently integrated into urban society. Second, urban areas are growing faster than the urban population, large areas are overdeveloped and are utilised ineffectively. Third, the relationship between urban space and resources is not balanced. While the east of the country is particularly densely populated and, because of this lacks adequate resources, the density of urbanisation in central and western China is significantly lower. Fourth, Xu speaks of an "urban disease", referring to

- 4 | Cf. Li Keqiang, "Promoting Coordinated Urbanization – an Important Strategic Choice for Achieving Modernization", *Prime Economics*, 10, <http://primeeconomics.org/wp-content/uploads/2013/06/Li-Keqiang-China-urbanization-speech.pdf> (accessed 18 Dec 2013).
- 5 | The eastern part of the country, which is already densely populated, is experiencing a greater influx of people than central and western China. See also Peter Hefele and Johanna Bade, "Re-Inventing the City? Domestic Migration and Urbanisation in the People's Republic of China", *KAS International Reports*, 9-10/2011, 7, <http://kas.de/wf/en/33.28722> (accessed 18 Dec 2013).
- 6 | The NDRC is a state institution of the central government, which is overseen by the State Council and has a broad impact on the country's economic planning.

deficits in terms of public services caused by unstructured urban planning, significant environmental damage, critical food supply and lack of infrastructure. Fifth, the unjust household registration system and inadequately regulated land use threaten the stability of the system. The new Chinese urbanisation process must place people at its focus. It must be efficient, ecological, innovative and must correspond to the “Four Modernisations”.⁷

REFORMING THE HOUSEHOLD REGISTRATION SYSTEM

Every Chinese citizen has a household registration record (*hukou*) – depending on the parents’ birthplace either a rural registration, providing access to land, or an urban registration, including access to work, housing and social services. Tying the population to one place of residence, especially with rural registration, significantly hinders migration from the countryside to cities and thus the process of urbanisation as a whole. Despite an over 50 per cent urbanisation rate, only 27 per cent of the total rural population is in possession of an urban *hukou*. Consequently, nearly 300 million people do not have access to basic services at home or in the workplace.⁸ This affects social benefits that allow for free education for children or the opportunity to purchase property or a car.

Tying the population to one place of residence, especially with rural registration, significantly hinders migration from the countryside to cities and thus the process of urbanisation as a whole.

The *hukou* system was first introduced in 1951 to monitor the movement of the urban population. It was extended further in the years that followed and was fully implemented in 1958. The result was an internal passport system based on the Soviet model. It grouped society into industrial and agricultural workers, geographically correspondent to urban and rural populations. Rural inhabitants were not permitted to leave their villages without

7 | The “Four Modernisations” relate to the fields of industry, agriculture, national defence, and science and technology. See Xu Shaoshi, “Guowuyuan guanyu chengzhenhua jianshe gongzuo qingkuang de baogao” (Working Report by the State Council of the People’s Republic of China on the Development of Urbanisation), 27 Jun 2013, http://www.npc.gov.cn/npc/xinwen/jdgz/bgjy/2013-06/27/content_1798658.htm (accessed 18 Dec 2013).

8 | Cf. “Urbanization quality is more important than speed”, *China Daily*, 31 Oct 2013, http://chinadaily.com.cn/opinion/2013-10/31/content_17072503.htm (accessed 18 Dec 2013).

permission.⁹ Along with its controlling function, the household registration system was introduced primarily out of economic and supply considerations. The urban population enjoyed considerably greater privileges than those with rural registrations. The state assigned a job in a work unit, provided accommodation and subsidised food, medical care and old-age pensions.¹⁰

For a long time the rural population was completely denied the right to move to cities. The system only began to slacken with the liberalisation that the 1978 reform and opening up policy brought, and cities were partially opened. A significant increase in productivity by permitting rural family business to operate on the one hand and strong economic and industrial growth in cities on the other provided for this relaxation. The government recognised the considerable value of cheap labour from the countryside and loosened migration restrictions. New employment opportunities accompanied China's economic ascent and the introduction of a market economy in the early 1990s, and without the army of migrant workers, China's economic miracle would not have been possible. Though domestic migration was legalised in the 1980s, migrant workers who had come to cities were unable to enjoy urban privileges.¹¹ The rural population could only leave their villages physically, not administratively, and their local household registration record remained.

New employment opportunities accompanied China's economic ascent. Without the army of migrant workers, China's economic miracle would not have been possible.

Reforming this antiquated system has been a source of controversial debate for years. In the meantime, the highest authority, the State Council and the NDRC, have called for such reforms. At the end of June 2013, Xu Shaoshi officially announced that the Commission has recommended the government gradually abolish the household registration system.¹² This is not a new recommendation.

9 | Cf. Kam Wing Chan, "Post-Mao China: A Two-Class Urban Society in the Making", *International Journal of Urban and Regional Research*, No. 1, Vol. 20, Mar 1996, 134 et seq.

10 | Cf. Wolfgang Taubmann, "Stadtentwicklung in der VR China – geschlossene und offene Phasen der Urbanisierung", in: *Raumforschung und Raumordnung*, No. 2-3, Vol. 57, Mar 1999, 184.

11 | Cf. Chan, n. 9, 137.

12 | Cf. "Elimination of household registration barriers suggested", *Xinhua*, 27 Jun 2013, http://news.xinhuanet.com/english/china/2013-06/27/c_132489568.htm (accessed 18 Dec 2013).

In 2010, scientists, think tanks, media representatives and senior government representatives vehemently called for the *hukou* system to be reformed. Individual provinces and cities have incredibly varied approaches to the challenge of changing the household registration system. While Shanghai, Shenzhen, Huizhou, Chongqing, Chengdu and other cities have already begun reforming the system, the rest of the country is lagging far behind.

During his time as Prime Minister, Wen Jiabao repeated calls for reforms of the *hukou* system. This top-level intercession encouraged 13 newspapers to publish a joint editorial on 1 March 2010 sharply criticising the existing system and calling for reforms. This was published a few days before the National People's Congress and the Chinese People's Political Consultative Conference met and was specifically aimed at the representatives. The article began by calling for freedom of movement ("We hold that individuals are born free, and born with the right to migrate freely!") and points out that the existing *hukou* system contravenes the constitution of the People's Republic of China, which guarantees the equality of its citizens before the law in Article 33. It further stated that freedom of movement is an integral part of the market economy.¹³ However, the authors of this courageous effort to bring up a sensitive social issue overestimated the government's receptiveness to criticism. The publication of the article garnered severe reactions that highlighted the importance of the issue. Lead journalist Zhang Hong was forced to give up his position at the *Economic Observer*; public debate was suppressed.

In autumn of the same year, further publications drew general attention to the issue, also calling for the reform of the *hukou* system. In early October 2010, the *Beijing News* newspaper published three independent reports released by government think tank The Chinese Academy of Social Sciences, the Centre for Economic Research at the prestigious Renmin University and the China Development Research Foundation. All three reports called for the *hukou* system to be reformed and said the system had created a

13 | "Zhang Hong's Letter About His Editorial", *The New York Times*, 10 Mar 2013, <http://nytimes.com/2010/03/10/world/asia/10china-text.html> (accessed 18 Dec 2013).

“false urbanisation”.¹⁴ Migrant workers’ significantly lower income negatively affects their consumer behaviour. All three reports conclude that the current household registration system is restricting the urbanisation process.¹⁵

Expectations were high for the third plenum of the 18th Central Committee of the Communist Party of China in November 2013 (hereafter referred to as the third plenum of the 18th CC of the CPC) to adopt fundamental reforms to the household registration system. However, the subsequent communiqué that was published only mentioned household registration in one section, namely in connection with integrating rural migrant workers already living in cities without official permission. Abolishing the system is out of the question. Modernising the right of establishment in cities based on their size is all that was proposed; migration to smaller cities would be made easier, whereas in mega-cities this would remain strictly controlled.¹⁶

Abolishing the system is out of the question in the communiqué of the CPC from November 2013. Modernising the right of establishment in cities based on their size is all that was proposed.

Since the 1980s, several *hukou* reforms have already taken place. However, as yet there have been no nationally standardised reforms or results and local regulations can differ considerably. Since 2001, small cities may accept applicants who have provided evidence of permanent employment and residence in the city for urban population status. However, this reform has only been implemented to a limited extent. The costs communities must bear are simply too high.¹⁷ The new government is now taking three measures to gradually abolish inequality. With the exception of some mega-cities, the right of establishment

14 | *Wei chengzhenhua, 伪城镇化*.

15 | Cf. “Shekeyuan deng san jigou jianyi gaige xianyou huji zhidu” (The Chinese Academy of Social Sciences and three other institutions propose reforming the existing household registration system), 5 Oct 2010, <http://news.163.com/10/1005/02/616R0GFK00014AED.html> (accessed 18 Dec 2013).

16 | Cf. “Shouquan fabu: zhonggong zhongyang guanyu quanmian shenhua gaige ruogan zhongda wenti de queding” (The Communist Party of China’s Central Committee decisions on some key issues of expanding reforms), *Xinhua*, 15 Nov 2013, http://news.xinhuanet.com/politics/2013-11/15/c_118164235.htm (accessed 18 Dec 2013).

17 | Cf. Wang Su, “Cracking the Hukou Code to Hasten Urbanization”, *Caixin*, 8 Jul 2013, <http://english.caixin.com/2013-08-07/100566666.html> (accessed 18 Dec 2013).

in cities are to be relaxed and restrictions within provinces are to be lifted. The registration system should be standardised nationally by 2025.¹⁸



Living space for millions: The urbanisation project in Xuzhou, between Peking and Shanghai. | Source: © Mira Luthe.

Household registration can even have negative effects on coveted admissions to prestigious universities. Applicants with local registrations in Beijing and Shanghai, where the country's best universities are located, have better chances of receiving competitive university slots. Even if one were to receive a university slot with a non-local *hukou*, problems then arise after graduation with the question of the

18 | According to statements by Luo Songshan, Research Director of the NDRC's Investment Research Institute, at a symposium on urbanisation held by the KAS Beijing office in early November 2013.

right of residence. After finishing their studies many have no other choice but to return home because they do not receive an urban *hukou*. To prevent this, many young people are willing to pay more than 20,000 U.S. dollars for local household registrations on the black market. Another option is choosing to marry an urban citizen. This practice is so widespread among graduates that the authorities only grant urban residence permits and the associated access to public services after ten years of marriage.¹⁹

But not everyone who has the opportunity to gain an urban household registration wants to take it. Particularly the generation that has grown up in the countryside prefers to spend their twilight years in their rural hometowns. However, this option will fall away when the *hukou* is changed.²⁰ A person who has obtained an urban registration cannot simply move back to their home town. City life is expensive and the cost of living is already prohibitive to some. The prices are not only lower in the countryside but life is also still dominated by a subsistence economy. However, what some consider an obstacle is exactly what the government wants to achieve with urbanisation: it should create consumers to stimulate the domestic economy.

ECONOMIC FACTORS

In 2012, Li Keqiang wrote that urbanisation has the greatest potential to revive the domestic economy.²¹ According to his theory, people in cities are more productive, receive higher incomes and thus consume more. Li Keqiang's calculation is simple: urban residents spend 3.6 times more than rural residents. With increased domestic consumption, China would finally be able to free itself from its high dependence on exports and fluctuations in the world market, and would be able to reach its target of seven per cent growth stipulated in the 12th Five-Year Plan (2011 to 2015) with the buying power of its own population. Urbanisation is intended to serve as a stimulus programme. However, critics warn against this calculation

19 | Cf. Tom Miller, *Chinas Urban Billion: The Story Behind the Biggest Migration in Human History*, 2012, 39.

20 | Cf. *ibid.*, 51.

21 | Cf. "Li Keqiang expounds on urbanization", 26 May 2013, http://china.org.cn/china/2013-05/26/content_28934485.htm (accessed 18 Dec 2013).

and point to its far-reaching consequences.²² Urbanisation does not necessarily lead to economic growth. It is the consequence, not the cause, of development.

Certain structural and institutional conditions, especially education and infrastructure, improve people's situation and encourage them to consume.²³ This is not achieved by resettling people. Urban areas not only require new places to live but jobs as well. In recent years, however, a trend of relocating labour-intensive production abroad has developed, particularly to Cambodia and Vietnam. Although urbanisation is meant to create more jobs in the service sector, it is questionable whether employment, for example, in the hospitality sector, provides an adequate livelihood, particularly because the cost of living in cities

In order for the leadership's calculations to add up, the productivity of migrants must exceed the costs of urbanisation.

is constantly on the rise. Providing adequate jobs is especially problematic in small and medium-sized cities. In 2011, Xia Bin, head of the State Council's Financial Research Institute, warned that urbanisation must go hand in hand with market reforms to prevent ghost towns from forming.²⁴ If people in cities cannot find work, or if they are unable to increase their productivity compared with their role in the countryside, Chinese productivity suffers on the whole. In order for the leadership's calculations to add up, the productivity of migrants must exceed the costs of urbanisation.

COSTS OF URBANISATION

One problem that remains to be solved is how to distribute the costs incurred by urbanisation. Michael Pettis, Senior Associate at the Carnegie Endowment for International Peace and Professor at the Guanghua School of Management in Beijing, has criticised the temporary illusion of prosperity that has arisen in constructing new cities.

22 | See Tom Holland, "China's urbanisation policy is based on flawed thinking", *South China Morning Post*, 30 Jul 2013; Michael Pettis, "The urbanization fallacy", 16 Aug 2013, <http://blog.mpettis.com/2013/08/the-urbanization-fallacy> (accessed 18 Dec 2013).

23 | Cf. Holland, n. 22.

24 | Cf. "Urbanization to drive China's growth", *China Daily*, 26 May 2011, http://china.org.cn/business/2011-03/26/content_22227016.htm (accessed 18 Dec 2013).

If anything, building up a city brings short-term growth with it. But this too must be financed. Involving taxpayers reduced their purchasing power and placing the burden on the shoulder of local governments and economies could lead to distrust of the central government's plans. "Urbanisation is not a growth machine. It is simply a pro-cyclical process that accommodates growth when growth is rising and reduces it when it falls", said Pettis.²⁵



A possible real estate bubble: The massive sale of land for development in recent years and the central promotion of urbanization have led to a construction boom. | Source: © Mira Luthé.

This dual city-countryside structure was a core issue for the third plenum of the 18th CC of CPC's reform deliberations. Back in June, the NDRC had announced that the household registration system would be abolished in smaller cities and *hukou* would be gradually relaxed in medium-sized

and larger cities.²⁶ The cities can hardly bear the financial burden associated with this themselves. Because of this, experts are calling for the central government to share in the costs.²⁷ The costs to the central government would be extremely high, but bearable at 1.5 billion renminbi per year (approximately three per cent of annual GDP). The Development Research Centre (DRC), under the State Council's supervision, reached this conclusion in a study.²⁸

LAND RIGHTS AND RIGHTS OF USE

The largest constraint on rapid implementation of *hukou* reforms is their financing. The current financial system commits the cities to bear the financial burden of bringing rural migrants into the urban system. However, to date only the central government is permitted to run up debts. Land rights and rights of use are closely linked with financing; their sale is the main source of income for local governments.

The land in urban areas belongs to the state and is leased to investors for periods of 70 years. Outside the cities, land belongs to the collective, which grants rights of use for 30 years. There is no private ownership of land and this will not change in the near future. Collective ownership of land was originally introduced to protect farmers against greedy landlords. However, it has led to the endangerment of the rural population by corrupt officials. The lack of clear regulations regarding land rights makes farmers susceptible to having land stolen by the local government who then sells the land on to investors for profit. This becomes particularly lucrative when rural districts are to be awarded urban status. Urban building plots can be leased at significantly higher prices than rural

Collective ownership of land was originally introduced to protect farmers against greedy landlords. However, it has led to the endangerment of the rural population by corrupt officials.

26 | Cities are considered to be small with 500,000 inhabitants; medium-sized with between 500,000 and one million inhabitants; major cities have one to three million inhabitants; cities with three to ten million inhabitants are giant cities; and megacities have more than ten million inhabitants. NDRC, http://www.npc.gov.cn/npc/xinwen/jd gz/bgjy/2013-06/27/content_1798658.htm (accessed 18 Dec 2013).

27 | Cf. Miller, n. 19, 59; see also: Hu Shi, "Central government must take the lead on China's hukou reform", *South China Morning Post*, 8 Aug 2013.

28 | Cf. Miller, n. 19, 57.

farming plots.²⁹ Farmers usually receive compensation far below market value. This common practice is a source of widespread resentment among the rural population.³⁰ The massive sale of land by the local government promotes urban sprawl and reduces population density, which in turn increases transportation and infrastructure costs.

Because of this, in November 2013, the central government set in motion comprehensive reforms to provide a balance between the city and the countryside. The urban and rural markets for plots of land are to be unified, both sides are to enjoy the same rights and this would affect the price of land.³¹ This should strengthen the position of cities and improve the situation of farmers. The reforms are first being tested in Anhui province: There, the rural population has the ability to later transfer, mortgage, or turn into business shares the property rights contained in the collective tracts of land assigned to each household. The press has called it the most pivotal land reform in 35 years.³²

The massive sale of land for development in recent years and the central promotion of urbanisation have led to a boom in construction. Warnings of a housing bubble have long been expressed.³³ Speculative investment in the real estate sector already amounts to 13 trillion renminbis. Nevertheless, large state-owned banks continue to grant property loans. Introducing a property tax should

Speculative investment in the real estate sector already amounts to 13 trillion renminbis. Nevertheless, large state-owned banks continue to grant property loans.

29 | Cf. Shi Ming, "Die nächste Blase. Städtebau und Größenwahn in China", *Le Monde diplomatique*, 11 Oct 2013, <http://monde-diplomatique.de/pm/2013/10/11.archivhome> (accessed 18 Dec 2013).

30 | Cf. Kevin Yao, "China's cautious land-reform tests cast doubt on big urban vision", 10 Nov 2013, <http://reuters.com/article/2013/11/10/us-china-reform-idUSBRE9A90H9201311110> (accessed 18 Dec 2013).

31 | See Communiqué from the third plenum of the 18th CC of the CPC.

32 | Cf. "Chinese provinces experiments with land reform", *CBC News*, 18 Nov 2013, <http://cbc.ca/news/business/1.2430544> (accessed 18 Dec 2013).

