Does the Price of Watermelons Matter? Economic Performance and Political Legitimacy in the Islamic Republic of Iran

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Despite Ayatollah Khomeini's famous comment that the Iranian revolution was "not about the price of watermelons," the Islamic Republic of Iran was in part founded on economic promises of redistribution, equality, and justice. The strength of this rhetoric has formed a core basis of political support for the regime, but it has also established public expectations that the Islamic Republic has been chronically unable to meet. Many analysts have cited Iran's poor economic performance since the revolution and resulting public dissatisfaction as a key weakness of the clerical regime and a potential source of its downfall. Indeed, this is a crucial element of the argument advanced by advocates of stronger multilateral economic sanctions against Iran in the dispute over its nuclear program. However, underlying this logic is an implicit assumption that regime legitimacy is tied to economic performance. While intuitively appealing, this assumption bears further scrutiny, particularly if it forms a basis for American policy decisions towards Iran. The primary goal of this paper is to examine the political and economic factors that have caused the gap between economic rhetoric and performance in Iran, and to assess the extent to which that gap has affected the political legitimacy of the Iranian regime.

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PREVIOUS RESEARCH AND METHODOLOGY

The Economic Performance/Public Support Dynamic

The relationship between economic performance and public support for a political regime or incumbent administration is a subject that has received substantial attention in developed countries, particularly Britain and the United States. Due to the paucity of high-quality survey data collected in developing countries, relatively little corresponding research on these political systems exists. The research that does exist focuses primarily on support for newly democratic regimes. One of the more well-documented studies of this subject was conducted by Steven Finkel, Edward Muller, and Mitchell Seligson, who use longitudinal surveys conducted in Costa Rica and West Germany in the midst of economic crises to assess the extent to which economic performance affected incumbent popularity and regime support.[1] They find that overall support for the democratic political regime remained very

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high throughout the crisis, while opinions of incumbent performance declined substantially. They conclude that democracies that enter economic crises with high levels of legitimacy are capable of maintaining regime support even in the face of dissatisfaction with particular leaders.

Shifting focus to Africa, Michael Bratton and Robert Mattes use survey data from Ghana, Zambia, and South Africa to examine whether support for these democratic regimes is 'intrinsic' (an end in itself) or 'instrumental' (a means to an end).[2] They conclude that "approval of democracy remains performance-driven; but approval hinges less on the government's capacity at delivering economic goods than its ability to guarantee basic political rights."[3] Indeed, they find that "when other relevant factors are controlled for, citizen perceptions of economic delivery have no discernible effects on the endorsement of democracy in either Zambia or South Africa."[4] In other words, for most citizens the political benefits of the democratic regime outweigh its economic benefits – or lack thereof. A similar study of post-communist democratic states in Eastern Europe, conducted by Geoffrey Evans and Stephen Whitefield, comes to largely the same conclusion, finding that "when support for marketization is controlled for, there is very little link from economic experience to support for democracy."[5]

[D]emocratic regimes do not rely primarily on economic performance for legitimacy. Instead, it is their ability to meet the political needs of their citizens that forms the core of their public support.

The consistency of these conclusions across divergent social and political settings leads to a fairly robust conclusion that democratic regimes do not rely primarily on economic performance for legitimacy. Instead, it is their ability to meet the political needs of their citizens that forms the core of their public support. While poor economic performance can, and often does, decrease public support for an incumbent administration, it does not undermine the democratic regime itself.

Methodology

These findings are robust in the context of democracies, but do they apply to Iran given its unique mixture of representative and theocratic elements? Due to the scarcity of reliable survey data, this is a challenging question to answer. In the absence of such data, this paper must employ a more circuitous approach. In order to assess the effect of economic performance on political legitimacy in Iran, the conclusions developed from research on emerging democracies serve as a working hypothesis, which is then tested against available data from Iran to judge whether or not the same results can be observed there.

The Islamic Republic of Iran is not a democracy. Political authority lies ultimately with the Qur'an and proximately with the *Rahbar* (the Supreme Leader), rather than with its citizens. However, the Islamic Republic does contain strong representative elements. The *Majles* (the Iranian parliament) and the president are elected directly by the citizens, though the list of eligible candidates is carefully screened by clerical authorities to ensure proper "Islamic" credentials and political viewpoints that are acceptable to the regime. In using the findings from emerging democracies as a falsifiable hypothesis for Iran, I assume that it is the not the democratic elements of the regimes cited above that give them their core political characteristics, but rather their republican elements. In other words, I hypothesize that it is not democracy *per se* that affects public opinion in the democratic regimes studied above, but rather what is often called the "democratic process"—voting, representation, competing political parties, etc. A finding that economic performance affects political legitimacy in Iran would reject this hypothesis. On the other hand, a conclusion that economic performance does not influence political legitimacy in Iran would argue in favor of this hypothesis that Iran's republican government produces a similar phenomenon to that which is observed in democracies.

Accurately gauging public opinion in Iran is a challenge. The government keeps tight control of public polling activities to prevent the collection and dissemination of information that might undermine regime policies. For example, the head of Iran's National Institute of Public Opinion, Behrouz Geranpayeh, was imprisoned in 2002 after publishing a poll showing that 75 percent of Iranians favored a resumption of diplomatic relations with the United States.[6] In an environment where the government actively hinders the ability of researchers to measure public opinion, it is difficult to devise a methodology that can cleanly and definitely answer the present research question.

To address this concern, I have cast my net broadly, relying on a variety of information sources. In addition to economic and historical analysis of Iran's political economy, this paper makes use of three primary data sources: survey data from the 2000 *World Values Survey* (WVS),[7] a poll conducted in 2006 by the *Program on International Policy Attitudes*,[8] and Iranian print media coverage. Each data source has its limitations (see endnotes for a more detailed discussion). Taken together, however, they constitute the most direct and contemporary sources available about political and economic issues in Iran.

Using Iranian print media to analyze Iranian public opinion as a whole presents a particular challenge due to the fact that Iranian newspapers are subjected to intense government scrutiny and censorship. In the 2006 "Press Freedom Index" compiled by *Reporters Without Borders*, Iran was placed 162nd out of 168 countries ranked, reflecting the severe limitations placed on reporters and editorialists.[9] However, Iranian newspapers express a surprisingly wide range of opinion regarding many of the economic issues examined in this paper. Thus, while Iranian print media should not be taken to represent the full spectrum of opinion within Iran, it can be analyzed within the framework of the discourse that the clerical regime deems to be acceptable.

Economic Policies and Political Consequences

Impact of a Fragmented Revolutionary Alliance

The Iranian Revolution was the product of many different groups bound together by their shared dislike of the Shah's regime. While religious conservatives, Marxists, nationalists, and merchants each protested the Shah's economic management of Iran,[10]their specific critiques of his performance were widely divergent. In the revolution's aftermath, these disparate parties formed a fractured foundation upon which the new regime's economic policies would be built. Proposals ranged from the total collectivization of the economy to preserving the existing free-market system, with only marginal changes designed to make it more just and 'Islamic.'

The end result of this political debate was a syncretic compromise that appropriated elements of the Marxist agenda and presented them in religious terms. The government nationalized thousands of firms, created a system of large religious foundations (*bonyads*) to provide for the needs of the poor, and developed a massive system of subsidies (both directly and indirectly through preferential exchange rates). Taken as a whole, these policies have been consistently inefficient and counterproductive, measured either by the standard of pure economic growth or by the conception of economic justice that formed the core of revolutionary rhetoric. Since the Islamic Republic's creation, inflation has averaged 21 percent per year.[11] The unemployment rate is currently estimated to be around 20 percent, a figure that rises to nearly 50 percent among Iranians between the ages of 25 and 29.[12] Foreign direct investment remains all but non-existent in Iran, and subsidies currently consume nearly 25 percent of Iran's GDP.[13]

The Revolution's Economic Legacy

Despite these desultory results, a number of political factors have foiled the few serious attempts at reform that have taken place. First, the small cadre of political insiders and *bonyad* chiefs – both well positioned to benefit from distortions in the Iranian economy – have grown staggeringly wealthy under the Islamic Republic. The *Bonyad-e Mostazafan* for example, the largest of the revolutionary foundations, had by the mid-1990s become the largest economic entity in the Middle East.[14] One analyst estimates that the foundation currently produces about 11 percent of Iranian GDP.[15] These organizations have not hesitated to use their money and influence to fight any challenges to the economic status quo that has benefited them so greatly.

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The second impediment to reform is the fact that Khomeini's death in 1989 deprived the Islamic Republic of the single leader whose unquestioned religious and political authority could decisively break political deadlocks. The effect has been a diffusion of political power and the creation of a tremendous amount of institutional and political inertia. While political leaders can – and have – pushed economic policy in one direction or another, other political players almost always retain enough clout to push back and effectively preserve the status quo. With the

notable exception of exchange rate unification (eliminating tiered, fixed exchange rates and letting the currency float) in 2003, most attempts at economic reform in Iran have been short-lived and unsuccessful.

Third, this tendency toward political inertia has been exacerbated by the enduring power of the revolution's emotional and rhetorical legacy. Khomeini's singular popularity and his political apotheosis in the iconography and rhetoric of the Islamic Republic have made it extremely difficult to break with his legacy, however imperative doing so might be from a policy perspective. The political costs associated with a public repudiation of any aspect of Khomeini's thought would be unbearably high for all but the most popular politician.

CONTEMPORARY PERCEPTIONS OF ECONOMIC PERFORMANCE

These factors have led to an obvious gap between the Islamic Republic's economic rhetoric and its performance. But how is this gap viewed in the context of Iran today? By examining data from the 2000 *WVS* and Iranian print media coverage of several central economic issues we can develop tentative answers to this question.

Based on a review of these data sources, it is clear that economic issues are by far the most important concern of the Iranian public. In the *WVS*, 51 percent of respondents said that "a high level of economic growth" should be the top priority for the country in the next 10 years, with another 23 percent saying it should be the second highest priority. By way of comparison, the second highest priority was that "people have more say about how things are done," which was identified by only 18 percent of respondents as the top priority. The large number of newspaper stories and editorials that focus on economic matters further reflects the political importance of this issue.

Today, as during the revolution, discontent with the economic status quo is a driving political force. But while economic issues remain at the top of the agenda, public opinion about the direction that should be taken on those issues has changed substantially. Evidence from the 2000 *WVS* suggests that widespread public enthusiasm for the redistributionist and statist economic goals of the revolution has waned. Many of the economic issues that formed the core of the revolution's economic agenda now fail to capture majority support. When asked to rate their views of private vs. state ownership of business on a scale of one to 10 (with one representing "private ownership of business should be increased" and 10 representing "government ownership of business should be increased"), the mean response from Iranians surveyed in 2000 was 5.67—almost perfectly in the middle.[16] Likewise, when asked to rate their opinions on income inequality on a scale of one to 10 (with one representing "incomes should be made more equal" and 10 representing "we need larger income differences as incentives"), the mean response was 5.66 – again, almost perfectly in the middle.[17] While a wide range of opinion is expressed on these questions, the Iranian population as a whole is surprisingly moderate about these issues that once formed core, popular demands of the revolution.

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Inflation and Fiscal Policy

Examining Iranian press coverage of economic issues provides a more nuanced look at the views expressed on these issues. In 2007, the frequency and vitriol with which Iranian newspapers have criticized the Ahmadinejad administration about inflation far exceeds any other single issue. The criticism is direct and unsparing, specifically pinning the blame on the expansionary fiscal and monetary policy of the Ahmadinejad administration. The price of tomatoes, for example, has become a synecdoche for the problem of inflation in general, with newspapers tracking their price in various regions and government officials frequently being asked about their price. At a speech presenting his annual budget to the *Majles* in January, Ahmadinejad was heckled by members for underestimating the current price of tomatoes by nearly 50 percent. In response, he suggested that they shop someplace less expensive.[18]

Faced with the political costs of inflation, the Ahmadinejad administration has adopted various techniques to deflect or diffuse the issue. For many months, government officials and their sponsored media outlets simply denied that inflation was any higher than it had been in recent years. More recently, as the effects have become increasingly obvious, officials have dealt with the issue by blaming merchants for 'profiteering' -- raising prices to line their own pockets at the expense of the poor. [19]

Ahmadinejad himself has been on the defensive over the issue, arguing at a January 23, 2007 press conference that the government has been trying to protect Iranian farmers: "We could have imported tomatoes from abroad in order to bring the price down, but we did not do so in order to protect domestic producers." In response, one paper reminded its readers that Ahmadinejad had not shown such concern about Iranian farmers the year before, when he had allocated millions of rials for the import of fruits to keep prices low around the Persian New Year.[20]

The effect of inflation on the poor has been one of the rhetorical tropes that newspapers and parliamentarians from across the ideological spectrum have repeatedly employed to criticize administration policies.[21] For example, the Iranian Labor News Agency quotes a labor leader in the province of Gilan as saying "The ninth government made many promises concerning economic issues and ways to resolve the plight of the workers. Unfortunately, however, not only none of these promises have so far been fulfilled, the plight of the workers is worsening day by day."[22] Another paper writes:

> What has made the price increase intolerable for people during the last couple of years was not the sole problem of the increasing prices but the denial of the statesmen. Iranian officials did promise the nation that they would do all they could to provide the lower class of the society a better life but have failed to achieve this goal. In fact, it seems that they have accepted their defeat in this challenge.[23]

By focusing on the plight of the poor, rather than the economy in general, critics achieve two goals. First, they protect themselves from political retribution by situating their complaints within the acceptable discourse of the Islamic Republic. Second, they implicitly undermine the legitimacy of the administration by pointing out its failure to accomplish one of the fundamental tasks that Khomeini set out for the regime. Despite being deeply critical of the Ahmadinejad administration, such critiques implicitly buttress the legitimacy of the Islamic Republic by measuring the administration against the rhetoric of the revolution. Criticizing the administration is not the same as criticizing the regime, and the Islamic Republic is careful to allow the former in order to avoid the latter.

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Subsidies

Subsidies have been an issue of intense political debate in recent months, particularly regarding gasoline subsidies. High subsidies keep the domestic price of gasoline at around 30 cents per gallon, costing the Iranian government nearly $6 billion in 2006.[24] Domestic energy consumption has increased dramatically over the lifetime of the Islamic Republic, rising to 40 percent of domestic production in 2006.[25] This, in turn, has led to substantial environmental problems such as air pollution, which according to World Bank estimates annually costs Iran the equivalent of 1.6 percent of its GDP.[26]

In response to these budgetary and environmental costs, gasoline rationing was imposed in Iran in late June 2007, leading to a brief wave of protests and rioting across the country. The political damage to the Ahmadinejad administration from this decision was considerable--at least partially in response to the public outcry about rationing he dismissed his Minister of Petroleum in August.[27] While public ire has focused on the president, the need for rationing was widely acknowledged across the political spectrum among parliamentary leaders. As one conservative editorialist wrote before the rationing decision had been made,

"the fuel subsidy, especially the gasoline subsidy, in Iran has grown to an intolerable point, such that the current situation can not persist any longer."[28]

Despite this agreement across ideological lines, various factions of the *Majles* and the Ahmadinejad administration have been locked in an intense political battle over the appropriate level and time frame for rationing and subsidy cuts.[29] Members of the *Majles*, concerned with the effect of gasoline rationing on tourism revenues in regions outside of Tehran, successfully lobbied the Ahmadinejad administration for a one-time allowance of an extra 100 liters per car in order to allow families to take their traditional summer holidays in August and September.[30] The administration, however, has rejected parliamentary proposals to allow motorists to buy market-price gasoline above their fixed-price ration limit--fearing that such a policy would increase inflation and cause further political damage.

The choice between economic populism and technocratic detachment from public opinion is a particularly challenging one in a political setting with little tradition of deferring to positive economic expertise at the expense of normative exhortations to support the needs of the poor.

In some ways, this policy debate is unremarkable. After all, the reduction of subsidies has been a source of political contention in developing countries throughout the Middle East and the world. However, in Iran the ideological and rhetorical legacy of the revolution looms large in the debate, creating a difficult hurdle for reformers to overcome. The choice between economic populism and technocratic detachment from public opinion is a particularly challenging one in a political setting with little tradition of deferring to positive economic expertise at the expense of normative exhortations to support the needs of the poor.

But the sheer scope of the problems created by gasoline subsidies appears to have shifted the debate in the direction of fiscal restraint and the importance of economic expertise. One parliamentarian, after the Ahmadinejad administration publicly discussed vetoing the *Majles'* attempts to increase the price of gasoline in April, responded: "Doing this will undermine government and parliament's standing with the public. Pity (for the poor) should not be allowed to harm the economy, destroy the environment and waste time and energy, and ultimately put pressure on the weak."[31] Another representative responded to the proposal with an answer that could have come straight from a Western economics textbook:

> We are opposed to having quotas and coupons, and the main reason for this opposition is the harm this will do to the people. One of the great consequences of two-rate petrol with quotas is inflation. The most correct way of providing petrol given Iran's conditions is to have it at one rate.[32]

Clearly the current debate is a far cry from the pseudo-Marxist rhetoric of the revolution.

The enormous and potentially ruinous costs of gasoline subsidies have forced the *Majles*, and to a certain extent even the Ahmadinejad administration, to face the limits of ideologically-driven policymaking. However, in doing so, they have incurred the wrath of a public raised on the economic promises of the revolution. The political turmoil that has ensued demonstrates the corner that Iran's leaders have backed themselves into: fundamental economics demands that they change course, but fundamental politics will not allow them to do so.

EFFECTS OF ECONOMIC PERFORMANCE ON REGIME LEGITIMACY

This brief review of Iranian print media demonstrates that the country's poor economic performance has clearly left many Iranians unhappy. The larger question, however, remains: has poor economic performance made them unhappy with the Islamic Republic? In other words, has the regime's failure to meet its economic promises undermined its legitimacy? This paper's review of literature on the relationship between regime support and economic performance indicated that, at least for democracies, regime support can weather long periods of poor performance. However, applying these observations to the case of Iran is complicated by two factors: 1) despite representative elements, it is not a full democracy, and 2) the poor economic performance of Iran does not represent a temporary aberration but rather a consistent

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trend of the past 28 years, with little hope for structural reform in sight.

