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Currency wars, hot money and global economic uncertainty

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Double Issue

Editor's Note

THE recent move by the United States Federal Reserve to flood the financial markets with some $600 billion under its latest bout of 'quantitative easing' (QE2) has triggered what Brazil's Finance Minister has dubbed a 'currency war'. The ostensible object of this second round of 'quantitative easing' (which together with QE1 initiated in November 2008 amounts to an aggregate of over $2 triillion) was to prevent deflation in the US and further stimulate the US economy. But the fact that this huge injection of US dollars was bound to, and did in fact, cheapen the value of the dollar in relation to other major currencies has inevitably raised the suspicion that the US was seeking a competitive advantage for its exports.

Understandably, this has set off a chain reaction internationally as nation after nation scrambles not only to lower the value of its own currency, but also to institute offsetting measures to protect its domestic economy against the huge inflows of 'hot money' engendered by the Fed's move.

These inflows are the reaction of investors and financial speculators who have turned to the greener pastures of the emerging markets for higher yields after the returns on US financial assets became depressed as a result of the huge amount of US dollars released by the Fed.

With the spectre of the Asian financial crisis still fresh on their minds, finance ministers in these countries have resorted to capital controls and other measures to stem these capital inflows which, by causing a sudden and steep upsurge of property and other values, are likely to create 'bubbles'. When these speculative inflows head for the exits after making some quick profits, the resulting collapse of property and other asset values can lead to an economic crash.

While tackling this danger, there is naturally also a lot of concern among major exporting nations such as China, Brazil, Japan and South Korea that the appreciation of their currencies in relation to the US dollar will make their exports more expensive. Hence, these affected nations have intervened in the financial markets to push down the value of their currencies.

It was this whole phenomenon that caused Brazil's exasperated Finance Minister to warn of a 'currency war' which, if unresolved, could have dire consequences.

The general fear is that if this problem is unresolved, there will be a repeat of the policies of 'competitive devaluation' pursued by the US and Western nations which ultimately led to the Great Depression.

But these warnings have gone unheeded in Washington. Instead, there has been a shrill revival of the familiar and longstanding charge that China has been manipulating its currency to keep the yuan low. Not content with relaunching this campaign, the US has also sought to take advantage of Brazil's concerns over the competitive value of the yuan to suggest a united front against China. Fortunately, Brazil has fobbed off these advances by categorically declaring that for Brazil, the depreciation of the US dollar is as much a concern as that of the Chinese yuan.

The only respite in this war has been the grudging admission by the US Treasury in a recent report to the US Congress that China, along with a number of other nations, was innocent of the charge of currency manipulation.

The US move to launch QE2 and the resulting currency war pose a serious threat to any hopes of global economic recovery. As it is, the global economic situation is grim. The US is still mired in a state of economic downturn while some 44 of its constituent states struggle to avert financial insolvency. The resulting huge layoffs are bound to aggravate the country's already dire unemployment situation and weaken consumer demand.

Meanwhile, the European Union is still desperately trying to prevent the economic collapse of its weaker member states and save the euro. As for China, while it has hitherto provided the engine for keeping the world economy afloat, it is now desperately trying to curb a property market bubble and slow down growth to prevent the overheating of its economy.

With oil and food prices soaring and global unemployment figures still unacceptably high, there is little cause for cheer. This climate of uncertainty has now been further inflamed by the outbreak of revolts in the Middle East, causing panic movements of financial flows, all seeking safe refuge.

If in this bleak and depressing economic environment the US chooses to engage in irresponsible behaviour, the consequences can only be disastrous.

Our cover story for this issue considers the impact of this currency war and provides an analysis of the current gloomy global economic prognosis. With respect to the currency war, unlike mainstream media, we seek to provide a balanced and more comprehensive picture of its impact on the countries of the South. In highlighting their legitimate concerns, we also provide some information about the measures undertaken to protect their economies against the influx of hot money.

Finally, in the articles on the state of the world economy, we draw attention to some of the danger signals and red alerts that are emerging on the global economic horizon and threatening a recovery.

– The Editors

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COVER: A global 'currency war' has broken out as a result of the US policy of 'quantitative easing', and the world economy has been plunged into uncertainty. 14

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ECOLOGY

Destruction and devastation under Mongolia's eternal sky

Anyone who visits Mongolia in the belief that it is the last unspoilt frontier will be in for a shock. As *Brian Awehali* discovered, the seemingly infinite Mongolian sky now hangs over the largest mining boom on the planet.

Mongolian and international environmentalists warn that large-scale mining in Mongolia will likely lead to ecological harm.

AFTER spending several months in the epic clamour of industrialising China, I went to Mongolia looking for open spaces and unspoiled nature, for clean air, for hiking and horseback riding, and for nights still dark enough to terrify. In the countryside (and most of it remains countryside) the Eternal Sky held sacred by Mongolians since well before the time of Genghis Khan levitates with majesty over wide-open grassland prairie, steppe, subarctic evergreen forest, wetland, alpine tundra, mountain, and desert. It stretches above yak, goat, reindeer, camel, wolf, bear, marmot, squirrel, hawk, falcon, eagle and crane, and above some of the last traditional nomadic peoples and wild horses on Earth.

The seemingly infinite Mongolian sky also hangs over the largest mining boom on the planet.

On my flight from Beijing to Ulaanbaatar, I sat next to a miner named Tim. Tim had a wife and two children back in Nova Scotia, with another on the way. He was trying to convince his wife to relocate to Mongolia, but she wasn't going for it yet. So his mining career kept him away from his family as he travelled to Colorado, Nevada, Australia, and now Mongolia. Tim kept his taupe outdoorsman's hat on for the entire flight, but I forgave him for that because he shared his *Lonely Planet Mongolia* and enthusiastically told me about his work at a new copper mine in the Gobi Desert.

'It's just a camp now, but we're investing $40 million this year alone, and when it really gets up and running, it'll probably become the second largest city in Mongolia,' Tim told me. 'It's going to be huge.'

Tim was almost certainly talking about the Oyu Tolgoi mine, or 'Turquoise Hill', a copper and gold ore deposit in Southern Mongolia that's larger than the state of Florida. Oyu Tolgoi is the world's largest mining exploration project, a joint venture between a Canadian company named Ivanhoe and the Mongolian government, with significant financing from Chilean mining giant Rio Tinto. Together, they plan to invest $5 billion into operations in the next few years, making Oyu Tolgoi the largest foreign investment in Mongolian history. Over the forecast 65-year lifespan of the mine, its revenues are expected to become a third of Mongolia's gross domestic product. It's a big deal, and the discovery of it and a wealth of untapped deposits of coal, gold, silver, tin, uranium, and 'rare earth minerals' used in most of today's advanced electronics has mining-industry shills proclaiming Mongolia the next 'Saudi Arabia of insert-name-of-precious-metal-here'.

Despite projections that the mining boom is expected to triple or quadruple the size of Mongolia's economy in the next five years, times are tough for most Mongolians, and the relationship between the country's great natural resources and the wealth of its people is still to be determined. The United Nations estimates that 27% of Mongolia's urban population lives below the poverty line. In rural areas, nearly 50% of people live in poverty. During the past decade, a series of unusually severe *zuds* – storms that turn winter snow cover into solid ice, causing the mass starvation of livestock – has had a devastating effect on a country where a quarter of the people make their living (or attempt to make their living) raising livestock.

And so, like people in many other impoverished nations, Mongolians are choosing between remaining with their traditional ways or mortgaging their natural resources.

'Living off the cashmere is not economically sustainable. But is living off mining sustainable?' says Onodelgerekh Ganzorig, director of the Mongol Environmental Conservation (MEC), an Earth Island Institutesponsored project that works to preserve the environment and cultural heritage of the country. 'Half of Mongolians say "Yes, we want mining." But the other half that lives off the land is saying "No, we don't support it, because it's going to destroy this whole area and we're not going to have grazing lands or pasture lands."'

Mongolia today is the least densely populated country in the world, with four people per square mile. But before I could get to the countryside, I needed to spend several days in Ulaanbaatar ('Red Hero', UB in local slang), the capital city. In the past decade, a combination of economic and climatological disasters have forced many Mongolians from rural areas to seek opportunity in UB, and the city has swelled improvidently, from the 300,000 it was originally designed for to around a million today, or roughly a third of the country's entire population. Except for a mercilessly short window of summertime with snatches of clear skies and almost hyper-real clouds, UB is dusty and void of vegetation. The city is filled with block after block of concrete apartment buildings with paint peeling from exposure to the extreme cold and dryness of winter. Dust storms frequently whip through the city.

Even when it's still the air quality is atrocious. The belching exhaust towers of UB's two major coal power plants dominate an otherwise monolithic concrete skyline. Around the perimeter of UB are *ger* (yurt) 'suburbs' where smoking tin exhaust pipes rise from a sea of circular cloth roofs. The city's many poor have small stoves they use constantly to cook and keep warm with throughout the long winter in the coldest national capital city in the world. Sometimes they burn trash – wood, furniture, tyres. But mostly they burn the same coal as the city's power plants. Today, a fair number of UB's residents refer to the city in winter as 'Utaanbaatar' – 'Smog Hero'.

My UB host, guide, and driver, Bogi ('Crystal'), grew up in a nomadic family of herders in western

The world's largest mining exploration project, the Oyu Tolgoi copper and gold mine in Southern Mongolia is a joint venture between Canadian company Ivanhoe and the Mongolian government, with significant financing from Chilean mining giant Rio Tinto.

Mongolia. She is 24, and somewhat typical of her generation: She's left her family's traditional way of life in the countryside to pursue opportunities in the city. Bogi is lean yet wide-shouldered and has straight black shoulder-length hair, dark eyes, and strong, high cheekbones. To keep her hands from tanning like those of a country person, she wears lacy white-sleeved gloves when she drives. Bogi teaches English for much of the year, but in the summer she runs a traveller's hostel and gets up at 4:30 a.m. to meet travellers disembarking from the Trans-Siberian railroad.

On my third day in Mongolia, Bogi drove me out of the city to look for a *ger* to rent from a nomad family somewhere in Gorkhi-Terelj, a national park and protected area two hours northeast of UB. We bumped over a mix of unpaved dirt and marginally more paved roads, and Bogi assured me that finding a *ger* would simply be a matter of driving into the countryside, locating a family, and negotiating room and lodging. And she was right – more or less. Mongolians have a well-earned reputation for being hospitable to travellers, and theirs is a land largely without fences. It's still possible to rent or buy a horse and ride from *ger* to *ger* across a great deal of the country. Finding lodging in traveller-oriented Gorkhi-Terelj would be easy.

After one unsuccessful stop, we drove up to a group of teenagers and a young man on horseback near a large rock formation. Bogi exchanged a few words with the man on the horse, Baul (ba-OOL), who had ruddy wind- and sun-burned cheeks and wore a long, blue, high-collared robe tied together at the waist by a thick yellow silk sash. He gestured for us to follow him as he galloped his horse up the road. We drove to a farm with two livestock pens, three *gers*, and a satellite dish. A bargain was soon struck with his family for me to stay and be fed for two weeks for $17 per day.