33 | Compared to the previous year, sales of new homes rose by 35 per cent; prices in Beijing, Shanghai and Shenzhen rose by over 20 per cent. Cf. "Haunted housing. Even big developers and state owned newspapers are beginning to express fears of a property bubble", *The Economist*, 16 Nov 2013, <http://economist.com/news/finance-and-economics/21589877-even-big-developers-and-state-owned-newspapers-are-beginning-express-fears> (accessed 18 Dec 2013).

cool the market.³⁴ But it is not only the banks who are having serious liquidity problems; provincial governments too are heavily indebted even if it is not legally possible, strictly speaking.³⁵ If the housing bubble bursts and the price of land falls as a result, this source of income for local governments will dry up. Experts suspect that, at the regional level, public debt has already spiralled out of control.³⁶

Local authorities desperately need to find alternative revenue sources. To bolster them and to make the process of urbanisation affordable, the communiqué has set out a basic resolution for a new tax system at the local and central levels. If tax revenue until now has mainly gone to the central government, local authorities should benefit more from revenues in the future and their share of direct taxation is to be increased. Reforming the tax system could significantly reduce the financial burden on cities.³⁷

GEOGRAPHIC EXPANSION AND URBAN POPULATION DENSITY

During the course of urbanisation, the spread of cities was not always done in accordance with the growing population numbers. Many cities sprawled out unchecked, resulting in inefficient use of space. Between 2001 and 2011, the area occupied by cities was approximately 75 per cent, but the population only increased by approximately 48 per cent. While urban floor space increased (in 2001 floor space amounted to 113 square metres; by 2011 this was 137 square metres), population density decreased.³⁸ In a joint study with the DRC, the World Bank recommended limiting urban sprawl and using available space more efficiently. A

34 | See Communiqué from the third plenum of the 18th CC of the CPC.

35 | The communiqué from the third plenum of the 18th CC of the CPC in November concluded that cities may incur debts and in individual cases the central government would have to back them.

36 | Cf. Ming, n. 29.

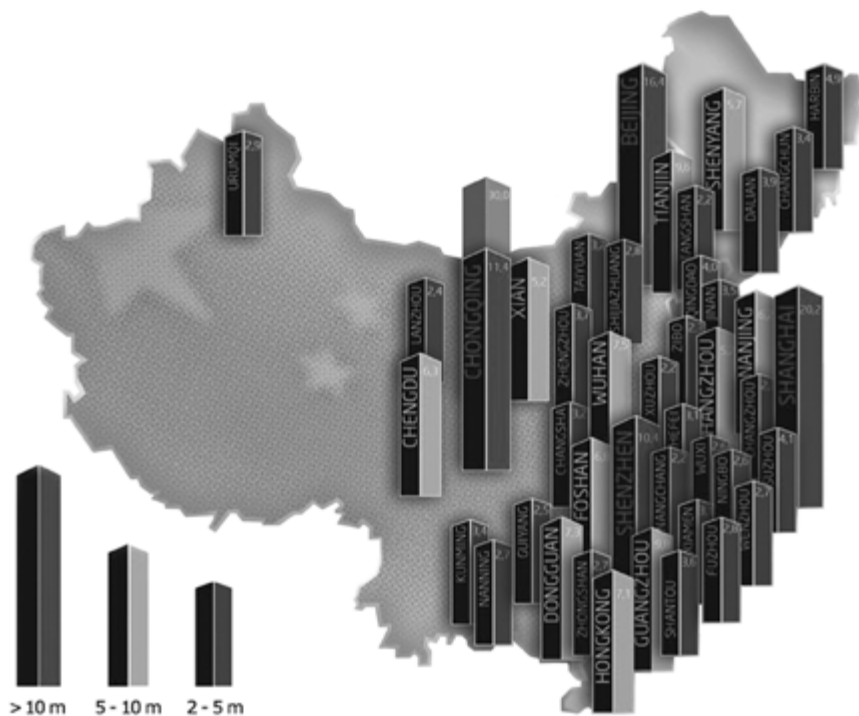
37 | Cf. Communiqué from the third plenum of the 18th CC of the CPC. The World Bank and the DRC had already emphasised the extreme importance of bolstering local financial power as a step towards smart urbanisation in their report, "China 2030". Cf. *China 2030: Building a Modern, Harmonious, and Creative Society*, World Bank and Development Research Center of the State Council, Washington D.C., 2013, 23.

38 | Cf. presentation Luo Sungshan, Xuzhou, 5 Nov 2013.

denser population may reduce the costs of public transport and services and increase energy and transport efficiency.³⁹ Distances increase through city sprawl, making urban traffic and transportation a challenge. Roads gain in importance when designing cities. This development is accompanied by the rapidly increasing number of private vehicles.

Fig. 1

Megacities in China



Listed are exclusively reported residents in the urban area. The actual population is in some cases significantly higher. | Source: MERICS China Mapping.

Urban sprawl resulting from the real estate boom brings along another problem: valuable farmland is lost.⁴⁰ Fertile soil is mainly found in the eastern parts of the country, but

39 | Cf. n. 37, 23.

40 | Dieter Hassenpflug, who has observed China's urbanisation process for many years, warns that a huge urban sprawl would come at the expense of agriculture. During a symposium held by the KAS office in Beijing on urbanisation in November 2013 he said the organisation and use of land space must improve.

so are traces of the fastest rates of urbanisation and urban sprawl. The national supply of food is already problematic: China is forced to increasingly rely on imports and is thus increasingly dependent on foreign countries.⁴¹

The share of the population in small and medium-sized cities is decreasing. Many smaller cities are already surrounded by empty industrial areas and deserted housing estates.

Since the late 1990s, the government's strategy has been to promote growth in small and medium-sized cities in particular to balance urban development geographically and to help disburden the mega-cities. However, the current trend is reversed: the share of the population in small and medium-sized cities is decreasing. Many smaller cities are already surrounded by empty industrial areas and deserted housing estates. Without good transport links and its own developed economy, cities face difficulties in holding on to their population. However, the mega-cities of Beijing, Shanghai, Chongqing and Shenzhen continue to grow rapidly because they offer a variety of opportunities. It is true that China employs strategic urban planning and new cities are carefully drawn up for several hundred thousand inhabitants. But lucrative sales of land and construction projects worth billions always lead to various conflicts of interest and sometimes the functional use of urban space suffers as a result.

Currently the major cities are concentrated along the eastern coast. Central and western China are far less affected by urbanisation. In the three main metropolitan areas of Beijing-Tianjin, the Yangtze River Delta and the Pearl River Delta, 18 per cent of the total population produce about 36 per cent of GDP.⁴² While the degree of urbanisation is 61.9 per cent in eastern China, it is only 44.7 per cent in western China.⁴³

41 | China's agricultural area makes up 13.5 per cent of the total area; the area for industrial and urban accounts for 15.7 per cent. *Xinhua*, http://news.xinhuanet.com/ziliao/2003-01/19/content_696029_2.htm (accessed 18 Dec 2013). For more on food supply see Antonia Menapace, "Food in China: Volumes Up, Quality Down? The Food Supply Debate in the People's Republic of China", KAS International Reports, 3/2012, <http://kas.de/wf/en/33.30493> (accessed 18 Dec 2013).

42 | Cf. Shaoshi, n. 7; see also Hefele and Bade, n. 5.

43 | Cf. presentation by Luo Songshan, 5 Nov 2013 in Xuzhou. Degree of urbanisation in central China: 47.2 per cent.

GERMANY'S VIEW OF CHINA'S PROCESS OF URBANISATION

With China's increasing integration into the world economy, internal developments in the People's Republic have become a global issue. The international community eagerly awaits the announcement of structural reforms. If 230 million people in China move to cities over the next few years, this will not only have the effect of profoundly transforming local society, but will also have implications for China's economic partners. Germany is China's most important trade partner in Europe; cooperation between the two countries already spans a number of areas. China looks specifically to Europe in developing its urbanisation strategies. Ding Yifan, Deputy Director of the State Council's Research Institute for World Development, reiterated that China can learn a lot from Europe in terms of using urban space and efficiently developing infrastructure.⁴⁴ In 2012, the EU-China Urbanisation Partnership Forum was formed, which met for the second time in November 2013.

Ding Yifan, Deputy Director of the State Council's Research Institute for World Development, reiterated that China can learn a lot from Europe in terms of using urban space and efficiently developing infrastructure.

Germany sees China's urbanisation as a source of great potential for increased bilateral cooperation. Jörn Beißert, head of the German embassy's department for urbanisation issues in Beijing, believes "Chinese urbanisation will also have a direct impact on Germany".⁴⁵ A successful German-Chinese partnership is already in place for reducing CO₂ emissions. Even in the areas of transportation planning and the energy efficiency of buildings close bilateral cooperation with German companies plays a significant role. Mr Beißert emphasises the potential for cooperation on electric mobility and green logistics.⁴⁶ Germany was the first EU country Premier Li Keqiang visited after taking office. In a joint communiqué in May 2013, he and German Chancellor Angela Merkel declared they would strengthen the exchange and partnership in the field of urbanisation.

44 | Ding Yifan spoke at a symposium on urbanisation hosted by the KAS Beijing office on 5 Nov 2013, held in Xuzhou.

45 | Presentation by Jörn Beißert, 5 Nov 2013, Xuzhou.

46 | Cf. ebd.

OUTLOOK

The development of the People's Republic of China largely depends on the success of urbanisation. This particularly concerns the expansion of urban space, the domestic Chinese economy and the social status of millions of its citizens. This interdisciplinary mammoth project will have far-reaching consequences for the country and its people.

In the media, urbanisation has been termed the most radical transformation of Chinese society since Mao.⁴⁷ The prospect of being able to lead a life in a working environment with economic opportunities must be offered to people. The huge gap that exists between the income and prospects available in cities and in the countryside must be gradually reduced. The institutional injustices that divide society into two classes must be done away with.

Since the highly anticipated third plenum of the 18th CC of the CPC met, the discussion of urbanisation has faded. While it was stressed at the government's central urbanisation work conference in mid-December 2013 that urbanisation is the road China must take in its modernisation drive,⁴⁸ the imprecise statements made there do not allow for the determination of a deadline these reforms should aim for. A further specification of the Chinese urbanisation strategy is expected in the coming months if the decisions made are implemented and two currently on-going studies are released: one by the NDRC with the OECD, another by the World Bank with the DRC. It remains unclear as to whether the urbanisation process truly is human-centred and sustainable as reiterated in mid-December. However, it is certain that the plan's failure to create a balance between the countryside and cities carries enormous potential for social conflict in and of itself. The population will only bear increasingly adverse conditions as long as it feels their own situation can improve. If migrants are not

47 | Cf. Dexter Roberts, "Premier Li Keqiang Wants More Chinese in the Cities", *Bloomberg Businessweek*, 6 Jun 2013, <http://businessweek.com/articles/2013-06-06/premier-li-keqiang-wants-more-chinese-in-the-cities> (accessed 18 Dec 2013).

48 | Cf. "China pledges steady, human-centered urbanization", *Xinhua*, 14 Dec 2013, http://news.xinhuanet.com/english/china/2013-12/14/c_132968136.htm (accessed 18 Dec 2013).

integrated into cities and they are not granted the same rights as long-time urban residents, social stability will be in jeopardy. These hopes and possible disappointments affect no small sector of the population; they affect millions of citizens. The challenges of designing a sustainable economy, a healthy environment and a stable society are enormous. Now is the time for engaged and sustainable action by decision makers.

PROSPECTS FOR GERMAN FOREIGN POLICY

The current public discourse on questions of international politics in Germany is not commensurate with the colossal challenges that the country is facing. What do developments in the Middle East, in Africa as well as in Asia and in the Americas mean for Germany and Europe? In what areas should German foreign politics become engaged more strongly – which topics should the German public be exposed to more intensely?

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**GLOBAL
POWER
SHIFTS**

**GLOBAL
MEGATRENDS (II):**

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AND DEVEL-
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SOUTH AFRICAN CITIES TWO DECADES ON FROM APARTHEID

HISTORICALLY DIVIDED BETWEEN RICH AND POOR

Markus Schönherr

Two decades on from the end of apartheid and the first democratic elections in 1994, South Africa has evolved into the continent's economic heart. Close to a quarter of Africa's gross domestic product is generated there. The advances made by this country situated at the southern tip of Africa are based above all on the seemingly immeasurable reserves of precious metals in addition to tourism and agriculture. However, the majority of the population has been excluded from benefiting from the resulting upturn and the profits have remained in the hands of a small minority. According to the Organisation for Economic Co-operation and Development (OECD), South Africa is among the most unequal societies in the world in terms of income.¹ This phenomenon, the discrepancy between the haves and have-nots, is mainly noticeable in the country's major cities. The contrast is most obvious in the cityscape, above all in the townships, the slums at the periphery of the cities. The geographic distribution of rich and poor became established during the era of apartheid – and it has persisted ever since. There have been no decisive breakthroughs to change this historic cityscape. The prevailing conditions are resulting in political unrest and providing a breeding ground for populism.



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1 | Geoff Barnard, Christian Gianella and Andreas Wörgötter, *OECD Economic Surveys: South Africa 2008*, OECD Publishing, Paris, 2008, 32.

SOUTH AFRICAN CITIES THROUGH HISTORY

When European seafarers came ashore on southern African soil in the 17th century, it was by no means virgin land. Many of South Africa's present-day major cities were centres of earlier indigenous cultures going back to the stone age. The demise, or at least the displacement, of the original inhabitants of southern Africa took place sometime before 1000 A.D. By that time, Bantu tribes had migrated to southern Africa, most notably the Zulu, the largest ethnic group in South Africa today, followed by Xhosa, Tswana and Sotho. These tribes gradually displaced the San and Khoikhoi. Thanks to its northern mining belt, Greater Johannesburg enjoyed great popularity early on. As is the case today, people mined copper, tin and iron to fashion tools and weapons from as early as the 12th century.

With the arrival of the Europeans, greater centralisation replaced the state of easy coexistence. Cape Town was the first to be formally established as a town once the seafarer

Cape Town and the surrounding area fell to the British in 1806. The immigrants from the Netherlands, Belgium, France and Germany soon developed a joint identity.

Jan van Riebeeck had set up a supply depot for the Dutch East India Company there in 1652. Cape Town and the surrounding area developed into the Cape Colony, which fell to the British in 1806. The immigrants from the Netherlands, Belgium, France and Germany and their descendants soon developed a joint identity. As Boers, they wished to escape suppression by the British Empire and moved towards the northeast, where they founded republics of their own. The British Cape Colony appointed its own parliament in 1853. All groups of the population initially had the same voting rights as Europeans. The only restrictions there were applied to women.²

The turning point came with the discovery of gold in the vicinity of Johannesburg. The gold rush triggered a mass migration from Europe and the surrounding colonies. The UK also had its eye on the mineral resources and annexed the region in 1902 after the so-called Boer War. This was the first time the white minority feared for its power and began to separate the living spaces of Europeans and indigenous people.

2 | Karl Mannheim, *Colour and Culture in South Africa*, Routledge, Oxon, 1953, 33.

In 1948, the predominantly Boer National Party (NP) came to power and issued the Group Areas Act, laying the foundations for the policy of apartheid and turning the cities into whites-only zones. At the periphery of the major cities, informal settlements sprang up for blacks, who were allowed to work in the city but not to live there. All blacks who did not find a job in a white household or white business were driven off into a so-called homeland or *bantustan*. These areas comprised 13 per cent of current South African territory. President Hendrik Verwoerd encouraged self-government for some of them with the aim of making whites the demographically largest group in South Africa.

However, the plan ended in failure. Not only did the *bantustans* fail to receive international recognition, embargos and economic sanctions soon had an impact on the apartheid regime. In 1991, it finally submitted to the pressure, the Group Areas Act was dropped and Nelson Mandela was elected the country's first democratic president in 1994. Overjoyed about the newly-acquired freedom of movement, millions of South Africans flooded into the cities, which were not prepared for this influx although it had by no means been unpredictable.

CONSEQUENCES OF AN UNPLANNED OPENING UP

According to the South African Institute for Race Relations (SAIRR), 52 per cent of the population lived in cities and surrounding shanty towns in 1990, i.e. before the opening up. By 2011, it was already 62 per cent.³ UN estimates forecast this figure will rise to 71.3 by 2030 and to 80 by 2050. This rapid urbanisation is putting enormous pressure on South Africa's cities. The HIV rate surged; unemployment, poverty and homelessness are producing a general feeling of insecurity and have resulted in a high crime rate. Rich and poor are already clashing more violently in South African major cities today than almost anywhere else in the world.

3 | "South Africa goes with the urbanisation flow", South African Institute of Race Relations (SAIRR), Johannesburg, 22 Jan 2013.



Informal stall for clothes and goldfish: The black market and low town maintenance have driven enterprises and families away from the centres. | Source: © Markus Schönherr.

Apart from the wealth gap, Johannesburg, Pretoria and Cape Town are suffering above all from the dilapidation of its inner-city areas – a further consequence of the unplanned opening up since 1994. Over two decades, South African city centres degenerated into drug dealing areas and trading zones for informal vendors selling clothes, mobile phones and counterfeit goods without any regulatory supervision. The Central Business Districts (CBD) also increasingly attracted the homeless and illegal immigrants on the lookout for low-paid work or intent on begging. This has made many city centres unattractive to families. Many businesses feared for their property and the safety of their staff. The phenomenon of white flight was becoming noticeable. Increasing numbers of white South Africans moved out of the centres into the ethnically homogenous suburbs, and hundreds of businesses abandoned their original premises to follow them. Typical examples are companies in Johannesburg, which left the CBD to relocate to upmarket suburbs such as Houghton and Parktown or towns further north such as Sandton, Midrand and Pretoria. The Johannesburg Stock Exchange, which also relocated from the city centre to Sandton in 2000, is seen as symbolising this development. The Social Housing Regulatory Authority (SHRA) painted a gloomy picture: “In fact many of the inner cities and their adjacent suburbs began to become the sanctuaries of new migrants

and slum landlords.”⁴ But at least in this respect it appears that a turning point has now been reached. Most municipal governments are conducting programmes to combat inner city degradation, which are already showing some initial results.

SOUTH AFRICA’S POVERTY PROBLEM AND THE “ETHNIC FOOTPRINT”

The city as a living space thus came to mirror South African society as a whole – at least where the juxtaposition of rich and poor was concerned. This is also reflected in the Gini coefficient, which assesses equality within society by measuring wealth distribution. The rating ranges from 0 (perfect equality) to 1 (complete inequality). When last measured by the World Bank, South Africa’s Gini coefficient was 0.631, making it the highest in the world.⁵ A 2012 study by the University of Cape Town came to similar results. The richest ten per cent of South Africans share 57 per cent of the national income, the poorest tenth a mere one per cent.⁶

As is the case in South Africa’s cities, the inequality at the macroeconomic level is also partly due to the legacy of apartheid. The OECD recommends that any examinations of issues in this area should bear two key questions in mind: Were the emerging economy after apartheid and the laws of the post-apartheid government in fact capable of reducing the high levels of poverty and inequality? And: is the “ethnic footprint” that is at the root of poverty and inequality gradually being replaced by more subtle socio-economic dynamics?