The editorials and opinion articles presented in the preceding section provide useful insight into various points of view about the Iranian economy and its management by the current administration. Newspapers, however, cannot directly criticize the current regime without suffering severe legal and professional consequences. It is therefore necessary to turn to the *WVS* polling data to get a sense of how long-term discontent with the economy may have affected general Iranian perceptions of the clerical regime. Since the *WVS* data was collected in 2000, it is obviously impossible to draw any direct conclusions about what has happened under the Ahmadinejad administration, which began in 2005. However, the 2006 PIPA polling allows for some general conclusions to be drawn about where public opinion stands today.

A basic level of support for the clerical regime can be seen in the fact that in 2000 Iranians still said that they have confidence in the institutions that form the basis of the regime. The chart below, based on the WVS survey, presents a vivid picture of Iranian perceptions of major social institutions:

What degree of confidence to you have in…? (Percent responding "a great deal" or "quite a lot")

		Education Level		
	Overall	Low	Medium	High
Churches	86	92	87	80
Parliament	71	75	68	67
Government	69	73	68	65
Civil Services	45	49	45	40
The Press	36	40	37	32
Major Companies	30	30	30	28

"Churches"[33] are by far the most trusted institution in Iran, with 86 percent of the respondents reporting "a great deal" or "quite a lot" of confidence in the institution. While the level of confidence decreases somewhat among people with higher levels of education, it remains by far the most trusted institution across this and other demographic categories. Even among respondents who say they "never" or "practically never" attend religious services, 52 percent report having confidence in religious institutions. Parliament and the government generally enjoy the confidence of a substantial majority of the population (71 percent and 69 percent, respectively), albeit at lower levels than those enjoyed by "churches." In addition to strong support for the institutions themselves, a majority of Iranians also expressed general satisfaction with public office-holders – 64 percent reported themselves to be "very satisfied" or "fairly satisfied" with "the people in national office."[34] Conversely, only a minority of the population expresses confidence in the press, major companies, and civil services.

Whatever disappointments Iranian citizens may have in the economic performance of the Islamic Republic, the regime's core institutions – the church, government, and parliament – have retained significant depth and breadth of support in Iranian society. Furthermore, the WVS data shows that many of the anti-Western complaints of the revolution still retained their political salience in 2000. An overwhelming 85 percent of Iranians say that they consider "exploitation, by force, of [Iran's] natural resources by a powerful country" to be a "serious" or "very serious" problem. "Western cultural imperialism" is deemed to be a "serious" or "very serious" problem by 71 percent of Iranians. The continued resonance of these issues nearly three decades after the revolution suggests that they play an important role in Iranian politics. These figures provide a numerical illustration of how Iranian leaders have been able to submerge internal political dissent by focusing public attention on Western interference in the region. Whether or not such rhetorical decisions are made based on genuine belief or crass political calculation is largely irrelevant. Either way, the fact remains that distrust of the economic, political, and cultural influence of the West is widespread throughout Iranian society. Politicians who speak about and act upon those sentiments are rewarded with political support.

Another somewhat surprising result from the WVS is that Iranian citizens tend to rate their political system relatively highly when compared to other countries; of the 51 countries included in the 1999-2004 wave of WVS polling, Iran's mean score was the 11th highest. There are many cultural and methodological factors that might

influence these ratings, but unless one completely discounts the objectivity of the survey, Iran does not appear to be a country on the brink of a fundamental crisis of legitimacy. It is particularly interesting to note how much higher Iran scores (5.84 on a scale of 1 to 10, with 10 being "very good") than its neighbors, Pakistan (3.80) and Turkey (2.94).

Without longitudinal survey data it is impossible to assess with any certainty how views on these specific issues may have changed since 2000. As described above, economic dissatisfaction is high. There have been corruption scandals, political battles, and a number of other factors that might have diminished the legitimacy of the regime in the past seven years. On the other hand, oil revenues are up, enabling the government to spend lavishly on social programs and infrastructure development. Additionally, increased diplomatic and military pressure from the United States may have generated a rally-round-the-flag effect, boosting the legitimacy of the regime.

Despite these uncertainties, there is little indication that a precipitous collapse of public support has occurred in recent years. The 2006 PIPA poll shows that Iranians still consider political representation to be a core value. When asked "how important is it for you to live in a country that is governed by representatives elected by the people?" the mean response was 9.1 (on a scale where 1 represents "not at all important" and 10 represents "absolutely important"). Given the theocratic elements of Iran's governmental structure, Iranians also gave a fairly high assessment of the republican nature of the regime. When asked "how much do you think Iran is governed by representatives elected by the people?" the mean response was 6.9 (on a scale where 1 represents "not at all" and 10 represents "completely"). While these questions are not directly comparable to any of the question on the 2000 WVS, they buttress the observation that fundamental components of political legitimacy remain strongly in place: a majority of Iranians value political representation and consider their government to be fairly representative. Public opinion about the government is by no means positive on all issues, however; many Iranians appear unimpressed by the extent to which their government respects individual rights. Only 21 percent of Iranians responded that there was "a lot" of respect for individual human rights when responding to the question "how much respect is there for individual human rights nowadays in our country?" A further 49 percent said "some," 27 percent said "not much," and 7 percent said these was "no" respect for individual human rights.

[D]espite widespread dissatisfaction with the country's economic performance and the current administration's economic mismanagement, the two public opinion surveys examined in this paper show no evidence of a widespread crisis of legitimacy.

This data does not allow for a definitive rejection of the hypothesis that economic performance has eroded regime legitimacy in Iran – that would only be possible with more specific questions and consistent time-series data. However, if such an effect exists, it is not pronounced enough to significantly impact the stability and legitimacy of the regime. The Islamic Republic has been in economic crisis to one degree or another for the duration of its existence, as evidenced by the fact that GDP per capita has not yet returned to pre-revolutionary levels. If a strong relationship existed between economic performance and regime legitimacy, surely it would be visible by now. But despite widespread dissatisfaction with the country's economic performance and the current administration's economic mismanagement, the two public opinion surveys examined in this paper show no evidence of a widespread crisis of legitimacy. Iranians rate their government more highly than the citizens of many other countries in the world with far superior economic records in recent decades.

CONCLUSION

This analysis of press coverage of economic affairs and public opinion data shows that – despite widespread and vocal discontent with the economic performance of the country – there is little evidence to indicate that such discontent has undermined the legitimacy of the regime. This finding is consistent with quantitative research on democracies, which shows that poor economic performance is insufficient to undermine the legitimacy of an otherwise popular regime. The Islamic Republic appears to be sufficiently representative in its governmental structure that its political dynamics behave in a similar fashion: popular dissatisfaction with economic

performance gets pinned on the administration, not the regime. Furthermore, much of the media criticism directed at the current administration is couched in terms that affirm the underlying legitimacy of the regime as a whole. By criticizing the administration for failing to live up to the ideals of the revolution, opponents may damage the reputation of the administration, but they cement the normative and political centrality of the Islamic Republic. Indeed, the very fact that the regime allows such open criticism of economic policy in the press suggests that they find political value in it.

None of this is meant to imply that the Iranian population is monolithic in its support for the Islamic Republic. Polls show that Iranians are unhappy with the regime's lack of commitment to individual human rights, and that public support for the radical religious, economic, and social goals of the revolution has waned. Iranian support for the government is neither uncritical nor unambiguous, but this paper finds no evidence to suggest that the regime is widely viewed as illegitimate. Indeed, the *WVS* polling indicates that, at least in 2000, Iranian citizens viewed their political system more favorably than those of many other countries throughout the region and the world.

This conclusion has broad implications for the future of Iran, as well as for American foreign policy towards Iran. First, it suggests that domestic regime change is highly unlikely in the near or medium-term future. The dismal state of the Iranian economy is the single most important issue in Iranian politics today, yet this discontent does not translate into a desire for regime change. A more likely course of events is that worsening economic conditions will eventually build sufficient support for reform to overcome the political barriers inherited from the revolution and move the Iranian economy in a more market-oriented direction.

Second, the findings of this paper suggest that regime change – if and when it occurs -- will not be because of poor economic performance. Rather, the catalyst will likely be the failure of the Islamic Republic to deliver on the political promises of the revolution. From the perspective of the clerical regime, therefore, meddling in elections and suppressing political dissent is a dangerous business. As long as elections are widely perceived as being basically free and fair (within the highly restrictive limits set by the Iranian Constitution), much of public pressure for increased performance will fall on the elected administration, not the clerical regime. It is telling that Iran's closest brush with regime change since the revolution was not the result of economic turmoil but of the decision by hard line elements to use force to suppress peaceful student demonstrations in July 1999.

Third, these findings imply that American and European sanctions directed at the Iranian civilian economy as a whole may be somewhat limited – or even negative – in their effect. If economic performance is not a key legitimizing factor for the Iranian regime, then it is unlikely that sanctions alone will precipitate a change in Iranian nuclear policy or other contentious issues. Economic hardship caused by Western sanctions might harm the popularity of President Ahmadinejad but it would be unlikely to undermine support for the clerical regime. On the contrary, it would be more likely to rekindle the nationalist, anti-Western spirit of the revolution.

Fourth, the survey data presented here suggests that confrontational foreign policy towards America and the West will likely remain an important component of Iranian domestic politics. Until substantial economic reforms are possible, future Iranian presidents will face the unenviable prospect of being held responsible for the performance of an economy over which they have little control and which is riddled with structural deficiencies. This will always negatively impact their popularity and political power, creating an incentive to turn to popular issues that will rally public opinion. Anti-Western sentiment remains strong among a majority of Iranians and particularly among various elements of the government's power structure. Any Iranian president, regardless of his political orientation, will find it far easier to adopt a confrontational stance towards the West rather than a conciliatory one, a situation that will tend to increase as economic performance worsens.

Any Iranian president, regardless of his political orientation, will find it far easier to adopt a confrontational stance towards the West rather than a conciliatory one, a situation that will tend to increase as economic performance worsens.

Finally, these findings point to a surprising flexibility and durability in the Islamic Republic. Paradoxically, the dismal economic performance of Iran under this regime reveals an underlying strength rather than a weakness. If the Islamic Republic can withstand a quarter-century of very lean years, the longest conventional war of the Twentieth Century, and continual pressure from a hostile superpower, it is unlikely to crack any time soon. Economic reform will be one of the central issues in Iranian politics for years to come. It seems unlikely, though, that a failure to reform will lead to another revolution. To be sure, there are large pockets of profound political discontent within Iran and among Iranian expatriates. But at a fundamental level, the Islamic Republic appears to remain a legitimate form of government in the eyes of most Iranians. In the final analysis, Ayatollah Khomeini may have been right – the Iranian revolution was not about the price of watermelons and neither was the Islamic Republic that it founded.

The views and opinions expressed in articles are strictly the author's own, and do not necessarily represent those of Al Nakhlah, its Advisory and Editorial Boards, or the Program for Southwest Asia and Islamic Civilization (SWAIC) at The Fletcher School.

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[7] The World Values Survey (WVS) is a longitudinal study of change in personal and social values in 51 countries. The first WVS Iran survey was conducted in 2000 by means of personal interviews with 2,600 Iranians in 28 provinces selected through a clustered random sample. The survey shows a high variance of opinion, indicating that there was no obvious systematic bias in the sample. However, it is impossible to measure the extent to which individuals might have altered their responses due to political pressure or fear that their responses might be made available to the government. Furthermore, it is difficult to assess in any quantitative fashion the degree to which cultural factors might bias a particular country's responses relative to other countries. The fact that the survey was conducted seven years ago limits the extent to which its data can be used to draw conclusions about contemporary Iran. The economy and politics of Iran have changed substantially since 2000, when President Khatami was in power and oil prices were at low ebb. A further challenge is that the WVS was designed to be comparable across societies, and therefore consists of fairly general questions that have wide applicability. As a result, there are many issues of particular importance to Iran that are not addressed in the survey. The WVS conducted another wave of polling in 2005, but that data has not yet been made public. When it is, the ability to compare Iranian public opinion over time will greatly increase the strength of the conclusions that can be drawn from the data. The reader might reasonably ask whether survey data from 2000 has anything at all to tell us about the state of public opinion in 2007. The answer is that a wide body of research in countries with long histories of public opinion polling has shown that while responses to questions about presidential approval or current news events can change quickly, broad questions about political and social values elicit surprisingly stable responses. See, for example, Benjamin I. Page and Marshall Bouton, *The Foreign Policy Disconnect: What Americans Want from Our Leaders but Don't Get* (Chicago: University of Chicago Press, 2006) and *The Rational Public: Fifty Years of Trends in Americans' Policy Preferences* (Chicago: University of Chicago Press, 1992). Of course, events in Iran may have proven substantial enough to change public opinion substantially since 2000, but in the absence of more recent information, this data provides the best approximation available of what Iranians currently think.

[8] The Program on International Policy Attitudes poll, conducted in December 2006, focuses specifically on the current confrontation between the United States and Iran over Iran's nuclear program, and therefore has relatively little of use in studying Iranian political economy. However, its recent completion date provides a reference point to assess whether or not attitudes toward the Iranian regime have shifted drastically in the time between the 2000 World Values Survey poll and today. The poll was conducted through face-to-face interviews with 1,000 respondents in all 30 provinces in Iran, with a margin of error of 3.2%. Full survey data is available at http://www.usip.org/iran/iran_presentation.pdf.

[9] Reporter Without Borders, *Worldwide Press Freedom Index 2006*, October 23, 2006, <http://www.rsf.org/IMG/pdf/cm2006_mo-2.pdf > (accessed April 20, 2007).

[10] Ibid., 15-19.
[11] International Monetary Fund data.
[12] Peter David. "The Revolution Strikes Back: A special report on Iran." *The Economist*, July 21, 2007, 9.
[13] Ibid.
[14] Sohrab Behdad. "From Populism to Liberalism: The Iranian Predicament," in Parvin Alizadeh, ed. *The Economy of Iran: Dilemmas of an Islamic State.* (London: I.B. Tauris, 2000), 112.
[15] A. Karbasian, *Bodje v bodje rizi-ye dolati dar Iran* [Budget and Budget Planning in Iran] (Tehran: Banking Institute of Tehran, 1999). Quoted in Javad Amid and Amjad Khadjikhan, *Trade, Industrialization and the Firm in Iran: The impact of government policy on business* (London: I.B. Tauris, 2005), 72.
[16] By way of comparison, Egypt (1999) and Iraq (2004) are substantially more supportive of government ownership, with a mean response of 6.68 and 6.93, respectively. Turkey (2001), on the other hand, is somewhat more supportive of private ownership, with a mean of 5.17.
[17] On this issue, Iranian public opinion is barely distinguishable from American public opinion (1999), which has a mean response of 5.72.
[18] Budget speech to Majles by Iranian President Mahmud Ahmadinezhad, Islamic Republic of Iran News Network Television, January 27, 2007. Available from World News Connection.
[19] "'Lack of Supervision' Blamed for High Food Prices," *Iran Daily*, February 7, 2007. Available from World News Connection.
[20] Hamid Reza Shokuhi, "Analysis of the president's interview broadcast by TV Channel Two. Twenty other questions for the president," *Mardom Salari*. January 26, 2007. Available from World News Connection.
[21] See, for example: "Stubbornness with whom, and why!?" *Aftab-e Yazd*. August 23, 2007. Available from World News Connection.
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[23] "Prices are Skyrocketing," *Gilan-e Emruz*. February 10, 2007. Available from World News Connection.
[24] United States Department of Energy. *Iran Country Analysis Brief*, August 2006,<http://www.eia.doe.gov/emeu/cabs/Iran/Background.html> (accessed 10 April 2007).
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[27] Robert Tait, "Ahmadinejad dismisses two key ministers," *The Guardian*, August 13, 2007, < http://www.guardian.co.uk/iran/story/0,,2147923,00.html> (accessed December 6, 2007)
[28] "Worrisome Statistics on Situation of Production, Consumption of Gasoline in Country," *Hamshahri*, March 12, 2007. Available from World News Connection.
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[30] "Iran to allow motorists extra petrol," *AFP*. August 28, 2007.
[31] "Some Iran legislators oppose continued subsidies for petrol," *Aftab-e Yazd*, April 10, 2007. Available from World News Connection.
[32] Ibid.
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The Rise of Islamic Banking and Finance in Central Asia

Geoffrey F. Gresh

Since the collapse of the Soviet Union and rise of new nation-states in 1991, the Muslim republics of Central Asia and the southern Caucasus have witnessed the arrival of Islamic banking and finance to the region. The Islamic Development Bank (IDB) has been a catalyst for the increased spread of finance projects in the region that are compliant with Islamic principles like no usury or *riba.* This paper examines the important role of the IDB and other Islamic banking and financial institutions in promoting socio-economic development across the region. Moreover, a majority of the Central Asian and southern Caucasian republics view Islamic banking and finance as important tools with which to channel the energies of radical Islamic opposition groups. Despite moderate success in the region, the IDB has confronted significant obstacles in trying to propose Islamic finance to these governments because of a strong Soviet legacy and volatile politics. Although the Muslim republics remain influenced by elements from their Soviet past, including a command economy and one-party political system, Islamic banking and finance has grown in the last decade to become a significant force for positive change.

Lastly, the IDB acts as an important instrument of legitimacy for the ruling elite and neo-nomenklatura of the region who continue to experience a rise in opposition from radical Islamic forces.

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Background

Islamic banking and finance is on the rise and taking root in Central Asia. Since the collapse of the Soviet Union and formation of new nation-states in 1991, Muslim republics in the region have witnessed a significant increase in Islamic financial institutions. Moreover, Islamic banking and finance has been viewed by Islamic scholars as an innovative way for the former Soviet republics of this region to form an economic bloc with other Islamic countries outside of Central Asia, ultimately leading to a greater market advantage in a competitive global economy. One of the keys to accessing global markets is by sponsoring national and regional socio-economic development, and liberal economic reform. The prevailing Soviet legacy in these Muslim republics, especially the notion of a centrally-planned economy, has greatly hindered such

In the last decade, Islamic banking and finance have become significant forces for positive change in the region.

development. However, with the advent of Islamic banking and finance, the Muslim republics of Central Asia and the southern Caucasus have already experienced a significant boost in socio-economic development that will hopefully continue long into the future.

Throughout the twentieth century, Islam was an important cultural and religious outlet for the people of Central Asia despite its repression under Communist rule. As the Muslim republics of this region grow more exposed to new forces of global change, including market forces, a communications and information revolution, as well as radical Islam, their governments are struggling to adapt and create new political and economic structures to survive in an increasingly interconnected world. Under these new pressures of global change, many regional rulers have clung even stronger to their previous modes and methods of governing under a command economy and one-party political system, while other leaders have attempted to liberalize national markets in a global economy.