In the car ride out, Bogi had asked about my desire to live in a *ger*, and seemed incredulous that an American would want to stay in one for two weeks. 'Mongolia,' I said, squinting my eyes against the dust, 'is beautiful.' At this, Bogi snorted, 'I am from the country, so it is no big deal to me.' Still, long after the details of my stay were ironed out Bogi lingered for several rounds of salty yak-butter tea and Mongolian fry bread. As the circle of sky at the top of the *ger* grew dim, she was still there.

Bogi told me the family is nomadic, but that they mostly stay in Gorkhi-Terelj in summertime so they can take on visitors like me and make money. Over the next two weeks, in the course of a horse ride, rounds of vodka, and many heated games of chess with Baul, I learned – through sign language, and some rudimentary shared 'Monglish' – that the family is putting their other son through graphic design college in UB. I also learned, through sharing my MP3 player with them, that Baul and his family really like the music of Lady Gaga. Mines and markets may be swayed or stalled, but resistance to Gaga is futile.

Pop culture is just one of the ways that Mongolia's nomadic herders are connected to the broader world. Though it might surprise many people, the vagaries of the global economy also reach to the most remote plains of Mongolia. As the world's markets contracted during the past two years, global prices for cashmere wool – herders' most valuable product – fell. Many herders in Mongolia had grown increasingly to depend on the higher margins of cashmere sales, and had begun raising a higher proportion of goats for cashmere due to its profitability on the world market. But goats are insatiable grazers that can lay bare entire swaths of delicate grasslands and worsen Mongolia's already serious problem with desertification.

'There have been droughts and *zuds* before, and lots of animals have starved before,' Ono from Mongol Environmental Conservation says. 'The herders survived. It's not just that there's overgrazing. It's now a matter of how to make money, so when we talk about sustainability, are we talking about environmental sustainability or economic sustainability?

'And then you have the government in the middle,' Ono said later. 'And who do you think they support?'

A good idea of what the government supports can be found in the words of Mongolia's Prime Minister, Sukhbaatar Batbold, who appeared on the Charlie Rose show in September 2010 and said: 'We are already the Number Four exporter of coal to China. We are a quite serious exporter of copper to China, and with our copper and gold project with Rio Tinto, we would easily double and triple [copper] exports to China. There is huge potential. On top of that, we have new commodities to export to China – iron ore, zinc – and we do have some prospects for oil and gas and important reserves of uranium.'

Mongolia's government may safely be described as pro-mining. It wants to develop the mineral resources of its country – and it expects to gain significant economic, social and political benefits from expansion of the mining sector. Government officials want the $5 billion coming into the Oyu Tolgoi copper and gold project, and they want the massive Tavan Tolgoi coal project, the Boroo hard rock gold mine, the copper and molybdenum operation at Erdenet-Ovoo, and another copper/molybdenum mine, the Tsagaan Suvarga. They want the Nalayh coal mine in the north, the Oyut Ovoo in the south-central part of the country, and the Zaamar gold mine dredging operation on the Tuul River. They want the Dornod uranium mine and the Asgat silver mine. The Mongolian government wants revenue from its recently renewed uranium exploration and extraction ventures with Russia and Japan.

Government officials are also eager to attract big, mining-related infrastructure projects. Mongolia is partnering with a Finnish mining technology company, Outotec, on a massive project to be located in Sainshand that will smelt copper, process coal, and form part of a new railway estimated to cost more than $2 billion to build.

Regardless of whether the country wants them, Mongolia is also welcoming the dangerous jobs and social problems that typically plague mining operations. Mining towns begin as small camps that often become quite large, with little planning or civic impulse. An overwhelmingly male workforce comes for work in the mines while many women, faced with few other economic opportunities in such places, turn to sex work. HIV/AIDS and other sexually transmitted diseases often blossom. In a global economic system where laws of supply and demand reign supreme, mining export economies attract huge amounts of foreign money into an economy, causing inflation and damaging other sectors of the industrial economy, a phenomenon sometimes called 'Dutch Disease' that can be understood as 'too much wealth managed unwisely'.

Despite such drawbacks, the most salient question for Mongolians today is not whether mining should occur there.

'There's no point to [that question], because it's happening anyway,' Ono says. 'I've worked on different mining-related projects for a long time. We fought for eight to ten years to stop mining companies, and it doesn't happen. Why? Because it happens with or without you. Because it's what the other half of the people want. It's an economic development concept.'

The practical question, then, becomes how to have mining operations without losing other important environmental or cultural resources. At this point, harm reduction is the best that Mongolian environmentalists can do, by trying to see strong government regulations are in place – and enforced. Ono describes the main mission of the MEC as bringing together all stakeholders to talk about environmental issues: 'In Mongolia, we have representatives from all sectors as advisers to our project, including the State Secretary of the Ministry of the Environment, and the President of the Academy of Sciences, who's also an adviser to the Prime Minister. We have the water authority and the government agency and the scientists under the water authority. We have representatives from mining companies, and representatives from grassroots and reclamation services. We have eco-tourism representatives. What our programme does is bring representatives from all sectors so they're sitting around one table and acting everything out and working out solutions together.'

Even in a country with advanced environmental laws and strict enforcement, the very best case scenario for a mine involves an accident-free exploration and extraction phase followed by an aggressive long-term, well-funded reclamation plan that creates some approximation of the natural order that went before. There is no single worst-case environmental scenario for a mine. It could be staggering levels of water consumption, poisoned watersheds, or toxic silt-choked rivers that asphyxiate fish. It could be gaping open-pit mines and a surrounding dead zone created by any number of toxins leaching into the ground, or areas known in the mining industry as glory holes, where 'block-caving' operations, which involve blasting deposits into tunnels dug below, create large areas of permanently unstable earth on the surface.

Mongolian and international environmentalists are warning that large-scale mining in Mongolia will likely lead to such problems. Profit rarely waits for caution. 'With mine reclamation tactics, boom-and-bust is a proven. There just aren't a lot of examples of success in post-mining land use,' says Paul Robinson, Research Director at the New Mexico-based mining watchdog organisation Southwest Research and Information Center, and an environmental analyst with years of experience working in the Lake Baikal region that straddles the border of Russia and Mongolia. 'Mining companies are designed to go out of business. They form operating companies for specific mines. The main companies are never liable, so the [reclamation] commitments they make are not in good faith.

'What we need to be doing,' Robinson says, 'is contemporaneous reclamation. Complete environmental impact assessments and project plans to review before any mining starts, so the full cost of reclamation is factored into the budget of the mine, and reclamation costs can be paid up front, as a deposit.'

Ono agrees. 'For the last years, it's been a vicious cycle. We try to stop them, maybe we stop them, and they start operating again faster, doing more harm to the environment and then running away. We're looking into what standards they're following before they start operating.… You can't stop all mining, but what you can say to mining companies is, "If you cannot operate safely there in that river, then you cannot operate there." People argue with me sometimes that the legal system is corrupt, and yes, the legal system is corrupt, but we have to be able to show something scientific, and be able to say, "This is the problem legally," so it's not just personal passions.'

Ah yes, corruption. Several days into my stay in the countryside, I read a copy of the English-language *Mongolian Messenger* newspaper I'd brought from UB. In addition to a metal-centric commodity price listings index on the front page, my edition of the *Messenger* featured an article entitled 'Officials Defend False Income Declarations', with this choice report: 'The Anti-Corruption Agency found that [provincial] Governor Ts. Janlav did not declare his private house where he now lives, four apartments which are owned by his family members, [a] building with purpose for small-enterprise, 50 million [Mongolian, almost $40,000] income from selling his two-story private house, as well as 23 percent of shares of Dornod Company that is owned by his wife.'

Questions

So, can Mongolia's young government, commercial institutions, regulatory infrastructure, and civil society manage their mining boom in a way that doesn't involve extreme degradation? Can they promote inclusive economic growth that lifts a majority of Mongolians, or builds for a post-mining future? It's possible – mining law and reclamation policy have come a long way fast in other parts of the world – but such growth requires stability. The Mongolian Ministry of Nature and Environment has been reorganised five times in the past 20 years. According to a World Bank overview, Mongolia's 'deteriorating environmental situation is exacerbated by irresponsible vested interests, poor coordination among ministries and agencies, inadequate monitoring of natural resource conditions and weak enforcement of environmental regulations.'

I sighed, put the bad news down, and took a long walk away through floodplains and over rolling steppes. The scale of things in Gorkhi-Terelj is more suited to horseback riding than to walking, but I was a happy speck moving slowly through dung-maculated valleys full of the bleached skulls, spines, and other stray bone bits of departed animals. Daurian redstarts, Siberian blue robins, and black kites flew near to me along my way. The birds that perched did so near enough that I could have touched them with my hand, and they looked at me inquisitive and unafraid.

With the sun sinking perilously low on the horizon, I descended from the hills, through birch and larch forest, and picked my way through moist lowlands, across tufts of earth-like lily pads. I arrived just before night fell, and Baul stoked the wood stove and brought hot milk tea his mother had made. I sat drinking it, listened to the silence, and watched the last blue of the sky fade in the circular hole in the centre of the ceiling.

On my flight out of the country, I sat next to another miner, an American executive named Robert, on his way from gold mining in Mongolia to an oil-drilling gig in Kazakhstan. Robert was happy to talk about his business, about corruption and bribery, and about how 'risk-averse' US and European mining companies were losing out in the resource wars to their more daring Chinese and Russian counterparts. He shared some sordid mining stories about Nigeria, Mexico and … Afghanistan? Did the US have mining operations in Afghanistan?

'Oh yeah,' Robert said, leaning in confidingly: 'The Chinese just won the largest copper mining bid in the world there after bribing a bunch of Afghan officials, but that's not even the worst part.' He paused for dramatic effect, then continued: 'The worst part is that it's the US providing military protection for the Chinese to do it!'

But that's another story, isn't it?◆

Brian Awehali is an award-winning journalist and former Britannica.com editor who founded the magazine, LiP: Informed Revolt *and edited* Tipping the Sacred Cow *(AK Press), an anthology of the magazine's best work. His blog lives at loudcanary.com. He is a tribal member of the Cherokee Nation of Oklahoma. This article originally appeared in the Winter 2011 edition of* Earth Island Journal *(www.earthislandjournal.org).*

Still a ways to go, after historic ruling against Chevron

On 14 February, a court in Nueva Loja, Ecuador ruled in favour of some 30,000 indigenous and mixed-race members of Amazonian communities who have spent nearly 18 years in a legal battle against US oil giant Chevron for health and environmental damage caused by its oil operations in the 1970s and '80s.
The plaintiffs provided the court with a great deal of scientific and documentary evidence which showed that Chevron deliberately and in violation of all industry norms discharged billions of gallons of toxic waste into the rainforest and into the water supply relied on by thousands of Ecuadorian citizens.
Instead of accepting responsibility, Chevron has now instituted a phalanx of legal remedies to deprive the impoverished victims of the fruits of their victory.