To understand the concept of the ethnic footprint it is worth taking a look at income statistics. The black population has been experiencing the highest income growth rate, namely 169 per cent, over the last decade. The income of whites

4 | “Urban Development Zones Restructuring Zones: Introduction”, Social Housing Regulatory Authority, <http://shra.org.za/resource-centre/shf-archives/63-static/udz/90-urban-development-zones> (accessed 18 Dec 2013).

5 | “GINI index”, World Bank, <http://data.worldbank.org/indicator/SI.POV.GINI> (accessed 18 Dec 2013).

6 | Zara Nicholson, “Most black SA kids live in poverty – study”, 18 Oct 2012, <http://iol.co.za/news/south-africa/1.1405705> (accessed 18 Dec 2013).

Inequality within the ethnic groups is also still growing, and white South Africans statistically still occupy a dominant position within the economy.

rose by only 88 per cent over the same period.⁷ These figures may paint a promising picture for the future, but they are a poor consolation for the present. Inequality within

the ethnic groups is also still growing, and white South Africans statistically still occupy a dominant position within the economy. In 2008, the OECD determined the incomes of the different ethnic groups compared to the white population. South Africans of Asian descent thus earned 60 per cent of the average income of a white person, coloureds 22 per cent and blacks a mere 13 per cent. The latest data comes from a 2011 public opinion poll, according to which the income of a white household is six times that of a black household.

THE INEFFICIENT CITY – A LEGACY OF APARTHEID

However, in most cases it is only superficially the ethnic origin that differentiates between rich and poor, prosperity and marginalisation. Since the end of apartheid 20 years ago, it is in actual fact predominantly the location where a South African grows up, the local educational facilities and the available opportunities that determine their fate. Black and other ethnic groups of the population are still suffering from historic disadvantages in this respect. While many took the opportunity to move into the city after 1994 and are now leading a middleclass life, economically marginalised and frequently larger parts of the population remained in the informal shanty towns at the outskirts of the cities. In many major cities these townships still constitute a significant part of the population. Cape Town has some 3.7 million inhabitants, between 390,000 and one million of whom live in the township of Khayelitsha. Johannesburg has a population of 4.4 million, 1.2 million of whom live in the South Western Township (Soweto). Virtually every town or smaller community has an informal shanty town attached to it these days. The size of the community is less significant than its economic potential. The small towns of Franschhoek and Stellenbosch in the Western Cape only have populations of around 15,000 and 77,000

7 | Jeanette Clark, "Income levels for white South Africans growing the slowest", 30 Oct 2012, <http://www.moneyweb.co.za/moneyweb-south-africa/income-levels-for-white-south-africans-growing-the> (accessed 18 Dec 2013).

respectively, but because of their flourishing viticulture, they rely on cheap labour provided by people who built their tin shacks at the edge of town.

Township life works best in small towns because of the limited area and number of people involved. The situation is different in major cities, where townships entail a number of problems not just for the city administration but also for the inhabitants themselves. The lack of sanitation facilities causes disease; the fact that people frequently take the law into their own hands and lawlessness produce a feeling of insecurity, and the commute to the economically relevant city centres is long and hard. The informal settlements have presented the governing African National Congress (ANC) with seemingly unsurmountable obstacles since 1994. Nelson Mandela already stated in 1996 that “urban areas are the productive heart of the economy, but the majority of the urban population live in appalling conditions far from their places of work”. In the same year, a discussion document on an urban development strategy was drawn up. Its stated goals included reshaping the socioeconomic structure of South Africa’s cities by 2020, making them environmentally sustainable and restructuring them to provide equitable living conditions for all groups of the population.⁸ While there is some progress apparent six years before the deadline, the necessary breakthrough has yet to happen. There is now also a general consensus about the fact that it would have been easier to reverse the legacy of apartheid in 1996 than in 2013.⁹ It is not so much that the central government and the cities lack the necessary insight, it is the solutions that are hard to come by once again. While Deputy Minister Yunus Carrim says towns and cities are “inequitable and inefficient, most obviously in their spatial form”, President Zuma is looking for a “national approach” to improve the cityscape to the benefit of all inhabitants.

Nelson Mandela already stated in 1996 that “urban areas are the productive heart of the economy, but the majority of the urban population live in appalling conditions far from their places of work”.

8 | “The Urban Development Strategy – Remaking South Africa’s Cities and Towns”, Ministry in the Office of the President, <http://polity.org.za/polity/govdocs/rdp/urban1.html> (accessed 18 Dec 2013).

9 | “Towards an Integrated Urban Development Framework”, Ministry of Cooperative Governance and Traditional Affairs (COGTA), Pretoria, 2013, 3.



Woman in Johannesburg's South Western Township (Soweto): For many inhabitants the only source from water is a polluted ditch. | Source: Evan Bench, flickr ©.

Feeling themselves under time pressure, municipal authorities have been resorting to measures over the last few years that can only be described as acts of desperation. This is exemplified most clearly by the slum clearance conflict in Durban. In 2001, President Thabo Mbeki announced that the slums would be "eradicated" by 2014. During the same year, the administration of the eThekweni municipality made a resolution to surpass the national goal and clear its slums by 2010. The plan was for the residents to live in social housing flats and houses qualifying for state subsidies. But residents rejected this. They did not view it as a proper solution – the new housing was just as distant from the business centres, hospitals and shopping centres as the townships themselves. When the local government threatened enforced relocation and finally sent in the bulldozers, it was faced with strong resistance from residents associations and NGOs. The project was initially postponed to 2011 and subsequently to 2014. But even this deadline is highly unrealistic in view of the lack of alternatives. Critics accuse the government of wishful thinking and denying the actual situation.

According to a study by Witwatersrand University, the population living in townships has in fact decreased from 26.2 per cent in 1996 to 13.6 per cent in 2011 since the introduction of democracy. But scientists have not yet given

their endorsement, because they found that the number of people building shacks in the gardens of formal houses or renting such shacks (backyard shacks) had increased over the same period.¹⁰ In addition, immigrants are playing a significant role. When the Group Areas Act was rescinded in 1991 and democracy became established three years later, this not only fuelled internal migration into the cities but also the influx from abroad. The overwhelming majority of foreign immigrants are poorly educated refugees and asylum seekers. This is placing extra pressure on South African cities, because foreigners who do not find a steady job are forced into the slums through destitution. Over the last few years, there have been repeated attacks on foreigners and waves of xenophobic violence in the slums. During the worst attacks, which took place in 2008, 63 immigrants lost their lives within a few weeks near Johannesburg and Durban. These were predominantly people from Zimbabwe, Malawi, Mozambique and Somalia.

When the Group Areas Act was rescinded in 1991 and democracy became established three years later, this not only fuelled internal migration into the cities but also the influx from abroad.

The situation is not likely to improve any time soon, because South Africa receives more asylum applications than any other country worldwide.¹¹ According to the United Nations High Commissioner for Refugees (UNHCR), some 63,000 refugees and some 220,000 asylum seekers lived in the country at the end of 2011. There are no official statistics for the following years, but the office of the UNHCR estimates the number of asylum seekers at the end of 2013 at 471,000, more than three quarters of whom came from neighbouring Zimbabwe.¹²

THE ENVIRONMENTAL FACTOR

People living in cramped conditions present environmental challenges for South Africa. Soil degradation is not likely to be a problem in most townships as they were generally built on infertile sand in any case. But water management

10 | Cape Argus, "Backyard shacks still on the rise", 3 Jul 2013, http://iolproperty.co.za/roller/news/entry/backyard_shacks_still_on_the (accessed 18 Dec 2013).

11 | "2013 UNHCR country operations profile – South Africa", UNHCR, <http://unhcr.org/pages/49e485aa6.html> (accessed 18 Dec 2013).

12 | Ibid.

is a large problem, both with respect to the supply of drinking water and the removal of wastewater. The latter in particular represents a big headache for the municipal authorities. In the Western Cape, which is governed by the Democratic Alliance (DA), demonstrations erupted in June

In 2004, President Thabo Mbeki promised clean water and toilets for all South Africans within five years, but the country is still nowhere near achieving this goal.

2013, which the South African media soon referred to as “toilet protests”. Slum dwellers threw faeces at administrative buildings in Cape Town, plastered several motorways in excrement and did not even spare the official car of the provincial Prime Minister. Irrespective of whether the accusation leveled by many DA functionaries and independent observers that the ANC had orchestrated the protests for political purposes is justified, they did draw attention to a serious problem, namely that most households in the slums are not connected to a sewage system.¹³ In 2004, former President Thabo Mbeki promised clean water and toilets for all South Africans within five years, but the country is still nowhere near achieving this goal.

Over the last few years, ineffective environmental management has even exacerbated the problems. In Rustenburg near Johannesburg, people took to the streets to demonstrate against air-polluting emissions from industry, impoverished fishing communities on the west coast protested because of dwindling fish stocks, and there was countrywide rioting because of rising electricity and water prices. The development towards a sustainable city frequently follows the principle of “learning by doing”. There is a lack of coordination, since town planning is not subject to national legislation, be it in the area of sewage, waste disposal and recycling or where alternative energies are concerned. There have been signs of a rethink of late, though. City administrations are increasingly linking the goal of poverty reduction to the goal of making the city more sustainable.

13 | “Water Supply and Sanitation in South Africa”, Water and Sanitation Program (WSP), Weltbank, Washington D.C., 2011, 10.

OBSTACLES ON THE PATH TOWARDS A MORE INCLUSIVE CITY

At the local level, there have been signs of definite progress on the path towards a more inclusive city over recent years. Such a city is characterised first and foremost by all its citizens being offered equal economic opportunities to reshape a cityscape previously defined by apartheid. Cape Town, Johannesburg and some other municipal authorities took the route of simply relocating the city to the surrounding townships. In 2005, for instance, a 250 million rand shopping centre opened in the country's second largest shanty town, Khayelitsha. The project created 800 temporary and numerous permanent jobs;

the shops include outlets from all major clothing and food companies.¹⁴ Mitchells Plain and Athlone in the Western Cape also recently had new shopping centres built, as has the township of Alexandra near Johan-

There are plans to upgrade the shanty towns by building hospitals and parks. The traditional slums are to be transformed into high-grade suburbs through infrastructure projects.

nesburg. There are plans to upgrade the shanty towns by building hospitals, parks and leisure facilities. The informal settlements are to be formalised, and the traditional slums are to be transformed into high-grade suburbs through infrastructure projects. In 2008, the government chose 60 townships for a pilot project to this end. Five years on, these projects are indeed showing initial signs of a positive impact. The First National Bank (FNB) has also been seeing a trend in its property index indicating that the value of township houses is rising more quickly than in formal suburbs. The annual growth rate is currently eight per cent.¹⁵

German development cooperation organisations are also among those advocating this approach. In collaboration with local actors, the German Federal Ministry for Economic Cooperation and Development (BMZ) set up a project entitled "Violence Prevention through Urban Upgrading". Infrastructure measures (such as street lighting) and volunteering activities are to transform Khayelitsha near Cape Town into a safe suburb. According to the BMZ, the project

14 | "First Khayelitsha mall opens bang on schedule", IOL News, 25 Nov 2005, <http://iol.co.za/news/south-africa/1.259798> (accessed 18 Dec 2013).

15 | "Township house prices increase 8%", South African Press Association (SAPA), 7 Aug 2013, <http://fin24.com/Economy/Township-house-prices-increase-8-20130806> (accessed 18 Dec 2013).

is already producing benefits, such as stronger community integration as well as a reduction in crime; and it has helped the township to win the South African sustainability award in 2010.¹⁶

There are efforts being made by the private sector to make cities more inclusive. The South African Cities Network brings together administrations and private actors from the country's nine largest cities.

At the last meeting of the BRICS states in Durban in South Africa, the members stressed their commitment to closer cooperation in the area of sustainable urbanisation. The emerging economies "remain committed to sharing our experiences, our policy intentions, our lessons from practice, and extend dialogue between our cities to further shared goals of building productive and sustainable urban economies".¹⁷ There are also efforts being made by the private sector to make cities more inclusive. The South African Cities Network brings together administrations and private actors from the country's nine largest cities. This platform also aims at facilitating the exchange of knowledge and experience to speed up progress towards the creation of more inclusive cities. The role of the private sector will be particularly significant for the practical implementation of new policies, such as the policy of creating a mixed income population or that of encouraging mixed use inner-city development.¹⁸ This is where the private sector has an opportunity to reduce the latent frustration among the population.

The survey organisation Future Fact has this prognosis for South Africa's informal settlements: "Townships are becoming suburbs with all the same conveniences. In the next decade there will no longer be a clear distinction between suburbs and townships."¹⁹ However, considering the progress made to date it is debatable as to whether this deadline is realistic, as the most serious problem

16 | "Managing Urbanisation – Towards Sustainable Cities", Federal Ministry for Economic Cooperation and Development (BMZ), Bonn, 2012, 10.

17 | Ndumiso Mlilo, "Roundup: BRICS Urbanization Forum ends in South Africa", *Global Post*, 29 Nov 2013, <http://globalpost.com/dispatch/news/xinhua-news-agency/131129/roundup-brics-urbanization-forum-ends-south-africa> (accessed 18 Dec 2013).

18 | "Towards an Integrated Urban Development Framework", COGTA, Pretoria, 2013, 28.

19 | "Most blacks still call township home", SAPA, 24 Jul 2008, <http://iol.co.za/news/south-africa/1.409704> (accessed 18 Dec 2013).

remains. Unlike the residents of traditional suburbs, most township residents rely on public transport to travel to the cities' business centres. This service is currently provided by a semi-regulated fleet of 12-seat minibuses operating as taxis. These, however, are widely regarded as unsafe, and generally compensate for the low fare of a few rand by transporting far in excess of the maximum permissible number of passengers. Western models of public transport are to provide a solution. In Johannesburg, the Rea Vaya project (We are going) has been implementing the Bus Rapid Transit system over the last few years, and in Cape Town, a project called MyCiti is being realised. Each of these two initiatives has created a network of articulated busses and minibuses, which is to replace the taxis over time and connect the townships with the inner city. Similar networks are currently being set up in Durban, Pretoria, Rustenburg and Port Elizabeth; there are plans for such networks in all major cities. The model envisages safe, reliable and generally affordable means of mass transport run on behalf of the city. The practical realisation is however at risk of failing due to competition regulations, at least in the immediate future. Problems last arose in Cape Town, where contracts with transport companies prevented the municipal government from dispatching its own fleet into the shanty towns. Transportation for the townships of Khayelitsha and Mitchells Plain has thus remained in private hands – and this is likely to continue at least until negotiations bring about a consensus or the contracts expire over time.

Contracts with transport companies prevented the municipal government of Cape Town from enlarging its own mass transport network into the shanty towns. Transportation for townships has thus remained in the hands of taxi companies.

Developments have been more positive in the fight against the degradation of the inner-city areas, for instance in Johannesburg. While the CBD developed into a no-go area in the late 1990s, it is now relatively busy and being rediscovered as a leisure and business quarter. To attract businesses, Mayor Parks Tau announced in October 2013 that he intended to invest two billion rands in road development. There are plans to spend 110 billion rands overall on infrastructure projects over the next decade. It was also in October that Tau launched his Mayoral Clean Sweep campaign. This involves the police clamping down hard on fly-tipping, squatters and unlicensed trading. It is an

attempt to lure formal businesses back into the city centre, but the small traders and the homeless who have been driven out have since harboured resentment against the ANC functionary.²⁰ In Port Elizabeth, too, the authorities put their faith in strengthening formal industry with the Coega Industrial Development Zone, and so-called Urban Development Zones have been helping to upgrade the inner cities throughout the country. These selected zones are attracting businesses with tax concessions and have in fact resulted in businesses relocating to them in Durban, Johannesburg, Cape Town, Nelspruit and a number of other large cities. Cape Town, which is administered by the DA, has gone one step further. In 1999, this is where the Cape Town Partnership was set up as a collaborative initiative involving the municipal administration, the South African Property Owners Association (SAPOA) and the Chamber of Commerce and Industry. For the first time, this initiative combined the idea of the inner city as a location for new, creative businesses with the goal of transforming the city into a space where its citizens can work, live, learn and spend their leisure time. In 2000, the Central City Improvement District was established and elevated to become the focus of the municipal government's development policy. The administration was successful in completing the process formally in 2009.²¹ Today, the Cape Town city centre is considered one of the cleanest and safest inner cities, which still offers the impoverished population selected locations for street trading.

The South African government has, however, recognised that most of its cities are not capable of completing the transformation to become more inclusive cities on their own. In addition, it is under pressure from multilateral agreements, whose signatories promised improvements in the quality of life and in housing. These include the Vancouver Declaration on Human Settlements (1976), the Istanbul Declaration on Cities and Other Human Settlements (1996) and the Habitat Agenda (1996). But the

20 | Greg Nicolson and Thapelo Lekgowa, "Operation Clean Sweep: not just a clean-up but a purge of the poor", *Daily Maverick*, 15 Nov 2013, <http://dailymaverick.co.za/article/2013-11-15-operation-clean-sweep-not-just-a-clean-up-but-a-purge-of-the-poor> (accessed 18 Dec 2013).

21 | "Our Vision", Cape Town Partnership, <http://capetownpartnership.co.za/about/our-vision> (accessed 18 Dec 2013).

argument that carries the greatest weight is that of the Millennium Development Goals (MDGs), according to which the quality of life of over 100 million slum dwellers was to be improved. To help to implement the goals, the ANC government included numerous development policies into its legislation after the 1994 turnaround, including the Reconstruction and Development Programme (1994), the Urban Development Framework (1997) and the Housing Act (1997). There is therefore a commitment present in principle. But the implementation is frequently lacking due to socioeconomic circumstances, which means that one has to describe the efforts made by the government since 1994 as taking two steps forward and one step back.

What the government has failed to include in its policies to date is the human factor. A fundamental requisite is the willingness of the township residents to integrate into the formal cities. In 2010, the Ministry for Human Settlements established the Social Housing Regulatory Authority. In large part, the social housing consisting of flats and houses the ministry subsidises are very popular, but others are simply rejected by the poor. Many do not consider them a genuine improvement as the new houses are just as far away from economic activity as the townships and frequently located in areas of more extreme climatic conditions. Many of them therefore refuse to leave their community in the shanty town. They are encouraged in their stance by representatives from politics, who wish to maintain the status quo in order to continue exploiting it to their advantage: cheap labour, racial segregation and the poor as an instrument of political mass mobilisation. The last point in particular is in line with criticism voiced last year that the ANC has not been the party that Nelson Mandela led into freedom for quite some time. Former Archbishop and anti-apartheid fighter Desmond Tutu accused the party of having abandoned its ideals. There have been voices saying that the Congress of South African Trade Unions (COSATU), which has traditionally had very close links with the ANC, was increasingly following capitalist ideas; and that the party was thereby dividing its

Many do not consider social housing a genuine improvement as the new houses are just as far away from economic activity as the townships and frequently located in areas of more extreme climatic conditions.

largest group of voters, the working class.²² The fact is that corruption is widespread. In her role as Public Protector, Thuli Madonsela is currently engaged in determining whether President Zuma has used tax funds running into millions to renovate his private residence. Corruption and personal profiteering are also blocking or at least impeding the process of the development toward a more inclusive city.