The Soviet legacy continues to plague the modern development of most former Soviet republics in Central Asia, making it more complicated for the penetration of Islamic banking and finance to the region. Nevertheless, with the assistance of the Islamic Development Bank (IDB) based in Jeddah, Saudi Arabia there has been a noteworthy increase of Islamic banking and finance in the region. This article examines the important role of the IDB in promoting socio-economic development across the region. Moreover, a majority of the Central Asian and southern Caucasian republics view Islamic banking and financial institutions as important outlets through which to channel the energies of radical Islamic opposition groups. Despite witnessing moderate success in the region, the IDB has confronted significant obstacles in its promotion and development of Islamic financial institutions for regional governments because of the strong Soviet legacy and precarious political situations that prevail. Even with the persistence of their Soviet past, Muslim states in the region are experiencing a growth in Islamic banking and finance. In the last decade, Islamic banking and finance have become significant forces for positive change in the region. The IDB acts as an important instrument of legitimacy for the ruling elite and neo-nomenklatura of the region who continue to experience a rise in opposition from radical Islamic forces.

For the purposes of this article, the rise of Islamic banking and finance will be compared among the six Muslim republics of the former Soviet Union: Azerbaijan, Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan, and Kyrgyzstan. Each has incorporated Islamic banking and finance to varying degrees depending on the nature of its political system and economy in the post-Soviet era. The IDB has acted as the primary catalyst in this process of incorporation. It has most successfully entered the financial services sector of the economy in countries that have adopted more liberal economic reforms, most importantly Azerbaijan and Kazakhstan. In any case, for both of these countries it will be shown that the IDB has had to deal with the complex politics of a rentier state that have developed over the past decade due to the rise of oil and gas revenues. States are classified as rentier states when a substantial portion of the national revenue is generated from a local natural resource like oil or natural gas. In order for Islamic banking and finance to take a stronger hold in these countries, as well as in other regional rentier states like Turkmenistan and Uzbekistan, it is believed that the political ruling elite must be involved in the formation and subsequent financial benefits of Islamic banking and finance.

Islam in Central Asia

Despite Soviet suppression of public religious expression, Islam, and in particular Sufism or Islamic mysticism, has played an important role in the history and culture of each of the six republics examined in this study. Since the fall of the Soviet Union, political Islam has moved to the forefront of the political arena across the region. Islamic groups, exemplified by the rise of Hizb ut Tahrir—a global Islamic party that seeks to unify Muslims under an Islamic state or Caliphate—have grown more interconnected,

organized, and violent in an age of modern communications, leaving many leaders of the region troubled by the situation. In most cases, the government's initial reaction is to repress any alleged terrorist or opposition group. In a country like Uzbekistan, for example, President Karimov has repeatedly thwarted any semblance of an Islamic movement through violent action, whether justified or not. Such violent action has only turned many people against the Uzbek government. Moreover, President Karimov faces the dilemma of having to deal with neighbors like Tajikistan and Afghanistan that—due to inadequate rule of law systems—can provide safe havens to groups such as the IMU and Hizb ut-Tahrir.

Despite the rise of violent Islamic forces, Islam remains a relatively stable force in the Central Asian republics of Kazakhstan, Azerbaijan, and Kyrgyzstan. As for Turkmenistan, conventional Islam has been greatly transformed by President Niyazov, placing it in a special category of its own.

In general, Islam remains an omnipresent force across the region and leaders of the individual republics have worked since the 1990s to incorporate greater elements of Islam into inner structures of government. Increased piety among Muslims across the region in the last decade has led to more vocal protest against the secular governments of the region.[1] Since most of the current governments have maintained many of the old Soviet structures, they are now increasingly pushed by their respective populations to incorporate more aspects of Islam. Most government leaders have sough to resist such change because it represents a shift in the power structure of the ruling elite. A balanced fusion of Soviet structures and Islam will remain a major hurdle for governments to overcome in the future.[2]

IDB and the Arrival of Islamic Banking and Finance in Central Asia

With Islam's growing importance across Central Asia, a majority of the countries in the region view the presence of an international Islamic financial institution like the IDB positively because of its ability to help respective governments promote both Islam and socio-economic development. Islamic banking and finance, where no usury or *riba* is permitted, has only just begun to take root across the region and could be used as an instrument to channel the energy of Muslims who desire greater inclusion of Islam in government.

Since the breakup of the Soviet Union, each of the Central Asian Republics has joined the IDB: Azerbaijan (1992); Kyrgyzstan (1993); Turkmenistan (1994); Kazakhstan (1995); Tajikistan (1996); and Uzbekistan (2003). By 1997, the IDB established a regional office in Almaty, Kazakhstan to foster the Bank's efforts in social and economic development of the countries in the region. The regional office in Almaty (ROA) has effectively become the hub for IDB group operations in the area.[3]

On a wider scale, the IDB seeks to establish a greater communications and trade link among Islamic countries around the globe. In this capacity, the IDB explicitly endeavors to link former Soviet republics of this region with countries from the Organization of the Islamic Conference (OIC): "The IDB is committed to bringing the transition economies of the CIS [Commonwealth of Independent States] countries (all land-locked) closer to the OIC member countries by fostering trade and investments and disseminating the best practices through institutional and capacity building assistance."[4] Specifically, many of the IDB's projects are related to building infrastructure (i.e. roads, telecommunications, airports, and canals) and social development (construction and equipping of school and hospitals). The IDB has also been active in financing the construction of Islamic schools and vocational centers across the region.[5]

Table 1.1 lists a breakdown of the how much each country received cumulatively from the IDB up to March 2003, as well as the amount of projects currently sponsored by the IDB. Table 1.2 cites the amount of financing received by sector. In line with the IDB's core mission statement of linking up OIC countries with the CIS countries, the transportation sector was the most heavily

financed in the region. Lastly, it should be noted that the tables include Albania, which remains outside the scope of this paper because of its location, and exclude Uzbekistan since it only joined the IDB in 2003.

Country	US Dollars *(millions)*	Current Projects
Albania	US$ 59.844	17
Azerbaijan	US$ 81.660	19
Kazakhstan	US$ 76.275	20
Kyrgyz Republic	US$ 64.839	16
Tajikistan	US$ 63.141	18
Turkmenistan	US$ 74.345	11
TOTAL	**US$ 420.104**	**101**

Table 1.1: Distribution of IDB Financing by Country up to 2003 (cumulative) Source: Islamic Development Bank[6]

Sector	US Dollars *(millions)*	%
Transport	US$137.398	34.5
Utilities	US$100.047	25.2
Agriculture	US$75.893	19.1
Social	US$56.480	14.2
Others	US$19.700	5.0
Technical assistance	US$8.149	2.0
TOTAL	**US$397.667**	**100.0**

Table 1.2: Distribution of IDB Financing by Sector up to 2003 (cumulative) Source: Islamic Development Bank[7]

Currently, IDB Group operations across Central Asia exceed US$650 million.[8] It is believed that the IDB's development of these different sectors will stimulate economic growth and expose these countries to greater trade opportunities in the global market.

Having looked at the broader regional role of the IDB in Central Asia, the individual country assessments provided below allow for a more targeted examination of how both the IDB and Islamic banking have faired across the region. Each country possesses very different political and economic environments in which to establish Islamic banking and finance.

Kazakhstan

In addition to the establishment of private Islamic banks, the IDB and Kazakhstan have developed a strong partnership in supporting social and economic development. Good relations between the two, a thriving Kazakh economy, and a relatively strong banking sector have led to the opening of a regional office of the IDB in Kazakhstan. For the IDB, Kazakhstan is also a model for Islamic banking and finance in the region because of the government's success in incorporating both the IDB and other private Islamic banks into its banking system. Moreover, Kazakhstan has continued to permit liberal reforms in the banking sector that allow more Islamic banking. These reforms stand in contrast to President Nazarbayev's political actions aimed at consolidating his political power and economic wealth through oil revenues. Nonetheless, in the past decade the IDB has sponsored some of the following important projects:

- US$9.57 million as a loan for the Almaty-Gulshad road project. The project, traversing through industrial and agricultural areas, is expected to assist the people in the project area to improve their economic situation through greater accessibility to new markets and trade routes.[9]
- At the initiative of the IDB, fifty Saudi businessmen set up the Central Asian Investment Company in Kazakhstan for accomplishing development projects.[10]
- US$20 million loan for financing the reconstruction of the Astana-Vishnevka stretch of the Astana-Karaganda highway in central Kazakhstan.[11]
- US$13.6 million was allotted for financing for the construction of an academy at the Kazakhstan University of Law and Humanities.[12]
- US$14.7 million was issued as a credit line to finance leasing for three major Kazakh commercial banks—Kazakh People's Bank

(an open-type joint-stock company), Kazakh Commerce Bank (an open-type joint-stock company), and the Bank TuranAlem (an open-type joint-stock company).[13]

- US$30 million allocated to finance a project upgrading two sections of the Astana-Almaty highway.[14]

Kazakhstan has invested greatly in its IDB membership. It was recently rewarded for its involvement in 2003 when Kazakhstan's former head of the Presidential Administration and current Industry and Trade Minister, Adilbek Dzaksybekov, was elected chairman of the IDB Board of Governors. Although not explicitly stated, naming this Kazakh official who is part of Nazarbayev's ruling elite and clan structure demonstrates that the IDB understands the way politics and business works in a rentier state like Kazakhstan. In other words, for any international financial institution to succeed in a country controlled in large measure by a small clan-based ruling elite, it must work to establish good relations with the rulers of the leading clan while at the same time ensuring that their members receive a cut in any financial transaction. Nevertheless, this election is a significant accomplishment for Kazakhstan—demonstrating the extent to which relations with the IDB have increased in recent years. Islamic banking and finance through the IDB will no doubt continue to thrive in the future because of Kazakhstan's relatively stable political situation and flourishing economy.

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In addition to Kazakhstan's successful involvement with the IDB, it is important to note that the director of the Central Asia regional IDB office, Nik Zainal Abidin Nik Yusuf,15 has also sought to establish better relations between Kazakhstan and Malaysia. This relationship is significant because Malaysia serves as an important Islamic banking hub that has promoted innovative Islamic products for use in Islamic banking and finance around the world. Specifically, the IDB regional director has worked to promote a relationship between the National Bank of Kazakhstan and Malaysian banks to facilitate the introduction of new banking programs to Kazakhstan such as lending facilities to assist its yet-to-be developed financial system.[16]

Azerbaijan

Due to its Islamic practices and commitment to socio-economic development, Azerbaijan has sought, in recent years, to strengthen its relationship with the IDB.[17] In fact, the IDB is set to open a local branch in Baku next year, further contributing to a successful partnership with Azerbaijan. In the past decade some of the IDB projects have included:[18]

- US$10 million in assistance for refugees, including the construction of schools, businesses, and roads, after the signing of a ceasefire with Armenia in 1994 over the Nagorno-Karabakh.[19]
- US$9.8 million for a finance loan to reclaim and cultivate 300,000 hectares of saline soil.[20]
- US$9 million interest free loan to help restore schools, apartment buildings, and other government installations after the 2000 earthquake.[21]
- US$58 million in advantageous loans for the financing of an electrical energy project, the construction of the Khachmaz substation, and the laying of an electricity transmission line in 2004.[22]
- US$22 million in assistance for implementing a road project.[23]
- US$13.5 million credit to construct a substation in Xacmaz (northeastern Azerbaijan) to connect it to the Yasma-Derbent high voltage power line which connects the energy system of Azerbaijan with Russia.[24] In recent years, Azerbaijan has looked to the IDB for assistance in developing its non-oil energy sector.[25]

- US$10.4 million project financing loan for the construction of the Valvalacay bridge.[26]

As a Muslim country, Azerbaijan can use the IDB as a positive force in helping calm Islamic opposition groups within Azerbaijan. Although there are no major radical and violent Islamic groups that critically threaten President Aliyev's administration, the Azeri government is nevertheless aware of the regional trend towards increasing religiosity and a subsequent rise in violent Islamic groups. Moreover, with Chechnya to the north, Iran to the South, Iraq to the southwest, and Afghanistan to the east, Azerbaijan must remain attentive to its population to ensure that radical Islamic forces do not undermine the Aliyev regime. Therefore, it is alleged that in the past decade the Aliyev family has used its membership with the IDB to demonstrate to Islamic leaders its compliance with Islamic practices in such areas as socio-economic development.[27] However, due to the fact that Azerbaijan has developed into a rentier state under the Aliyev family, where more than 60 percent of the GDP comes from oil and gas sales, national socio-economic development has proven insufficient—paying off fellow clan members to stay in power is more important for the Aliyev family than widespread national development.

The IDB has demonstrated its abilities to succeed in the financial sector of the Azeri economy. Thus, Islamic banking and finance might be an area the government wants to develop in future years. Moreover, thanks to the strong track record of the IDB in promoting socio-economic development, Islamic banking and finance may act as an important legitimizing tool for the future of the Aliyev presidency.

Kyrgyzstan

Since the Tulip Revolution that peacefully overthrew President Akayev in 2005, Kyrgyzstan's political situation has remained relatively unstable because of a lack of political cohesion and widespread corruption. In addition, Kyrgyzstan has witnessed a rise in radical Islamic activity that further contributes to political instability, including violent attacks carried out by the Islamic Movement of Uzbekistan (IMU) in recent years.[28]

Since becoming a member of the IDB, Kyrgyzstan has greatly benefited from IDB projects because of the importance of socio-economic development for the country. It is also believed that the government has benefited from being able to tout its involvement with an Islamically-compliant financial institution to opposition groups who want Islam to play a greater role in government. According to Akayev, Islam has always played an important role in his government as a legitimizing and unifying instrument.[29] Akayev's demonstrated belief in Islam explains Kyrgyzstan's significant relations with the IDB. In the past decade, for example, the IDB has sponsored some of the following programs:

- In 1997, a US$10 million loan for establishing power transmission lines, a US$3 million loan for the supply of medical equipment and a US$280,000 grant for conducting a feasibility study on a 222-km road.[30]
- In 2001, US$9.5 million was issued for project finance to upgrade the airport in the town of Osh.
- US$36.4 million was credited for project finance to upgrade a road connecting Kazakhstan with Kyrgyzstan.[31]
- US$54 million has been allotted to thirteen projects in recent years for public health, industry, power engineering, and transportation.[32]

Despite having received a significant project finance support from the IDB, Kyrgyzstan remains a very poor and undeveloped country with a weak banking sector. While Kyrgyzstan works to stabilize the political situation, Islamic finance projects will most likely be limited to more low-risk sectors like transportation or public health. Nevertheless, the IDB will remain a positive catalyst in promoting Islamic banking and finance for a government that seeks to align with moderate Islamic forces like the IDB.

Turkmenistan

Under President Niyazov, Islamic finance projects have been relatively limited because of his desire to wield tight control over Turkmenistan's society and economy. Indeed, President Niyazov has welcomed foreign direct investment and other finance projects to develop Turkmenistan's lucrative natural resources because profits from the exportation of gas flow directly to the President's coffers that help fortify his rule. However, anything in the area of socio-economic development has been very limited. Although Turkmenistan has been a member of the IDB since 1994, the IDB has played a relatively limited role in development because of tight political control of its activities. The following is a list of some of its projects:

- US$8 million approved in 1993 for the construction of a road linking Turkmenistan with Iran.[33]
- US$9.7 million as a loan to the government for the construction of a Diagnostic Center Project in 1999.[34]
- In 1996, the IDB financed a multi-million dollar project co-sponsored by Turkmenistan and Iran to build the Turkmen section of a 711 km Trans-Asia-Europe fiber-optic communications line. Eventually, the fiber-optic cable will link Frankfurt and Shanghai.[35]

Uzbekistan

Akin to Turkmenistan, Uzbekistan is run by an authoritarian leader that has consistently adopted economic policies to keep him in direct control of the economy. In the last thirteen years, for example, Uzbekistan has only attracted $700 million worth of foreign direct investment. This is surprisingly low for a country of 25 million with significant quantities of natural resources and minerals like gold, copper, lead, and zinc.[36] Nonetheless, Uzbekistan's new membership into the IDB can be interpreted as the government's way of confronting the critical rise in Islamic opposition to President Karimov's rule. In other words, President Karimov is likely using his membership to the IDB as a way to prove to his Muslim base, and to organizations like Hizb ut-Tahrir, that he is catering to their demands and incorporating greater Islamic components into government. In the last few years, Karimov has faced increased opposition to his rule from Islamic activists, forcing him to find alternative solutions other than violent oppression when dealing with opposition groups.

As a land-locked country, the IDB has sponsored programs that aim to link Uzbekistan with other OIC members, including those countries like Iran with seaports. In the past three years, IDB has sponsored several important projects and signed many significant treaties:

- US$30 million in loan financing, co-financed with the Asian Development Bank, to improve water supply to major cities around the country, including Bukhara and Samarkand.[37]
- US$54 million grant: Of this amount US$15 million will go the National Bank for Foreign Economic Activity to finance small business projects; US$12.5 million will be spent on modernizing an asphalt factory, constructing roads and buying equipment for these purposes; US$25 million will be spent on the construction of an electricity line from two existing power stations; and US$143,000 will be spent on preparing a project on setting up an investment company.[38]
- In 2005, the Islamic Corporation for the Development of the Private Sector, a member of the IDB Group, and the National Bank of Uzbekistan signed an agreement of cooperation to further develop the Uzbek private sector.[39]

In the three years following Uzbekistan's induction into the IDB, the IDB has already established a strong presence within the country—providing the Uzbek government with considerable financing and sponsorship of numerous projects. This trend will likely continue in the future. President Karimov has experienced significant opposition in recent years to his rule from the conservative Muslim population and the arrival of the IDB can be used by Karimov as an

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instrument to quiet Islamic opposition forces that want Islam to play a more prominent role in government.

In addition to the lucrative oil and gas profits made by these four countries, there has been a rising trend of rentier state formation across the region.