Gonzalo Ortiz

THE plaintiffs in the case against Chevron tried in Ecuador, who won a historic $9.5 billion verdict after a nearly 18-year struggle over environmental and health damages caused in a quarter-century of oil operations in the Amazon jungle, are not disheartened by the road still ahead.

Chevron announced that it would appeal the sentence handed down on 14 February by Judge Nicolás Zambrano in Nueva Loja, the capital of the northeastern Ecuadorian province of Sucumbíos, which found the US oil company guilty of an environmental disaster in the Amazon jungle, as locals have been arguing in legal action that began in 1993.

'This was a trial on behalf of the people, and the beneficiaries are not just the (30,000) plaintiffs but all of the inhabitants of the provinces of Sucumbíos and Orellana,' some 223,000 people, Juan Pablo Sáenz, one of the members of the plaintiffs' legal team, told Inter Press Service (IPS).

An Ecuadorian court has found US oil giant Chevron responsible for environmental damage in the Amazon jungle. Picture shows lawyers and leaders of the Amazon Defence Coalition attending a press conference a day after the 14 February ruling.

Last-minute decisions

Chevron tried to shield itself behind two last-minute legal decisions, issued by a court in the United States and by the Permanent Court of Arbitration in The Hague, which were received with a dismissive attitude by authorities in Ecuador.

On 9 February, the court in The Hague ordered Ecuador 'to take all measures at its disposal to suspend or cause to be suspended the enforcement or recognition within and without Ecuador of any judgment against' Chevron.

The petition filed in The Hague by the US oil giant cited violations of Ecuador's obligations under the United States-Ecuador Bilateral Investment Treaty and international law.

And on 8 February, a federal judge in New York issued a temporary restraining order barring the plaintiffs from seeking to enforce any judgment against Chevron in the case.

Although the order expires on 22 February, the judge will hold a hearing to decide whether to impose a more concrete injunction, based on what he called 'serious questions' raised by Chevron with regard to the enforceability of such a judgment, based on the company's arguments that the ruling was procured by fraud.

That the firm does not plan to rest was underscored by an incident that occurred just after the press conference given on 15 February in Quito by leaders of the Asamblea de Afectados por Texaco (AAT – Assembly of those Affected by Texaco), and some of their lawyers, where they celebrated the victory but also mentioned the fight still ahead.

A man who was likely employed by a private postal delivery service pushed his way through the journalists to reach the head of the AAT, Luis Yanza, with an envelope containing documents, which the activist refused to take.

The messenger then sought out other leaders of the group and lawyers who had dispersed around the room to make statements to the media. But they also refused to take the package.

The envelope contained a summons from a US court. 'This is not how we summon people to court in Ecuadorian territory,' Yanza told IPS. 'We will only accept a summons if it comes through diplomatic or judicial channels, and in accordance with Ecuador's legal order.'

Finding no one who would take the package, the carrier put it on the floor and left.

Environmental 'case of the century'

The lawsuit against Chevron was filed on behalf of 30,000 indigenous and mestizo (mixed-race) members of some 80 Amazon jungle communities who are demanding that the company clean up the pollution and pay reparations for the health damages caused by Texaco during eight years of prospecting and 18 years – 1972 to 1990 – of oil drilling in the rainforest of northeastern Ecuador.

Texaco was acquired by Chevron in 2001. But even before then, Chevron was operating in the Ecuadorian region in question as a partner of the state-run Petroecuador, after Texaco pulled out.

The trial, which opened 3 November 1993, suffered multiple delays. After nine years in the US courts, it moved to Ecuador in October 2003.

It has been described by environmentalists and legal experts as the environmental 'case of the century'.

'This was a historic ruling for all humankind,' said Alberto Acosta, former president of the constituent assembly that rewrote Ecuador's constitution in 2008 and a former minister of energy and mines.

'This is a clear announcement to all oil and mining companies that the damage they cause to the environment will not go unpunished,' he told IPS.

Acosta pointed out that the sum Chevron was ordered to pay was the biggest ever, for the world's worst oil-related disaster, 'which was not even surpassed by the Gulf of Mexico' – the 2010 oil spill that resulted from an explosion of a BP deepwater drilling rig – or by the 1989 oil spill by the Exxon Valdez tanker on the coast of Alaska.

'The damage caused by Chevron was 10 times worse,' he said.

The judge in Nueva Loja ordered Chevron to pay $8.6 billion in fines, clean-up costs and reparations, plus another 10% as established by the law on environmental management.

To come up with that figure, Judge Zambrano took into account 100 studies and reports by experts, many of them provided by Chevron itself, according to Pablo Fajardo, the plaintiffs' lead lawyer.

Most of that total, nearly $5.4 billion, is to go towards soil restoration, while $1.4 billion is for health care in response to ailments like cancer reported by the plaintiffs, $800 million is to establish a long-term health fund, and $600 million is to clean up groundwater.

In his ruling, Zambrano also ordered the company to issue a public apology to local indigenous people for the pollution of the rainforest where they live. If Chevron fails to do so within 15 days of the verdict, the fine will be doubled.

The oil firm announced that it would appeal the ruling, which it described as 'illegitimate and unenforceable'.

The judgment 'is the product of fraud and is contrary to the legitimate scientific evidence', Chevron said in a news release on 14 February.

The emphasis on the unenforceability of the ruling was met with sarcasm on the part of authorities in Ecuador. In a statement issued on 13 February, before the verdict was handed down, prosecutor general Diego García said that any lawyer knows that a first instance court judgment is subject to appeal and thus unenforceable.

Pressure and lobbying

Yanza and Quichua indigenous leader Guillermo Grefa from Sucumbíos said the corporation was pressuring the Ecuadorian government of centre-left President Rafael Correa to interfere in the process.

'It's obvious that Chevron is lobbying the US Congress to adopt retaliatory measures against Ecuador,' Grefa said.

Fajardo said the company has spent between $800 million and $1 billion 'to defend itself and attack the plaintiffs and their lawyers', while the expenses of the plaintiffs 'amount to no more than $20 million', covered by Ecuadorian and international non-governmental organisations and by 'the efforts and sacrifices of the affected parties'.

But the AAT lawyers are also considering filing an appeal, because they consider the sum insufficient to cover the environmental damages and the cost of the health care needed by people suffering from leukaemia and other kinds of cancer, liver ailments, and respiratory and skin problems, which studies attribute to the pollution caused by the oil company.

'No amount in the world can bring people back to life,' Yanza said. 'But this amount is inadequate to redress all of the damages caused by the pollution: to the water, to the soil, to life itself. We have to remember that many people died, which is why we believe the amount should be revised.'

Sáenz said the second instance court 'should take no more than six months, or in the worst case, a year', to hand down a verdict. After that, Chevron would still have the possibility of turning to the National Court of Justice.

'We believe that the end of the trial is near, compared to the nearly 18 years of struggle, and that justice will be done,' Fajardo said. – *IPS* ◆

Ethics, equity and genocide

On 24 December 2010, an Indian court sentenced *Binayak Sen*, a paediatrician, public health specialist and activist, to life imprisonment after finding him guilty of connections with a banned organisation, the Naxalites. Both the charge and shocking sentence are clearly politically motivated and a worldwide campaign has been launched to free him. The following article, based on a speech presented a month before he was sentenced, gives a good insight into the thinking of a man who has devoted most of his life to working with the most marginalised people of India.

WITH its declaration that social injustice is killing people on a grand scale, the World Health Organisation (WHO), through its report of the Commission on Social Determinants of Health, has brought the issue of equity and health right to the centre of the stage. How do its prescriptions fare when examined against the backdrop of the Indian situation?

The author Dr Binayak Sen outside the court which on 24 December sentenced him to life imprisonment for sedition.

India is one of the most inequitable societies on earth, and certainly when its size is taken into consideration, we are responsible for a sizeable proportion of the sum total of human misery on this planet. As health professionals, we have access to data that goes beyond the Dandekars and Tendulkars and Arjun Senguptas, and which we can read off the bodies of our study subjects.

Malnutrition and famine

We have become inured to the knowledge that, in India, 47% of our children under the age of five are malnourished by weight-for-age criteria. In the last six years, more children have died, across the world, of malnutrition-related causes than the total number of adults who died in the six years of the Second World War. But let that pass. The next datum that I will place before you is this: 26% of our newborn babies are low birth weight for gestational age. Please remember that this 26% is not randomly distributed across the population, but occurs far more commonly in specific communities, obeying the pressures of inequity and social injustice. And then project Barker's hypothesis – no longer just a hypothesis, alas – onto their future trajectories. See if it helps you sleep at night.

We come now to the adults. Childhood malnutrition is a complex pathophysiological entity, in which the lack of food is only one among a complex of factors. Adult malnutrition is simpler – it means you didn't get enough to eat. The National Nutrition Monitoring Bureau tells us that 37% of adult males and 39% of adult females in India have a body mass index of less than 18.5, signifying chronic undernutrition. If we disaggregate these figures, we find that this includes 50% of scheduled tribes, and over 60% of scheduled castes. More than 40% of the adult population of Orissa is also below 18.5. The population of Maharashtra, which is considered to be a relatively 'developed' state with a high per capita gross national product, has 33% below 18.5. Now WHO categorises these proportions and says that any community with more than 40% of its population below 18.5 should be regarded as a community in a critical state – amounting to famine.

So now we have a population of which significant and identifiable subsets live in a state of chronic famine from year to year – what I call walking through time with famine by your side. As if this weren't enough, Utsa Patnaik, one of our senior economists, says that from 1993 to 2004, the per capita yearly grain consumption declined from 178 kg to 156 kg – that is by 22 kg. Since this is a mean figure, and richer people have actually increased their consumption, the decline at the lower end of the scale is even greater.

So, now we have an ongoing famine, and it's getting worse over time. But, as my friend the Bengali poet Gazi M Ansar puts it, 'Here, twilight descends over a vast hinterland, like a tiger's paw: the mullahs' houses are stuffed with grain. The famine is only in our neighbourhood.'

It is precisely this 'neighbourhood', these sections of the population, that are being targeted by the state, which stands guarantor under the doctrine of eminent domain, in a countrywide process of expropriation of natural resources and primary accumulation, including, in the words of eminent historian David Harvey, 'commodification and privatisation of land and the forceful expulsion of peasant populations; the conversion of various forms of property rights (common, collective, state, etc) into exclusive private property rights; the suppression of rights to the commons; the commodification of labour power; and the suppression of alternative (indigenous) forms of production and consumption; appropriation of assets including natural resources, etc. etc.' Under this state-based regime, the Gini coefficient, which is a measure of inequality in the economy, has shown a 10% increase, and this is an underestimate, between 1993-94 and 2004-05, the same period as Utsa Patnaik's declining grain consumption.


AM Faruqui/Frontline

In India, 47% of children under the age of five are malnourished by weight-for-age criteria.