Support despite lack of success: Until today many ANC politicians benefit from the aura of a former anti apartheid combatant. | Source: © Markus Schönherr.

A BLACK MIDDLE CLASS PROVIDING THE SOLUTION?

People from indigenous ethnic backgrounds still constitute the largest groups of the South African population and the black population remains the most significant one. A black middle class is therefore an obvious indicator of the upturn the country is experiencing. Over recent years, the black proportion of the middle class has increased rapidly, as has been found in a joint study by the Universities of Stellenbosch, Witwatersrand and Pretoria. The number of black people in the middle class rose from 350,000 (eleven per cent) in 1993 to three million in 2012 (41 per cent). This means that the largest proportion of the middle class is now of black ethnic origin. Researchers also detected a “dramatic decline” in racial inequality.²³

22 | “Vavi: ANC deiving the working class”, SAPA, 4 Dec 2013, <http://news24.com/SouthAfrica/Politics/Vavi-ANC-dividing-the-working-class-20131204> (accessed 18 Dec 2013).

23 | “Place of birth, not race, is new SA indicator of prospects”, *Cape Times*, Cape Town, 24 Oct 2013, 4.

However, the growth of the black middle class does not lead directly to an integrative city, as other studies have shown. According to Stellenbosch University, the increase removes the historic link between race and class, but integration and social cohesion frequently lag behind.²⁴ According to a 2008 survey, over half (52 per cent) of the people from the black middle class live in townships and profess to do so by choice. Only 32 per cent have moved to the formerly white suburbs.²⁵

Social scientists believe it is beyond question that a larger black middle class will eventually also be reflected in the cities' structure. This is because middle-class people from different ethnic backgrounds increasingly share the same values and have the same concerns. But how this will impact on the cityscape is still entirely unclear at this point in time. Will townships be upgraded until they have the same standards as formerly white suburbs? Will this result in ethnically homogeneous areas once again? Would this impair the inclusivity of a city? Or will the social cohesion of South African society also dominate in the city as a living space? There may be tendencies one way or the other regarding these questions, but the answers are elusive and make the process of developing a more inclusive city a difficult undertaking.

CONCLUSION

Two decades on from the end of apartheid, South Africa remains ethnically divided where the distribution of wealth is concerned.

A larger black middle class is definitely capable of making changes to this unsatisfactory situation – but this will not necessarily affect the cityscape.

A larger black middle class is definitely capable of making changes to this unsatisfactory situation – but this will not necessarily affect the cityscape. There is no shortage of suggestions for solutions to create a more inclusive city. But the last 20 years have shown that large parts of the plans have proved ineffective in removing the historic barriers in real life. While some plans lacked coordination and feasibility, others may have worked well had they had support from the population.

24 | Ibid.

25 | N. 19.

At least there has been a change in approach regarding the lack of coordination. After the sixth World Urban Forum, which took place in Italy in 2012, a discussion broke out in South Africa over an Integrated Urban Development Framework (IUDF). The purpose of this national planning document is to coordinate government projects at municipal, provincial and state level for the first time to improve efficiency. This will require active citizen involvement and the creation of incentives, because the success of the city planning policies will ultimately depend on the willingness of the affected people to become integrated.

"GOOD LIVING" AND THE "SOCIAL AND SOLIDARITY- BASED ECONOMY" IN ECUADOR

THE BALANCE OF ECONOMIC AND SOCIAL POLICY BETWEEN
CONSTITUTIONALLY PROTECTED RIGHTS AND LIVING REALITY

Winfried Weck / Carolina Landín

For several years, Ecuador has made a great impact through continuous economic growth, which has had a noticeable effect on everyday life. If one were to take an extended trip across the country, a great surprise would await in the form of the new airports in Quito and Guayaquil. The number of brand new cars, lorries and buses driving along the many newly constructed motorways would astound. The days of the old American road cruisers and underpowered lorries of indeterminate origin that scuppered any attempt at a speedy traffic flow are over for good, replaced with the latest hybrid models from the Far East. When visiting one of the many busy supermarkets, which are now available even in provincial towns, one can find many products one has already seen on European and North American shelves, albeit at two or three times the price. Ultra-modern shopping centres with brand-name shops from around the world testify to this new level of prosperity. But is this form of *material* prosperity really what the Ecuadorian government is seeking when proposing its "Citizens' Revolution" (*revolución ciudadana*) and the concept of *buen vivir*, of "good living"? And are all Ecuadorians winners in the Economía Popular y Solidaria,



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the “social and solidarity-based economy”,¹ which has found its way into the Ecuadorian Constitution in the same way the idea of *buen vivir* has? Or put another way: How socialist is Rafael Correa’s political orientation in reality?

BACKGROUND: THE CORREA GOVERNMENT’S ECONOMIC AND SOCIAL PHILOSOPHY

Rafael Correa Delgado, appointed by former President Alfredo Palacio in 2005, began to draw attention to his policies, which were critical of the World Bank.

Economist Dr. Rafael Correa Delgado was sworn in as President of Ecuador on 15 January 2007 after he emerged as the winner of the run-off election in November 2006.

Appointed by former President Alfredo Palacio to the Office of Economic Affairs and Finance in 2005, he began to draw attention to his policies, which were critical of the World Bank. In 2006, he successfully ran for president as the common candidate for the movement founded by him and Social Democrat Alberto Acosta, Movimiento PAÍS and the Socialist Party of Ecuador.

Correa repeatedly referred to himself as a left-wing Christian and humanist, and the central ideology that plays a key role in his political discourse and political action is decidedly nationalist. If nothing else, this manifests itself in his vehement rejection of the neoliberal economic model without simultaneously publicly declaring his intention to implement a socialist economic system as part of his *sabatinas*.² Apparently nothing suits Correa better than the Andean concept of *sumak kawsay* in recognising a conceptual framework for this rather diffuse conflict situation.

- 1 | The current debate in Latin America provides different terminology for the thoroughly varied economic concepts derived from the “socialism” of the 21st century. The term *Economía Social y Solidaria* (social and economic solidarity) is used most frequently. Even Article 283 of the 2008 Ecuadorian Constitution states: “The economic system is social and shows solidarity” (“El sistema económico es social y solidario.”), but later mentions the “*Economía Popular y Solidaria*” as a particularly Ecuadorian design element and feature. In the absence of an unmistakable equivalent in English, the authors take the liberty of translating the word “popular” as “social”.
- 2 | The *sabatinas* are modelled on the Cuban and Venezuelan live Saturday shows broadcast on all public networks, in which the president gives his opinion on the events of the past few days over the course of several hours. Correa’s discourse during the *sabatinas* differs significantly from that of his former Venezuelan counterpart, Hugo Chávez. While the term “socialism” was part of Chávez’s permanent repertoire, Correa has virtually excluded this from his vocabulary.

SUMAK KAWSAY OR BUEN VIVIR AS A DESIGN CONCEPT FOR THE NEW ECUADORIAN SOCIETY

The *sumak kawsay* or *buen vivir* has its roots in the indigenous traditions of the Andes. This term, which comes from Quechua/Kitchua, the language spoken by the indigenous people of the same name, a small number of whom still live in the Andes in Ecuador, Peru and Bolivia today, represents a philosophy of life that seeks a state of equilibrium between man and nature as its highest goal. This philosophy places emphasis not on the individual but rather on the community, and meeting the basic needs of *all* takes precedence over the welfare of the individual.

Buen vivir promotes a society that does not seek material well-being or linear economic growth, but one that seeks social satisfaction within the community and in tune with nature. It thus exhibits a worldview reminiscent of its pre-Columbian roots, breaking with colonial and post-colonial economic and social ideas in the hopes of one day ultimately overcoming them.³ The concept of *buen vivir* is now a topic of discussion far beyond the borders of South America as the basis of alternative development concepts that distinguish themselves from classical growth theories.⁴

***Buen vivir* is a topic of discussion far beyond the borders of South America as the basis of alternative development concepts that distinguish themselves from classical growth theories.**

Without this prior knowledge, some of the eight central elements named in "Ecuador's National Plan for Good Living 2009-2013" would at the very least certainly astonish the reader, if not perplex them outright:

- 3 | See also: Thomas Fatheuer, "Buen Vivir: Eine kurze Einführung in Lateinamerikas neue Konzepte zum guten Leben und zu den Rechten der Natur", in: *Buen Vivir – Recht auf gutes Leben, Schriften zur Ökologie*, Vol. 17, 13 May 2011, Heinrich-Böll-Stiftung, 9 et seq., http://boell.de/sites/default/files/Endf_Buen_Vivir.pdf (accessed 17 Dec 2013); Alberto Acosta, "Buen Vivir auf dem Weg in die Post-Entwicklung. Ein globales Konzept?", in: Werner Rätz, Tanja von Egan-Krieger, Barbara Muraca, Alexis Passadakis, Matthias Schmelzer and Andrea Vetter (eds.), *Ausgewachsen! Ökologische Gerechtigkeit. Soziale Rechte. Gutes Leben*, VSA, Hamburg, 2011, 173 et sqq.
- 4 | Critics go so far as to say that *sumak kawsay* is a rediscovery, if not an outright invention, by precisely these alternative Western interest groups. In fact, scarcely a primary source of the indigenous provenance of *sumak kawsay* can be found in the literature.

1. Satisfying necessities (*satisfacción de las necesidades*);
2. Quality of life (*calidad de vida*);
3. Dignified death (*muerte digna*);
4. Loving and being loved (*amar y ser amado*);
5. Healthy thriving of all individuals in peace and harmony with nature (*florecimiento saludable de todos en la naturaleza con armonía*);
6. Indefinite perpetuation of human cultures (*prolongación indefinida de las culturas*, in the sense of an eternal source of protection for the different cultures in Ecuador);
7. Free time for contemplation (*tiempo libre para la contemplación*) and
8. Emancipation and expansion of people's liberties, knowledge and opportunities (*emancipación ampliación y de las libertades, capacidades y potencialidades*).⁵



The pursuit of balance between man and nature: The first encounter of the Andean people and nations for the *sumak kawsay*. | Source: Cancillería Ecuador, flickr, ©1©.

THE ECONOMÍA POPULAR Y SOLIDARIA (EPS) AS AN INSTRUMENT FOR IMPLEMENTING *BUEN VIVIR*

But how is a modern society, of whom the vast majority has followed a Western view of life based on Western Christian ideas which place freedom of individuality at the core for

5 | República del Ecuador, "Plan Nacional del Buen Vivir 2009-2013. Construyendo un estado plurinacional e intercultural. Senplades (Secretaría de Planificación y Desarrollo)", 2009.

centuries, meant to impart this revived traditional ideal? The answer lies in the idea of the social and solidarity-based economy, which forms the basis of the economic and social policies, not only of the Correa government, but almost all left-populist South American governments,⁶ though they are incredibly divergent. Because it provided only limited market access for the masses, the neoliberal model proved incapable of solving pressing social problems, and the need for new economic and socio-political thinking provided justification for these governments. The Correa government declared its intention to form a new economic and social model that would gradually move toward *buen vivir*. The ultimate goal is to achieve four equilibrium states: that of the human within himself, that between people, that between man and nature, and that between human communities.⁷ In order to achieve these states of equilibrium in the long-term, however, a correspondent institutionalised economy is required based on five principles:

Four equilibrium states are to be achieved: that of the human within himself, that between people, that between man and nature, and that between human communities.

- a) Subsistence through domestic production (*autarquía*): This is a matter of promoting the domestic economy, particularly its lower levels (families, communities, cooperatives) through one's own use of the goods and services produced.
- b) Reciprocity (*reciprocidad*) based on volunteer services and mutual aid to avoid paternalism.
- c) Progressive redistribution (*redistribución progresiva*) using the tax system and efficient distribution of tax revenues.
- d) Regulation (*regulación*): Promoting competition to avoid monopolies and abolishing intermediaries and agencies (and their high profit margins) to achieve fair prices through direct trade.

6 | The term "progressive governments" is often found in left-wing populist literature.

7 | This and subsequent explanations are based on José Luis Coraggio, "La economía popular solidaria en el Ecuador", *Revista Cooperativismo y desarrollo*, No. 100, Universidad Cooperativa de Colombia, Jan-Jun 2012, 272 et sqq., http://coraggioeconomia.org/jlc/archivos%20para%20descargar/La_economia_popular_solidaria_en_el_Ecuador.pdf (accessed 9 Dec 2013).

e) Planning (*planificación*):⁸ In the Economía Popular y Solidaria, all actors and networks accept the need for government planning to establish public policies that are consistent with the activities and needs of these actors.

Based on these principles, the Ecuadorian government undertook the following central defining moments for the Economía Popular y Solidaria:

- a more active role for the state as an influential actor;
- the halting and partial withdrawal of privatisation;
- the promotion of socially organised forms of enterprise, such as cooperatives and collectives;
- the implementation of protectionist measures, such as high import duties, combined with taxes on the export of money, low investment incentives for foreign companies and the avoidance of bilateral and multilateral trade agreements;
- self-sufficiency in the food and energy sectors;
- efficient state administration and organisation (for example tax collection, labour market regulation, health care, education, infrastructure).

Furthermore, the idea that the market always regulates itself according to the principle of supply and demand was also rejected. In addition, in contrast to a social market economy, Economía Popular y Solidaria is not concerned with establishing an economic system *based on the market*,⁹ but an economic system that works *with the market*.⁹ As with all left-wing economic and social concepts, this putative philanthropic theory has little to do with reality.

8 | These principles, which are not, at least in part, self-explanatory, form the basis of the idea that the social and solidarity-based economy is composed of the private business, public and cooperative sectors. See also the article "Ley de Economía Popular y Solidaria" on CODESARROLLO's website, a state development cooperative subordinate to the Superintendencia (regulatory body) de Economía Popular y Solidaria: <http://www.codesarrollo.fin.ec/noticias/50-ley-de-economia-popular-y-solidaria.html> (accessed 9 Dec 2013).

9 | "Se trata de construir una economía con mercados, no de mercado..." Coraggio, n. 7, 5.

THE 2008 CONSTITUTION AS A LEGAL BASIS FOR THE "CITIZENS' REVOLUTION"

To provide a stable legal basis for the reorganisation of Ecuadorian society, which is ultimately what the "Citizens' Revolution" is, President Correa and his former political

President Correa and his former political ally, Alberto Acosta, have pursued the formation of a new constitution since the beginning of his Presidency.

ally, Alberto Acosta, have pursued the formation of a new constitution since the beginning of his Presidency, even though the previous constitution had only come into force in 1998. In the elections for the Constituent Assembly held on 30 September 2007, Correa's Movimiento PAÍS (now Alianza PAÍS¹⁰) received an absolute majority, allowing the President to integrate all of his political convictions in the new constitution approved by 81 per cent of voters on 28 September 2008. And, in fact, the Constitution of Montecristi¹¹ contains innovations hitherto unseen in constitutional history.

This conscious shift toward Andean and indigenous traditions to which the "plurinational" Ecuadorian state has professed¹² stands out in particular, as does the recognition of nature as a legal entity.¹³ These two innovations are directly connected to the model of *buen vivir* as a core constitutional objective as defined by Title II of the Constitution, which contains nine titles, and expressed in greater detail in Title VII. Each of our own sub-chapters will explore the rights to health, education, social security, housing, cultural independence, work, food, water, leisure, transportation and others. The second part of Title VII on *buen vivir* extensively deals with the protection of biodiversity and natural resources. Title VI, "Development", in turn defines the foundations of economic sovereignty and the economic system. Article 283 states that the economic system should promote a dynamic relationship between

10 | PAÍS stands for Patria Altiva y Soberana (Proud and Sovereign Fatherland).

11 | Named for the city in which the Constituent Assembly met over a period of months.

12 | Along with Ecuador, Bolivia adopted this self-proclaimed designation as a "plurinational state" in its 2009 constitution. This approach also recognises the cultural and legal autonomy of the various indigenous nations (*naciones indígenas*) living within both countries' borders.

13 | However, the Constitution leaves the question unanswered as to who holds the mandate of representation for nature as a legal entity.

society, the government and the market and should occupy a harmonious relationship to nature. The economic system's objective is "to guarantee the production and reproduction of the material and immaterial conditions that enable good living".¹⁴ The "new social order" thus forms the fundamental basis for the Constitution without being explicitly named as such.

THE STATE AS A KEY DESIGNER OF THE ECONOMY AND SOCIETY

A key aspect of President Correa's political views is also reflective of the social and solidarity-based economy: manufacturing the production of complete independence and absolute state sovereignty. This was the only way to achieve the principle of *distributing while producing and producing while redistributing*.¹⁵ Thus the Economía Popular y Solidaria is built upon an efficient public administration and a strong state that sees itself as the

The state is not only responsible for regulating the economy and for redistribution, but it also plays a central role as a direct actor in the economic cycle.

protagonist of social change. The Ecuadorian government is deeply sceptical of the market's function of allocation and its capabilities. However, the state is not only responsible for regulating the economy and for redistribution, but it also plays a central role as a direct actor in the economic cycle, which has serious consequences for the private sector. Because the strengthening of the public sector plays such an important role in economic planning, redistribution and regulation in Ecuador, certain sectors, such as energy, fossil fuels, telecommunications and water supply are considered of strategic importance and are controlled by the state. Alongside key economic sectors, they are the most important source of income for the Ecuadorian state.

At the start of his presidency, Rafael Correa promised his people modernisation and that he would fight against social grievances in the countryside and redistribute earned

14 | Constitución de la República del Ecuador, art. 283, para. 1: "El sistema económico [...] tiene por objetivo garantizar la producción y reproducción de las condiciones materiales e inmateriales que posibiliten el buen vivir."

15 | See the website of the highest Ecuadorian planning authority SENPLADES (Secretaría Nacional de Planificación y Desarrollo): <http://plan2009.senplades.gob.ec/web/de/langfristige-strategie> (accessed 9 Dec 2013).

income. Ecuador has shown relatively high growth rates, reduced poverty rates and low social iniquity since the beginning of the 21st century, and has increased investments in infrastructure, education and health care. The people of Ecuador expressed their thanks for these achievements by re-electing the President at the beginning of 2013, though the foundations for these successes had been laid before Correa took office in 2007. But to what extent has the “Citizens’ Revolution” really progressed? Is *buen vivir* now an everyday reality or is it still only a constitutional ideal? Examining Ecuador’s economic and social development may provide some clarity on this issue.