Tajikistan

Given that Tajikistan is one of the poorest and most underdeveloped countries in the world, the presence of Islamic banking and finance structures have been limited to national infrastructure projects sponsored by the IDB. Tajikistan remains a very rural and segmented society with more than 70% of the population living in rural areas because of a mountainous terrain that covers approximately 90% of the country. The following is a list of some of the finance projects sponsored by the IDB:

- US$52.4 million provided in credit and technical aid as part of the IDB's three year program (2001-2003) to develop Tajikistan's social and economic sectors—health, transport, education, energy, irrigation.[40]
- US$9.1 million as loan financing for the construction of the Sharon Igor Road Project in 2001.[41]
- US$2.5 million as loan financing for the Emergency Surgical Care Center in 2001.[42]
- US$64 million allotted in 2003 to go toward financing some of the 124 projects proposed by the government of Tajikistan, including ventures in hydro-energy, the extraction of gold and silver, and transport infrastructure.[43]
- US$11.6 million to build five mini-hydroelectric power stations in 2005-06.[44]

In addition to financing projects, the IDB has also sponsored Islamic business conferences to spark investment interest in Tajikistan. In 2003, for example, the IDB invited more than 150 investors from various Islamic countries around the world to Tajikistan for a three-day conference on investment and business opportunities.[45]

For the time being, it appears as if Islamically-compliant finance projects will continue across Tajikistan. However, the full establishment an Islamic banking system remains to be seen in the near future. Tajikistan must first address socio-economic development that will alleviate poverty and promote greater economic growth before being able to consider incorporating Islamic banking into its national banking system. Moreover, Tajikistan's transborder populations of Uzbeks, Kyrgyz, and Mesketian Turks located in the Ferghana Valley leave Tajikistan a very unstable and volatile region for any investor. Despite a volatile political situation, the relative success of the Islamic Renaissance Party (IRP) bodes well for an active Muslim population that desires greater incorporation of Islamic practices into the upper levels of government. Therefore, it is very probable that both Iran and the IDB will continue to finance more socio-economic development projects in the future because of the population's propensity to support Islamic institutions.

Conclusion

In just over a decade, the Muslim republics of the former Soviet Union in Central Asia and the southern Caucasus have proven to be prime candidates for the establishment of Islamic banking and finance. Although primarily landlocked, the countries of this region for the first time are being linked to a greater network of commerce and trade throughout the Muslim world with the help of the IDB. Not only has an organization like the IDB effectively demonstrated its support for socio-economic development, but it has also provided the six Muslim republics of this study with a means to remain Islamically-compliant when running various banking and finance projects that promote national development.

Although the region has experienced relative success in promoting Islamic banking and finance projects, this paper also addressed the dilemmas faced by the industry across the region. Most importantly, the industry has had to deal with the pervasive Soviet legacy that continues to infiltrate

both politics and the economy. Most of the republics have continued with centralized planning and maintain tight control over the banking sector. However, the two countries with large oil resources and wealth, Azerbaijan and Kazakhstan, have demonstrated a tendency towards more liberal reform due to greater exposure to international market forces—one reason, perhaps, why each country has been more receptive to sponsor Islamic banking and finance projects. Conversely, Turkmenistan and Uzbekistan both have substantial natural gas resources but—because of their dictatorial tendencies—the leaders of both countries continue to maintain tight control over both society and the national economy, thus making it more difficult for IDB to penetrate.

In addition to the lucrative oil and gas profits made by these four countries, there has been a rising trend of rentier state formation across the region. This paper attempted to illustrate the complexities faced by an international financial institution like the IDB when trying to open up financial and banking facilities. Due to the nature of the ruling clan system that has prevailed since the collapse of the Soviet Union and subsequent petrodollar windfall, the IDB has had to operate in a manner that does not threaten the various clan-based political structures, especially in countries like Azerbaijan and Kazakhstan. Moreover, it is believed that the IDB approves of the policy of catering to the rentier state structure where the ruling elite must remain an integral part of any banking and finance projects. In any case, if Islamic banking and financial institutions desire to expand business and operations in the future, they must account for the politics of these rentier states.

Aside from the difficulties faced in building relations with a rentier state, the rise of religiosity and Islam across the region has also been a major issue for the six Muslim republics examined in this paper. Since the fall of the Soviet Union, the governments that formed in the 1990s were largely secular in nature and still mired in a closed Soviet-style one party system. However, due to the influence of rising radical Islamic forces that have engulfed the region in the past decade, they have been forced to fuse old Soviet structures with new Islamic ones. As posited in this paper, it is believed that most of the countries in the region have used the IDB to demonstrate Islam's incorporation into government effectively. Moreover, these governments can use Islamic banking and finance to further mitigate vocal Islamic opposition groups that have rejected the secular-style rule that has emerged since the collapse of the Soviet Union.

Indeed, the IDB has penetrated to varying degrees all of the Muslim republics of Central Asia and the southern Caucasus. However, only Azerbaijan and Kazakhstan appear to have the most promising future in the area of Islamic banking and finance. The other four countries are either presently too politically unstable and economically underdeveloped, as in the case of Tajikistan and Kyrgyzstan, or too politically closed, like Turkmenistan and Uzbekistan. Nevertheless, Islamic banking and finance has only just begun to flourish in a region that is ripe for socio-economic development and the establishment of Islamically-compliant financial and banking institutions.

The views and opinions expressed in articles are strictly the author's own, and do not necessarily represent those of al-Nakhlah, its Advisory and Editorial Boards, or the Program for Southwest Asia and Islamic Civilization (SWAIC) at The Fletcher School.

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Iraqi Kurdistan: The Internal Dynamics and Statecraft of a Semistate[1]

Matan Chorev

The semistate possesses many of the features commonly associated with the modern nation-state but remains unrecognized as a sovereign entity. Semistates (such as Abkhazia, Nagorno-Karabakh, South Ossetia, Transnistria, and Iraqi Kurdistan) inhabit the central conflict fault-lines of Southwest Asia's strategic landscape at the dawn of the twenty-first century. In order to concoct effective conflict management approaches, policymakers must develop a framework for comprehending internal dynamics and statecraft of these entities. How do they function in the absence of international recognition? What impact did the dynamics of conflict and political development under such conditions have on the nature of the semistate? What is the entity's resultant worldview and statecraft?

Knowledge of the factors that contributed to the ambiguous status of Iraqi Kurdistan in the aftermath of the first Gulf War is imperative to analyzing the behavior of the Kurdistan Regional Government (KRG) in the post-Saddam era. After a cursory introduction to the concept of the semistate, this paper will explain what sustained Iraqi Kurdistan's ambiguous status throughout the 1990s and the impact it had on Kurdish politics. The third section will emphasize how this experience impacts and shapes the worldview and strategic calculus of the Kurdish leadership.

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The relevance and future of the state to international politics came under increased scrutiny as the pace of "globalization" hastened at the end of the twentieth century.

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The Logic of Semistates

Since the attacks of September 11, 2001 directed attention to the failed state of Afghanistan, the dangers that weak and failing states present to international security have been well documented. However, the preoccupation, among policymakers and academics alike, with the stark bipolarity of "strong" and "weak" states has obscured the fact that the modern nation-state comes in innumerable forms. Article I of the 1933 Montevideo Convention on the Rights and Duties of States outlines the four basic elements of statehood: 1) a permanent population; 2) a defined territory; 3) a government; and 4) a capacity to enter into relations with other states. Yet already in 1981, before it became fashionable to proclaim the fading of the state as the central actor in international relations, political theorist David Easton, highlighted the multiple conceptions of the term by identifying over 140 definitions.[2]

The relevance and future of the state to international politics came under increased scrutiny as the pace of "globalization" hastened at the end of the twentieth century.[3] The octogenarian protagonist in this narrative, James Rosenau, argued that "the dynamics of

globalization, taken together, contend that the new, post-Cold War arrangements have lessened the role of the state, that a central feature of the arrangements is a continuing disaggregation of authority in all parts of the world and all walks of life."[4] The defining tension, he suggests, is between "worldwide forces pressing for integration and those fostering fragmentation," a phenomenon he coined as "fragmegration."[5]

Rather than decrying the passing of the nation-state, however, it is instructive to recall J.P. Nettl's view of "the state" as a conceptual variable, as opposed to a generic unit of analysis. This view allows for analysis that is more discriminating and sees the state as being more or less "state-like" along a continuum of "stateness."[6] To demonstrate, it is certainly the case that some states fall short of virtually all performance-based criteria of internal legitimacy, yet retain their international recognition, or "juridical statehood" as equal sovereigns. These "quasi-states," or what today one calls failed states, hold on to their legal protections from intervention and interference but lack the capacity or will to provide the services and resources their citizens demand of them.[7] Contrast this with the semistate (or the more accepted, but problematic, *de facto* state) that fulfills the four features of the Montevideo treaty but lacks the international personality of quasi-states. Scott Pegg explains: "The quasi-state is legitimate no matter how ineffective it is. Conversely, the *de facto* state is illegitimate no matter how effective it is."[8]

Absent legitimacy, the semistate still displays "impressive longevity."[9] Although the particularities of each individual entity are influenced by the state from which it is seceding, scholars have identified commonalities of internal and external dynamics that contribute to protraction of ambiguity. Charles King contends that a key factor is the benefits that both the parent and the separatist states accrue from stalemate:

> It is a dark version of Pareto efficiency: the general welfare cannot be improved – by reaching a genuine peace accord allowing for real reintegration – without at the same time making key interest groups in both camps worse off. Even if a settlement is reached, it is unlikely to do more than recognize the basic logic and its attendant benefits.[10]

Pål Kolstø argues that five factors contribute to the viability of unrecognized states in the absence of strong state structures.[11] First is the successful nation-building that these semistates have undertaken, which is premised on the common experience of conflict with the state from which they are trying to secede, the existence of a common enemy, and the relative homogenous population that exists within the separatist entity. Second, semistates are militarized societies. The armed forces play a crucial role in deterring the parent state and, as a result, military leaders have become political and economic figures as well, often with a keen interest in maintaining their positions of privilege. Third, the parent state – be it Iraq, Somalia, or Georgia – is typically a weak state unable to retake the separatist state or to attract the breakaway population to return to its domain. Fourth, external patrons provide a vital lifeline for the semistate. Finally, the "international community" plays a crucial role, for as long as it facilitates an ongoing and frequently stalled negotiation process between the breakaway region and the parent state, it is complicit in the prolonged existence of the semistate.

The semistate's "economic pathologies" are an important product and driver of the benefits of stalemate equation.[12] Most semistates fail to develop self-sufficient economies due to several factors: the destruction wrought by the protracted insurgency and conflict with the metropolitan state, the inability to construct a favorable investment climate due to an uncertain legal climate (what Pegg refers to as the "economic cost of non-recognition"), and the presence of a substantial illicit economy and its linkages with the ruling elite, all of which are exacerbated by the absence of international monitoring and accountability."[13] Before analyzing the case of Iraqi Kurdistan, it is instructive to place it in its appropriate historical context.

Kurdayetî and the Challenges to Kurdish Nation-Building

The segmented nature of Kurdish society and the intra-group dynamics in Iraqi Kurdistan consistently combined to undermine *Kurdayetî* (Kurdish national identity) and the political objectives of their decades-long struggle. The Kurds were historically divided among three ethnically defined communities (Arab, Persian, and Turkish) and lived on the fringes of powerful empires (The Ottoman to the west, and the Safavid and Qajar to the east). After World War I, in the wake of the collapse of the Ottoman Empire, the Kurdish population soon found itself spread across four new regional nation-states - Syria, Turkey, Iraq and Iran. The nature of political space in each country created differing narratives of group history and status that in turn impacted the opportunities for political action for Kurdish nationalists.[14] For example, the unchanging restrictive political space in Turkey, lowered the opportunity for a constructive relationship between Ankara and the Kurds in the southeast, and in turn encouraged armed insurrection and alienation. In Iraq, by contrast, the political space was far more ambivalent, which resulted in a great variability in the expression of nationalism over time. In addition, the Kurds lack a unified or systemized dialect; they never managed to embrace religion as a uniting factor; and they consistently found greatest resonance in strong micro-societal (i.e., tribal) attachments.

The latter allowed Baghdad and regional neighbors to divide the Kurds to turn a struggle against it into an intra-Kurdish conflict. Moreover, this segmented nature of Kurdish society combined with specific intra-group dynamics in Iraqi Kurdistan to undermine the political objectives of the Iraqi Kurds decades-long struggle. At three crucial moments in the history of the Iraqi Kurds—the post World War I effort at independence, the 1961-1975 Kurdish Revolt, and the birth of the semistate in 1991—internal struggles doomed their aspirations.

On November 7, 1918, the British and French declared their shared goal of liberation for the Kurds, "who have for so long been oppressed by the Turks." The installation of *Shaikh* Mahmud Barzinji as governor of Sulaimaniyah by the British was premised on the belief that British recognition of his status would grant him sufficient authority to govern over Kurdistan. When the disastrous 1920 Arab Revolt shifted the focus of the colonial administration from nation-building to exit, the British concluded that the "clannish" Kurds would be unable to construct a single Southern Kurdish state and thus discouraged the colonial administration from taking any risks in supporting their autonomy. Intra-Kurdish strife bolstered those voices advocating for disengagement and consolidation of Sunni Arab rule. Resultantly, the British experience in Iraq—not unlike the present American experience—was one of grand ambitions subdued. The British state-building aspiration for Iraq, devolved to the construction of a "'quasi-state,' one which bore the appearance of a *de jure* national polity but whose institutions were in fact a façade built in order to allow Britain to disengage."[15]

Intra-Kurdish strife bolstered those voices advocating for disengagement and consolidation of Sunni Arab rule. Resultantly, the British experience in Iraq—not unlike the present American experience—was one of grand ambitions subdued.

During the Kurdish Revolt of 1961-1975, Sunni-chauvinism; an unstable political center in Baghdad; Kurdish internal splits in the north; and the obstructionist behavior of regional neighbors and great power competitors would consistently merge to undermine the resolution of the Kurdish issue in Iraq. In an effort to expand its control across the country, each new leadership cadre in Baghdad would reach out to the Kurdish leadership with offers of autonomy and democracy. Baghdad's Kurdish management policies, however, "were not real attempts to open political space, but rather time-gaining tactics to help consolidate power."[16] Over time, the wide gap between the rhetorical overtures and the leadership's willingness and ability to carry out tangible policy changes would undermine the relationship and compromise would once again fluctuate towards hostility.[17]

Beyond competing Arab and Kurdish nationalisms and shifting power struggles between the civilian and military elements in Baghdad, the internal clash in the 1960s pitted the traditional players of Kurdish nationalism—the tribal and religious leaders led by Mullah

Mustafa Barzani and his Kurdish Democratic Party (KDP)—against the new, urban-led intelligentsia of Jalal Talabani and Ibrahim Ahmad. The division was essentially "a contest between the religious and the secular, the primordial and the nationalist, tradition versus atheistic Marxism."[18]

The actions of Abd al Salam Arif, who overthrew Iraqi leader Abd al Karim Qasim in February 1963, exemplified these dynamics. In an effort to consolidate his power and unwilling to repeat the failures of his predecessors in countering the fighting prowess of the Kurdish *peshmerga* forces (literally, "those who face death"), Arif sought to infiltrate the Kurdish movement. He invited Mullah Mustafa to sign a peace agreement with him in Mustafa's personal capacity rather than as the leader of the KDP. . Mustafa accepted, and like *Shaikh* Mahmud before him, prioritized personal hegemony in Kurdistan above Kurdish autonomy from Baghdad. As a result, the Talabani-Ahmed group broke with the KDP and proceeded to accept arms and assistance from Baghdad to fight the KDP's forces. Thus the revolt against Baghdad came to a standstill.

An oft-repeated Kurdish proverb says that the Kurds have no friends but the mountains.

In the eyes of many Kurds, the tragic internal Kurdish war of 1994-1998 undoubtedly serves as "the blackest moment in Kurdish history."[19] The preconditions for the war between the KDP and Talabani's Patriotic Union of Kurdistan (PUK)—animosity between two major factions, competition for resources, destructive international aid efforts, and interference from neighboring states—had much in common with earlier periods of strife in the region, and the consequences—the failure to secure the goals of the insurgency—were the same. The Kurdish uprising in March 1991, just weeks after US President George H. W. Bush called on Iraqis to rise up against Saddam Hussein, was brutally suppressed. Hussein, however, was unable to reach an agreement with a divided Kurdish leadership. Admitting that the *peshmerga* indeed controlled the urban centers, he withdrew his forces and entire administrative capacity from Iraqi Kurdistan. The Kurds suddenly found themselves obliged to govern and administer the entire northern region of Iraq.

In an effort to achieve internal legitimacy, the Kurdish leadership organized immediate elections; a dead-heat and an ensuing power-sharing agreement between the PUK and KDP resulted. Incredibly, the parties did not differ over the political future or identity of an emerging state. As Gareth Stansfield argues, "After 1991, attempting to describe how the parties differed in their social bases and political program was a futile exercise; only their mutual antipathy remained."[20] Beyond historical animosity, however, the two parties' asymmetric access to revenue heightened competition. The KDP controlled the western portion of the country, including the strategic Ibrahim Khalil (Khabur Bridge) border crossing with Turkey. The customs fees on licit and illicit trade with Turkey provided the regional authorities with their seemingly sole source of income, estimated at approximately $750 million annually. The PUK held the eastern portion of the country, where its trade with Iran paled in comparison.