Now the Indian Constitution is very categorical on the issue of equity. The Directive Principles of State Policy enjoined, 60 years ago, that all state activity must be directed to the removal of inequity and the promotion of equity. And yet, the Indian state has deployed not only the whole of its civil authority but its entire paramilitary forces and up to half of its army in the maintenance of an inequitable regime in which large sections of its population are in a permanent state of famine.

The communities thus affected have hitherto managed to survive because of the access to common property resources – land, water, forest – a very special social and ecological niche. By being subjected to displacement on the present vast scale, they will lose their tenuous hold on existence. The UN Convention on the Prevention of the Crime of Genocide tells us clearly that, in addition to direct killing, 'the creation of physically and mentally hazardous conditions which could put the survival of particular communities at risk' would also come within the ambit of genocide. But, talking of genocide, Chomsky, in a recent essay, quotes the ancient Greek historian, Thucydides: 'Right, as the world goes, is only in question between equals in power; while the strong do what they can and the weak suffer what they must.' This is the fundamental principle of international order and, dare one say it, of national order as well.

WHO Commission

This being so, and the Indian state having successfully resisted the injunctions for equity embedded in its own Constitution for 60 years, one is led to wonder how it will respond to the sage advice contained in the report of the Commission: close the gap in a generation, improve daily living conditions, tackle the inequitable distribution of power, money and resources, and measure and understand the problem and assess the impact of action. I am neither the first nor the only one to have had such doubts. Here is Dr D Banerji writing in 2006, in the *International Journal of Health Sciences*, about the Commission while it was still in progress:

'The Commission on Social Determinants of Health (CSDH) is the latest effort of the World Health Organisation to improve health and narrow health inequalities through action on social determinants. The CSDH does not note that much work has already been done in this direction, does not make a sufficient attempt to analyse why earlier efforts failed to yield the desired results, and does not seem to have devised approaches to ensure that it will be more successful this time. The CSDH intends to complement the work of the earlier WHO Commission on Macroeconomics and Health, which has not had the desired impact, and it is unclear how the CSDH can complement work that suffers from such serious infirmities.'

It seems that WHO is accountable for such programmes and their massive failures mostly to its dominant fund providers, not to the masses of the poor people of the world. This lack of accountability to the wider population poses a most serious problem concerning the nature of the democratic functioning of WHO. This needs urgent action. WHO has to be brought back to performing in accordance with the directives laid down in its constitution and working in consonance with its famous definition of health, which has lately been reiterated by a former director-general, Halfdan Mahler. This has to be a political struggle for the neglected peoples of the world to wrest their rights from the hands of those who are using the organisation for their narrow class interests.

India is the single largest contributor to the global burden of morbidity, mortality and drug resistance in tuberculosis.

Right-to-food campaign

I would like to take up the remaining time available to me with two examples of the way in which our system has dealt with putative action on the social determinants of health and then go on to consider how to decide, in our dealings with the recommendations of the Commission, what constitutes the baby and what the bathwater.

So how does the state deal with what we would like to call action on the social determinants of health?

As a longstanding member of the largest human rights organisation in India, the People's Union for Civil Liberties, or PUCL, I am extremely proud of the PUCL's involvement in the right-to-food campaign, which is a campaign towards securing the right to a minimum amount of subsidised food grains for all the citizens of India. This campaign originated out of a public interest litigation (PIL) brought in the Supreme Court of India by the PUCL more than 10 years ago. While this case still continues, the interlocutory orders passed by the court from time to time constitute the substantial architecture of the public distribution system as it stands today.

Needless to say, the right-to-food campaign is acutely conscious that further improvements are needed in the public distribution system, and, in August 2010, at the Right to Food Convention held in Rourkela, the campaign decided upon a set of demands, including universalisation of the public distribution system (instead of the targeted system that obtains at present) and a substantial increase and diversification of the statutory rations allotted to each beneficiary under this programme. These recommendations were raised recently in the National Advisory Council under Sonia Gandhi as chairperson, by, among others, Jean Dreze, the eminent economist, and Harsh Mander, appointed a Commissioner to the Supreme Court under the programme.

To our great disappointment, the National Advisory Council, in a recent decision, has rejected the demands of the right-to-food campaign on the grounds of resources being unavailable. The campaign has now embarked on a long-term public agitation in support of these demands. It is my earnest request to the General Body of this Conference to pass a resolution in support of the demands of the right-to-food campaign.

Tuberculosis in India

The second example that I wish to bring before you is from the field of tuberculosis – or, rather, the intersection of tuberculosis and malnutrition.

In a country where 33% of the adult population has a BMI below 18.5, and which also has one-sixth of the world's population and one-third of the total global burden of tuberculosis, one would think that the bi-directional association between malnutrition and tuberculosis would be the focus of intense study. This is not the case. India is the single largest contributor to the global burden of morbidity, mortality and drug resistance in tuberculosis. An estimated 8.5 million Indians suffer from tuberculosis. There is an annual incidence of 87,000 cases of multidrug-resistant tuberculosis, and an estimated annual mortality of 370,000 persons.

And yet, a recent WHO-based systematic review study which established a consistent log-linear relationship between tuberculosis incidence and BMI was unable to include a single Indian study. Similarly, a Cochrane systematic review of randomised control trials of nutritional supplements for people being treated for active tuberculosis did not include a single Indian study in its ambit. But I would like to draw your attention to two studies that do not figure in either review – the first with pride, and the second with shame.

The first study has been done by my colleagues at the Jan Swasthya Sahyog (People's Health Support Group), a non-profit voluntary organisation, which runs a community health programme in 53 forest-related villages in central India. They have reported an as-yet unpublished study on the nutritional status of 975 patients with pulmonary tuberculosis – the largest such study to emerge from India. They report that patients with active pulmonary tuberculosis in rural central India were found to have macronutrient malnutrition, i.e., starvation, almost as a universal association, with less than 5% having weights in the normal range. Certain groups like scheduled tribes and women fared worst, with life-threatening levels of undernutrition. There was evidence of longstanding undernutrition with low height for age (stunting) in the majority of patients.

The report goes on to conclude: 'This report is a stark illustration of the adverse synergy of the epidemics of undernutrition and tuberculosis. The consequences are extensive disease on the one hand and severe wasting on the other, both of which can cause mortality independently and in concert. The need to address the nutritional needs of poor patients with tuberculosis is an urgent imperative on scientific, ethical and humanitarian grounds.'

However, the fundamental architecture of the National Tuberculosis programme, formulated in 1962, was based on a specific repudiation of this 'urgent imperative'. This fundamental architecture has been preserved in the present programme; hence this is a current problem.What was the evidence on which this repudiation was premised?

This brings us to the second study that I had mentioned, published in the *Bulletin of the World Health Organisation* in 1961. The recent Cochrane review of the effect of nutritional supplements in people being treated for active tuberculosis excluded this paper from their review as 'the groups were not randomised to different dietary interventions.' This study was carried out at the Madras Chemotherapy Centre in Guindy. I would like to read out to you the summary of findings of this study.

A study was undertaken on the diet of 157 patients with pulmonary tuberculosis admitted to a controlled comparison of treatment with isoniazid plus PAS for a year at home with the same treatment in the sanatorium. The patients were drawn from a poverty-stricken section of the community living in overcrowded conditions in Madras City. A comparison has been made of the dietary status of the home and the sanatorium patients before and during treatment, and the role of the diet in the attainment of bacteriological quiescence of the tuberculous disease has been evaluated. Before treatment the patients in both series had poor and similar diets.

During the early months of treatment, the dietary intake of the patients in both series increased. However, the sanatorium patients received a clearly superior diet through the year in terms of total calories, fats, total and animal proteins, phosphorus and several of the vitamins.

The home patients were physically more active during treatment than the sanatorium patients, further accentuating the dietary disadvantage of the home series. The home patients gained on the average 10.8 lb in weight over the 12-month period, as compared with 19.8 lb for the sanatorium patients. This greater weight gain among the sanatorium patients was not, however, indicative of superior clinical results. The response to treatment (as measured by the radiographic and bacteriological progress) was not directly associated with the level of dietary intake of any of the food factors, either in the patients treated at home or in those treated in the sanatorium.

It may be concluded that none of the dietary factors studied appears to have influenced the attainment of quiescent disease among tuberculous patients treated with an effective combination of antimicrobial drugs for a period of one year. The successful initial treatment of patients at home is therefore possible even if the levels of dietary intake are low.

The fact that such a poor study could play such a critical role in determining the architecture of a programme of such enormous importance shows how politics takes precedence over evidence in such matters.

The peoples' struggle

So I hope I have managed to convince you that any notion we may have, of an easy transition from the popular articulation of demands based on equity and justice to their incorporation into governance, can only be a pipedream, a false hope. The parameters of governance are set by considerations far more inflexible and hard-hearted than notions such as equity and justice.

So do we conclude that the report of the Commission on Social Determinants of Health is useless? Do we throw out the whole bucketful – baby, bathwater and all?

I would venture to suggest that the answer to this question can only be sought in the common ancestry that many of us share in the realm of the peoples' struggle, of popular movements. I was grateful, on the first day of the conference, to see the typology of struggle that David Legge had talked about. Any changes in governance that we are able to bring about can only be a bonus – a side-effect. Our real efforts have to be concentrated on the terrain of popular consciousness regarding the real determinants of health and healthcare. If we are able to make this change of focus, then we will see that conditions for change are more promising today.

Despite its recent dominance, neoliberalism, based on the theory that economic growth solves all problems, has lost its credibility. The hegemonic status of neoliberalism, the ideology and practice of the dominance of markets over society, has been seriously undermined.

Class mobilisation and politics are critical for health and tackling health inequalities because progressive social and class movements and parties are the dynamic forces pushing for improvements in the human condition. ◆

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Taming the 'Wild West' of microfinance

The ruthless practices of commercial microfinance institutions, especially their coercive methods of loan recovery, have driven a significant number of their indebted clients, mainly from the rural areas of India, to suicide. Deploring the failure of the authorities to regulate and supervise these highly leveraged moneylenders, *Kavaljit Singh* says that it is time for real action.

THE recent suicides by over 60 poor borrowers in the Indian state of Andhra Pradesh have brought the operations of microfinance institutions (MFIs) under public scrutiny. It is well documented by both print and electronic media that these debt-driven suicides were due to coercive methods of loan recovery used by commercial MFIs. The commercial MFIs operate as profit-making non-banking financial corporations (NBFCs) in India.

The majority of suicides took place in the Warangal district of Andhra Pradesh and as many as 17 borrowers of SKS Microfinance were among those who reportedly committed suicide. For the past few months, SKS Microfinance, the largest commercial MFI in India, has been in the news. In August 2010, it raised nearly $380 million in an initial public offering (IPO) – the first from an Indian MFI. Thanks to the IPO, promoters and private equity investors of SKS Microfinance became instant millionaires while their borrowers remain desperately poor. In October, the sudden sacking of SKS's CEO, Suresh Gurumani, raised concern about the bigger problems at the company.