THE CORREA REGIME’S ECONOMIC AND SOCIAL POLICY: SEVEN YEARS OF PLENTY?

Fragile economic growth

To understand the current economic situation in Ecuador, one must look back to 2000, when the country experienced one of the most comprehensive structural changes of the past 100 years: the introduction of the U.S. dollar as the national currency. This conscious abandonment of its own currency and its associated inability to govern its own monetary policy have restored the country to a level of economic stability that was non-existent in the decades before. The price stability that was achieved thanks to this dollarisation has not only led to a newfound confidence in the private sector and its stakeholders, but has also enabled long-term planning, which, since 2000, has taken the form of a high degree of economic stability.

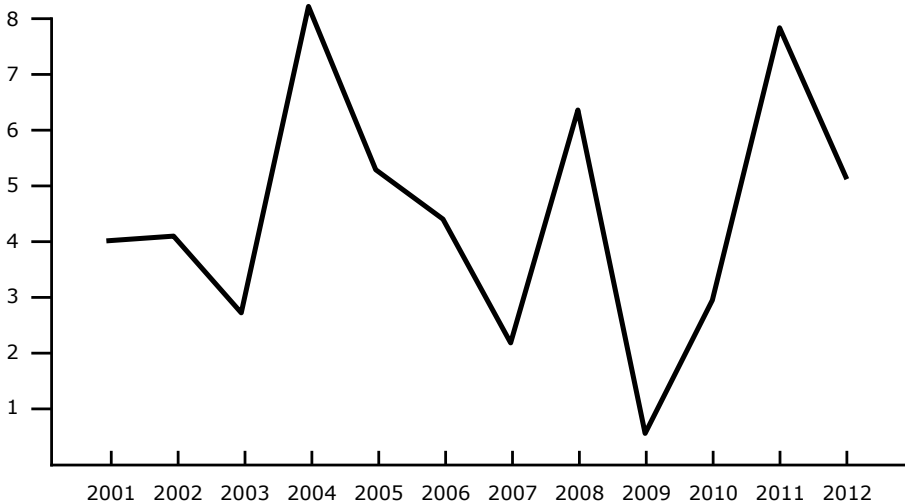
In the twelve years since, gross domestic product (GDP) has maintained an upward trend with a certain degree of volatility in its growth rates. However, the sustainability of this growth remains questionable. Phases with very strong growth (2004, 2008 and 2011) alternate with periods of slower growth, as in 2007 (when Correa took office) or 2009 (global financial crisis) (Fig. 1). It has been mainly public spending and investments in infrastructure that have gotten the Ecuadorian economy moving in the period since 2008. The economic growth can thus be attributed mainly to the high price of crude oil on the world market.

For example, GDP grew in 2008 and 2011 when crude oil reached record prices by more than seven per cent.

This policy of high public spending (financed by natural resources) and investment as the driving force for the economy is used by the government to justify its goals for the national concept of *buen vivir* and is the only way for the state to bring strategic sectors, such as energy, non-renewable resources, telecommunications and water supply, under its control. In doing so, the Correa government accords the state the central role of representative of the interests of the common good, however questionable this representation may be. However, the state's responsibility is not solely to regulate the economy and oversee redistribution; rather, it also plays a direct and central role in the domestic economic cycle.

Fig. 1

Ecuador's Economic Growth 2000 to 2012 in per cent



Source: Banco Central del Ecuador.

Out of all economic sectors, the construction industry has experienced the highest rates of growth since 2000. Since 2007, the construction sector, which is among those sectors the government has the greatest control over, achieved an average annual rate of growth of 13.24 per cent. Just as with the supply of electricity and water, however, this is a

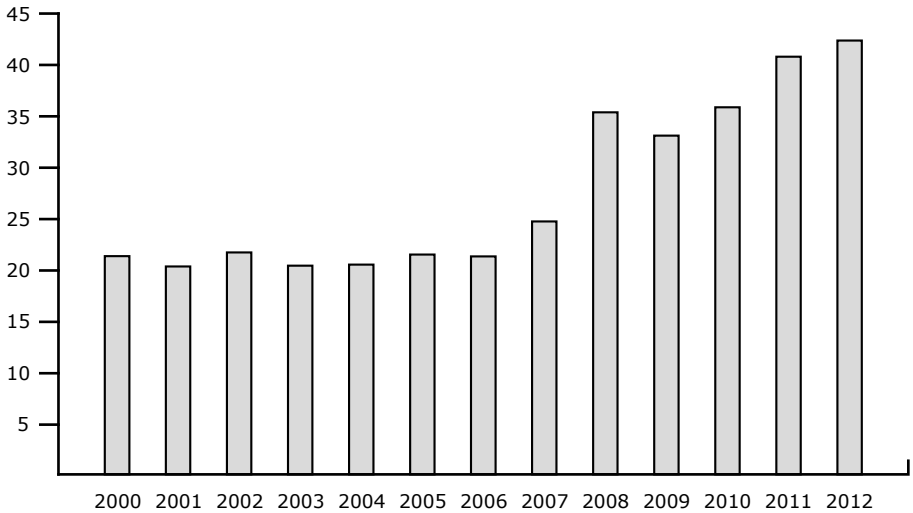
case of a state-controlled strategic sector that serves to maintain the state's active role in the economy.

Bloated public expenditures

Since 2007, public expenditure has exhibited rising growth rates, with highest recorded years being 2008 and 2011. As such, up until 2006, the share of public expenditures accounted for between 23 and 25 per cent of Ecuador's GDP; since 2008, this number has been at least 40 per cent, and in the past two years it reached nearly 50 per cent (Fig. 2). Although public spending decreased in 2012, no quick reduction in the share of public spending is expected over the next few years due to the ideology underlying the social and solidarity-based economy.

Fig. 2

Ecuador's public sector share in GDP 2000 to 2012 in per cent



Source: Banco Central del Ecuador.

The significant increase in public spending corresponds to a thoroughly populist policy that boosts the economy primarily in those sectors within the public's field of view, such as infrastructure, health care and education, but also including public assistance projects or the expansion of the bureaucratic apparatus. According to the 2013 budget, wages account for nearly 25 per cent of the total budget,

which is generally associated with the expansion of the bureaucracy on the one hand, and with relatively high public sector wages on the other. While in 2006, there were just under 360,000 public servants, this number had grown to more than 454,000 by 2010,¹⁶ an increase of approximately 95,000 people in four years. This increase is associated with a government policy making the state a “large employer”. Furthermore, extensive social benefits exist that have increased the attractiveness of public service compared to the private sector. As a result, much-needed skilled workers have been removed from the labour market because private companies or institutions cannot compete with the benefits and salaries provided by the state.

Reduced private investment

Compared to the period from 2000 to 2006, the share of total investments in relation to GDP since President Rafael Correa began his term of office has increased by only three per cent because this significant increase in public investment has been accompanied by a rather significant drop in private investment.¹⁷ The early years of Rafael Correa’s term of office (2007 and 2008) registered a significant decrease in private investment in contrast with increasing public investment in the same time period (Fig. 3). Prior to 2007, private investment represented more than three-quarters of total investment, while investment today is drawn from the private and public sectors equally. This fact is also illustrative of the public sector’s enhanced role as mentioned above, and thus of the state’s role as an economic actor to the detriment of the private sector.

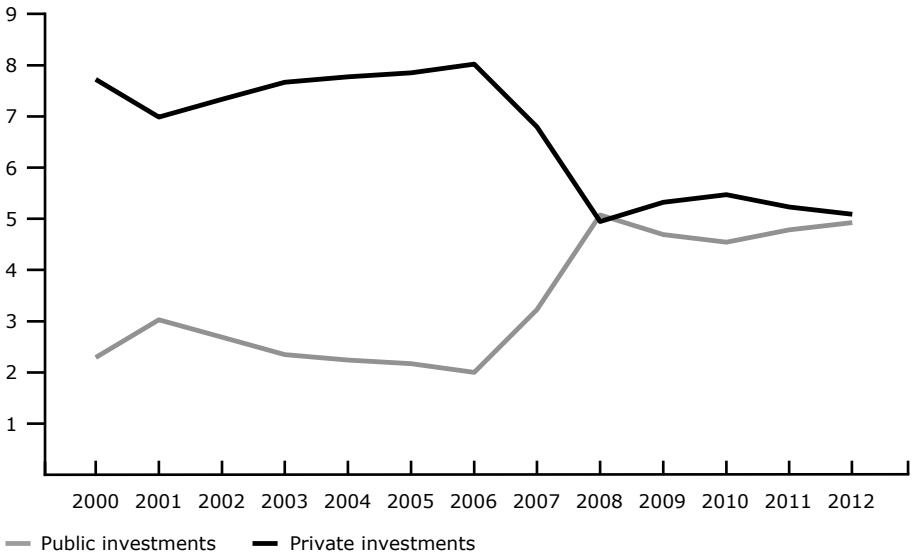
The tentative investment behaviour of the private sector in the early years of the Correa government can certainly be attributed to investors’ suspicions of a government that had begun with the aim of drastically restructuring the economic model and had enshrined this in the 2008 constitution. Thus, the lack of clarity in creating a legal framework

16 | Unfortunately, due to lack of transparency of official sources, it is not possible to obtain up-to-date information on this. Official figures often vary and the same subject may elicit great discrepancies among the various ministries.

17 | Manuel Astudillo, “La Inversión Pública en tiempos de la Revolución Ciudadana: un mito?”, in: *Carta Económica*, CORDES, Aug 2013.

for the private sector goes hand in hand with the termination of bilateral investment protection agreements.

Fig. 3
Proportion between public and private investments from 2000 to 2012 in per cent



Source: Banco Central del Ecuador.

Fig. 4
Portion of private investments of the GDP from 2000 to 2012 in per cent



Source: Banco Central del Ecuador.

Toward a planned economy using tax revenues

Since 2007 and due to ten (!) consecutive tax reforms, tax revenue has risen significantly, from 4.522 billion U.S.

dollars in 2006 to 11.267 billion U.S. dollars

The additional tax revenue can be attributed to several factors: the restructuring of taxes, such as income tax, the creation of new taxes, but also the more efficient operation of the tax authority.

in 2012. This constitutes an average annual growth of 11.1 per cent (compared with an average annual rate of 7.04 per cent prior to 2007). This substantial additional revenue can be attributed to several factors:

the restructuring of certain taxes, such as income tax (tax base and graduation), the creation of new taxes (e.g. on currency exports, funds held abroad and rural land holding of more than 25 hectares, which will have a particular impact on the maligned "landowners"), but also the more efficient operation of the tax authority combined with drastic penalties for tax evasion already in place for minor cases, the intimidating effect of which has resulted in a nearly 100 per cent "taxpayer culture" in the space of only a few years.

These reforms were aimed at restructuring the tax system with the goal of increasing the proportion of direct taxes (on property and income) and thus contributing to the concept of the equitable redistribution of wealth envisioned by *buen vivir*. In the early years of the "Citizens' Revolution" this proportion indeed increased (with direct taxes in 2009 reaching 37 per cent of total revenue, an historical high), but the continued trend the government desired would not last. Possible reasons for this are the sale or division of land, the expansion of the shadow economy and a significant increase in consumption and thus in indirect tax revenue. Thus, after 2009 the percentage of direct taxes began to decline again and fell to 30.1 per cent in 2012, below 2006 levels – the year before the economic model was reformed. Between 2007 and 2012, indirect taxes throughout the year increased even more than direct taxes (17.2 per cent vs. 14.6 per cent). This ratio was even more readily apparent in 2012, possibly due to the registered downturn that occurred that same year as a consequence of consumption-based economic growth. This development should particularly trouble the Correa government. This is because the significant increase in indirect tax revenue not only holds regressive implications for the

consumer-oriented middle class, but also for the lower-income population, since indirect taxes on consumption are not proportionate to the income of the taxpayer. So, for example, for every U.S. dollar generated by direct taxes in 2012, 2.30 U.S. dollars were generated from consumption taxes.¹⁸

Surviving on a foreign-fed drip

Ecuador's main source of income comes from oil production in the Amazon region. Without it, the high level of public spending and investment that give rise to the benefits of the social and solidarity-based economy would be completely unfeasible. When Rafael Correa took office in 2007 as the President of Ecuador he found fertile ground for his political and economic plans. Since 2001, Ecuador has achieved high rates of growth, which are due less to rising export volumes and more to the rising prices of many export commodities in the global marketplace, especially for petroleum.

Since 2001, Ecuador has achieved high rates of growth, which are due less to rising export volumes and more to the rising prices of many export commodities in the global marketplace, especially for petroleum.

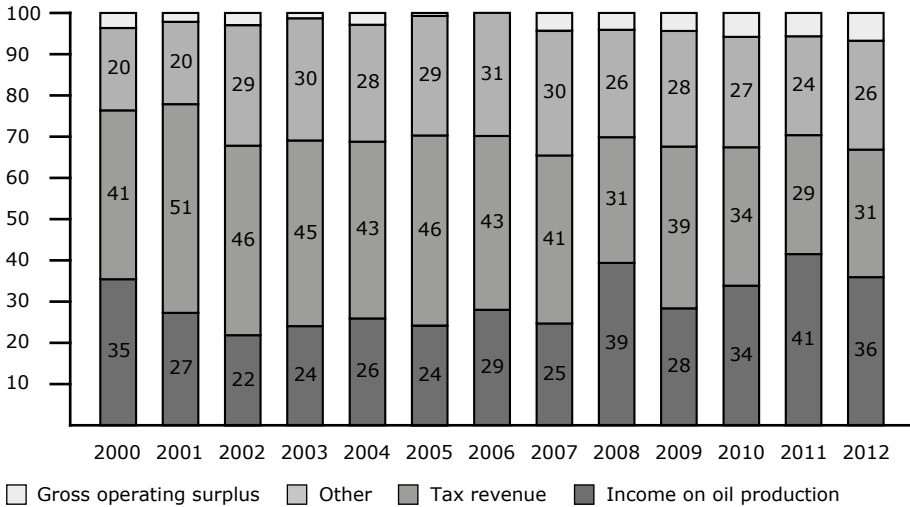
An extractive economic model like that of Ecuador's is thus highly dependent on the market price for the respective commodity. Since 2009, the price of oil has been over 60 U.S. dollars per barrel and on several occasions even exceeded 100 U.S. dollars. Since the construction of the heavy oil pipeline in 2003, stretching from the Amazon region over the Andes back across to the loading stations in the Pacific, the share of oil revenues has increased – a trend that has intensified over the past five years due to the high price of oil and of certain reforms within the sector. The most important of these reforms was implemented in 2010, when contracts with transnational companies were converted to service contracts and a fixed price dependent on subsidised crude oil volumes was introduced to increase the state's rate of return from the oil industry. Some foreign oil companies accepted the new conditions; others decided against continuing to do business in Ecuador.¹⁹

18 | *Carta Económica*, CORDES, Mar 2013.

19 | Comisión Económica para América Latina y el Caribe (CEPAL), *La Inversión Extranjera Directa en América Latina a el Caribe 2012*, 73, <http://www.eclac.org/publicaciones/xml/5/49845/LaInversionExtranjeraD2012.pdf> (accessed 17 Dec 2013).

Fig. 5

Composition of Ecuador's state revenues from 2000 to 2012 in per cent



Source: Banco Central del Ecuador.

In order to maintain this level of expenditure and investment, the Correa government increasingly needs new sources of income to preserve liquidity on the one hand and is highly dependent on a possibly increasing crude oil exchange on the other. Due to the stagnant level of state oil production²⁰, the Correa government has seemingly been forced to open up new development areas, partially by revoking measures in the name of *buen vivir*: In 2007, Correa launched the Yasuní ITT initiative, the purpose of which was not to extract the 920 million barrels of crude oil in the Ishpingo-Tiputini-Tambocochoa (ITT) area, a large plot in Yasuní National Park in the Ecuadorian Amazon region, thereby preventing the emission of at least 400 million tonnes of CO₂. In return, Ecuador should receive compensation from the international community in the amount of 3.6 billion U.S. dollars, which would have

20 | In the Ecuadorian crude oil production sector, the government has systematically pushed private oil companies out of the market (by renegotiating concessions with terms that were no longer acceptable to private businesses). Today, the ratio of state to private funding is nine to one. This has to do with the state's attitude with respect to the sovereignty of strategic sectors and natural resources, as well as with private actors privy to petroleum contract negotiations.

corresponded to half of the sales of crude oil from Yasuní at an estimated price of 40 U.S. dollars per barrel. Yasuní National Park is a region with one of the highest degrees of biodiversity in the world and was declared a Biosphere Reserve by UNESCO in 1989. It is also home to indigenous peoples. In August 2013, President Correa announced to an astonished and disappointed public that the Yasuní ITT initiative had failed and that oil production in the ITT area would begin immediately. However, this latest example of the growing dependence on crude oil and soon-to-be dependence on mining stands in the way of the basic rights granted to nature in the Constitution, as well as the central role of *buen vivir* and the right to live in a healthy and ecologically balanced environment, not to mention the rights of indigenous people in the “plurinational” state of Ecuador.

Indebted to China

Since 2007, the financing of government expenditure through Chinese loans has been a recognisable phenomenon throughout Latin America. In Ecuador, this relationship began in July 2009, when the first financial transaction between the two countries was carried out through an “advance sale” of petroleum. In the face of the international financial crisis, the Correa government used this money to cover approximately one-third of the budget deficit.²¹ Since then, Sino-Ecuadorian relations have intensified with seven additional loans, placing Ecuador in second place after Venezuela in the number of loans coming from China. Ecuador’s debt to China currently amounts to eleven per cent of Ecuador’s GDP and sets a regional record by representing more than half of its foreign debt. Furthermore, this debt, with an average interest rate of 6.75 per cent and short terms of payment, and along with the advance sale of petroleum is linked to the Ecuadorian government’s commitment grant licences to Chinese state-owned enterprises for hydropower projects.²² Ultimately, this is a matter of the advance sale of raw materials, but is really nothing more than a sly way of receiving expensive loans and, in doing so, committing future income without the need for savings since this type of “loan” will not appear on the central bank’s debt accounts.

21 | “El Síndrome de China”, *Carta Económica*, CORDES, Jul 2011.