The international aid program exacerbated the tension over revenue in several ways. First, the absence of a long-term development plan combined with the injection of humanitarian aid contributed to the emergence of an underground economy controlled by networks of traditional families and entrepreneurs, both deeply connected to the political parties. Second, in this new economic landscape accelerating disparity came about between those who organized to profit from the new sources of income and the majority who still lived in abject poverty. Third, the aid community further fragmented the territory of Iraqi Kurdistan by creating price differentials between different regions, which in turn set off internal rivalries and power struggles among entrepreneurial elements of the KDP and PUK. As Natali concludes, "Rather than trying to strengthen intra-Kurdish unity, donor agencies and foreign governments encouraged fragmentation by treating the two main leaders, [Massoud] Barzani and Jalal Talabai as individual party leaders."[21]

The degree to which each party had become dependant on external rival sponsors further exacerbated the economic drivers of conflict. Turkey paid the KRG $13.5 million in August 1993 after the KDP gave it the green light to conduct cross-border operation against the Kurdistan Worker's Party (PKK), a guerilla group waging a bloody battle with Turkish security forces. At the same time, however, Turkey cooperated with Hussein's economic tactics

against the Kurds by taking the Old Iraqi Dinar (no longer in circulation in the rest of Iraq) out of the economy, limiting cross-border trade, and creating incentives for commercial traffic to go through Mosul, which was under Saddam Hussein's control.[22] Similarly, Iran guaranteed support to the PUK in return for the party's assistance against the Kurdistan Democratic Party of Iran (KDPI), at the same time that it gave financial support to the Islamic Movement of Kurdistan (IMK) to fight the PUK. Complicating the picture further, the KDP secretly negotiated with Hussein to remove the PUK from Erbil. In what became known as "The Invasion of Erbil," the KDP fought alongside Iraqi government forces and repelled the PUK from the regional capital. The PUK recovered, however— with Iranian support—and a ceasefire line between the parties held and served as the *de facto* partition of Iraqi Kurdistan. Thus, the "endless opportunities" that followed the 1991 elections were squandered.[23]

The repercussions of the conflict that began in 1994 and ceased only in 1998 after significant international intervention were multifold. First, it enabled opponents of Kurdish autonomy to frame the independence movement as "pre-modern, divided, tribal, and hence incapable of representing Iraqi Kurdistan in any institutionally enshrined autonomy or political self-determination."[24] Second, internally, Kurdish society took on elements of a "'post-civil war society,' in which the heritage of domestic conflict has strengthened and even institutionalized the patronage relations, primarily through the maintenance of different forms of scarcity."[25]

Today's KRG is a product of the evolution and trajectory of the Kurdish struggle for self-rule. An oft-repeated Kurdish proverb says that the Kurds have no friends but the mountains. The above brief review of Kurdish history ought to reveal that they might indeed have no worse enemies than themselves. The internecine conflicts in Kurdistan consistently prevented the maturation of the Kurdish "insurgent state" towards either fully autonomy or independence, causing important repercussions for the present internal politics and the worldview of the Kurdish leadership.

The "Logic" of Semistatehood in Iraqi Kurdistan

Several internal and external drivers served to sustain the ambiguous status of Iraqi Kurdistan for over a decade. As will be demonstrated, these drivers simultaneously reinforce and chafe one another and have created important repercussions for the region today.

External Drivers

The end of the Cold War (and the increased pace of globalization typically associated with it) brought about a marked expansion in the Kurds' access to transnational space, defined as the "externally based opportunity structures such as diasporic networks, international governmental organizations, host-country democratic systems and advanced telecommunication systems that provide new forms of support or constraint to Kurdish nationalist ambitions."[26] The external drivers that allowed Iraqi Kurdistan to survive on the margins of the state system are in large measure a by-product of this space. These drivers served to simultaneously advance, reconfigure, and place limitations on *Kurdayetî* and the nature of Kurdish autonomy and self-rule.

Kolstø argues that, "for most quasi-states, the support from an external patron is crucially important, and their survival chances would be drastically reduced should it be withdrawn."[27] International protection sustained Kurdistan's ambiguous status by safeguarding it from the Iraqi parent state and perturbed neighbors on the one hand while at the same time placing limitations on Kurdish self-rule on the other, through the unintended consequences of international aid. The aid effort, which feared abrogating Iraq's territorial integrity, proved unwilling to transition from emergency humanitarian support to a more sustainable program, and thus failed to encourage "social restructuring at the local levels."[28] This only increased the resonance of party, tribal, and geographic identities that have consistently challenged Kurdish nationalism. Thus, by neglecting to work to establish the preconditions for a self-sufficient economy, a productive industry, a functioning agricultural sector, a functioning system of higher education and human capital, political development, and structural reform, external patronage allowed Iraqi Kurdistan to survive, but not to thrive.

Lowered barriers to participation in the global economy, combined with the simultaneous technological and information revolutions, also

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contributed to the KRG's ability to survive in an otherwise most unpropitious disposition. The technology and information revolutions gave the KRG access to the Kurdish diaspora, and helped it fill the knowledge, advocacy, and resource gaps created by the unwillingness of the "international community" to invest in long-term development and institution building in Iraqi Kurdistan. Lowered barriers to participation in the global economy were partially responsible for the emergence of "illicit economies," which played a pivotal role in Iraqi Kurdistan's functioning. However, like other facets of the changing transnational space, the effects of these on Kurdish self-rule were mixed; they advanced it by bringing in much needed revenue and other resources, but they undermined the development of strong state-institutions and served as a principle factor in the factional fighting of the mid-1990s.

The notion that the regional environment is hostile to an emerging independent Kurdish state or even hardened Kurdish autonomy is an understatement. Iraqi Kurdistan's neighbors used it as a leverage point on Saddam but were equally comfortable colluding with him against any developments in the north inimical to their interests. After the 2003 war in Iraq, this dynamic has been heightened, by fulfilling neighbors' fear that it would embolden Kurdish national movements in their respective countries. However, some policymakers are beginning to believe that a stable and autonomous Iraqi Kurdistan might advance key interests. For example, one view in Turkey's diplomatic and military circles argues that bringing Iraqi Kurdistan under Turkey's sphere of influence could create an important buffer against an Iranian-dominated Shi'i Iraq.[29] It remains to be seen whether the post-Iraq war strategic calculus of neighboring states will alleviate or exacerbate historic tensions with Iraqi Kurdistan.

Internal Drivers

Through the course of the Kurdish struggle, each of the polity's centers of power built, sustained, and maintained political and economic support networks heavily intertwined with tribal and geographic identities. The "accidental" arrival of self-rule, and the ensuing formation of the KRG, did not eliminate these patronage networks. Instead, they were institutionalized in a form of neo-tribal confederations wrapped around the flag of democracy. Like mafia families delineating their spheres of authority, the two Kurdish parties divided up Iraqi Kurdistan into separate governance zones after the civil war. This arrangement of "elite accommodation"[30] brought a notable degree of stability to Iraqi Kurdistan from which the parties and their affiliated support networks profited. The "international community's" comfort level with, and interest in, the status quo, reinforced the division.

> Like mafia families delineating their spheres of authority, the two Kurdish parties divided up Iraqi Kurdistan into separate governance zones after the civil war.

Despite positive gains in terms of increased stability, these divisions severely undermined the project of state building. To do this more effectively, the Kurdish leadership adeptly manipulated the "politics of fear," by reminding their constituents of the external threat from their neighbors and the looming specter of Hussein's return. The result was that internal opposition was suppressed as any additional internal challenge would invite external intervention, as it did in past episodes. The expectations of the KRG were thus low as nearly any alternative to Hussein was seen as an improvement. Low public expectations for state-building efforts, in turn, led to inadequate attention to the rule of law, healthy civil-military relations, and investment in other elements of the public sector. Moreover, fears of redistribution of control inhibited existing leadership from attempting to clarify the status of Iraqi Kurdistan. This lack of incentive for clarifying the area's status existed on Hussein's side as well; he feared a response by the "international community" if he forcibly retook the north, and, under the sanctions regime, benefited from having five million less people to feed.

The dependency on external sources of revenue, monetary constraints, unemployment and economic recession, illicit economy, corruption, and rent-seeking behaviors, all served to allow little maneuver room for the Kurdish leadership. They simply lacked the means to pursue the kind of state-building project that could sustain a truly autonomous entity.

At the same time, a multitude of other economic problems also undermined state building in Iraqi Kurdistan. Primary among these, the KRG was not able to resurrect the commercial agricultural sector. Most Kurds deserted the sector and pursued economic activities that could provide them with short-term capital accumulation. This included the selling of capital assets, smuggling, chopping down trees, and collecting scrap metal.[31]

Since the fall of Saddam, billions of dollars were injected into the Kurdish economy from state coffers and international investment, but the KRG lost significant levels of control to the central government.

Unemployment during this period was estimated at around 80 percent. Those employed typically earned wages far below the 1,500-2,000 Swiss Dinar UNICEF estimated as needed to support a family of five. By the year 2000, only 15,000 people were able to pay any sort of taxes to the KRG,[32] and 20 percent of Kurds still lived in the *mujamma'at*, or Hussein's settlement towns.[33] The vast majority of Iraqi Kurds lacked consistent access to electricity, water, and other basic services. Those with the means to leave the region, typically the skilled laborers and highly educated cadres, did so, resulting in a ruinous brain-drain.

By all accounts the "black market" became the most important component of the economy. This had important socio-political repercussions. It increased income disparities and created "an uneasy dichotomy in Iraqi Kurdistan between the majority who are destitute and a minority of merchants who are extremely wealthy."[34] Coupled with the existence and dominance of the neo-tribal networks, this offered incentives for the continuance of the status quo.

Finally, although the political imperatives of securing self-rule and autonomy are indeed high, the Kurds have shown, particularly after 2003, an inclination toward flexibility in their demands for sovereignty—for the sake of economic stability and growth. As Natali argues, "Contrary to popular claims, most Kurds today would prefer continued stability and growth rather than economic decline or conflict for the cause of independent statehood."[35] This is largely due to the fact that the clientalist networks that sustain the current leadership rely on this far more than they do on securing independence or hardened autonomy.

The Statecraft of the KRG in the New Iraq

In the lead-up to and aftermath of Operation Iraqi Freedom, the Iraqi Kurdish leadership, cognizant of the persisting endogenous and exogenous constraints on its behavior, adopted a shrewd and realistic strategy whose principal interest is to preserve the *de facto* independence of Kurdistan. To secure this stated vital interest, Iraqi Kurds made a strategic decision to participate fully in the Iraqi national project, support the U.S. occupation, and work to accelerate the political and economic development of the Kurdistan Region.

The Kurdistan Region was recognized as a legal region of a federal Iraqi state by the permanent constitution, adopted in the October 2005 referendum. The provisions of the constitution served to legitimize, on an international level, Kurdistan's *de facto* autonomy and self-rule. In fact, the arenas in which where federal law supersedes regional law in the Iraqi constitution are limited and severely circumscribed. These are: control over foreign affairs (although federal regions are granted offices within Iraqi embassies), defense policy (even though the KRG retains control over its own military, or "Guards of the Region"), the printing of money (importantly, Baghdad cannot levy taxes against the will of a regional government), and regulation of weights and measures.

Nonetheless, important elements of dependency endure. The KRG minister of finance suggested that Iraqi Kurdistan's economic picture deteriorated after the Iraq war. While the economy of the KRG was smaller before the war, the KRG could exercise more control over it. Since the fall of Saddam, billions of dollars were injected into the Kurdish economy from state coffers and international investment, but the KRG lost significant levels of control to the central government. Since 2003, 95 percent of the revenue of the KRG has derived from the central government's oil revenues, a share that amounts to 17 percent of the total Iraqi national budget. Under this arrangement, the central government can exercise significant leverage over the KRG.

The persistence of patronage and clientalist networks exacerbate poor development indicators in the region. Rather than using the new sources

of capital to improve the desperate condition of the agriculture and infrastructure sectors or to develop other sustainable industries, the Kurdish leadership allocated 64 percent of its budget to government salaries—in essence paying people not to work and furthering patronage behavior. Although the KRG passed a law in January 2006 unifying the PUK and KDP administrations, some ministries, including Finance, *Peshmerga* Affairs, Justice, and Interior, remain bifurcated. The government in Erbil remains largely symbolic; Prime Minister Nerchivan Barzani still has no executive authority in PUK-territory. Moreover, the benefits to be gained from the division of the spoils of Iraqi Kurdistan remain. For instance, as of October 2007, the KDP (Korek) and PUK (Asiacell) maintain separate cell phone companies in their respective territories, and the services do not communicate with one another.

However, to improve its image and prevent a return to economic isolation, the KRG launched a massive public relations campaign called "The Other Iraq." The campaign was the product of a partnership between the Kurdistan Development Corporation (KDC) and the KRG to "promote and implement inward investment opportunities in the stable and prospering Kurdistan Region in Iraq."[36] The KRG's approach was to paint itself as a second Dubai—a global hub of business and telecommunications. Othman I. Shawni, the KRG's Minister of Planning, asserted, "The region will attract more than $2 billion in the first year [of the plan] in four major sectors and high return on investment is guaranteed due to the big demand for these facilities."[37] As part of these efforts, a massive mall is being constructed in Erbil, directly across from the historic citadel and the ancient *souk,* which will be home to 6,000 stores and offices as well as a massive underground garage. The citadel itself, the oldest continuously inhabited place in the world, was recently emptied of its inhabitants and is currently being renovated as a tourist attraction. The "Dream City" – a shopping and amusement complex – is being built outside Erbil. The Korek Tower promises to be the tallest building in all of Iraq and the American Village, a housing complex eerily reminiscent of the suburbs of Arizona or New Mexico, is nearly complete.

Should the Iran crisis escalate, opposition Kurdish elements, based in Iraqi Kurdistan, might be encouraged to intensify their anti-Ahmadinejad operations, prompting Iranian special forces to take action as well.

The Kurdish leadership is trying to advance its interests in a methodical and prudent fashion. Whether or not it succeeds remains to be seen. Although it has thus far managed to stave off destabilizing behavior from its neighbors, the prospect of intervention remains realistic. A cross-border skirmish with the PKK in the fall of 2007 suggests that Turkey's patience with the PKK safe-haven in northern Iraq is coming to an end. Should the Iran crisis escalate, opposition Kurdish elements, based in Iraqi Kurdistan, might be encouraged to intensify their anti-Ahmadinejad operations, prompting Iranian special forces to take action as well. However, the event that looms most closely on the horizon is the referendum on Kirkuk, originally scheduled to take place before the end of 2007, but presently delayed to a future, yet unannounced, date. As the different parties organize to proclaim the oil-rich city, northern Iraq is sure to experience new levels of violence and foreign interference heretofore unseen in that part of the country.

Internally, there is also reason for concern, as evidence suggests that the KRG is "losing the race for good governance."[38] The post-2003 boom in the economy has improved the lives of only a small minority of the Iraqi Kurdish population. Ongoing resentment over the lack of improvement in the provision of basic services has strengthened the only political actors able to challenge the PUK-KDP-dominated public sphere: the Islamic parties. In Halabja, the town decimated by Hussein's chemical weapons attack, citizens demonstrated their displeasure with the KRG by setting fire to the monument for the victims on March 16, 2006. During the same month, students from the University of Sulaimaniyah took to the streets in a Ukrainian-style "orange protest" against KRG corruption. Mohammed Ihsan, Minister of Extra-Regional Affairs, argues that the the hurdles to mobilize the population behind the Kurdish National project are now much higher now than they were in 1992: "People are no longer willing to live in abject poverty for the sake of the nationalist cause. The democratic experience has brought high expectations."[39] Denise Natali elaborates:

The commitment to Kurdish nationalism that once defined political life in pre-2003 Iraqi Kurdistan has vanished. What has emerged instead is an undertaking to protect Kurdish interests at politically expedient moments, but no strategy to ensure the ideological and political engagement of the masses in the long term. Absence of social capital - networks, norms, and social trust that facilitate coordination and cooperation for mutual societal benefit - has further weakened societal engagement to Kurdish nationalism. Changing norms in the liberalizing Iraqi state have encouraged short-term interest maximization, namely revenue generation, and not a shared sense of struggle and suffering for the Kurdish nation.[40]

It remains to be seen how this shifting "social contract" will impact the behavior of the Kurdish leadership. While one official admitted that without a "leadership purge" things will not change, others were more confident that change will come through a gradual, long-term transition.

> The dynamics inherent in of Iraqi Kurdistan's protracted state of ambiguity have greatly undermined its chance for long-term sustainability as an independent entity

Conclusion

The dynamics inherent in of Iraqi Kurdistan's protracted state of ambiguity have greatly undermined its chance for long-term sustainability as an independent entity. In his research, Kolstø found that "there are strong reasons to believe that, if any of the unrecognized [semistates] of today's world should succeed in achieving international recognition, most of them will end up not as 'normal' or fully fledged states but instead transmute into recognized [failed-states]."[41] Moreover, the imperative of stability in northern Iraq over the coming years suggests that the status quo will persist. This implies that the economic and political dilemmas that undermine sustainable development in Iraqi Kurdistan are only likely to continue—and in turn cause the type of authority crisis often associated with the deficient internal legitimacy of weak and failing states.

The future of Iraq, Somalia, the Balkans, and other conflicted regions will require policymakers and academics alike to confront the realities of semistates. The dilemmas they are likely to face will go far beyond the issue of recognition and the redrawing of state borders. Such solutions might provide short-term stability but will likely sow the preconditions for future conflicts. As this case study exemplifies, the drivers that sustain the ambiguous status of semistates require a much more sophisticated approach than the cartographic entrepreneurship that brought about their existence in the first place.

The views and opinions expressed in articles are strictly the author's own, and do not necessarily represent those of Al Nakhlah, its Advisory and Editorial Boards, or the Program for Southwest Asia and Islamic Civilization (SWAIC) at The Fletcher School.

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Charisma in Modern Islamic Revolutionary Movements: The Case of Ahmad Shah Massoud

Casey G. Johnson

Introduction: Thinking Outside The Chat Room

Security Studies is inundated with scholarship devoted to highlighting the ways in which technology (particularly the internet) is defining terrorist organizations, militias, revolutionary movements,and criminal networks. Still, much as technology has altered our perspective of daily life, there is a danger of becoming too narrowly focused on technology as a means of explaining emerging and evolving revolutionary movements. and not enough focus on the charismatic leaders that continue to motivate, define, and drive revolutionary movements It is far from certainthat the Internet has deposed the charismatic leader of his or her central role in rallying, organizing, and spurring revolutionary movements. Indeed, for every virtual cell and skillfully produced martyrdom video, there is a Moqtada al Sadr or a Sheik Hassan Nassrallah.

Despite the centrality of charismatic leaders today, and throughout history, attempts to analyze the attributes of these leaders, and then to evaluate them empirically have been at dismissed as inherently subjective. Charismatic leadership is interesting as biography, but of little value as a criterion upon which foreign policy decisions could be based.