The ordinance

In response to debt-driven suicides, the Andhra Pradesh government issued an ordinance [Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Ordinance, 2010] on 15 October purportedly to rein in the 'Wild West' of microfinance.

The issuance of the ordinance (imposing interim regulations)

Women's rights activists at a demonstration calling on the Reserve Bank of India (RBI) to regulate the activities of microfinance institutions.

shocked the commercial microfinance industry because for almost two decades, the Andhra government has been actively engaged in the promotion of both commercial and non-profit MFIs in the state. The ordinance aims to discipline commercial segments of MFIs which were indulging in reckless profiteering in the garb of promoting financial inclusion. It is intended to curb coercive practices of loan recovery besides bringing transparency in interest rates. The ordinance makes it mandatory for MFIs to register with local authorities. However, it does not seek to cap interest rates charged by MFIs.

Andhra Pradesh has the highest penetration of MFIs in India. The state accounts for nearly 30% of the Rs.300 billion portfolio managed by MFIs in the country. Some of the biggest MFIs such as SKS Microfinance, Basix and Spandana are also based in the state.

Exorbitant interest rates

Contrary to public posturing that MFIs are saviours of the poor and charge reasonable interest rates, several big MFIs in Andhra Pradesh have been charging very high interest rates, closer to the ones charged by traditional moneylenders.

Under the new regulations, several commercial MFIs have disclosed to the authorities that their effective rate of annualised interest goes up to 60.5%. Bhartiya Samruddhi Finance Ltd., an arm of Basix, charges interest rates up to 60.5%. In the case of SKS Microfinance, Trident, Share and other MFIs, the effective maximum interest rates are upward of 30%. This is despite the fact these MFIs borrow money from state-owned and private banks at concessional rates (usually in the range of 11-13%) under priority sector lending and other facilities.

For years, several commercial MFIs have been charging exorbitant interest rates despite achieving economies of scale. However, when the threat of regulation became imminent, SKS and others voluntarily decided to reduce the interest rates by over 600 basis points. This episode revealed the magnitude of profit margins enjoyed by the commercial players.

The rapid growth and emergence of institutional moneylenders

Several leading commercial MFIs have returns on assets (RoA) in the range of 5-8%, far above those of the banking system anywhere in the world. In contrast, the State Bank of India, the country's largest bank, had an RoA of 1.04% in 2008-09 while ICICI Bank had an RoA of 1.13% in 2009-10.

Since 2005, credit growth has been much higher for the MFI industry than for the commercial banking system in India. Although bank loans remain the largest funding source for commercial MFIs, several players have been able to raise funds from other sources including private equity funds, hedge funds and angel investors. Since 2007, private equity funds alone have invested close to Rs.20 billion in MFIs. In 2009, there were 11 private equity deals worth $178 million involving commercial MFIs. Some MFIs have also raised money through non-convertible debentures and securitisation. Of late, commercial MFIs have also emerged as an asset class for institutional investors.

In their quest to grow fast and to serve the insatiable appetite of private equity investors, MFIs pushed inappropriate loans to poor borrowers without looking at their repayment ability. Multiple lending, evergreening of loans and loan recycling (which ultimately increases the debt liability of poor borrowers) became widespread. In some ways, lending practices by such commercial MFIs were akin to subprime lending in the US. As defaults became imminent due to high interest rates, MFIs resorted to strongarm tactics that have led the rural poor to commit suicides.

It is a sad state of affairs that instead of giving strong competition to usurious traditional moneylenders, commercial MFIs have become institutional moneylenders with no public accountability and responsibility. In fact, given the scale of business malpractices and reckless profiteering by greedy promoters of MFIs, they appear no better than traditional moneylenders. Not long ago, some promoters of commercial MFIs were conferred awards including the 'Young Global Leaders' and 'Social Entrepreneur of the Year' by the World Economic Forum and others.

Regulatory issues

Without doubt, the Reserve Bank of India (RBI), the country's central bank, has failed to regulate and supervise the activities of commercial MFIs which operate as NBFCs. The RBI should have conducted on-site inspections of large MFIs to assess their business model and actual practices.

Post-suicides, the RBI has formed a high-level committee to look into the functioning of commercial MFIs. The report of the committee is expected by early 2011. In an era of deregulated interest rates, it is unlikely that the RBI will put a cap on interest rates charged by the MFIs, although Bangladesh, the home of microfinance, decided to cap microfinance interest rates in November 2010.

Alternatively, the RBI should impose a cap (in the range of 6-8%) on the net interest spread on loans provided by MFIs. Also, the Finance Ministry could issue a directive to state-owned banks that they should stop lending to rogue MFIs which follow predatory lending and coercive means of loan recovery. Banks should also develop strict screening and performance criteria to lend money to MFIs. The priority sector lending norms should be tweaked by the RBI to check loopholes which have been successfully exploited by commercial players.

The big MFIs and their lobby groups have challenged the Andhra Pradesh ordinance in the state High Court. Their main argument is that the ordinance would lead to over-regulation and would stifle the microfinance industry. However, the real issue is not over-regulation of MFIs but bringing them under some degree of social control and to ensure that they follow minimum norms and standards like any other commercial entity involved in the moneylending business. The new regulatory measures are supposed to usher in transparency, accountability and stability in the operations of commercial MFIs, which is good for their poor clients. After all, the *raison d'etre* of MFIs is to serve poor people and broaden their access to financial services. What is needed is a dual approach consisting of a regulatory framework and empowerment of borrowers.

Of late, over 30 MFIs have launched a self-regulatory organisation and a code of conduct to weed out bad practices. This is a positive move towards internal cleanup but the fact remains that a self-regulation code is voluntary and non-binding and therefore cannot stop greedy promoters from reckless profiteering. At best, it can complement (not substitute) the regulatory and supervisory measures.

Rethinking the business model

Unless and until commercial MFIs revisit their pure market-driven business model aimed at generating super-profits for their investors, their operations will remain questionable and unjustifiable in India, where 77% of the population survive on less than Rs.20 per day.

In contrast, there are plenty of self-help groups (SHGs) and microlenders in India which follow a balanced approach between financial sustainability and social objectives. The SHG model serves many more poor households in India than the MFI model. The microfinance interventions by SHGs and similar groups have produced better results than MFIs because of their integrated approach towards building sustainable livelihoods.

As rightly pointed out by former RBI governor Dr YV Reddy, commercial MFIs are leveraged moneylenders and borrow huge amounts of money from banks and other financial institutions for on-lending. Besides, commercial MFIs operate on a mass scale serving millions of customers in the country. Therefore, it is high time the big commercial players realised that the 'Wild West' period of microfinance is over. ◆

Kavaljit Singh works with Madhyam, a New Delhi-based policy research institute which addresses finance, trade and development issues. This article first appeared on Madhyam's website (www.madhyam.org.in) on 23 December 2010.

Currency chaos threatens global recovery

While the global economy is still struggling to recover from the 2007-09 recession, a new threat looms as a result of the adoption by the US Federal Reserve of a policy of 'quantitative easing' (QE) which has triggered a 'currency war' with major exporting nations such as China and Brazil. While this raises the spectre of the sort of 'competitive devaluation' in the late 1920s which contributed to the Great Depression, an additional threat is posed by the huge surge of speculative capital flowing out from the US (where the yields on such investments have been lowered by the release of the flood of US dollars under the QE policy) to the emerging markets. To protect their economies from the dangers of such 'hot money', these countries have had to resort to capital controls and other measures. *Martin Khor* unravels this chaotic economic picture.

THE closing months of the past year witnessed the emergence of global currency chaos, which is a new threat to prospects for economic recovery.

In fact the situation is being depicted by the media and even by some political leaders as a 'currency war' between countries.

The general idea being conveyed by this term is that some major countries are taking measures to lower the value of their currency in order to gain a trade advantage. If the value of a country's currency is lower, then the prices of its exports are cheaper when purchased by other countries, and the demand for the exports therefore goes up.

On the other hand, the prices of imports will become higher in the country, thus discouraging local people from buying the imports.

The result is that the country will get higher exports and lower imports, thus boosting local production and improving the balance of trade.

The problem is that other countries which suffer from this action may 'retaliate' by also lowering the value of their currencies, or by blocking the cheaper imports through higher tariffs or outright bans.

Thus, a situation of 'competitive devaluation' may arise, as it did in the late 1920s and 1930s, which can contribute to a contraction of world trade and a recession.

Cargo containers at a shipping port. A 'currency war' denotes a situation where countries deliberately lower the value of their currencies in order to gain a competitive advantage for their exports.

The present situation is quite complex and involves at least three inter-related issues.

First, the United States is accusing China of keeping the yuan at an artificially low level, which it claims is causing its huge trade deficit with China. A US Congress bill is asking for extra tariffs to be placed on Chinese products. China claims such a measure would be against World Trade Organisation (WTO) rules, and that a sudden sharp appreciation of the yuan would be disastrous for its export industries, nor would it solve the problem of the US trade deficit.

Japan, whose yen has appreciated sharply against the dollar, intervened on the currency market on 15 September by selling 2 trillion yen in order to drive its value down.

In October, Japan criticised South Korea for taking the same intervention measure to curb the appreciation of the won.

There are concerns that the new round of 'quantitative easing' by the United States, in which the US Federal Reserve will spend $600 billion to buy up government bonds and other debts, would weaken the US dollar further.

'Quantitative easing'

Second, there are concerns over the effects of the new round of 'quantitative easing' by the United States announced in November, in which the US Federal Reserve will spend $600 billion to buy up government bonds and other debts. Known as QE2, this follows the injection of $1.8 trillion in 2008-09 under the first round of quantitative easing.

This will increase liquidity in the market, which would reduce long-term interest rates (and thus contribute to a recovery).

But this would also have two other effects. It would weaken the US dollar further (thus opening the US to the accusation it is also engaging in competitive depreciation).

And the new liquidity would also add to a surge in capital flowing out from the US (where returns on investment are very low) to developing countries.

The experience of the 1997-99 Asian crisis *(pic)* shows that sudden capital inflows can also turn into equally sudden capital outflows, causing economic disorder.

In the past, such surges of 'hot money' would have been welcomed by the recipient countries. But many developing countries have now learnt, the hard way, that sudden and large capital inflows can lead to serious problems, such as:

• The capital inflow will lead to excess money in the country receiving it, thus increasing the pressure on consumer prices, while fuelling 'asset bubbles' or sharp rises in the prices of houses, other property and the stock market. These bubbles will sooner or later burst, causing a lot of damage.

• The large inflow of foreign funds will build up pressures for the recipient country's currency to rise (against other currencies) significantly. The financial authorities would have to either intervene in the market by buying up the excess foreign funds (which is known as 'sterilisation') and thus build up foreign reserves, or allow the currency to appreciate and this would have an adverse effect on the country's exports.