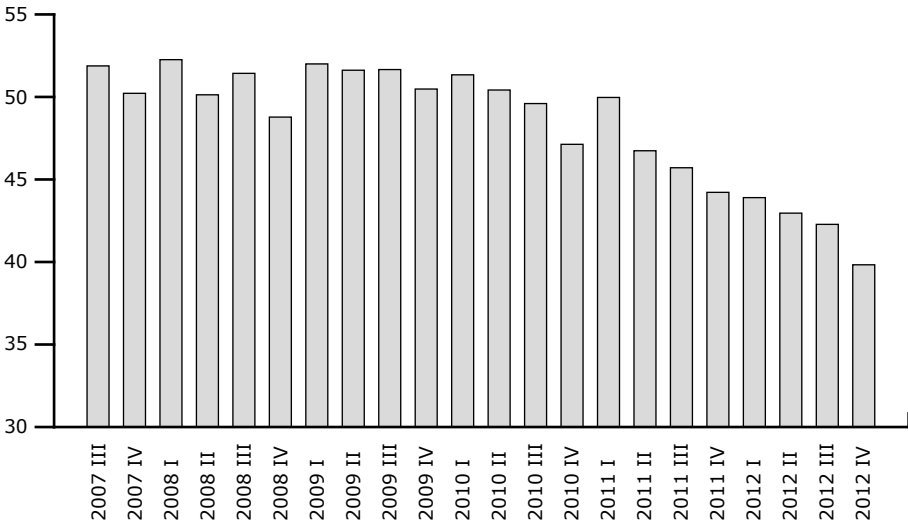
22 | *Ibid.*

A dangerous dance with poverty

Today Ecuador looks back on the social achievements of the last decade with pride. Poverty has steadily declined. The distribution of income has greatly improved since 2007. However, a closer look at this development reveals that this downturn in poverty reduction from 2002 to 2007 (from 49 per cent in 2002 to 36.7 in 2007) was somewhat more pronounced than in the era of the Correa government, and is primarily based on the dollarisation of the currency. This is causing a stabilisation of prices and is thus benefitting those with lower incomes because their real income is not reduced by inflation. Since 2007, the further reduction of poverty to 25.3 per cent in 2012 and the Correa government’s ambitious plan to put an end to poverty by 2017, however, have only been possible due to the questionably financed increase in public spending.

Fig. 6

Underemployment in Ecuador in per cent

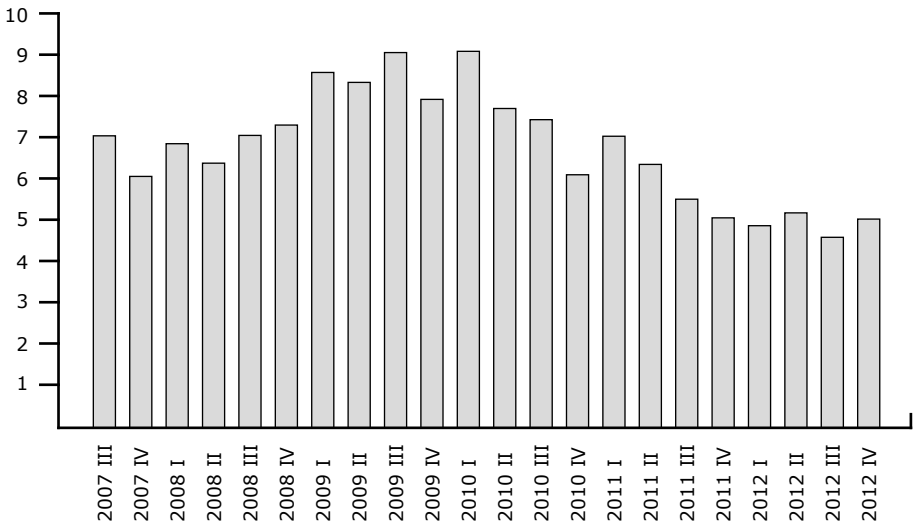


Source: INEC.

The improvement of the income distribution over the past few years as measured by the Gini coefficient (in 2003, Ecuador still had a Gini ratio of 53.2; in 2012 it was 47.7) is due to a conditional programme of social redistribution, which, though not established by the current government, has been enhanced by it several times. In the last six

years, the number of beneficiaries of the so-called Human Development Bonus (Bono de Desarrollo Humano, BDH) has increased to an annual average rate of 8.3 per cent of the total population. At the start of Rafael Correa’s term of office in 2006, 1,179,000 people were benefitting from the bonus; in 2012, this number was more than 1.9 million – paradoxically, with the simultaneous reductions in poverty, which is evidence of populist treatment of these conditional subsidies. This, in turn, attracted several candidates promising to raise the bonus to gain votes in the February 2013 presidential election. The re-elected President Correa increased the bonus one month before the elections from 35 to 50 U.S. dollars.

Fig. 7
Unemployment in Ecuador in per cent



Source: INEC.

The reduction of unemployment and underemployment is another success touted by the government. Though the unemployment rate rose during the Correa government’s first few years in office (2007 to 2010), they have since been able to reduce it. Nevertheless, the Ecuadorian labour market probably represents one of the country’s most significant structural weaknesses because, despite the low five per cent unemployment rate, the 2012 underemployment rate is still very high at 39.8 per cent.

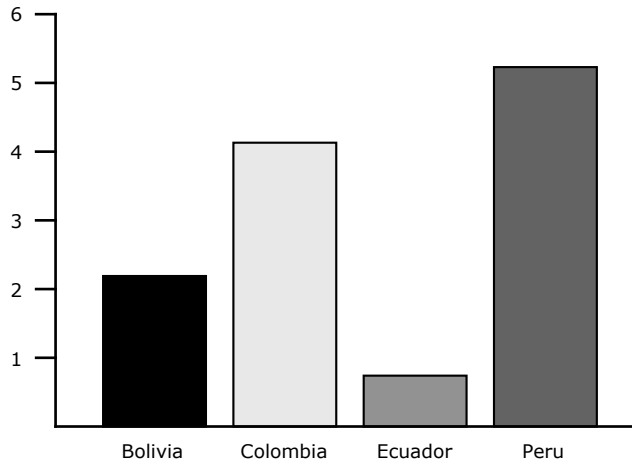
However, underemployment is ultimately nothing more than a euphemism for hidden unemployment.

A COURSE TOWARD ISOLATION: ECUADOR'S EXTERNAL SECTOR

In the global marketplace, Ecuador is on a course toward isolation. With the exception of 2008, foreign direct investment (FDI) has fallen. FDIs made during the current government's term of office are so low that they represent only 0.24 per cent of GDP (compared with 2.5 per cent prior to 2007). This is made even more explicit when compared with neighbouring countries (Fig. 8).

Fig. 8

Foreign investments in the Andean countries in 2012 in comparison to the GDP in per cent



Source: CEPAL.

Ecuador's low level of attractiveness to foreign direct investment is mainly a result of the deterioration of legal certainty, time-consuming bureaucratic hurdles and continuous changes to tax legislation. The nationalisation of the crude oil sector implemented by the Correa government has not had a positive effect on foreign investment. However, a major factor is that, because of its ideological beliefs, the government does not take any great interest in foreign investment, creating more and more incentives for resident foreign businesses to turn their backs on the country with multiple regulations and high administrative

hurdles rather than acquiring new sources of foreign direct investment. As such, the leftist-populist discourse with its nationalistic manner of speech is not just banter used during the President's weekly *sabatinas* of the president; rather, it is systematic, methodical and has a clear goal: the defence of national sovereignty as the most valuable asset (and close to the president's heart) and consequently the defence of domestic economic interests for foreign investors and multinational companies.

The statements President Correa made during his state visit to Germany in April 2013, that Ecuador is an attractive country for investment and they are now seeking a trade agreement with the EU, has led to no action as of yet. In addition, when considering the political realities, the national concept of *buen vivir's* fixed target for foreign direct investment of three per cent of GDP appears to fall more within the realm of political rhetoric than anything else. Two other realities include, for example, the cancellation of the agreement regarding the protection of investments and the disregard for any other jurisdiction than that of Ecuador in case of legal disputes. These unilateral actions may simply be identified as confidence-building measures, such as the sudden termination of the Yasuní ITT initiative by the government of Ecuador with no alternative in place. As mentioned previously, this was especially disappointing for those countries and governments who considered this a positive move and had provided support in one form or another.

The national concept of *buen vivir's* fixed target for foreign direct investment of three per cent of GDP appears to fall more within the realm of political rhetoric than anything else.

The government's trade policy is also less specialised and designed more with politics and ideology in mind; this is particularly apparent through the introduction of import quotas and the increase of import tariffs combined with the simultaneous taxation of currency exports (amounting to five per cent), which must then be paid when companies resident in Ecuador have to pay for imported goods. The ideological discourse was also apparent in the unilateral revocation of the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which was carried out without undertaking the functional analysis of the effects of this on Ecuadorian exports that would have previously taken place. In addition, the Correa government is extremely

hostile to actively participating in regional trade unions, such as MERCOSUR or the relatively new cooperation in the Pacific region. Efforts to negotiate trade agreements and economic integration are sacrificed on the altar of political opinion.

All these protectionist efforts have shown surprisingly little effect, as it appears that many Ecuadorians now have the financial means to take part in consumption (of imports) and are even able to pay the high prices for these goods thanks to the government's redistribution policies. Consequently, imports have risen faster than exports and the trade balance has resulted in a deficit for the past four consecutive years.



Ideology driven trade policy instead of regional integration: Rafael Correa (centre) amongst the Heads of State and Government of the MERCOSUR in 2012. | Source: Cancillería Ecuador, flickr, ©🇪🇨.

THE STATE HAS TOTAL CONTROL

The methods by which the Correa government influences the economy are multifaceted. There are countless examples of this including increased government regulation, as well as investments ranging from direct investment to nationalisation. For example, banks had total freedom to set their own interest rates and prices for financial services until 2007. Between 2007 and 2012, the government gradually introduced standards setting the interest rates banks would charge and prices for all other services provided by financial institutions, from the issuance of credit

cards to bank transfers between accounts or withdrawals from cash machines. Until 2008, the only constraint on a person's ownership of company stock was that government grant holders were not permitted to be involved with bank shares. Since 2008, several restrictions have been introduced. Anyone who holds bank shares or media company shares may not hold shares in any other economic sector. By 2010, there were no restrictions on acquiring a seat on a company's board. Since then the law has held that anyone who holds shares in a company outside the financial sector may not accept any appointment to sit on the board of a bank. Similarly, no one who holds shares in a company outside the media sector may accept any appointment to sit on the board of a media company.

State involvement is even more noticeable in the "strategic sectors". Ecuador's state-owned petroleum company, Petroecuador, produced 37 per cent of Ecuadorian petroleum in 2005, with the remaining portion produced by private companies. In 2012, Petroecuador and Petroamazonas (a public company founded in 2010) produced 73 per cent of petroleum extracted in Ecuador. Until 2010, mining was one of the only remaining private sector activities. The state mining company (ENAMI) was founded in January 2013. In 2008, the Isaías family's companies were nationalised due to their debts in connection with the 1999 bankruptcy filing by one of the banks in the group. This group included several radio stations (!), chain stores, an insurance company (Seguros Rocafuerte) and a sugar factory. Only the sugar factory has been sold. Among those Isaías Group companies nationalised were two major television stations. In the past, no government had owned a television channel. The government's media apparatus, which was limited to a single radio station (Radio Nacional de Ecuador) at the start of Correa's term of office, now includes five national television stations, several national and regional radio stations, three newspapers and a news agency. Furthermore, broadcast media is regularly required to transmit the President's official communiques simultaneously across all channels. Since January 2007,

more than 1,200 of these *cadena*s have been broadcast.²³ The government owns two insurance companies: the above-mentioned Seguros Rocafuerte, and Seguros Sucre Rocafuerte (property of the banking corporation Banco del Pacífico company, which has belonged to the government since the banking crisis in 1999).²⁴ Since 2009, all insurance policies taken out by the government have gone through these two companies.²⁵

SUMMARY

With the increasing exploitation of natural resources and consequent destruction of natural habitats constitutional claims of *buen vivir* must be increasingly measured in the future.

Despite its visible successes, Correa's economic policy remains completely inconsistent. His leadership and economic policies have increasingly faced criticism, particularly

following the Yasuní ITT decision, and not just in terms of sustainability. With the increasing exploitation of natural resources and consequent destruction of natural habitats, as well as the disregard for the existence and cultural rights of indigenous nations as guaranteed by the constitution, constitutional claims of *buen vivir* must be increasingly measured in the future.

The *buen vivir* dilemma consists of the national budget on the one hand; its social policy and infrastructure measures are heavily protectionist, thus advancing the state to its desired central(ist) role as an economic policy actor. On the other hand, a significant part of financing the national budget is dependent upon crude oil production, which, especially after the failure of the Yasuní ITT initiative, will destroy large portions of intact rainforest. Or in other words: The more dependent the Ecuadorian economy becomes on the exploitation of natural resources, the further away they get from the state's philosophy of *sumak kawsay*.

23 | There are no official statistics available on this. This estimate is based on an empirical value of three to four *cadena*s per week. The *cadena*s were originally used to disseminate important messages in emergencies; they are now used as a medium of propaganda and confrontation.

24 | "Seguros Rocafuerte y Sucre se unen por más contratos", *El Comercio*, Quito, 16 Jun 2009.

25 | "La guerra de los reaseguros", Plan V, <http://planv.com.ec/investigacion/investigacion/la-guerra-reaseguros> (accessed 9 Dec 2013).

Such a precarious situation is thought-provoking. It begs the question of whether, as a philosophy of life, *buen vivir* is not simply a dreamy ideal precisely because it is not compatible with the interests and needs of a society experiencing an economic renewal, as is the case in Ecuador. Most Ecuadorians are, of course, aware of the term *buen vivir*, but few can define its implications. Indeed, it is the very access to this scenario of material prosperity mentioned at the beginning of this piece that is understood by most Ecuadorians (including many “Westernised” members of indigenous communities) when speaking of *buen vivir*.²⁶ Thus the authors hold that the *buen vivir* ideal, when properly understood, is only attainable under two conditions: either under the living conditions of a primitive people, a scenario in which consumer goods play little or no role whatsoever and in which the daily struggle for survival can only be won within the community and in tune with nature; or in a “post-material” society, in which the conscious avoidance of consumption (though financially avoidable) goes hand in hand with the conviction to protect life’s natural foundations through personal decisions and reduced consumption. It is not surprising that concepts such as *buen vivir* or the Kingdom of Bhutan’s “economy of happiness” are received with great interest by many Western organisations and institutions active in the environmental sector, and are discussed as a basis for alternative economic and social models precisely because they do not demand a strong state. At the same time, this raises the question of whether states should or even could provide for these models constitutionally. On the one hand, the chance of successful implementation is dependent upon societal factors that can only be influenced by the state to a small extent. On the other hand, history demonstrates that it is even more ethically questionable for the state to force people to embrace a certain way of live – even if, as in this case, this means embracing “good living”.

Concepts such as *buen vivir* or Bhutan’s “economy of happiness” are by many Western organisations discussed as a basis for alternative economic and social models.

26 | This statement is not based on figures, but on the author’s experience in discussions with Ecuadorians from all social strata. Only a very small number were able to correctly answer the question of what the actual concept of *buen vivir* was.

In terms of democratic structures, a negative trend is being detected in Ecuador. The separation of powers has become visibly unhinged, particularly following the February 2013 presidential and parliamentary elections. This, too, affects the independence and participation of civil society in the political decision-making process. In the absence of effective control mechanisms, state intervention in the economy will likely increase rather than decrease. Over the next few years, Rafael Correa will face challenges not only in supporting the domestic economy and consumption, but also of inspiring national and international actors in particular to invest. The question remains as to whether the high levels of public spending that must be financed by the exploitation of domestic reserves of resources can compensate for the decline in private investment in the future.

A great degree of separation remains between the constitutional claims and living reality. President Rafael Correa's "Citizens' Revolution" is far from implementing *buen vivir* as the new ideal for life and society and it seems as though this will remain the case for the near future. What ultimately remains of the ideal of *sumak kawsay* is an (increasingly) authoritarian leftist-populist government policy financed by revenues from raw materials; their egocentric power complex is destroying the foundations of liberal democracy and active civil society and their "leadership figure acts as if he is the will of the people incarnate".²⁷

27 | Carlos de la Torre, *Populismus in Lateinamerika. Zwischen Demokratisierung und Autoritarismus*, Studie, Friedrich-Ebert-Stiftung, Aug 2013, 8, <http://library.fes.de/pdf-files/iez/10210.pdf> (accessed 17 Dec 2013).

QATAR BETWEEN MARKETING AND REALPOLITIK

A SMART BUSINESS MODEL FOR A MICROSTATE?

Gidon Windecker / Peter Sendrowicz

Though Libyan rebels hoisted the Qatari national flag with pride next to their own following the fall of Gaddafi in 2011, by the spring of 2013 things looked considerably different: from Tunis to Benghazi to Cairo, angry citizens burned the Gulf emirate's flags and effigies of the Qatari Emir. The gratitude the insurgents once had for the support of the wealthiest monarchy in the Gulf during the upheavals in the Arab world has given way to deep distrust. The weariness of Qatar's involvement in the internal affairs of revolutionary countries demonstrates that Qatar has suffered setbacks in their previous foreign policy strategy of supporting Islamist groups, particularly the Muslim Brotherhood. In addition, the 2022 World Cup, whose contract Qatar was awarded in 2010 and which should be the crowning achievement of its foreign policy stance, bears the risk of damaging the country's image. The precarious situation of migrant workers on the construction sites of future venues is casting a shadow on Qatar's efforts to project a positive image of itself to the world.

The microstate's policy strategy, particularly its foreign policy strategy, is somewhat puzzling to outside observers. The previous Emir, Sheikh Hamad bin Khalifa al Thani, passed a challenging legacy onto his son, Tamim bin Hamad al Thani, when he abdicated on 25 June 2013: on the one hand, Sheikh Hamad succeeded in catapulting Qatar into modernity during his 18-year reign and thus stayed true to his "Vision 2030", laying the foundations for life in an era when gas resources have ebbed. On the other hand, the emirate's multi-directional foreign policy strategy is not solely popular on the world stage. Qatar



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particularly faced accusations of aimless activism at times under former Prime Minister and simultaneous Foreign Minister Sheikh Hamad bin Jassim bin Jaber al Thani, who also resigned in June 2013. However, before addressing the foreign policy course the new Emir Tamim will set for his country, we must highlight the “smart power strategy”, which “His Highness, The Father Emir”¹ used in order to lay the foundation for the modern state of Qatar from 1995 to 2013.

THE SMART POWER CONCEPT AND QATAR’S MOTIVES

In his classic work, *Soft Power – The Means to Success in World Politics* (2004), renowned American political scientist Joseph Nye coined the term smart power, combining the concepts of soft and hard power. This concept provides a suitable theoretical framework to better understand Sheikh Hamad’s strategy. While soft power allows the actor to win others over to him and his cause using attraction and persuasion, hard power is based on the traditional means of applying military and economic pressure and on a country’s financial strength. For Nye, the ability of succeeding on the world stage is a matter of the complementarity of

the two forms of power: “success will depend upon [...] a better balance of hard and soft power in [...] foreign policy. That will be smart power.”² Upon taking office in 1995,

Upon taking office in 1995, Sheikh Hamad pursued his own smart power approach in Qatar.