From an analysis standpoint, the vital question is not only how do we identify a charismatic leader and their followers?[1] But how (and for what) do we use this information? This article begins by broadly re-evaluating the modern typology of charismatic revolutionaries. Next it examines charismatic leadership within an historical Islamic context. Finally, it explores charisma in the context of Afghan society and, particularly, the case of *mujahideen* leader Ahmad Shah Massoud during the Soviet occupation and Taliban take over of Afghanistan. These sociological, religious and cultural layers provide a definite context in which to ground the amorphous idea of charismatic leadership, with the overarching goal to differentiate the adroit propagandist from the true charismatic. However, identifying charismatic leaders alone is of limited utility. The real challenge—and the real foreign policy tool—is to identify not only which generals, ideologues and revolutionaries possess charisma, but which of these leaders are capable of transitioning from the role of an inspiring revolutionary to the role of a leader within an established political system.? If we can identify which leaders possess the characteristics and abilities to make the transition from the battlefield to the statehouse without losing their charismatic hold upon the populace, then we may begin to

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understand with whom we should engage in dialogue, and what their triggers, needs and constraints are.

Charisma Defined

The modern term 'charisma' is derived from the Greek, *kharizesthai,* translating literally as "divine favor."[2] In ancient Greece the person possessing charisma was considered to be in good favor with the gods. Charisma was not something that could be won with hard work or the accumulation of knowledge, but was instead bestowed supernaturally upon the individual. In return for this gift of grace, the individual became a direct conduit for the divine messages of the gods.[3]

Not surprisingly the belief that a supernatural leader would arise and inspire a devoted following based upon preternatural ability and divine gifts seemed subjective and inapplicable to questions of social science, much less the study of warfare and modern revolutionary leaders. And so for two millennia charisma—more as a belief than a theory—remained rooted in its religio-mystic origins. In the early 20th century, however, German sociologist Max Weber attempted to transfer the theory of charismatic leadership from the purely religious realm of prophets, seers, and mystics to the socio-political world of revolutionaries, demagogues, and civil rights leaders.[4] According to Weber, a person possessing charisma has "a certain quality […] by virtue of which s/he is set apart from ordinary people and treated as endowed with supernatural, superhuman, or at least specifically exceptional powers or qualities."[5] Though still subjective in nature, charisma was, for Weber, a legitimate way in which leaders obtained, consolidated, and maintained authority.

Throughout the 20th century, scholars debated the validity of Weber's theory of charismatic leadership. Dekmejian and Wyzsomirski, Spencer, and Schweitzer, interpret and apply Weber's theory to leaders as diverse as Gandhi, Hitler, Lenin, and Mandela.[6] Others reject the applicability of an inherently religious concept to a secular system, and denounce the way in which the theory's value-free framework claims to compare the charisma of men like Gandhi and Hitler objectively.[7]

In a speech on leadership in the twentieth century, historian Arthur Schlesinger was blunt in his criticism of charisma as an analytic tool. "Most contemporary usage of the word charismatic is metaphorical," Schlesinger said. "[T]he word has become a chic synonym for heroic or even just for popular."[8] Schlesinger was right to deride the modern metaphorical drift of the term charisma. In many cases it has become a handy epithet bestowed upon romantically conceived revolutionaries by fawning journalists. Moreover, charisma in the modern Islamic context is increasingly exploited only after the death of the leader in what appears to be an attempt to furnish living evidence of the deceased's martyrdom status. Indeed, the Ahmad Shah Massoud leveling a steely, Guevara-esque gaze from two-story posters in downtown Kabul is the result of an Afghan government desperately seeking both a national hero and a symbolic rallying point in a period of change and uncertainty. However, by the time of his death at the hands of two Algerian suicide bombers carrying stolen Belgian passports and posing as journalists, Massoud was indeed the very figure around whom Afghans and the international community rallied in their effort to defeat the Taliban.[9]

Indeed, the Ahmad Shah Massoud leveling a steely, Guevara-esque gaze from two-story posters in downtown Kabul is the result of an Afghan government desperately seeking both a national hero and a symbolic rallying point in a period of change and uncertainty.

An ethnic Tajik, Massoud earned the nom de guerre The Lion of Panjshir after his successful defense of the Panjshir Valley (his birthplace and the home of Afghanistan's Tajik community) from the Soviet and Taliban campaigns. Massoud had become so vital to the resistance that the Afghan United Front initiated a disinformation campaign to prevent confirmation of his death until a week

later.[10] In less than a week, however, the events of September 11, 2001 would transform the Afghan United Front. This coalition of militias went from a cornered and increasingly desperate resistance, to the entry point for the United States' bid to oust the Taliban and capture or kill Al Qaeda leader and suspected 9/11 mastermind, Osama bin Laden.

The nature of the attack on Massoud—a suicide mission carried out with a bomb concealed in a video camera—and the fact that it was carried out just two days before the 9/11 terrorist attacks, fueled allegations that the two events were directly linked.[11] If this is the case, then bin Laden, it could be argued, recognized Massoud as the lynchpin of the resistance and as a key U.S. ally in the event of American retaliation on Taliban and Al Qaeda targets.[12] The Central Intelligence Agency (CIA) had also identified Massoud as an indispensable leader of the mujahideen resistance to the Taliban. Though both bin Laden and the CIA understood the centrality and charismatic power of Massoud's unquestioned leadership, it can easily be conjectured that bin Laden may have acted on this understanding in making the strategic decision to eliminate him. The CIA was forced to settle for whatever leader remained.

After Massoud's death, the battle-hardened general, Mohammed Fahim stepped in to continue the fight with the U.S. to push the Taliban back into the tribal areas along the Afghanistan-Pakistan border. Even the most brilliant commander, however, would not be able to fill the void left by Massoud's death. An assessment by *Jane's Intelligence Review* ten days after Massoud's assassination touched upon the vital and ultimately mysterious nature of charismatic leadership. "While seen as a competent and reliable military commander," the report states, "the self-effacing Fahim has none of the *personal charisma*, *strategic vision*, and *political sense* that over the years underpinned Massoud's unchallenged leadership."[13] So what exactly did Massoud have that Fahim lacked? To determine this we need to examine those Massoud led.

The chief problem with using a charismatic rubric to analyze a revolutionary leader (or any leader for that matter) is the very subjectivity of charisma itself. If we look at journalistic accounts, documentaries, or even first-hand, scholarly field research of the leaders themselves, we cannot help but view the leader through a tinted lens. Simply, it is in the mind of the follower that a charismatic leader emerges and it is from these followers that the charismatic derives his authority. Indeed, the central tenet of charisma is the effectual relationship between the leader and his followers. If we are asking, who is a charismatic leader? One answer may simply be to find the leader towards whom the sentiments of awe and enthusiasm are directed.[14] Dekmejian and Wyszomirski offered the same starting point in their charismatic assessment of the Madhi of Sudan:

> The ultimate judgment of the leader's "goodness" or "badness" or "genuiness" or "spuriousness" lies solely with his followers. The opinions of "outsiders" or "noncommunicants" who have not succumbed to the leader's charisma are irrelevant. Whatever the leader's personal qualities or morality, the fact remains that these were acceptable to his followers and proved instrumental in convincing them of the truth of his message.[15]

These Followers are essentially incapable of achieving order on their own, and their lack order is never more apparent or urgent than in times of crisis or upheaval. Thus they are awed by the leader's intellect and ability to put forward a coherent vision of the (often incomprehensible) reality that is war.[16] An informative example of this type of charismatic leadership is found in an account of a mujahideen war council, led by Massoud, the night before an attack on Taliban positions in the Panjshir Valley in 2001.

> His commanders—many of them older than he, most veterans of the Soviet war—listened in slightly chastised silence, like schoolboys who hadn't done their homework. "The type of operation you have planned for tonight might not be so successful, but that's okay; it should continue," [Massoud] said. "This is not our main target. We're just trying to get

> them to bring reinforcements so they take casualties. The main thrust will be elsewhere." Massoud was so far ahead of his commanders that at times he seemed unable to decide whether to explain his thinking or to just give them orders and hope for the best.[17]

At the outset of internal conflicts, the dignity and purpose of belonging to a resistance movement, combined with the charismatic leader's strategic vision, are often enough to secure and maintain loyalty. As Weber noted, when there is a chronic state of war the charismatic figure able to channel strategic prowess becomes a permanent fixture. As Spencer notes: "The prototype of such a figure might be the war leader or general who is recognized as being formidable at his craft, but nothing more."[18] Yet, because of the one-dimensional nature of this type of charisma, the revolutionary's power is fleeting and can vanish in defeat.[19] The leader possessing battlefield mastery but little representational or organizational skills often finds it difficult in times of peace to institute the social, economic and political changes they fought so brilliantly to secure.

This transition from martial to political leadership constitutes the spectrum of the leadership cycle. "At the culmination of the cycle," Dekmejian and Wyszomirski explain, "the leader will have presided over a transition from charismatic authority to one that increasingly relies upon 'rational-legal' means of legitimacy; with the passage of time the system may also acquire traditional legitimacy as well."[20] The progression from guerilla leader to traditional government leader is known as *routinization*. Based on the legitimacy derived from his charisma, the leader must build a foundation for a new, lasting order. In order to ensure such stability, routinization should occur "at the height of charismatic leadership, before inevitable reverses erode the leader's charisma."[21]

Yet, switching over to an administrative framework, while still retaining the charismatic quality that allowed the leader to inspire a following and ascend to a position of power, has proven difficult. Associated political trappings as well as the need to build consensus often overwhelm a charismatic revolutionary. As Arthur Schweitzer noted in *Theory and Political Charisma*, "Administrative staffs and economic support will squeeze out the original charismatic quality as soon as the movement becomes a consolidated regime."[22] According to this theory, the routinization of a charismatic revolutionary essentially kills his charisma. Yet the relatively long periods of routine rule by Mussolini, Hitler, Nehru, and Mao seem to refute the self-destructive nature of the charismatic revolutionary.[23]

However, if it is possible to retain charisma during the period of routinization it is not, necessarily, probable. It must first be determined whether the nature of the charisma of the particular leader is essentially one-dimensional mastery or multi-dimensional representation. This is an essential first step in evaluating a revolutionary's ability to assume the traditional reigns of government. Not only must a charismatic leader be able to represent the needs of followers, the leader must also be willing to undertake tedious administrative endeavors, coalition building, and the normalization of foreign relations.

Not only must a charismatic leader be able to represent the needs of followers, the leader must also be willing to undertake tedious administrative endeavors, coalition building, and the normalization of foreign relations.

During his campaigns against the Soviets throughout the 1980s and again during his resistance to the Taliban in the 1990s, Massoud proved a master at uniting and coordinating an ethnically diverse coalition of Uzbek, Hazara, Takjik, and even Pashtun mujahideen forces. Formed in May 1990 in a bid to oust the communist-backed Najibullah government (still clinging to power four years after the Red Army had been expelled) the National Commanders Shura (NCS) was a coalition composed of, among others, the abrasive Uzbek Socialist Rashid Dostum and Ismail Khan, a former Captain in the Afghan National Army that had since taken up command of a mujahideen force in the eastern

province of Herat. In a move to alleviate the ever-present ethnic tensions within the coalition, Massoud opened a military academy at his base in the Panjshir Valley to train volunteers from various provinces.[24] Additionally, Massoud instituted a parallel government to address the needs of the mainly Tajik community in the Panjshir Valley in order to build and maintain popular support for the mujahideen.

More than the other mujahideen parties within Afghanistan at the time, Massoud relied strongly upon local sources for the economic development of the region. In addition to promoting local small businesses and instituting a parallel government to address the basic social needs of the largely Tajik Population inhabiting the Panjshir Valley, Massoud was also able to coordinate the evacuation of civilians in the valley in advance of mujahideen battles with the Red Army.[25] By instituting a parallel government and creating a wartime economy, the people of the Panjshir Valley could now offer input in the resistance effort.[26] Nearly a decade after he began these reforms in the Panjshir Valley (and amidst a string of debilitating defeats at the hands of the Taliban in the north), Massoud proved an effective international statesmen and orator when addressing the European Union in Paris and Strasbourg in an effort to galvanize international support for his increasingly beleaguered resistance. This range of skills shows Massoud to have been more than just a general or student of Mao. However, the routinzation of Massoud's charismatic leadership never occurred. There are several reasons for this lack of routinization in the case of Massoud that deserve closer examination.

When Afghanistan's Soviet-backed communist government led by President Najibullah finally crumbled on April 26, 1992, Mohammed Nabi Azimi, the general in charge of Kabul's military garrison asked Massoud to enter Kabul and assume the role of head of state. Though he was the most popular Northern Alliance figure and had an organized Mujahideen force under his direct command, Massoud refused. Instead, he contacted the resistance's external leadership in Pakistan and waited three days for the interim government to arrive from Peshawar before entering the city.[27] Massoud's decision to await the external leadership with whom he had become increasingly disillusioned, rather than exploit the power vacuum to create an indigenously controlled government, would come to haunt him. As former Northern Alliance resistance member Neamatollah Nojumi writes, "The personal charisma of a nationally and internationally recognized mujahideen leader like Ahmed Shah Massoud could have played a significant role in the establishment of a wider influence of the NCS in Afghanistan…. In this case, the external leaders would not have had any other choice but to cooperate with the NCS."[28]

The transitional government that assumed power was headed by Burhanuddin Rabbani, Massoud's longtime friend and head of the Pakistan-based Jamaat-e-Islami party (JIA). Massoud was appointed Defense Minster.[29] From the outset, however, the situation in Kabul did not allow for any rational-legal or routine institutions to take hold. Gulbuddin Hekmatyar, the leader of the Pakistani-based Hezb-i-Islami party (HIH) and longtime nemesis of Massoud, refused to recognize the new JIA-controlled government and attacked Kabul with the backing of Pakistan's Inter-Services Intelligence (ISI). Essentially, Massoud and his Northern Alliance forces had gone from resistance movement to acting government to government under siege. This nearly180-degree reversal of their previous position and strategic thinking occurred in only eight months. The switch from guerilla resistance to embattled government confounded any chance for Massoud to progress from the mastery to the representational phase of charismatic leadership.

A period of calm that allows re-adjustment is therefore a necessary first condition for the routinization process to occur. This is not merely a period of adjustment to the bureaucratic trappings of the state government system, but a time for a deeper psychological shift away from guerilla philosophy wherein not losing and living to fight another day is winning. Such an environment did not exist for Massoud in Kabul during his brief term as Defense Minister, and, as a result, routinization never happened. However, to understand the events that occurred after the fall of Kabul better, we need to look further back

to Massoud's emergence as a charismatic leader and to charisma's Islamic roots.

Charisma in Islam

When King Zahir Shah was overthrown in 1973 by his cousin, the Soviet-backed Mohammed Daud, the CIA and the ISI began to channel arms to resistance movements via radical Islamic parties located in Pakistan. Ahmad Shah Massoud and Gulbuddin Hekmatyar were both upper-middle class engineering students at the University of Kabul when they crossed into Pakistan to found and lead two of the most militant Islamic parties: the JIA and HIH respectively. Their immediate goals included the expulsion of communists from Afghanistan, and both parties were inspired by the *Ikhwan ul Musilmeen* or Muslim Brotherhood. Founded in 1928, The Brotherhood sought the creation of an Islamic state through revolution.[30]

> In the Islamic tradition, therefore, charismatic leadership is defined by essentially what is believed to be a supernatural calling.

As it relates to a study of charismatic leadership, it is important to note the emphasis that the Muslim Brotherhood's model of political Islam places on a single charismatic leader. As Taliban scholar Ahmed Rashid explained, "The obsession of radical Islam is not the creation of institutions, but the character and purity of its leader, his virtues and qualifications and whether his personality can emulate the personality of the Prophet Mohammed."[31] The notion that a pure leader, or "guided one." imbued with *baraka* (the Sufi term roughly translated as charisma) will arrive to save the Islamic world is central to the popular Sunni belief system.[32]

In the Islamic tradition, therefore, charismatic leadership is defined by essentially what is believed to be a supernatural calling. The Islamic tradition differs from the Greek and Christian traditions in that those who receive the call are vital only in founding communities and not in leading or administering them.[33]

Thus, in the Islamic tradition, the early charismatic leaders were valued primarily for their prophetic nature, their spiritual qualities, and their knowledge of, and ability to communicate with, God. Ahmad Shah Massoud, however, like many modern Muslim charismatics, is not easily categorized as supernatural or secular . Supernatural charismatics claim to speak on behalf of God, or to be agents of the divine, and often espouse millenarian goals. Secular leaders rely less on divinity and more on a combination of strategy, mastery and popular appeal.Though possessing a devoted following, they may have no real organization skills or desire to lead in the traditional sense. Revolutionary leaders, be they Islamic or Marxist are usually of a secular character in their reliance on strategy, organization, military prowess, and rhetoric. Thus, we can identify secular charismatics—be they religiously affiliated or not—as leaders who are more prepared to make the transition to traditional forms of government. The secular charismatic can be a devout Muslim (such as Massoud) fighting to expel what were considered Soviet infidels and godless communists from Afghan soil.

It is also important to remember that during the twenty years Massoud spent at war, his attitude and strategy changed. He essentially moved from the strict ideology of the Muslim Brotherhood to the pragmatism of a nationalism based upon the theory of an Afghanistan for Afghans.This shift was driven, in part, by his frustration at the continued involvement of the ISI in Afghan politics in the years following the Soviet withdrawl. Massoud's devotion to Islam remained consistent, but the necessity of adaptation, the cornerstone of guerilla warfare, forced him to change. Though the praise heaped upon The Lion of Panjshir at every official Afghan State gathering would have us believe otherwise, Massoud was far from the righteous idealist; he was a realist caught in a geopolitical game he was not prepared to fight.

The Split of the Afghan Resistance Movement

Most studies on the politics of the Afghan resistance movement describe the conflict between mujahideen rebel groups in terms of religion, essentially reducing everything to differences between fundamentalist Islamic

parties like Hekmatyar's HIH and the more moderate, but often no less militant, parties like Rabbani and Massoud's JIA. "This simple dichotomy," explains Shah M. Tarzai in his study of cleavages within the Afghan resistance movement, "is misleading because there are few ideological differences (with respect to Islam) between the warring factions."[34] In fact, as Tarzai explains, the principle split in the resistance occurred along an internal-external axis. Taking a page out of the colonial playbook, the ISI was able to use aid and favor to keep the Afghan resistance divided in order to control whichever movement eventually won the battle for Kabul.[35] To this end, Islamabad channeled CIA arms to the various mujahideen factions based upon the factions' willingness to toe the Pakistani line, not according to need.