• Experience (including of the Asian crisis of 1997-99) shows that the sudden capital inflows can also turn into equally sudden capital outflows when global conditions change. This can cause economic disorder, including sharp currency depreciation, loan-servicing problems and balance-of-payments difficulties.

At the International Monetary Fund (IMF) annual meeting in Washington in October, there was a conflict of views between the United States (which accused China of deliberately suppressing the value of its yuan and not allowing it to appreciate more) and China (which accused the US of planning quantitative easing and increasing liquidity to deliberately devalue its currency).

Capital concern

Meanwhile, even serious Western analysts and newspapers have recognised the threat posed to developing countries by large inflows of capital coming from the developed countries in search of higher yield.

In an editorial on 15 October entitled 'The Next Bubble', the *International Herald Tribune* warned that Wall Street was snapping up the assets of emerging economies. Describing the problems caused by huge inflows of capital, it asked the developing countries to 'pay close attention' and to 'consider capital controls to slow inflows'.

This is the third recent development: some developing countries have introduced capital controls and other measures to slow down the huge inflows of foreign capital and protect their economies (see accompanying article). The Institute of International Finance has estimated a massive flow of $825 billion to developing countries in 2010, an increase of 42% over the previous year.

Finally, there are fears that if the currency chaos or currency war is not solved soon, the world faces a threat of trade protectionism, whether it takes the old form of an extra tariff, or a new form of competitive currency depreciation.

Moreover, the quantitative easing by the US may exacerbate the speculative flows of funds in search of profits, and this can be destabilising to the recipient countries and the global economy overall. ◆

Martin Khor is Executive Director of the South Centre, an intergovernmental policy think-tank of developing countries, and former Director of the Third World Network.

Countering 'hot money' flows

THE low-interest-rate environment in developed countries in recent times has led investors to move their funds to other countries where yields are higher. The sudden flood of funds, however, affects the stability of the latter's currencies and markets. As such, some governments in the emerging markets have taken steps to control the flow of 'hot money' into their countries.

The following are some examples of government interventions made in the markets.

BRAZIL:

• The central bank on 14 January sold $988 million in reverse currency swaps, a derivative that effectively allows the bank to buy US dollars on the futures market.

• On 7 January the central bank announced that domestic lenders would have higher reserve requirements against foreign exchange positions to reduce speculative trade. This was Brazil's third attempt since October last year aimed at discouraging 'hot money' from chasing the real higher.

• President Dilma Rousseff on 31 December 2010 promised more aggressive measures including targeted tariff increases and tax breaks to address the effects of a strong real.

• On 18 October 2010, the government tripled tax on foreign purchases of bonds to 6% to curb inflows into the fixed income market. It also increased tax on derivatives margins to deter short-term investors.

• Sovereign wealth funds are authorised to buy dollars on the spot market.

CHILE:

• On 8 February, the Chilean central bank announced it would maintain the pace of a $12 billion foreign exchange intervention to tame the strong peso between 9 February and 8 March, and continue to buy $50 million daily. The move is expected to increase its foreign currency reserves to the equivalent of 17% of GDP.

• In January, the central bank held the benchmark interest rate steady after raising it for seven consecutive months.

• The central bank removed limits on pension funds' overseas investment.

• Chilean President Sebastian Pinera said he does not plan to impose capital controls.

COLOMBIA:

• On 17 November 2010, the Finance Ministry said it will only use external financing in 2011 to meet outside obligations to ease pressure on the peso.

• On 29 October 2010, the central bank said it was buying at least $20 million daily until at least 15 March.

• The government kept $1.5 billion abroad last year, which included $1.4 billion in government dividends from state oil firm Ecopetrol.

• There are plans to possibly hedge up to $3.7 billion in external debt service payments in 2011.

MEXICO:

• The central bank is buying $600 million per month by selling dollar put options as a means to build up its reserves.

PERU:

• The central bank bought about $9 billion on the spot market in 2010, equivalent to around 6% of GDP. The treasury also bought around $500 million.

• On 26 November 2010, banking regulator SBS said it has plans to draw up rules to curb the use of short-term derivatives called non-deliverable forwards (NDFs) to limit pressure on the sol.

• The central bank has raised deposit requirements on bank accounts.

INDONESIA:

• Analysts on 9 February said Indonesia's central bank will no longer regularly sell its six-month SBI debt in monthly auctions in an attempt to drive investment to longer-term instruments as it seeks to counter hot money flows.

• On 3 December 2010, the central bank indicated that it will impose new measures to control inflows, including management of commercial banks' minimum reserve ratios in foreign currency bank accounts and rupiah-denominated giro accounts held by foreigners with local banks.

• In June 2010, the central bank introduced a minimum holding period of one month for its bills in a move to channel strong capital inflows away from short-term investments.

PHILIPPINES:

• The central bank approved six measures in October 2010 involving higher ceilings for residents' foreign exchange purchases and outward investments, and encouraging foreign debt prepayments by the private sector.

• The central bank said it will use measures such as building up foreign exchange reserves and additional bank regulations to deal with foreign inflows and to stay active in the currency market.

SOUTH KOREA:

• A proposal has been made to levy banks' foreign currency debt from late 2011, expected to be at a level less than 0.5%.

• The government is expected to reinstate a withholding tax on local bond holdings by foreign investors later this year, expected to be set at 14%.

• In June 2010, the government set ceilings on foreign exchange derivatives that banks can hold – 250% of equity capital for foreign bank branches and 50% for domestic banks – and these rates were to be reduced over the following months.

TAIWAN:

• On 30 December 2010, the Financial Supervisory Commission said it will investigate bank trading to see whether foreign capital is involved in speculation.

• On 27 December 2010, the central bank capped trading in non-deliverable forwards at one-fifth of a bank's total foreign exchange trading.

• The reserve requirements ratio was tightened for Taiwan dollar passbook deposits held by foreign investors.

THAILAND:

• Thailand imposed a 15% withholding tax on interest and capital gains earned by foreign investors on Thai bonds from 13 October 2010.

• On 24 November 2010, the central bank said it would consider further measures including a Tobin-style tax on international transactions.

SOUTH AFRICA:

• The central bank and the National Treasury have made a concerted attempt over the past 18 months to cap the rand's gains by selling rand and buying foreign currencies to curb rand appreciation. The central bank intervened 'aggressively' in the currency market in January, resulting in the net foreign exchange reserves rising $1.1 billion to $44.45 billion for the month.

• On 14 December 2010, South Africa eased exchange controls, allowing local institutions to invest more money abroad.

TURKEY:

• On 24 January, the central bank raised reserve requirements on one-month lira deposits by 200 basis points to 10% of the amount deposited.

• On 20 January, the central bank cut its one-week repo policy rate by 25 basis points in a surprise move.

• Increased reserve requirements were imposed for banks' short-term lira deposits, to prevent the lira from strengthening.

• However, the government is not considering a Tobin tax on hot money.

ISRAEL:

• Israel's Finance Ministry said on 27 January 2010 it is acting to annul a tax exemption for foreign investors on profit from investments in short-term government bonds and short-term Bank of Israel bills called makams.

• Effective 27 January, the Bank of Israel has imposed a 10% reserve requirement for foreign exchange swaps and forwards trades conducted by non-residents.

• The central bank on 19 January announced it will require Israelis and foreigners to report on transactions in foreign exchange swaps and forwards of more than $10 million in one day. Non-residents who perform transactions in *makams* and short-term government bonds of more than 10 million shekels in one day will be required to report details of the transactions and their balance of holdings of such assets. ◆

(Source: various news agencies)

The currency war – the Brazilian view

Brazil has been feeling the full heat of competitive currency devaluations and it was Brazil's Minister of Finance, Guido Mantega, who coined the term 'currency war' to describe this recent phenomenon. The following piece, compiled from reports from MercoPress (an independent news agency based in Montevideo, Uruguay which focuses on delivering news related to member countries of the Mercosur trade bloc in Latin America), provides the Brazilian perspective on these developments.

BRAZIL won't allow its currency, the real, to appreciate excessively as other countries weaken their currencies to gain market share for exporters, its Finance Minister Guido Mantega said on 28 September during a business event in Sao Paulo.

'We are experiencing a currency war,' Mantega said. 'Devaluing currencies artificially is a global strategy.'

Brazilian Finance Minister Guido Mantega ***(pic)*****, who coined the term 'currency war', says Brazil is as concerned about the decline of the US dollar as it is about the Chinese yuan.**

A weaker exchange rate makes a country's exports cheaper, helping to boost the economy out of the global downturn. However, the problem is when the policy proliferates, which makes it most difficult to coordinate the issue globally.

The real has gained in value by over a third against the US dollar since the beginning of 2009, making Brazilian exports more expensive in dollar terms and cutting into profits for exporters. The comments echoed Mantega's words on 15 September, when he pledged that Brazil was 'not going to lose this game'.

'The Brazilian government has an arsenal of instruments to cope with the situation and will not let the real strengthen too much and much less suffer harming effects from other countries' exchange rate policies,' warned Mantega.

Brazilian measures

The government has taken measures to prevent further appreciation of the real. In January the central bank sold a total of 20,000 currency futures contracts for a reported $988 million in the first auction of its kind since May 2009. 'Entering the futures market is a sign that in this currency war, [the government] will not allow the currency to go above 1.65 [real per dollar],' said Luiz Eduardo Portella of Banco Modal. 'I believe this will change things short term, the real will go up to 1.75, 1.80 [real per dollar],' he added.

'I'm not sure we'll see reverse currency swaps every day like we did in the past, but it seems like the central bank could act now with a certain frequency in the futures market,' said Flavio Serrano, Senior Economist for the Brasil do Espiritu Santo Investment Bank in Sao Paulo. The strength of the real has been weighing on industry even as the Brazilian economy advances.

'When one enters into the reverse currency swaps market … that neutralises sales and prevents the real from getting stronger,' said Mantega on 17 January.

The central bank has already imposed a reserve requirement on short-term dollar positions in banks, and bought dollars on a daily basis in its attempt to contain the appreciation of the real. However, the strength of the Brazilian economy, in conjunction with one of the highest interest rates in the world, has continued to attract foreign investors in search of higher yields.

Brazilian President Dilma Rousseff has said multilateral bodies should tackle currency issues and developed countries must 'assume their responsibility'.

'It's well known that Brazil and Argentina suffer, that all emerging market countries suffer, as a result of the depreciation policy practised by the countries in question,' Rousseff told the Argentine press on 30 January when asked about the role of the United States and of China.

'Our position in the G20 [grouping of major economies] needs to be one of increasing reaction against these depreciations, which always lead to difficult situations in the world. I'm talking about the so-called competitive depreciations,' she added.

US view

During his 7 February visit to Brazil, US Treasury Secretary Timothy Geithner told an audience in Sao Paulo that emerging markets such as Brazil had been buffeted in recent years by other countries with large current account surpluses and inflexible currencies.

Geithner did not mention China by name. Yet his comments will likely be well received by the Brazilian government, which is seeking closer ties with Washington in part out of hope that the two countries can work together to convince China to let its currency appreciate faster.