Sheikh Hamad pursued his own smart power approach in Qatar. Along with demonstrating its economic sovereignty, strength and military resolve on the hard power side, on the soft power side it established itself as a well-funded actor with a broad range of instruments at its disposal to draw in its target audience and gain its favour – because “soft power needs hard dollars”.³

1 | Official title of Sheikh Hamad bin Khalifa al Thani since power was passed to his son, Tamim bin Hamad al Thani, on 25 Jun 2013.

2 | Joseph Nye, *Soft Power – The Means to Success in World Politics*, New York, PublicAffairs, 2004, 147.

3 | Cynthia Schneider, “Culture Communicates: US Diplomacy That Works.”, in: *The New Public Diplomacy. Soft Power in International Relations*, New York, Palgrave Macmillan, 2005, 163.

As a first step, it is necessary to attract the attention of other actors and make them aware of one's own concerns. An appropriate means of doing so is branding. Simon Anholt sees this as "nothing less than a new approach to [...] international relations".⁴ This implies turning a country into a highly recognisable international brand. It is then a matter of attracting stakeholders and forming a long-term and rather emotional bond with them. Regular communication of achievements, ongoing prestigious projects and other notable endeavours in the form of storytelling make for an effective tool here. It is crucial for a microstate such as Qatar to convince the other actors of the country's uniqueness in its particular niche. This approach may be heavy on PR and marketing, but substantive deeds must precede this communication strategy for the sake of authenticity. The success of a smart power strategy depends on the balance between the two. With an excess of hard power a country runs the risk of undermining its own soft power efforts. A purely soft power foreign policy strategy does not provide a state with the respect necessary for it to behave in a self-confident and assertive manner on the world stage. But before we examine Qatar's smartness under Sheikh Hamad, it behoves us to understand the former Emir's motives for pursuing the principles of smart power in shaping his country.

The success of a smart power strategy depends on the balance between the two. With an excess of hard power a country runs the risk of undermining its own soft power efforts.

Approximately 1.9 million people live in Qatar, an area half the size of Hesse where the approximately 250,000 Qataris represent the minority in their own country. With a per capita GDP of approximately 100,000 U.S. dollars, they are considered the richest people in the world. Qatari prosperity is based on the third-largest gas reserves in the world (after Russia and Iran) that lie off the emirate's coast. The backbone of Qatari society is formed by guest workers hired from Asia, who make up the majority of the population, and experts brought in from other Arab countries and from the West. They keep the country running practically and logistically. Qatar is characterised by a high degree of internal stability, owing to the fact that the state allows its citizens – the emphasis is on Qataris – generous participation in the country's wealth. Tax exemption, free electricity,

4 | Simon Anholt, *Places: Identity, Image and Reputation*, Houndmills, Palgrave Macmillan, 2010, 8.

education and health care are intended to compensate for previously non-existent political participation. In order to be able to keep up this domestic standard of living in Qatar, and by doing so allowing the emirate to continue to develop in a stable environment, Sheikh Hamad envisioned smart power as the appropriate way to prepare his country for the future.

Qatar consistently faces two main concerns within the regional structure: first, there is the constant worry of an Iranian or Saudi invasion. The emirate's endeavours should primarily be seen from a self-protectionist point of view with regards to its two enormous neighbours. Qatar views

Qatar and Iran are both exploiting one of the world's largest natural gas fields. Because Qatar is more technologically developed than Iran, it extracts more gas at a more rapid rate.

the Second Gulf War as a precedent and fears Iran may take the same actions with the Gulf monarchy that Iraq once did with Kuwait. Ultimately Qatar and Iran are both exploiting one of the world's largest natural gas fields.

However, because Qatar is more technologically developed than Iran, it extracts more gas at a more rapid rate. Thus both countries' ambitions for extraction threaten to come to a head. As for their other large neighbour, relations with Saudi Arabia are always characterised by mistrust. Even their common membership in the Gulf Cooperation Council cannot conceal this. The spectre of annexation by Saudi Arabia always looms in Qatar's foreign policy considerations. Qatar intends to use both hard and soft power to draw in as many stakeholders as possible who have a vested interest in the country's integrity.

Undoubtedly the second reason for Sheikh Hamad's strategy is the need to establish Qatar as a comparatively liberal, generous, advanced and business-savvy location so that it remains competitive among its regional rivals, Bahrain and the United Arab Emirates. All these states are part of the global race to attract tourists, factories, companies and new talents. Though it may rankle Qatar that it will not host the Formula 1 Championship, it has succeeded in outdistancing Bahrain and Abu Dhabi with its branding. Taking on Dubai, however, remains a challenge in any case, especially after it was awarded the contract to host the World Exhibition in 2020. In addition to the 2022 FIFA World Cup, Qatar has scored an unprecedented series of first-class sporting events, including the World Handball

Championship in 2015 and the Road World Championships in 2016. Both emirates must now promptly prepare to stage world events by which they will be measured.

SMART POWER AS A NATIONAL STRATEGY

Shortly after his accession to the throne in 1995, Sheikh Hamad had already made hard and soft power the cornerstones of his plan to establish the Gulf monarchy as an influential player on the world stage. This undertaking was only possible due to the emirate's immense financial resources. What are the pillars of his strategy?

The Foundations of Modern Qatar

Admittedly it seems unnatural to speak of Qatar having the size for hard power when one considers that the country has the second smallest army in the Middle East with only 11,800 troops.⁵ But Qatar tried to find a solution to this shortcoming. Sheikh Hamad had the high-tech air force base at al Udeid built in 1996 for one billion U.S. dollars, promising: "If we build it, they will come."⁶ And come they did. The United States operates one of its largest air force bases outside its own borders at al Udeid, making it a guarantor of Qatar's protection from where the emirate draws its confidence. The Emir compensated for the insufficient number of recruitable men available from Qatar's own population by allowing the country to exude a military aura through its cooperation with the American military forces. Later, during the upheavals in the Arab world, Qatar would sharpen its profile with its own military intentions and actions, though only because it can continue to assume that the U.S. will not be quick to desert it. Qatar's economic and thus financial means of applying pressure thanks to its enormous gas reserves are the deciding factors for Qatar's self-confidence in issues of hard power. In view of ever higher energy prices and the constant global energy demand, Qatar has considerable

Qatar's financial means of applying pressure thanks to its enormous gas reserves are the deciding factors for Qatar's self-confidence in issues of hard power.

5 | Vgl. Christopher M. Blanchard, "Qatar: Background and U.S. Relations", Congressional Research Service, 6 Jun 2012, <http://fas.org/sgp/crs/mideast/RL31718.pdf> (accessed 20 Dec 2013).

6 | Glen Segell, *Disarming Iraq*, London, Glen Segell Publishers, 2004, 73.

economic power. Numerous international importers rely on Qatari liquefied petroleum gas processed in Ras Laffan, the industrial plant established in 1997 incorporating several gas liquefaction plants in northern Qatar. Natural gas has become one of the world's most important energy resources and already accounts for one-fifth of global energy consumption.⁷ Threatened supply shortages on the international energy market could involve profound impacts in the world marketplace. The emirate uses its income from the gas industry to enforce its economic interests on a grand scale.

The Magic of Soft Power: Multi-faceted Branding

The emirate compensates for its military and economic tough side with a broad spectrum of measures to enhance its soft power. By founding the television station *Al Jazeera*, the mouthpiece for Qatar's Storytelling, in 1996, Doha sought to prove that it was possible to break the Anglo-American monopoly on news broadcasting. *Al Jazeera* is used as Qatar's soft power weapon. The station serves as the opinion maker in the region and, at least since the introduction of its English-language version in 2006, has contributed to the emirate's foreign communications strategy worldwide. It has international offshoots in the Balkans, Latin America and Africa, not to mention Qatar's recent purchase of American and European television channels. The political influence *Al Jazeera* had on the upheavals in the Arab

The Egyptians followed *Al Jazeera's* pro-revolutionary round-the-clock coverage of the events in Tunisia and the Libyans in turn were inspired by the live images from Tahrir Square in Cairo.

world should especially not be underrated: the Egyptians followed *Al Jazeera's* pro-revolutionary round-the-clock coverage of the events in Tunisia and the Libyans in turn were inspired by the live images from Tahrir Square in Cairo. The TV station thus contributed to a chain reaction. However, this did not extend to Bahrain. The suppression of the protest movement in Manama in 2011, which was even indirectly supported by the Qatari security forces, was hardly mentioned on the Arabic-language *Al Jazeera* channels. This clearly demonstrates *Al Jazeera's* role as a subliminal, or soft, instrument of Qatari foreign policy. Within this context critics even speak of an Islamist agenda

7 | "An unconventional bonanza", *The Economist*, 12 Jul 2012, <http://economist.com/node/21558432> (accessed 20 Dec 2013).

propagated by *Al Jazeera*, particularly mentioning a show hosted by Islamist theologian Yusuf al-Qaradawi, which the channel has long broadcast. The native Egyptian leader of the Muslim Brotherhood has lived in Qatar since 1961. He is considered an influential Sunni scholar who has reached an audience of millions of Muslims with his show, "Sharia and Life", on *Al Jazeera*. As such, Qatar has provided the Muslim Brotherhood with an ideological platform. For his part, Qaradawi supported Qatar's policies in Arab crises in 2011.

Another pillar of Qatar's soft power strategy is direct investment abroad. Investments in international companies increase Qatar's global visibility. In doing so, the emirate simultaneously ensures that the states these companies are based in have a vested interest in Qatar's stability and physical integrity.

Investments in international companies increase Qatar's global visibility. In doing so, the emirate ensures that the states these companies are based in have a vested interest in Qatar's stability.

From the beginning of his reign, Sheikh Hamad sought to establish Qatar as a global centre of culture, innovation, education and sports. The driving force for this was Sheikha Mozah bint Nasser al Missned, the second of his three wives. As founder and chair of the Qatar Foundation (founded in 1995), she has brought international students and prestigious universities together at the Education City campus in Doha. Together with the Qatar Science & Technology Park, this initiative can be interpreted as a plan to secure Qatar a central place in the "new silk roads of knowledge".⁸

Acquiring intellectual capital was always high on Sheikh Hamad's agenda. His daughter, Sheikha Mayassa bint Hamad bin Khalifa al Thani, is particularly involved in cultivating cultural capital as chair of the Qatar Museum Authority. Sheikh Hamad hoped to profile Qatar as a figurehead for Arab and Islamic culture – a project that dates back to the construction of the impressive Museum of Islamic Art as Doha's trademark. At the same time, his daughter Mayassa has striven to establish Qatar's capital as a hub of modern art, recently succeeding in securing a Damian Hirst Retrospective in Doha through to January 2014. Sheikh Hamad intended to make Qatar an inter-

8 | Alexander Smoltczyk, "The Desert Dreams of German Architect Albert Speer", *Der Spiegel*, 1 Jun 2012, <http://spiegel.de/international/spiegel/a-836154.html> (accessed 20 Dec 2013).

national hub in the MICE industry (meetings, incentives, conference, exhibitions). The intention was that various international actors should meet here to network. Large conferences, such as the World Climate Summit 2012 in Doha, were to reflect his ambitions: Doha as a year-round Davos.



The Museum of Islamic Art in Doha: Qatar's prestigious trademark shows the Emirate's ambitions of becoming the next cultural hub of the Arab world. | Source: © Peter Sendrowicz.

In order to appeal to both elites and the masses, Sheikh Hamad saw sports as a way to establish Qatar as a brand with high recognition value. In addition to the events mentioned above, Qatar has secured a prominent place in the international sporting calendar, including tennis, equestrian sport and golf. Even before the 2022 World Cup kicks off, Qatar has secured visibility in popular sports by buying French football club Paris St. Germain and by sponsoring FC Barcelona. One only need look at Qatar Airways and FC Barça's joint promotional clip released in 2013⁹ to get an impression of the attraction and persuasion Qatar's soft power apparatus is capable of.

Ultimately, another cornerstone of Sheikh Hamad's strategy lay in Qatar's regular diplomatic efforts, at least until 2011. The microstate's credo was to get along with anyone and everyone. The multi-dimensional network Qatar worked to build with a notably varied range of international

9 | "FC Barcelona and Qatar Airways, a team that unites the world", FC Barcelona, 27 Aug 2013, <http://fcbarcelona.com/club/detail/article/fc-barcelona-and-qatar-airways-a-team-that-unites-the-world> (accessed 20 Dec 2013).

actors is unprecedented. Qatar occupied a niche as a mediator, restoring communication channels that had broken down between enemy parties. What other state can claim to simultaneously be a strong ally of the U.S. and maintain active relations with Israel (at least until 2008) while simultaneously financing Hamas and Hezbollah and keeping up a stable relationship with Iran? The multi-dimensionality of Qatar's diplomatic relations is particularly clear in the case of Israel. In 1996, the emirate and Israel instituted reciprocal trade missions in Tel Aviv and Doha. This type of informal embassy had never previously been observed anywhere. The relationship was even maintained after the outbreak of the al-Aqsa Intifada in 2000. Only with the Gaza War in 2008/2009 did Qatari-Israeli relations begin to freeze and Israeli representatives were expelled from Doha. In February 2008, Sheikh Hamad had upheld his invitation to former Israeli Foreign Minister Tzipi Livni to attend the eighth Doha Forum on Democracy, Development & Free Trade.¹⁰ The fact that Qatar was prepared to maintain a pragmatic relationship with Israel should be regarded as another of the emirate's diplomatic manoeuvres. A list of short and long-term conflicts mediated by Qatar reads like a Who's Who of international trouble spots: the Doha Agreement in the 2008 Lebanon conflict, the cease-fire agreement in Yemen in 2008 and in the North/South Sudan conflict in 2010, the Doha agreement in the Fatah-Hamas conflict in 2012, as well as conflicts in Western Sahara, Algeria, Eritrea/Ethiopia and Somalia. Sheikh Hamad was occasionally hailed as the "Arab Kissinger" or "Bismarck". His smart power strategy can be evaluated as an attempt that either evokes enthusiasm or a shake of the head among observers, though hardly anyone is left without an opinion on it. Sheikh Hamad has succeeded in gaining his country notice on the international stage, which was one of his greatest hopes.

What other state can claim to be a strong ally of the U.S. while simultaneously financing Hamas and Hezbollah and keeping up a stable relationship with Iran?

10 | Katja Niethammer, "Katar als arabischer Konfliktmediator: Neuer Hoffnungsträger oder Gernegroß?", *GIGA Focus*, No. 8, 2010, http://giga-hamburg.de/dl/download.php?d=/content/publikationen/pdf/gf_nahost_1008.pdf (accessed 20 Dec 2013).



Since December 2010 jersey advertising partners: The Qatar Foundation pays the FC Barcelona 170 million euros for a five-year sponsorship agreement. | Source: Christopher Johnson, Globalite Magazine ©①©.

QATAR'S FOREIGN POLICY ADVENTURE

With the upheavals in the Arab world 2011, the emirate's strategy of soft diplomacy significantly changed. Qatar went from being a mediator to an actor governed by strict interests and began to take a clear position in favour of the revolutionary movements in the Arab world. Their previous approach of getting along with everyone was abandoned in favour of raising their military profile.

From Mediator to Regional Player

Qatar provided Islamist rebels in crisis countries with both weapons and financial resources. Furthermore, following a decision by the Gulf Cooperation Council and together with Saudi Arabia and the United Arab Emirates, Qatar sent troops to Bahrain to demonstrate its support for the royal family. This change was based on a number of strategic considerations. First, those in power in Doha saw the Muslim Brotherhood as a rising star that would determine the future of the Middle East. The Emir had already begun fostering a good relationship with them in the hopes that a Middle East governed by an Islamist league would strengthen Qatar's position of power. In doing so, he assumed even the radical groups would commit to more

moderate policies once they were in power.¹¹ Moreover, this situation provided Qatar's neighbours with an opportunity in terms of conflict areas, but the conservative Saudi royal family saw the Muslim Brotherhood as competition for the Salafist groups it supported. Even if the upheavals initially drove Qatar closer to Saudi Arabia – and it did result in the Gulf Monarchies jointly protecting themselves from the revolts – their support of the rebels quickly distinguished their interests from Saudi Arabia's.¹² A strong alliance with the Sunni Muslim Brotherhood also provided Qatar the opportunity to establish itself as a strategically useful counter-pole to Shiite Iran. This also helps to explain Qatar's stance on the conflict in Bahrain: unlike in Libya or Egypt, here it was a matter of defending the Sunni royal families against Iran's alleged infiltration attempts.

With this reorientation in 2011, Qatar has become skilled in the art of soft diplomacy and has risen to become a stirring regional player. However, its military resolve has led to unexpected challenges.

Backing the Wrong Horse

The era of Sheikh Hamad came to an end on 25 June 2013. For the first time in the history of the Qatari royal family, power was peacefully and voluntarily handed over to the next generation. This raises the question of why the change took place in the summer of 2013 whereas it was widely expected to happen when the Emir celebrated his jubilee in 2015. There is no question that Sheikh Tamim has taken up his father's legacy at an extremely difficult time. In fact, in the months before the changeover it became clear that Qatar had overextended in its foreign policy efforts, particularly with its uncompromising support of the Muslim Brotherhood, and that a policy reorientation was necessary.

11 | Lina Khatib, "Qatar's foreign policy: the limits of pragmatism", *International Affairs* 89, 2, 2013, 424.

12 | Thomas Pierret, "The Reluctant Sectarianism of Foreign States in the Syrian Conflict", United State Institute of Peace, *Peacebrief* 162, 18 Nov 2013, <http://usip.org/sites/default/files/PB162.pdf> (accessed 20 Dec 2013).

Qatar supported the Libyan rebels with weapons, combat equipment and training. Among other things, six Mirage aircraft were made available for use.

The proactive foreign policy focus that has been a critical marker of the emirate's unilateralism since 2011 has backfired in several key areas. What had served as a long-term consolidation of the ruling family's power from a Qatari perspective was perceived as a threat to regional and international interests abroad. For example, Qatar participated in a NATO mission for the first time in Libya in 2011. The country supported the rebels with weapons, combat equipment and training. Among other things, six Mirage aircraft were made available for use. Qatar took over the role of Chairman of the Arab League and helped the rebels with their own news channel in Doha. Yusuf al-Qaradawi called for Gaddafi to be overthrown on *Al Jazeera*. Furthermore, a meeting of the Libya Contact Group, an international military alliance, was held in the Qatari capital in April 2011. The emirate has invested a total of two billion U.S. dollars in the revolution.¹³

However, Qatar then irritated its allies with its continued unilateral support of Islamist powers outside of the international coalition.¹⁴ This tactic should have served to strengthen Qatari influence beyond the alliance, but it simultaneously subverted the efforts of other Arab and Western countries to build a stable transitional government. Qatar's excessive zeal not only triggered international irritation, but also the wrath of the Libyan people. Soon Qatari flags were burning. The police cars financed by the emirate were repainted so that the Qatari national colours were no longer visible.¹⁵

Unlike in Libya, Qatar initially hesitated to support the Islamist rebels in Syria. Fears that the end of Bashar al-Assad's regime, which had long been an ally, could influence the fragile balance of power among the Gulf monarchies and Shiite Iran were too great. Thus, Qatar initially engaged in diplomacy while simultaneously allowing Qaradawi's harsh words against the Syrian regime to increase the tensions

13 | Khatib, n. 11, 421.