How does this internal-external split relate to an analysis of charismatic leadership? A key feature of the internal resistance was the emergence of a new military leadership. These internal commanders were preoccupied with the practical problems of waging guerilla war against an asymmetrical enemy while simultaneously maintaining, repairing, or building "economic and administration infrastructures."[36] Despite attempts by the external leadership to control their counterparts inside Afghanistan, the need for the latter to make and carry out decisions and form or break alliances on a daily basis gave birth to a new, practical leadership type. This type of leader was sustained not by funding or status, but by successful battle plans, inspiring rhetoric, and a strategic unifying vision. In short, these were leaders who could bring order to the chaotic life of the average Afghan during the war years.

Though Massoud was a founding member of JIA and a close confidant of Rabbani, the party's external head, he was first and foremost a military leader of this new order. To quote Tarzai again, "Massoud is a good example of the modernizing counterelite within the Internal Resistance … [H]e not only defended the liberated territory of the Panjshir Valley but also provided education and literacy programs, medical care, and agricultural development for the civilian population in the liberated territories."[37] That Massoud's popularity (and power) created a schism in the external and internal resistance should come as no surprise.

When a charismatic leader emerges after a revolutionary movement has begun, the movement (in this case the Afghan resistance) may divide into those who reject and those who accept the charismatic leader. The people of Afghanistan gradually began to accept Massoud's unifying vision, and various other mujahideen leaders were forced to either accept (Dostum) or reject (Hekmatyar) Massoud's charismatic hold over the people of Afghanistan. So why, with this overwhelming support of the people of Afghanistan and the grudging respect (or fear) of various mujahideen leaders, did Massoud hesitate to take control? Why, when presented the keys to Kabul, did Massoud hesitate?

Afghanistan's Charismatic Lineage

In Afghan society, religion and government have historically remained separate.[38] Within this societal structure a mujahideen's first loyalty is to his commander, who is usually a relative or a tribal leader. This mirrors the general hierarchy of loyalties within Afghan society: family, clan, tribe, ethnicity, and religion. Though religion is the least powerful according to this breakdown, Islam is often considered the one commonality shared by all Afghans; it has therefore been used as an ideological rallying cry to unite disparate tribes against a common enemy. Yet, in a culture in which the people generally follow leaders rather than causes, ideology will only take you so far. As a war hero, ethnic unifier, and visionary, Massoud seemed to be a logical candidate to head a new Afghan state.

> "Charisma can pass into offices or along blood lines to kinship groups."

In Afghanistan, however, there exists a substantial obstacle to even the most charismatic of leaders. From the founding of the modern Afghan state in 1747 until the Taliban took control of the country in 1996, the country was a monarchy in which ethnic Pashtuns from the Durrani tribe ruled continuously. The Taliban movement, though often characterized as a return to traditional Islamic ways of governing, was thus an anomaly. In the end, neither the communists,

the resistance parties that battled for power following the Soviet withdrawal, nor the Taliban could create an alternative source of legitimacy comparable to the monarchy (Tarzai 1991, 481).

Interestingly, this continuous Durrani-led government is, itself, a form of charisma known as "transferred" or "hereditary" charisma.[39] As Spencer notes, "Charisma can pass into offices or along blood lines to kinship groups."[40] This idea of hereditary charisma is not unique to Afghanistan. Within the Islamic context it is believed that charisma could be inherited within the family and clan of Muhammad. As Watt explains, "Most … regarded Muhammad's cousin and son-in-law Ali as his charismatic successor, from whom the charismata were transmitted to certain of his descendants. The party who held these beliefs was known as the Shi'ites".[41] Being a Tajik, Massoud was well aware of the tribal glass ceiling. Though this barrier could likely not have prevented him from grabbing the reigns of power, Afghan history instructs that, he had done so, his term of conventional leadership would have been short-lived. There is reason to believe that Massoud understood this and that he was contemplating this very fact during those three long days that Kabul sat vacant. These concepts of ingrained tribal prejudices and transferred charisma are difficult for the western mind—that thrives on the idea of upward mobility—to accept.

Conclusion

However, the irony of the charismatic leader ultimately undone by a charismatic institution is a tempting, though ultimately simplistic, way of concluding this study of the charisma of Ahmad Shah Massoud. In the end, this is just one of myriad factors that contribute to his charismatic profile. As we have seen, these factors include innate mental capacity, an unflagging conviction in the rightness of one's actions, and the ability to order a chaotic world. However, chief among these explanations is the relationship between the leader and his followers. It is because of this basic relationship that all charismatic frameworks must be sufficiently value-free to allow comparison between charismatic individuals as diverse as Hitler and Gandhi. Yet, to attempt to compare the magnetism of a despot and a symbol of peace using only a value-free leader/follower dynamic would result in a partial assessment, and an incomplete framework. A useable framework requires context, history, motives, and belief. It is only through a careful analysis of modern context, historical precedent, and overarching cultural behaviors that we can truly begin to evaluate whether a revolutionary labeled a charismatic in today's world can successfully transition into the world of traditional government.

The views and opinions expressed in articles are strictly the author's own, and do not necessarily represent those of Al Nakhlah, its Advisory and Editorial Boards, or the Program for Southwest Asia and Islamic Civilization (SWAIC) at The Fletcher School.

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[1] Leaders of revolutionary, resistance, and/or terrorist organizations in the twentieth and early twenty-first centuries have been almost exclusively male. One interesting exception is the case of Alice Lakwena. A priestess claiming divine guidance and offering salvation for the Acholi people of Northern Uganda, Lakwena formed the Holy Spirit Movement after Yoweri Museveni's National Resistance Army swept to power in 1986. From the remains of this cult-like militia, Josephy Kony (Lakwena's nephew) formed the Lord's Resistance Army.

[2] The term charisma finds an interesting parallel in the Greek word *genus* (genius). Like charisma, the Greeks believed that genius was either given at birth or divinely bestowed. It is no coincidence that true charismatics are often described as possessing an understanding of situations and events that is more than just knowledge.

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[8] Friedrich, 16

[9] Bearak, Barry. A Nation Challenged: Yesterday's Hero; Kabul's New Rulers Lament a Leader Who Died Too Soon. *The New York Times*, November 25, 2001. http://web.lexis-nexis.com/universe/doclist (accessed November 11, 2006).

[10] An anti-Taliban coalition, also known as the Northern Alliance, commanded by Massoud and composed of an often fractious array of Uzbeks, Tajiks, Hazaras and Pashtuns.

[11] A direct link between Massoud's death has never been definitively proven, and Al Qaeda has never officially claimed responsibility.

[12] Sirrs, Julie. Afghan United Front Ready to Help US Forces. *Jane's Terrorism & Security Monitor*, October 19, 2001. http://www8.janes.com/Search/documentView (accessed November 11, 2006).

[13] Davis, Anthony. Ahmadshah Massoud: The 'Lion of Panjshir' Assasinated. *Jane's Intelligence Review,* September 21, 2001. http://search.janes.com (accessed November 11, 2006). Italics added for emphasis.

[14] Spencer, 351

[15] Dekmejian and Wyszomirski, 199

[16] Spencer, 345

[17] Junger, 212

[18] Spencer, 350

[19] Ibid., 346

[20] Dekmejian and Wyszomirski, 198

[21] Ibid.

[22] Schweitzer, 180

[23] Ibid.

[24] Nojumi, Neamatollah. *The Rise of the Taliban in Afghanistan: Mass Mobilization, Civil War, and the Future of the Region*. (New York: Palgrave, 2002) 92 -107

[25] *CNN*. 2001. Massoud: US Forgot its 'Moral Responsibility' in Afghanistan, September 1998. http://www.cnn.com/SPECIALS/2001/trade.center/massoud.html (accessed on November 17, 2006).

[26] This reliance on local resources was done not so much to foster a mutual stake in the war effort, but because an increasingly independent and powerful Massoud had run afoul of the external leadership in Pakistan.

[27] Nojumi, 109

[28] Ibid., 112

[29] Ibid., 110

[30] Rashid, Ahmed. *Taliban: Militant Islam, Oil and Fundamentalism in Central Asia*. (New Haven: Yale University Press, 2001) 86.

[31] Ibid.

[32] de Waal, Alex. 2004. Counterinsurgency on the Cheap. *London Review of Books*,15. http://www.lrb.co.uk/v26/n15/contents.html (accessed on November 17, 2006).

[33] In his journal article, *The Conception of the Charismatic Community in Islam*, W. Montgomery Watt explains the ultimate purpose of Islam's "founding charismatic." "The prophet," Watt writes, "was necessary to found the Islamic community, but once that community had been founded there was no compelling need for a leader with the same charismata as Muhammad." Watt, W. Montgomery. The Conception of the Charismatic Community in Islam. *Numen* (7) (1960) 78.

[34] Tarzai, Shah M.. Politics of the Afghan Resistance Movement: Cleavages, Disunity and Fragmentation. *Asian Survey* (6) (1991) 480.

[35] Ibid., 492

[36] Ibid., 486

[37] Ibid., 486-487

[38] Ibid., 481

[39] Watt, 78

[40] Spencer, 343

[41] Watt, 78

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Review of *The Price of Fear: The Truth Behind the Financial War on Terror* by Ibrahim Warde

Rebecca S. Hekman

On November 7, 2001, amid much fanfare, the U.S. led a global shutdown of Al-Barakaat, a large Somali remittance company headquartered in Dubai. The first major target in the financial war on terror, the company stood accused of providing $15-25 million annually to Al-Qaeda. U.S. Treasury Secretary Paul O'Neill called Al-Barakaat "the quartermasters of terror";[1] Bush announced that the strike was predicated on "solid and credible" evidence that the company was "operating 'at the service of mass murderers.'"[2] Simultaneous police raids in four U.S. states, Canada, Italy, Switzerland, and the UAE were hailed as a resounding success. Having ostensibly interrupted Al-Qaeda's communications and made a significant dent in the organization's finances, the strike was also to uncover a wealth of information for law enforcement

What followed would receive far less attention—at least in the U.S. The case against Al-Barakaat unraveled. The company had kept scrupulous records of all transactions, and its cooperation with the FBI proved "exceptional."[3] In the end, Al-Barakaat was exonerated of all charges of terrorist financing and its assets were unfrozen—but not before a significant blow was dealt to an important actor in the Somali economy, one which "provided a real service to a country devastated by war and famine."[4] Every aspect of the case was known by Somalis, many of whom were bankrupted, cut off from telephone service, and laid off from work as a result—and it left them with a strong feeling of injustice. International cooperation and goodwill toward the U.S suffered as well.

Warde finds the unmitigated disaster of the Al-Barakaat shutdown to be symptomatic of the many problems with the *other* 9/11-inspired confrontation: the so-called 'war on terrorist financing.' Begun in haste to show decisive action and dominated by martial overtones, the financial war has swept up many innocents in its wake. It has worked to disintegrate Islamic financial institutions from the global economy, and driven terrorist financing further underground—all the while turning up little of value. Much like U.S. conduct in other facets of the war on terror, the war on terrorist financing has garnered few allies for the U.S. along the way. Thus, for all the self-congratulation and uncritical praise for the financial war, inherent dysfunctions in nearly

> Warde sets out systematically debunking the axioms, assumptions, and myths that have created the "parallel universe" of the financial war, such as the thoroughly discredited yet persistent myth of Usama Bin Laden's $300 million personal fortune.

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every aspect have ensured that, at best, it has done little to protect us against terrorist attacks and, at worst, it "may endanger America's national interests and the security of the world in the long term."[5]

To urge U.S. policy in a more productive direction, Warde sets out systematically debunking the axioms, assumptions, and myths that have created the "parallel universe"[6] of the financial war. "Financial warriors" often assert that money is the "lifeblood," or "oxygen," of terror.[7] This axiom relies on what Warde calls the "master assumption of the financial war": that terrorist operations are supported by a vast, yet finite, stash of hidden cash.[8] Supporting both of these is the thoroughly discredited yet persistent myth of Usama Bin Laden's $300 million personal fortune, often said to form the basis of financing for Al-Qaeda.[9]

Contrary to common conceptions, the costs of recent terrorist attacks have been negligible—and are steadily decreasing. (Costs for 9/11 were some $300,000-$500,000 over two years; the July 2005 underground bombings in London cost less than $1,000.) These figures underscore one of Warde's central arguments, that "terror does not exist because there is money; rather, money appears where there is support for terror."[10] The September 11 Commission Report revealed that terrorist financing fluctuates, and tends to appear largely in response to political events.[11] Thus, the financial warriors' obsession with money as the root of all terrorist attacks—an explanation that surfaces in the wake of every new attack—"obscure[s] the fluid nature, as well as the ideological and political character, of radical Islamic terrorism."[12]

Warde argues that "it is not clear that any of the new financial safeguards put in place in *response* to the September 11 attacks would, in and of themselves, have caught the money—let alone prevented the attacks."

The financial warriors' faulty assumptions have created defective methodologies, and Warde takes aim at those as well. Following the "money trail"[13] has produced some notable successes in the past; after all, it was a Mexican bank account that eventually led to the White House in the Watergate scandal. These successes, combined with the ramping up in recent decades of the successive wars on crime, drugs, and now terror, have led to a significant expansion in law enforcement's power—and incentives—to seize assets of suspected criminals. Powerful forfeiture laws are, however, designed to "frame the guilty," and thus "hinge[]"—dangerously—"on the designation of public enemies."[14] Moreover, with the opening of world financial markets, these tactics are now being used on a global scale. Financial attacks serve as proxies for military action, and their effects are similar to modern "sanitized high-tech warfare": they are politically popular at home, while ensuring that the aggressor country no longer "feels" what it does.[15] The particular paranoia that has surrounded 9/11 has also created a kind of "six degrees of separation" logic, so that any person or entity with suspected "links to terror" may be targeted.[16] The Al-Barakaat episode is only one, high-profile example; Warde describes numerous individuals, companies, and legitimate charities around the world that may also be counted as the financial war's "collateral damage."[17]

The fixation on money as the "mother of intent"[18] for acts of terror has also caused financial warriors to approach terrorist funding in the much same way as money laundering. Warde finds this use of an inapplicable framework to be at the root of many of the financial war's dysfunctions. Indeed, money laundering's motive (crime-for-profit); procedures (disguising the origins of huge amounts of "dirty" money and injecting them back into the formal economy); and actors (small numbers of drug lords or crime families) are fundamentally different than those of new terrorist financing. The most prevalent form of terrorism today is politically and ideologically motivated. Relying on a broad and largely amorphous support system, it uses small, unnoticeable amounts of "clean" money to fund criminal acts.

As Warde convincingly argues, these differences have crucial implications for law enforcement. The money trail simply does not yield clues in the fight against terrorist financing, and financial institutions are not in a position to help. Thus, as Warde suggests, despite a virtual bureaucratic explosion, "it is not clear that any of the new financial safeguards put in place in *response* to the September 11 attacks would, in and of themselves, have caught the money—let alone prevented the attacks."[19] Moreover, severe measures meant to punish and intimidate have

the opposite effect of intensifying animosity and motivation.

Thus, despite bombastic rhetoric and a flurry of bureaucratic activity since September 11, 2001, international acts of terror are on the rise.[20] Warde finds financial warriors' methods not only ineffective but also counterproductive in driving terrorist financing further underground. He argues that they provide terrorists with clear signals as to how not to get caught and, in some cases, serve as fodder for radicalism. In this regard, Warde laments the steady deterioration of the image of the United States in the Islamic world and the alienation of the voice of moderate Muslims. Warde dedicates an entire chapter to providing an objective history of Islamic charities. He notes that the financial war's assault on those in the mainstream in particular has provided considerable support to the argument that the war on terror is actually a war against Islam.

Despite bombastic rhetoric and a flurry of bureaucratic activity since September 11, 2001, international acts of terror are on the rise.

Disconcertingly, financial warriors still claim unequivocal success in combating terrorist financing.[21] In fact, Warde notes a distinct lack of learning in the financial theater and finds it astounding that, despite changing attitudes and strategies in nearly all other aspects of the war on terror, the financial war has been subjected to very little scrutiny. These trends are all the more alarming for the wealth of reliable information available undermining the financial war's foundations and methodologies.[22] Nonetheless, financial warriors' response to each new act of terror consists of "doing more of the same—only more forcefully."[23]

Despite his heavy criticism of the financial war, Warde notes that money can be a "significant facilitator and enabler"[24] in acts of terror. Furthermore, he warns that this role will only gain prominence as terrorists attempt to acquire weapons of mass destruction. As a solution, he offers an "alternative, support-based paradigm"[25] based in part on the lessons provided by counter-insurgency efforts.[26] Warde's paradigm re-orients the financial "war" away from menacing projections of power and toward winning the cooperation of the unhardened ranks whose non-committal complicity with terrorism provides essential support. In this effort, according to Warde, "the principle question ought to be, 'why is there support for terror?'"[27] The money-laundering paradigm, which "obscure[s] the fluid character of the terrorist threat" and criminalizes and punishes the support system on a massive scale, must thus be discarded.[28] Moreover, the Bush administration's systematic exclusion from policymaking of persons with cultural, religious, linguistic, and technical expertise likewise must be reversed. Warde recommends "low-key policies that are all but invisible to the public," including reliance on cooperation and diplomacy, and "radical streamlining" of the ballooning terrorist finance bureaucracy.[29]

While Warde praises the 9/11 Commission Report for its "sheer accumulation of fact and detail," [30] similar accolades could be bestowed on his work. He shines when lining up fact and detail to reveal the holes in the financial war's founding assumptions. His treatment of the Bin Laden personal fortune and the Al-Barakaat embarrassment are exemplary in this regard. If his project has a weakness, it is that, at times, he is unable to fill the void left by this deconstruction with anything but more speculation and plausible conjecture.[31]

However, rather than a true weakness, this shortcoming may in fact simply demonstrate how much there is that we just don't know about how to undermine terrorist financing and prevent acts of terror. As Warde writes: "At the intersection of the shadowy world of terror and the opaque world of finance, terrorist financing remains little understood, and a great deal of research needs to be done on the subject."[32] Judging from the progress of the financial war and the greater war on terror, that research will be both difficult and time-consuming. In this regard, Warde has made an invaluable contribution to filling the void. Whether policymakers take notice remains to be seen.

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[2] Ibid., 95.

[3] Ibid., 99.