'As countries with large surpluses act to strengthen domestic demand in their economies, open their capital markets and allow their currencies to reflect fundamentals, we will see more balance in the flow of capital, less upward pressure on Brazil's currency, and more robust growth in Brazil's exports, especially manufacturing exports,' Geithner said at a think-tank in Sao Paulo.

Geithner also added that countries such as Brazil that face an 'outsized burden' due to their strong currencies 'may need to adopt carefully designed macro-prudential measures' – a tacit endorsement of capital controls that Brazil has recently implemented to ease strong inflows.

Concern over dollar

Some members of the G20 say China is causing problems with trade and currencies by manipulating the value of its money. But Brazil's Mantega says the Federal Reserve efforts to stimulate the US economy are causing just as many problems for Brazil.

The US and some other nations complain that Beijing obtains an unfair price advantage for its exports by pushing down the value of its currency, the yuan. Some economists say China's policy has hurt the economies of both Brazil and the US.

But in a telephone conference with journalists in mid-February, Mantega said bluntly that there is no plan for joint action by Washington and Brazil to press China for change. 'Brazil is as concerned about the decline of the US dollar as it is about the Chinese currency,' he said.

Mantega says Washington also hurts Brazil when efforts to stimulate the US economy with low interest rates and a massive programme to purchase financial assets cut the value of the dollar. ◆

Sources

MercoPress news agency reports:

'Brazil claims "global currency war" has broken out, but we have an "arsenal"', 28 September 2010

'Brazilian central bank intervenes in futures dollar market to stop real appreciation', 17 January 2011

'Rousseff blasts US and China's currencies' "competitive depreciation" policies', 1 February 2011

'Geithner implicitly endorses "capital controls" during Brazilian visit', 7 February 2011

'Brazil as concerned with the US dollar as with China's yuan', 17 February 2011

China 'not too worried' about India/Brazil's criticism of yuan policy

IN spite of the United States inciting Brazil and India to criticise China's currency policy, Beijing need 'not worry too much' because it can defuse the tension through talks, according to Chinese officials.

Increasingly widespread calls for a stronger yuan are awkward for Beijing, which is accustomed to facing US pressure over its controlled exchange rate but has long tried to cast itself as the natural ally of other developing nations.

However, Brazil and India are unlikely to be any more successful than the United States in persuading Beijing to permit faster appreciation, researchers in Chinese government think-tanks said.

'They must realise that the root of the problem is not China but the United States,' said Chen Fengying, director of the World Economy Institute at the Institute of Contemporary International Relations in Beijing.

'Yes, we know India's inflation is high and Brazil is raising interest rates, but how can China's currency policy solve those problems?'

Critics accuse Beijing of giving its exporters an unfair advantage by keeping the yuan low, but the Chinese advisers said that an ultra-loose US monetary policy debasing the dollar was to be blamed for rising currencies in developing nations.

'Complaints from other countries (such as India and Brazil) add to the pressure over the yuan as they are key trading partners and China has to take them seriously,' said Song Hong, a senior researcher in the Institute of World Economics and Politics of the Chinese Academy of Social Sciences.

'However, China is unlikely to change its ways because of the additional pressure. When the United States pressed China, China explained itself to Washington, and China can do the same with other countries,' he said.

The BRICs, a term coined by Goldman Sachs in 2001 to describe the growing influence of large emerging economies, have been at the forefront in pushing for more clout in international forums for developing nations.

Reserve Bank of India governor Duvvuri Subbarao said in the week of 7 February that an artificially low yuan hurt his country.

And Brazil's newly elected President Dilma Rousseff, in part pressured by a relentless rise in the real local currency, has pointed to an undervalued yuan as a threat, flooding her country with cheap Chinese imports and eroding Brazil's export competitiveness.

On 7 February US Treasury Secretary Timothy Geithner visited Brazil where he urged Rousseff to do more to lobby Beijing to let its currency float.

'No matter if the pressure is from developed countries or emerging markets, the Chinese government is very unlikely to yield too much over the exchange rate issue,' said He Maochun, an international studies professor at Tsinghua University. – *MercoPress* ◆

China's response to the problems of QE2 and the yuan

How does China view the problem of QE2? In a speech presented at the Caixin Summit in Beijing in November 2010, People's Bank of China governor *Zhou Xiaochuan* addressed this issue along with the thorny issue of the exchange rate of the yuan. The text of the speech is reproduced below.

I AM very glad to attend the Caixin Summit, and today I will focus on two issues.

The first is the RMB [renminbi, or yuan] exchange rate. Some journalists said that I used the concept of Western medicine and Chinese traditional medicine to differentiate the approaches in the study of the RMB exchange rate when I attended the IMF/World Bank 2010 Annual Meeting in Washington not long ago, and they wanted to know whether they got me right. First of all, I indeed said that a drug from Western medicine, which is based on theory and clinical trials, usually contains one ingredient and has a quick effect while a prescription of Chinese medicine includes various ingredients that work together to treat a disease. There may be 10 ingredients in a Chinese drug and it usually takes a slightly longer time to cure a disease. People may infer from what I have said as to whether we want to do it quickly or follow a gradual approach. This understanding is direct as well as right. In fact, there are two meanings, and I would like to take this opportunity to give some explanations.

A bank teller in Beijing counting yuan notes. China sees the yuan exchange rate as only one factor among many in addressing the balance-of-payments imbalance.

Package of policies

First, a prescription of Chinese medicine is usually composed of various ingredients that have different functions and work together to treat a disease. In terms of alleviating the BOP [balance of payments] imbalance, China needs to shift its growth mode and restructure its economy, reduce reliance on exports, increase domestic consumption, and in particular, develop the services sector. All these measures are like the various components of a prescription of Chinese medicine, while the exchange rate is only one ingredient to play its role in treating the disease.

Expanding domestic demand is a very important ingredient of the medicine. As domestic demand expands, the balance of exports and domestic sales will witness a large change, imports will increase and the BOP surplus will shrink correspondingly. At the same time, wages will be adjusted upward, and the prices of energy and resources will further reflect market demand and supply and environmental costs. In the past, the pricing of the environmental costs was relatively low. With the environmental costs priced to the actual level, some manufacturing sectors will feel the rising comprehensive social and economic costs. The price mechanism includes the management of tax rebates of exports.

Overall, this package of policies is somewhat similar to a Chinese medicine prescription. We hope this combined treatment is effective, and it also reflects our judgment that no single ingredient is particularly effective and can cure the disease on its own. This represents another approach to analysing and solving problems.

Second, Chinese medicine includes one method, i.e., dynamic adjustment or trial-and-error. The so-called dynamic adjustment means that a Chinese medical doctor will adjust the composition of the prescription according to the patient's condition, removing herbs, adding new ones and adjusting the dosage of some ingredients. Overall, the adjustment is based on the feedback from the patient, and the feedback is also a process to observe the improvement of the physical condition of the patient.

As you can see, the dynamic adjustment is based on the patient's feedback. Chinese medicine, unlike Western medicine which has comprehensive and logical theories, relies on experiences in some respects. Experiences are built on the basis of experiments and statistics, and may not be very accurate in some respects, while its logic can be adjusted. Useless medicines or medicines with strong side-effects will be removed, or their dosage decreased, and this is the trial-and-error.

I think this is a way of learning from experience, which can be continuously adjusted in the process. For example, we used to rely heavily on the export tax rebate in adjusting the BOP accounts. Later on, however, we found that the adjustment of the export tax rebate may have side-effects, and it was inconsistent with the principle of equal competition. Thereafter, the strength and scope of this measure was adjusted on a dynamic basis, reflecting its continuous evolution and progress.

In short, the analogy of traditional Chinese medicine has three meanings: the first is a preference for a progressive approach to the radical approach of shock therapy; second, no single measure is expected to play a major role; third, dynamic adjustment is an ongoing process based on feedback and allowing for trial-and-error.

Impact of QE2

The second [issue] is the QE2 [second round of quantitative easing] of the US Federal Reserve and its potential effects on China. Since this topic is being hotly debated, I would rather not say too much, and not comment on which is right or which is not. The Federal Reserve has contemplated on QE2 for some time, and the PBC [People's Bank of China] and the Fed had communications on a number of occasions, including the regular bimonthly BIS [Bank for International Settlements] meeting. In most cases, [Fed] Chairman Ben Bernanke would attend the BIS meetings himself, while on other occasions other board members would attend. They have made a lot of explanations on the US monetary policy. In the communication process, we felt that many of their comments were actually understandable. The US Fed has the mandate to create jobs and maintain low inflation in the US. Given the fragile economic recovery, relatively high unemployment rate, low inflation rate and a US federal funds rate that is close to zero, it is understandable that the Fed has adopted the quantitative easing monetary policy.

However, a key issue widely discussed is that the US dollar is an international currency and a major international reserve currency. It is used in the pricing and trading of goods, especially commodities, and to a large extent, capital flows, foreign direct investments and financial market transactions are denominated in the US dollar. Therefore, the US dollar has global impacts.

If the QE2 is an optimal choice or a second-best choice for the US itself, it may not necessarily be optimal for the world, and may have some side-effects. This reflects the importance of the US dollar as the major international reserve currency. If we have any opinions, it may boil down to whether there are any problems in the current international monetary system, and whether it is necessary to resolve the issue from this perspective. As for international reserve currencies such as the US dollar, if its international role conflicts with its domestic one, how should we explain and analyse such an issue?

As far as the QE2's impact on China is concerned, the problem is: will there be a larger inflow of hot money? What measures should China take in response? As many people have offered their solutions, I just want to make two additional comments. First, China's current foreign exchange management still controls the capital account. Abnormal capital can choose to either stay away or take a detour. In the latter case, we can take regulatory measures to prevent hot money from coming. Second, I want to emphasise a significant measure, the sterilisation operation at the aggregate level. When speculative capital comes in, we want to keep it in a pool rather than let it flood into China's real economy. At the time when it retreats, we just let it flow out of the pool. We expect that this measure will largely neutralise the impact of abnormal capital flows on China's macroeconomy.

Indeed, another problem may arise: the capital inflows would make speculative profits from interest or exchange rate arbitrage. No one is happy about this except profiteers. On this I would like to say, on the one hand, we need to keep in mind the importance of sterilisation; on the other hand, we should understand that arbitrage always exists if there is such a chance and is almost unpreventable.

In the late 1970s and early 1980s, the price difference across cities and across regions in China was so conspicuous that it gave birth to *daoye*, namely profiteers who made profits from trafficking and speculation. If chances exist in the goods market, it's almost impossible to stop arbitrage. As much as we do not like it, we still have to admit that it is an inevitable phenomenon of taking advantage of a money-making opportunity and is in accordance with the logic of the market economy. When trying to stop it, we have to first consider whether or not there are effective measures. It makes no sense to stop railroad transportation in order to eliminate profiteering, because the benefit of the measure is dwarfed by the huge cost to the national economy. Therefore, the key lies in measuring the cost.