14 | Jeremy Shapiro, "The Qatar problem", *Foreign Policy*, 28 Aug 2013, http://mideastafrica.foreignpolicy.com/posts/2013/08/28/the_qatar_problem (accessed 20 Dec 2013).

15 | "Qatar's foreign policy. Change of tack", *The Economist*, 15 Jul 2013, <http://economist.com/blogs/pomegranate/2013/07/qatar-s-foreign-policy> (accessed 20 Dec 2013).

between Doha and Damascus.¹⁶ In the end the emirate was the first Arab country to withdraw its diplomatic representation from the Syrian capital and, as in Libya, became a mouthpiece for military action. According to *The Financial Times*, as of May 2013 Qatar had invested up to three billion U.S. dollars in the armed uprisings.¹⁷

However, allegations have also been made that Qatar was discretely organising arms for radical Islamists outside the internationally recognised Syrian Military Council. In doing so the emirate promoted an internal split within the country and ultimately contributed to the escalation of the conflict through the fragmentation of the opposition. Critics in the Arab world jeered that Sheikh Hamad wanted to become a new Gamal Abdel Nasser, in reference to the pan-Arab Egyptian president. In addition, their support of the Muslim Brotherhood in particular led to Saudi Arabia providing more weapons and greater financial support to Salafists and other groups that rivalled the Muslim Brotherhood.¹⁸ This race culminated in mid-June, 2013, when U.S. President Barack Obama called for the rebels to be armed after Assad's troops gained the upper hand following the Battle of al-Qusayr. The Saudi king then returned from his holiday in Morocco¹⁹ and seized the opportunity to rehabilitate Saudi Arabia's leadership role by forming a partnership with Western powers in order to prevent Qatar from achieving this aim. In doing so, the monarchy focussed on

Critics in the Arab world jeered that Sheikh Hamad wanted to become a new Gamal Abdel Nasser, in reference to the pan-Arab Egyptian president.

16 | Guido Steinberg, "Qatar and the Arab Spring. Support for Islamists and New Anti-Syrian Policy", *SWP Comments* 7, Feb 2012, 5, http://swp-berlin.org/fileadmin/contents/products/comments/2012C07_sbg.pdf (accessed 20 Dec 2013).

17 | Gamal Abdel Nasser of Egypt ruled from 1945 to 1970 and made the country the most important major power in the region. Roula Khalfa and Abigail Smith, "Qatar bankrolls Syrian revolt with cash and arms", *Financial Times*, 16 May 2013, <http://ft.com/intl/cms/s/0/86e3f28e-be3a-11e2-bb35-00144feab7de.html> (accessed 20 Dec 2013).

18 | Both Saudi Arabia and Qatar also support non-Islamist groups. It is less about ideological interests as it is about securing their own political influence. Thomas Pierret, "The Reluctant Sectarianism of Foreign States in the Syrian Conflict". Pierret, n. 12.

19 | "Saudi King Abdullah cuts holiday short due to 'events in the region'", *Al Arabiya*, 15 Jun 2013, <http://english.alarabiya.net/en/News/middle-east/2013/06/15/Saudi-King-cuts-holiday-due-to-developments-in-the-region-.html> (accessed 20 Dec 2013).

weakening the Muslim Brotherhood. As a result, Qatar's influence was once again pushed back.²⁰ The ultimate decision of the U.S. not to invade Syria for the time being threw a spanner in the works of both Gulf states.²¹

Another point of international criticism was the Emir's visit to the Hamas-ruled Gaza Strip in October 2012, together with a 400 million U.S. dollars grant to the Islamists. Though there was great outrage in Washington and from the Palestinian Authority in Ramallah, the fall of the Mursi regime weakened the Islamists in Gaza as well and Doha forfeited its leadership role in the intra-Palestinian negotiations.²² Things are also not going nearly as well for the Muslim Brotherhood in Tunisia, whom Qatar supported, as in the days of the Jasmine Revolution. The Islamist El-Nahda party is coming under increasing pressure and has considerably lost in prestige and influence among the population.²³ The same is true for Turkish Prime Minister Recep Tayyip Erdoğan, whose conservative Islamic rule has been challenged through the country-wide anti-government protests. The corruption scandals unveiled in December 2013, which involve leading cabinet members, have contributed to a further decline of power. Moreover, the continuous Syria crisis leaves a heavy mark on the country.²⁴

20 | David B. Ottaway, "The Saudi-Qatari Clash Over Syria", *The National Interest*, 2 Jul 2013, <http://nationalinterest.org/commentary/the-saudi-qatari-clash-over-syria-8685> (accessed 20 Dec 2013).

21 | Saudi King Sheikh Abdullah seemed so angry about this decision and the start of negotiations with Iran that he declined Saudi Arabia's long-fought temporary seat on the UN Security Council. David Ignatius, "The U.S.-Saudi crackup reaches a dramatic tipping point", *The Washington Post*, 23 Oct 2013, <http://washingtonpost.com/blogs/post-partisan/wp/2013/10/23/the-u-s-saudi-crackup-hits-a-dramatic-tipping-point> (accessed 20 Dec 2013).

22 | Jonathan Schanzer, "Confronting Qatar's Hamas ties", *Politico*, 7 Oct 2013, <http://politico.com/story/2013/07/congress-qatar-stop-funding-hamas-93965.html> (accessed 20 Dec 2013).

23 | Anna Antonakis-Nashif, "Legitimitäts- und Verfassungskrise in Tunesien", *SWP-Aktuell* 49, Aug 2013, http://swp-berlin.org/fileadmin/contents/products/aktuell/2013A49_atk.pdf (accessed 20 Dec 2013).

24 | Kareem Fahim, "For Turkey's Leader, Syria's War Worsens His Problems at Home", *The New York Times*, 12 Sep 2013, <http://nytimes.com/2013/09/13/world/middleeast/for-turkeys-leader-syrias-war-worsens-his-problems-at-home.html> (accessed 20 Dec 2013).

However, the real drama was to occur a few days after the Sheikh Tamim took office when Egyptian President Mohamed Mursi was ousted from power by the military on 3 July 2013. Thus began the campaign against the Muslim Brotherhood. Nothing could have been worse for the leadership in Doha, for they had placed all their foreign policy eggs in one basket and subsequently were confronted with their allies' displeasure. When Mursi came to power he received eight billion U.S. dollars from Qatar. This was poured into new power structures, but also to Hamas in Gaza and the rebels in Syria. But now the Egyptian president and 2,000 senior officials had been arrested and in September 2013, the Brotherhood was outlawed.²⁵ Qatar was forced to recognise that it had bet its ambitions on the wrong horse. Unlike what had been calculated, it was now obvious that the future of the Middle East would not lie in the hands of the Islamists.



Source of resentment between Qatar and the Afghan government: The Taliban office in Doha that operated for a short period of time in 2013. | Quelle: © Str, picture alliance.

Saudi Arabia welcomed the developments in Egypt and responded by granting five billion U.S. dollars to the new military regime. In addition, the United Arab Emirates and Kuwait contributed seven billion U.S. dollars.²⁶ Tensions between Qatar and Egypt grew. The new leadership on the Nile rejected Qatar's request for an increase in the

25 | Aryn Baker, "Qatar Haunted by Its Decision to Back the Arab Spring's Islamists", *Time*, 26 Sep 2013, <http://world.time.com/2013/09/26/qatar-haunted-by-its-decision-to-back-the-arab-springs-islamists> (accessed 20 Dec 2013).

26 | Ibid.

number of flights between the two countries and unceremoniously returned two billion U.S. dollars. According to media reports, *Al Jazeera* offices in Cairo were closed and the local branch was outlawed. Seven journalists were arrested; two of them are still in detention.²⁷

In terms of supporting Islamists, Qatar's foreign policies have failed for the time being. The promising rise of the Muslim Brotherhood suddenly seems to be history. But even in its soft power diplomacy, the Qatari government was not unequivocal. For instance, the attempt at mediation between the Taliban and the Afghan government failed. President Hamid Karzai accused Qatar of having given the Taliban the opportunity to present their new Doha office as the "embassy" of an "Afghan government in exile". He called for the immediate removal of their flag from the building. This incident led to the cancellation of planned talks between American diplomats and Taliban representatives. Finally, the Taliban decided to close their office.²⁸ The failed attempt at institutionalisation and expected recognition of the Islamists also reduces the prospects of future negotiations between the conflicting parties.

BACK TO SOFT POWER – ONWARDS TO AGENDA 2030

Qatar's foreign policy setbacks have catalysed a power shift. Along with the Emir, the Prime Minister and Foreign Minister was also removed from office.

Against the backdrop of the setbacks in Libya and Syria and several months in advance of impending upheaval on the Nile, it is not surprising that Qatar's foreign policy setbacks have catalysed a power shift. Along with the Emir, the Prime Minister and Foreign Minister was also removed from office. As head of the Qatar Investment Authority, Hamad bin Jassim, one of the wealthiest and most influential people in Qatar, was responsible for both international investments and supporting the Islamists. Furthermore,

27 | "Egypt returns \$2 billion to Qatar in sign of growing tensions", Reuters, 19 Sep 2013, <http://reuters.com/article/2013/09/19/us-egypt-qatar-deposits-idUSBRE98I0N020130919> (accessed 20 Dec 2013); "Calls to free Al Jazeera journalists in Egypt", *Al Jazeera*, 10 Nov 2013, <http://aljazeera.com/news/middleeast/2013/11/calls-free-al-jazeera-journalists-egypt-2013111015424142299.html> (accessed 20 Dec 2013).

28 | Ben Farmer, "Taliban close Qatar office in protest at flag removal", *The Telegraph*, 9 Jul 2013, <http://telegraph.co.uk/news/worldnews/asia/afghanistan/10169161/Taliban-close-Qatar-office-in-protest-at-flag-removal.html> (accessed 20 Dec 2013).

the royal family ostensibly feared the Prime Minister could dispute Prince Tamim's succession.²⁹ He was then forced to resign from both posts, alleviating many of Sheikh Hamad bin Kahlifa's fears at once and ushering in the change of power. The office of the Prime Minister was handed over to the former Deputy Interior Minister, Sheik Abdullah bin Nasser al Thani, a move which should indicate that in the future, policy will focus more on domestic matters; he was simultaneously appointed Minister of the Interior.

It is therefore clear that the change in leadership is only partly responsible for the policy shift. Rather the transfer is part of Qatar's strategy of behaving more cautiously from now on and tackling the damage to the country's image that has resulted from its adventures. The new Emir, 33-year-old Sheikh Tamim, appears to be the right man for the job; as chairman of the National Olympic Committee and the person responsible for relations with FIFA and planning the World Cup, he is an outspoken ambassador for the principle of soft power. Educated at Sherborne, an elite British school, and the Royal Military Academy at Sandhurst, the Emir is also the chairman of the Qatar Investment Authority and the son of the glamorous Sheikha Mozah who is a national symbol for social commitment and education.

In this respect, the power shift in Doha can be seen as part of this smart power strategy. The motto is to refrain from foreign policy adventures and work even harder to deal with domestic developments. Ultimately meeting the challenge of the country's numerous major projects on time is what is important. This new focus was more than evident in the young Emir's inaugural speech where he called for "avoiding arrogance" and spoke almost exclusively about his country's economic and social development. He particularly focussed on the need for education and diversifying the economy. In addition, Qatar will "remain true to its values and principles" and strive to "solidify" its "brotherly relations" with member states of the Gulf Cooperation Council and the Arab League. Regarding its foreign policy orientation, he stressed that Qatar would "respect political

29 | Sonja Zekri, "Gernegroß stößt an seine Grenzen", *Frankfurter Allgemeine Zeitung*, 11 Nov 2013.

trends in the region”, though it would “not support one of these trends over another”.³⁰

What was striking about the speech in particular was that the Emir did not mention the armed conflict in Syria. While it cannot be assumed that the numerous alliances with the Muslim Brotherhood have been resolved and that Qatar has given up its role in Syria, it is expected for them to take on a softer tone. Following the Egyptian military’s takeover, *Al Jazeera* announced that Qatar supports “the Egyptian people” and not a specific party. The emirate respects “the will of the Egyptian people”.³¹ Sheikh Yusuf al-Qaradawi, who had promoted the rise of the Islamists on *Al Jazeera*, has now been indirectly reprimanded for continuing to support Mursi.³²

In terms of regional power politics, the consequences of the possible fall of the Assad regime on the balance of power between the Gulf monarchies and Iran are not to be underestimated. A shift is already becoming apparent in the rapprochement between Iran and the West, a fact that is observed with concern by Gulf rulers. The end of trade sanctions means their dreaded neighbour is at the very least being reassessed. In addition, modernising Iranian industry for the Islamic Republic brings along with it a greater contingent for developing the Iranian-Qatari gas fields.

The inhumane working conditions of migrant workers who are working on infrastructure for the 2022 World Cup and the deaths that have resulted are a source of considerable damage to the country’s image.

But Qatar is even facing a great number of challenges domestically, not least with regard to the upcoming major projects with a total value of 150 billion U.S. dollars. Furthermore, the inhumane working conditions

of migrant workers who are working on infrastructure for the 2022 World Cup and the deaths that have resulted are a source of considerable damage to the country’s image.³³ In a similar vein, scandals such as that involving French footballer Belounis Zahir, who was held along with his family for 18 months in accordance with Qatari labour law,

30 | Inaugural speech by Emir Tamim bin Hamad al Thani on 27 Jun 2013, broadcast live on *Al Jazeera*.

31 | *Al Jazeera*, 3 Jul 2013.

32 | N. 15.

33 | Markus Bickel, “Autoritärer Baumeister”, *Frankfurter Allgemeine Zeitung*, 11 Nov 2013.

are not exactly conducive to improving public opinion on Qatar's brand.³⁴ Fundamental labour market policy reforms are necessary and better working conditions must be provided for international workers.

The objectives of "Agenda 2030" provide not only for the diversification of the economy away from dependence on non-renewable energy resources, but also for the nationalisation of the labour market, which continues to be dominated by some 1.65 million migrant workers. Currently, only a few Qataris are prepared to complete their professional training and enter the labour market. The vision of the local people taking their country's development into their own hands is still quite far off.

Qatar is also facing major domestic challenges. Although Sheikh Hamad introduced a constitution, promoted education for women and granted them active and passive voting rights, their acceptance in public roles is progressing very slowly. The election of the Legislative Council (Majlis al-Shura) has been delayed for years and the power structure continues to be based upon a balance between the ruling family and individual tribes.³⁵ Criticism of the royal family's policies and internal policy debates remain taboo. The new Emir's strategy seems to be promoting the creation of institutions and committees to work alongside the relevant ministries for health, education, culture and sports.³⁶ Whether this will create a civil society that acts independently remains to be seen.

The new Emir's strategy seems to be promoting the creation of institutions and committees to work alongside the relevant ministries for health, education, culture and sports.

34 | According to the guarantee system (Arabic: *al-kafala*), which is controversial in the international community but typical of Gulf states, foreign workers may not leave the country without their employer's permission. Cf. "Zahir Belounis: French footballer finally able to leave Qatar", *BBC*, 27 Nov 2013, <http://bbc.com/sport/0/football/25116925> (accessed 20 Dec 2013).

35 | Nadine Scharfenfort, "Herrschaftswechsel in Katar – gleicher Kurs oder neue Wege?", *GIGA Focus* 7, 2013, 2 et seq., http://giga-hamburg.de/de/system/files/publications/gf_nahost_1307.pdf (accessed 20 Dec 2013).

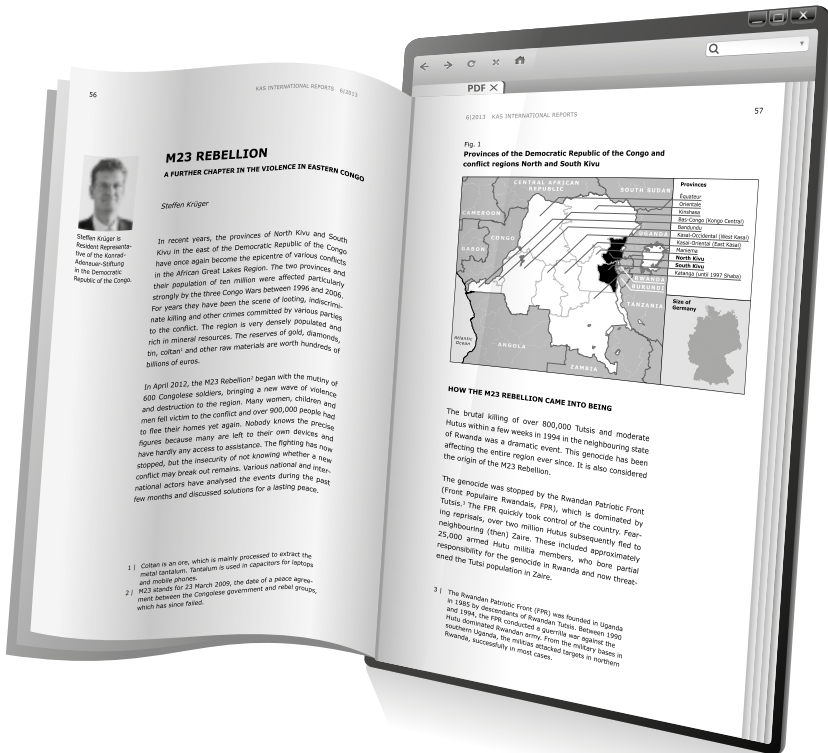
36 | "No more own goals", *The Economist*, 26 Sep 2013, <http://economist.com/news/middle-east-and-africa/21586886-new-emir-wants-more-discipline-home-and-less-risk-taking-abroad-no-more-own> (accessed 20 Dec 2013).

Despite having the world's highest per capita GDP and its self-confident international facade, Qatar remains a vulnerable microstate wedged between its large neighbours, Saudi Arabia and Iran. In the long-term this cannot be gilded by its smart advertising strategy. What is certain is that the emirate will not achieve true stability and constancy solely through strong alliances and international furore, but by involving young people in particular in society and political life. Long-term success can only be achieved with a labour market that is not dependent on gas revenues and a qualified local workforce that will remain in the country even in the event of a crisis.

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