[4] Ibid., 97. Warde notes that, in 2001, remittances from Somali immigrants around the world provided Somalia's largest source of income, at ten times the amount of foreign aid. Al-Barakaat accounted for a large portion. The biggest employer in Somalia, the company also ran the country's largest bank, largest phone system, and only water-purification plant. The shutdown resulted in the reduction of Al-Barakaat remittances by half, the cutting off of phone service for 25,000 subscribers, and the layoff of 700 employees. Ibid., 101-02.

[5] Ibid., xiv.

[6] Ibid., xiv.

[7] Ibid., xv.

[8] Ibid.

[9] According to Warde, the $300 million figure first surfaced in 1996 on a State Department "fact sheet," and represents a division of the estimated assets of the Bin Laden Group ($5 billion at the time), divided by an estimate of the number of sons (20). $250 million was then rounded up to $300 million. Warde notes: "The calculation rested on vague estimates and many dubious assumptions about the Bin Laden family, inheritance laws and practices, the actual worth of the privately held company, and its ownership structure." Ibid., 6. Perhaps more remarkably, this figure has remained stable, despite Bin Laden's having been stripped of his Saudi citizenship, disowned by his family, and dispossessed of his shares in the family business in 1994; expelled from Sudan and stripped of his holdings in that country in 1996; having been a guest and "sometime patron" of the Taliban regime between 1996 and 2001; and having been mostly on the run since 1998. The myth persists today—and is often embellished, sometimes as significantly as by adding a zero. See ibid., 6-9.

[10] Ibid., xix.

[11] Thus, despite a "relentless escalation" of the financial war in the 100 days following the attacks of September 11, donations to Al-Qaeda increased substantially—correlated to the war in Afghanistan. Ibid., 173.

[12] Ibid., 15.

[13] Ibid., 25.

[14] Ibid., 26.

[15] Ibid., 32-33.

[16] Ibid., 58.

[17] Ibid., 93.

[18] Ibid., xv.

[19] Ibid., 169.

[20] Warde notes a 56 percent increase in 2003, a 300 percent increase in 2004, and a 400 percent increase in 2005. Ibid., 189.

[21] Examples abound. In an address to the United Nations on September 14, 2005, President Bush announced that "terrorist financing has been drained." Ibid., 153. In December of 2005, the 9/11 Commission assigned an A minus—the best grade in an "otherwise dismal" report card—to the government for its conduct of the financial war. Ibid., 153. A 2007 memoir by former Treasury Undersecretary for International Affairs John B. Taylor discussed his "great successes in 'starving terrorists of funding'" and claimed that "he and his financial warriors managed to 'prevent and suppress' the financing of terrorism." Ibid., 189. Tellingly, top government officials continue to cite the Al-Barakaat shutdown as a spectacular victory. Ibid., ix.

[22] Warde notes that the 9/11 Commission Report stands out in the regard. Other sources include memoirs and books from former Treasury Secretary Paul O'Neill, former counterterrorism "czar" Richard Clarke, and Michael Scheuer, who headed the "virtual Bin Laden station" at the CIA. Ibid., 5.

[23] Ibid., 167.

[24] Ibid., 173.

[25] Ibid., 181

[26] Ibid.

[27] Ibid., xix.

[28] Ibid., 175.

[29] Ibid., 181, 180.

[30] Ibid., 5.

[31] Examples in this regard include his spare explication of *hawalas* (informal remittance systems) as well as his treatment of the financial attacks on the mainstream Islamic charities. In telling the stories of the latter, although Warde thoroughly discredits lawsuits as a source of accurate, objective information, he is forced to rely primarily on court opinions and statements by prosecutors and defense attorneys. See ibid., 71-74, 139-45.

[32] Ibid., 176.

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Interview with Itamar Rabinovich: Walking the Tightrope of Middle East Diplomacy

Michael Mylrea

In an attempt to revive peace talks, Israeli Prime Minister Ehud Olmert recently met with Palestinian Prime Minister Mahmoud Abbas at his residence in Jerusalem. Once again, Palestinian and Israeli leaders appear to be at an important crossroads. Is peace on the horizon? Or will violence erupt? Tough questions loom ominously. The complex environment of Middle East diplomacy is like walking a tightrope, where each negotiation rests on a delicate balance between peace and war. As Israel's former Ambassador to the United States and Chief Negotiator to Syria, Itamar Rabinovich has walked this tightrope, negotiating through some of Israel's most challenging times. Former Ambassador Rabinovich sat down with al Nakhlah to shed light on his diplomatic experience, offering important lessons from the past and his unique perspective on the future challenges and opportunities in the Middle East.

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What does Israel hope to accomplish at the upcoming peace summit? And, how will current events in the region affect its ability to realize these goals?

I think Israeli expectations, in anticipation of the peace summit as it is referred to, are quite modest.

Given the problems of the Bush administration and the fact that it is an administration that is on its way out and bogged down in Iraq, coupled with the weakness of Abu Mazen and that Hamas is in control of Gaza, and the fact that the Syrians can rock the boat through Lebanon and through their influence on Hamas and Islamic Jihad, the sense is that it is not the right time to go for final status negotiations. Therefore, the Israeli policy would be to try to look for what we sometimes call a declaration of principles, which would not exact that high of a price from the Olmert government, and which would be accompanied by Israeli gestures on the ground such as release of prisoners, removal of roadblocks, and maybe dismantling of illegal settlements. This is the Israeli expectation, but not the Palestinian expectation. So, the Palestinians have higher expectations and the sizable gap between expectations has already led to a postponement in the peace talks. I think the postponement occurred because Secretary Rice and her team realized there would not be enough time for them to narrow the gap sufficiently for

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some kind of success to emerge out of the conference.

The violence that preceded the Oslo peace negotiations and Israel's withdrawal from the Gaza Strip appears to have made the Israeli public pessimistic about the upcoming peace process. Furthermore, recent violence between Hamas and Fatah and continued Israeli settlement expansion in the occupied territories, also paint a pessimistic picture of the latest peace initiative from a Palestinian perspective. This has led a number of scholars to warn that another round of failed peace negotiations could trigger a third intifada. Could you touch on the consequences of raising high expectations for the current peace talks?

When there is failure, there is a sense of despair and exasperation that could lead to another outburst of violence. It could play into the hands of Hamas, who would then say, "we told you, there is no hope on this path and you have to join our path, and the only way is violent resistance." So the answer is yes. And then, of course, there is a domestic price of failure for all parties involved. I think one of the Bush administration's purposes is to try and end eight years in office with something positive in the context of the Middle East against the back drop of Iraq, and a resonant failure is not what they have in mind.

Considering the severity of the consequences of failed negotiations, how do you know when it is the right time to negotiate? What criteria need to be in place in the context of Middle East diplomacy?

In conflict resolution theory, there is an important concept of ripeness. You need to identify when a conflict is ripe or almost ripe for resolution. There is positive and negative ripeness. Positive ripeness is when parties can expect benefits, and negative ripeness is when they are under pressure and feel despair. The prospect of what a negotiation can produce for you has to be more enticing than the status quo because in order to make a deal you have to pay a price and it is painful. The question is if the alternative is more painful or less painful and if the rewards offered by the alternative are large enough to make up for the pain.

Another important variable is the concept of time. Is time working for me or against me? If it's working for me, let me wait. If time seems to be working against me, let me a make a deal now. And of course the decision makers and mediators need to be able to read these trends correctly and make a good judgment call. You know, it's not a mechanical process where you go by the criteria and measure them. It's often a question of instinct that politicians and diplomats need to have.

In your book, "Waging Peace" you mention that "the first step to understanding the complexity of the [Arab-Israeli] dispute is recognition that there is no single Arab-Israeli dispute but a cluster of distinct, interrelated conflicts."[i] Could you give an example of how the interplay of other regional conflicts contributes to the complexity?

Indeed, it is complex. We have had the conflict for more than 60 years now, and the peace process for 34 years now has not been concluded successfully. This bears testimony to the complexity and difficulty of the conflict. For example, consider how the Gulf War weakened the PLO and enabled Baker to invite a Palestinian delegation to Madrid without the PLO. There is always interplay of regional politics. The art of policy making and planning is the ability to read the trends correctly even when total information is not always available.

What should be Israel's role in finding a solution to the Fatah and Hamas split?

Actually, I think it's not the right thing for Israel to try and engineer Palestinian politics. The product of Israeli engineering will always be illegitimate. But Israel can act indirectly. If Israel thinks Fatah as a secular, nationalist, and pragmatic group is the answer to Hamas, it can, without being too transparent, try to help Fatah.

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Do you believe Fatah will be able to hold the West Bank? What do Israel's actions (or lack thereof) in this current crisis mean for the future of the Palestinian territories, Israel and the region?[ii]

I think Fatah can retain its control over the West Bank. Israel can be helpful and is helpful in that regard because Israel's presence in the West Bank is very concrete unlike that in Gaza, which is cut off from Israel. And, therefore, I think that Fatah's ability to retain its control over the West Bank is quite good. Its ability to recapture Gaza is questionable and of course the enduring situation of a divided Palestine is not conducive to peacemaking. I'm afraid there is not much Israel can do about it, except to live with it.

Could you imagine a viable vision of a divided Palestinian State?

It is not going to be very viable. Not a state, but state-led. This means that as long as you have divided authority among the Palestinians, it is going to be very difficult to come to a final status agreement.

When you were a chief Israeli negotiator with Syria during negotiations in 1993, it was really the first time that Syria and Israel came close to a peace agreement. During that time the Syrian position was: "full peace for full withdrawal." The Israeli demands were: quality peace, normalization and water issues. In the background, the Oslo peace accords presented a window for peace between Palestinians and Israelis. Since then a lot has changed. What would a comprehensive Arab-Israeli peace agreement mean for the region?

Comprehensive peace would mean a lot because the real problems of the region go well beyond the Israeli-Palestinian conflict. The main problems are overpopulation, discrepancy between populations and resources, unequal distribution of financial resources, and regional demography. Without massive investment in development projects, creating jobs for the unemployed, and raising the standards of living in the Arab world, there will not be political stability in the region. So, comprehensive peace would mean a first step towards investing in and addressing the real underlying problems.

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In my experience working on bilateral trade negotiations between Palestinians and Israelis, I've often heard a number of Palestinians say that the only reason Israel even considers peace is to open up the borders to take advantage of business opportunities that would present themselves.[iii] **Do you believe there is any truth to that argument? If not, from where does that argument stem?**

No. But this argument is not surprising. In a state of conflict there are always these mutual complaints and paranoia. I've also heard an argument from Palestinians who believe that the Israelis actually want to control them economically, replacing one form of control with another, and Palestinians will end up being providers of cheap labor to a more powerful and sophisticated Israeli economy. So this is not the only argument in town.

What position do you foresee the U.S. playing in creating an environment for a peace agreement between Israeli and Syria, and how would that affect the region?

It's not a peace agreement, but an improvement of relations. Of course, peace between Syria and Washington would include an American decision, as it was in the 1990s, to try and work out a peace deal between Syria and Israel. And quite a few Israelis would be supportive of that. It wouldn't

necessarily be something negative that America would need to push down the throat of Israel. The obstacles to American-Syrian understanding are not found in the Golan issue, but more in the fact that Syria is seen as an Iranian client. I think the U.S. will demand Syria distance itself from Iran with as precondition to building a future relationship between Washington and Damascus. But I personally believe that as long as the Bush administration is in place, this peace agreement is not likely to take place. However, if the U.S. were able to pull Syria away from the Iranian orbit, it would be a diplomatic coup. But I don't think it could happen soon.

How could you make it happen?

You open a confidential dialogue. You lay your cards on the table and try to play them well. It's not easy. But this is not easy if the Syrians, as part of this package, want the U.S. to recognize their supremacy in Lebanon. The Bush administration is not going to do that. The next administration maybe yes, maybe no. It's a very difficult situation.

The situation with Libya was also difficult considering Gaddafi's nuclear weapons program and support for terrorist groups. But in the wake of the U.S. invasion of Iraq, he has bowed to American pressure and moved towards reform. What lessons in diplomacy can be drawn from this for dealing with rogue regimes?

Libya represents a great American success story. It's limited, but for Gaddafi to dismantle his nuclear program and cease to engage in terrorism, this was a great diplomatic coup for the United States.

Could you see something similar happening from American pressure on Iran?

Not right now. I would have loved to see this, but I don't see that now.

Iran was one of the first nations to recognize Israel, and had a close political alliance with Israel during the era of the Pahlavi dynasty. Though hostility towards Israel accompanied Khomeini's rise to power and the Islamic revolution in Iran, is there anything from the previous narrative that could be built upon in terms of repairing the current relationship between in Israel and Iran?

It doesn't translate immediately. But it shows that there is no underlying national conflict between Iran and Israel. It's not going to happen anytime soon, but at some point in the future a close relationship or at least a normal relationship could be restored. But for that there would have to be a change of regime. This is an absolute precondition.

> There is no real national conflict between Iran and Israel.

In an article you wrote for the Israeli daily Haaretz, you stated that "time is not a neutral factor, passivity does not lead anywhere, and one who does not take initiative, even on a different front, will find himself ultimately reacting to the initiatives of others."iv Could you touch on this in the context of initiatives taken by other regional powers?

I wrote that paragraph against the opinion of some Israelis who think that all we have to do is play for time, just sit on our assets and try to protect them. Norman Podhoretz, the editor of *Commentary*, has said that the Cold War ended because the U.S. had the nerve and ability to stay the course until the Soviet Union collapsed. He believes that Israel should do the same and something similar will happen. I don't think so; I think we should react.

React--like the recent Israeli attack in Syria?

I can touch on that, but the truth is I don't know. I can only speculate. I assume that the Israeli raid had to do with a joint Syrian-North Korean venture that had a nuclear dimension to it.

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I think that is an issue of huge proportions. But, in a very peculiar way, there is a conspiracy of silence: Syria cannot admit that it was caught red handed with the North Koreans, the Bush administration doesn't want to destroy its deal with North Korea, and Israel is not interested in pushing Syria into a defensive corner. And, therefore, this great story remains under the radar. The situation is reminiscent of the Egyptian-Israeli situation between 1971 and 1973, when Sadat spoke of both making peace and going to war, and ended up going to war and making peace later. I hope we don't have to go through the same sequence again.

I think that much of the damage done to Israel's credibility as a military ally was rectified with the raid in Syria.

High oil prices and the overthrow of President Saddam Hussein's regime have emboldened Iran's position of power in the region. Meanwhile, Iran continues to build nuclear facilities, sponsor terrorist groups, and threaten to destroy Israel. But attempts to isolate and stop Iran from pursuing this course have failed. What role should Israel play in Iran's moves towards regional hegemony and nuclear weapons?

I very much hope that Israel can restrain itself and not jump to the head of the line. There is no real national conflict between Iran and Israel. And we should not contribute to a perception that we are national enemies. And it should not also be portrayed as an Israeli problem. It's a global problem, even if the rest of the world refuses to recognize that it is so. And, therefore, we are to be discreet, cooperate behind the scenes, and try to encourage the right action, but not, as I said, jump to the head of the line.

A number of American presidential candidates have argued the need to open up a dialogue with enemy countries like Iran and Syria. The Bush administration has for the most part stuck to its "Axis of Evil" line, which avoids fostering dialogue. What are your thoughts on negotiating with enemy countries?

You can have secret negotiations and secret diplomacy, similar to what the U.S. had in the days of Kissinger between China and the Vietcong as a prelude to a major breakthrough. It has to be secret; not in the public limelight. And hopefully you could identify common ground and find a diplomatic solution to the problem. If you find a solution, wonderful. If you don't, then you know that you have exhausted diplomatic means before military action needs to be taken. So, I'm actually all for it, if it's done the right way.

What is the advantage of a secret conversation versus open dialogue?

Open dialogue is monitored. It is very difficult to negotiate when you have to give a daily report to journalists about what was accomplished that day. It is very difficult to move. There is a time for public diplomacy, at a certain place and point. But it must be preceded by a secret negotiation that is not monitored by media and publics, where you can make substantial progress and begin to build support for whatever agreement is taking shape before you come out to the public arena.

How would you describe the general sentiment of negotiations in the Middle East? How do your personal relationships and feelings evolve when negotiating on such a high level? Where do you start?

You have to build these relationships. It's a business-like enterprise. But at the same time you need to build a human relationship (not that anyone is going to make a concession to you because you smile in a certain way). The human chemistry is a very important component in any negotiation.

What about when negotiations fail? What are some of red lines that would make a military response imperative?

Well, let's take the raid in Syria. Let's say the prospect of Syria acquiring nuclear capability is a red line. Syria sending large army into Jordan is a

red line. An attack from across the border—shelling—is a red line. There are many red lines.

What about red lines with the Gaza Strip?

Gaza is a good example. Israel can, not that it should, come to live with Qassam rockets landing in Sderot, but a larger rocket landing on some strategic asset that we have near or in Ashkelon, which is a major city, is a quantum, qualitative change. And I think that if Palestinians hit Ashkelon or a strategic facility near Ashkelon there will be massive Israeli action in the Gaza Strip.

Until now, Qassam rocket attacks have originated from the Gaza Strip. What if that problem evolved to the West Bank, where a Qassam rocket could hit the heart of Israel, shut down air traffic, and severely damage the economy? How will that affect future plans for Israeli withdrawal?

Israel wants a defensive perimeter around the airport so that it's safe from missiles.

What lessons can the U.S. apply to Iraq from Israel's evacuations from the Gaza Strip or Lebanon?

What comes immediately to mind in Iraq is if you withdraw unilaterally you have to expect civil war and enemies taking over. You lose control. You cut your losses, but you lose control.

After the Second Lebanon war, voices from the American defense establishment began to question if Israel was a strategic asset or a liability for the U.S.? What steps could be taken to strengthen the strategic nature of this relationship?

Whatever raid took place in Syria on September 6 took care of that question. I think that much of the damage done to Israel's credibility as a military ally was rectified with the raid in Syria.

What lessons can you impart to future Middle East diplomats and negotiators?

The first is patience. Negotiations in the Middle East need to be conducted with a lot of patience. Americans, and oftentimes Israelis, are always in a hurry. Secondly, both Americans and Israelis look with contempt upon haggling and bargaining: you pay a price for that in the Middle East because bargaining is part of the game. If you don't bargain and let up your position, you lose.

The views and opinions expressed in articles are strictly the author's own, and do not necessarily represent those of Al Nakhlah, its Advisory and Editorial Boards, or the Program for Southwest Asia and Islamic Civilization (SWAIC) at The Fletcher School.

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