Similar problems also exist in the global financial market, such as the 'carry trade', which was a hot topic several years ago. At that time, the Japanese yen was mostly used in arbitrage due to its low interest rate, and many arbitrage transactions were yen/Australian dollar and yen/New Zealand dollar carry trade. Who was doing the carry trade then? If we could identify the major speculators or recognise the problems in the government's policies, we could find a solution. However, it was found that the speculation was mostly done by Japanese housewives, and it was difficult to prevent them from doing it.

For China, therefore, it is most important to keep the macroeconomy balanced, prevent risks, and conduct necessary sterilisation operations. Besides, we will try our best to prevent arbitrage and shut down those channels of arbitrage. However, it is impossible to root out all the chances for arbitrage.

To sum up, multiple angles are needed in the comprehensive analysis of the QE2's global impacts. I have provided some of my perspectives and you are welcome to give your comments and critiques. Going forward, more studies will be done on this topic. ◆

Fallout of global currency wars on India

India too has been experiencing a surge in financial inflows but, unlike most other emerging economies, has been loathe to resort to capital controls as it has been relying on such short-term capital inflows to fund its current account deficit.

CRL Narasimhan

Stockbrokers monitoring share price movements on the Bombay Stock Exchange. Surging portfolio capital flows have variously buoyed and depressed India's share markets.

THOSE who have hoped for at least a temporary truce if not a more permanent pause in the ongoing currency wars in the New Year are apt to be disappointed. Brazil, which has been in the vanguard of the moves to check the pernicious influence of unbridled short-term capital flows, has announced some more measures in this direction. More surprising has been the decision of Chile to clamp down on inflows. Chile had continued with free market practices even when faced with surging capital inflows from abroad. For investors as well as importers and exporters there is a lot of uncertainty that has arisen as a result of the currency wars.

Seemingly irrational factors drive the currency movements and these are naturally very difficult to anticipate. In an overall sense, currency wars inflict heavy costs on international trade and appear to be the most visible manifestation of the lack of cooperation among major economic powers. Brazil's Finance Minister was the first to use the term 'currency wars' last year. He was referring to the phenomenon of countries entering into competitive depreciation of their currencies to retain their hold in export markets. For each country, the goal has been to prevent its currency from being the only one to rise. The policies are injurious to all countries but once begun it seems almost impossible to control. In this connection, the highly publicised dispute between the US and China over the external value of the yuan may be the most visible but is hardly the only one. The US along with other countries has accused China of keeping the value of its domestic currency at artificially low levels to sustain its booming export-led growth.

The reasons why the currency wars will continue are fairly obvious. The principal motivation – to check the destabilising capital inflows – remains. Inflows are, in fact, expected to increase. The emerging economies are in the forefront of the global recovery. So funds from the more slowly growing advanced economies seek greener pastures in the emerging markets. Also, global recovery has reduced risk aversion. Global fund managers see value as well as safety in, say, Indian or Brazilian equities. A third factor is the decision of the US and other advanced economies to persist with their extremely loose monetary policies. In the US case, there has been a quantitative easing and a buy-back of long-dated bonds. This unconventional move is expected to lower long-term interest rates which had remained sticky even when the near-term rates have hovered around zero. But for India and other emerging economies, however, that has meant even larger flows.

For developing countries, managing the capital inflows remains a daunting task. The International Monetary Fund in a recent study rates it as one of the two key challenges for this year, the other one being the task of managing the quantum and timing the exit from stimulus policies of the recession period.

Global monitoring?

As more and more countries seek ways to check the capital inflows and global financial institutions such as the World Bank and the IMF realise that they are unavoidable, there is a school of thought that some ground rules for monitoring the actions of the government are needed. A study undertaken by the IMF at the beginning of the year suggested such a course. The idea seems to be to constrain actions of governments in imposing control over capital flows. But the suggestion has been brushed aside as being too complex and in the present climate of global disharmony highly impractical as well.

The government action to stem capital flows need not always take the form of or be confined to currency rate manipulation. Other measures include inflows control, raising reserve requirements selectively for foreign inflows and emergency measures banning flight of currency outside during a crisis. Chile once had a system which required foreign investors to deposit a portion of their investment in interest-free deposits with its central bank. The objective is to discourage short-term flows and, where it is not possible, to increase its tenure from short-term to a longer period. It would be impossible to have global ground rules to monitor all these.

But the very idea of having a global forum and rules to oversee capital flows shows how far mainline economic opinion has traversed since the 1990s. At that time enthusiasm for free markets led the US and the IMF to try to amend the Fund's mandate to promote capital account convertibility. Such efforts floundered amid stiff opposition from the emerging markets and the Asian currency crisis which convinced policymakers of the dangers of relying too much on short-term flows. Many Asian countries saw their currencies collapse as global short-term funds reversed themselves. It was at that time the then Malaysian Prime Minister Mahathir Mohamad defied what was then considered to be orthodoxy and imposed capital controls as part of a programme to defend a fixed exchange rate for the ringgit.

India has proceeded cautiously with capital account convertibility. Its currency management, a managed float for the rupee, has paid off and been emulated by many countries. However, there are some major policy issues to be settled on the surging portfolio capital flows which have buoyed and depressed the share markets. There has been a clamour for imposing some kind of controls on such flows but the rationale for persisting with the status quo seems to lie in the crucial dependence the country's balance of payments has on capital flows from abroad. The argument becomes particularly relevant at a time the current account deficit is widening. However, there are obviously great risks in an ever-widening deficit and, equally importantly, in relying on short-term flows to fund the deficits.◆

CRL Narasimhan is Associate Editor of the Indian daily The Hindu. *This article first appeared in* The Hindu *(7 February 2011) and is reprinted with permission.*

Curbing hot capital flows to protect the real economy

Developing countries are once again the destination for speculative capital flows, with inflows reaching pre-crisis levels, leading to currency appreciation and asset bubbles. Many of these nations are deploying prudential capital regulations to stem these flows. However, this may only be a partial remedy to the problem – such measures should be coupled with action by the developed countries in order to fully steer capital to productive use and to avoid future crises.

Stephany Griffith-Jones and Kevin P Gallagher

AS nations across Asia and Latin America still have a long way to go in terms of economic growth, foreign investment is quite welcome. The problem is that the sheer volume and composition of these flows implies that a large part does not go into productive investment. Mass inflows of short-term capital are causing asset bubbles and currency appreciation in developing countries, which make macroeconomic policy difficult and raise the risk of future crises. Short-term inflows are flocking to the developing world largely through the mechanism of the carry trade.

Another crisis in the making?

Since the global financial crisis began, interest rates have been very low in the United States and in other industrialised nations. Increased US liquidity can trigger investors to pull dollars out of the US and invest them in nations with higher interest rates for rapid return, often using derivatives. Known as the carry trade, such speculative short-term flows push up the value of emerging-market currencies and create asset bubbles.

It is for this reason that the US was criticised at the 2010 summit of the G20 major economies group in Seoul. For example, Brazil, with interest rates over 10%, has seen an appreciation of over 30% due in part to the carry trade, and was most vocal in Seoul. This is a problem in many emerging and even poor developing countries, like Uganda, with excessive short-term inflows.

Figures 1 and 2 exhibit capital inflows into emerging Asia and Latin America since the financial crisis. Immediately after the crisis there was a massive and destabilising retreat of capital from the developing countries to the 'safety' of the industrialised world. However, as both these figures show, emerging markets are again a fruitful destination for speculative capital.

In Figure 1, inflows (non-foreign direct investment or non-FDI) of capital into emerging Asia are juxtaposed with the appreciation of the South Korean won. In Figure 2, capital flows to Latin America are followed by appreciation of the Brazilian real. These two currencies have appreciated more than 30% since the onset of the crisis.

Responding to excessive inflows

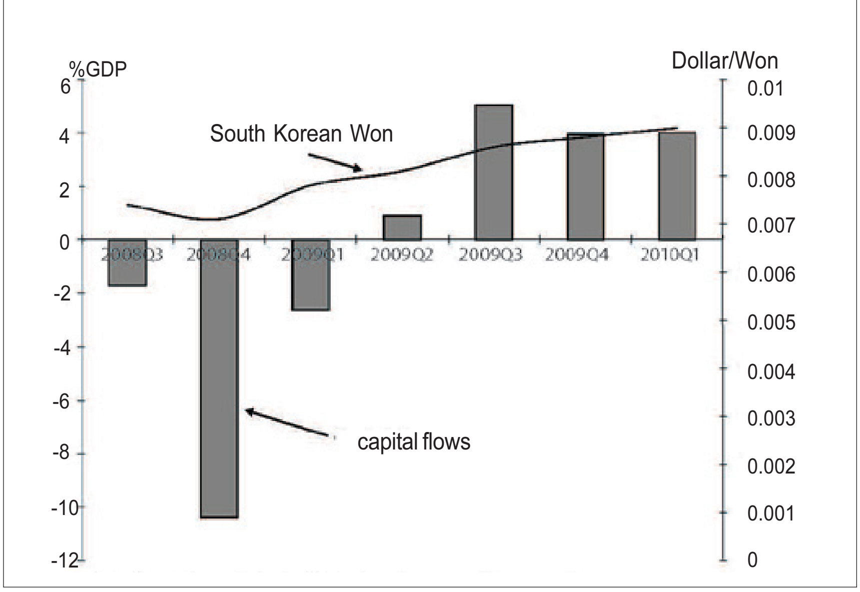
Emerging and developing economies are following a set of options to stem the tide, one of which is to engage in prudential capital account management by taxing or putting unremunerated reserve requirements on capital inflows. While this is not a panacea, it does help to provide greater monetary policy autonomy to these countries. This is essential as their growth rates are high at present, and it is crucial for them to avoid not only inflation in goods and services, but also asset price bubbles and overvalued exchange rates.

Many nations such as Brazil, China, Argentina, Taiwan, Thailand, South Korea, Peru and Indonesia have put in place various forms of capital account regulations to limit excessive inflows. Such controls have been recently sanctioned by the International Monetary Fund (IMF) – a landmark shift.

These measures follow a mountain of economic evidence in academia and by the international financial institutions, most notably the National Bureau of Economic Research in the US, the IMF, the United Nations, and the Asian Development Bank. In February 2010, IMF economists published a staff position note empirically showing that capital controls not only work but 'were associated with avoiding some of the worst growth outcomes' of the current economic crisis. The paper concluded that the '...use of capital controls – in addition to both prudential and macroeconomic policy – is justified as part of the policy toolkit to manage inflows' (Ostry et al 2010: 5).

This IMF note singles out measures such as taxes on short-term debt (like those put in place by Brazil) or requirements whereby inflows of short-term debt need to be accompanied by a deposit to be placed in the central bank for a certain period of time (as practised by nations such as Chile, Colombia and Thailand). The goal of these measures – which are often turned on when capital flows become excessive and turned off when things cool down – is to prevent massive inflows of hot money that can appreciate the exchange rate

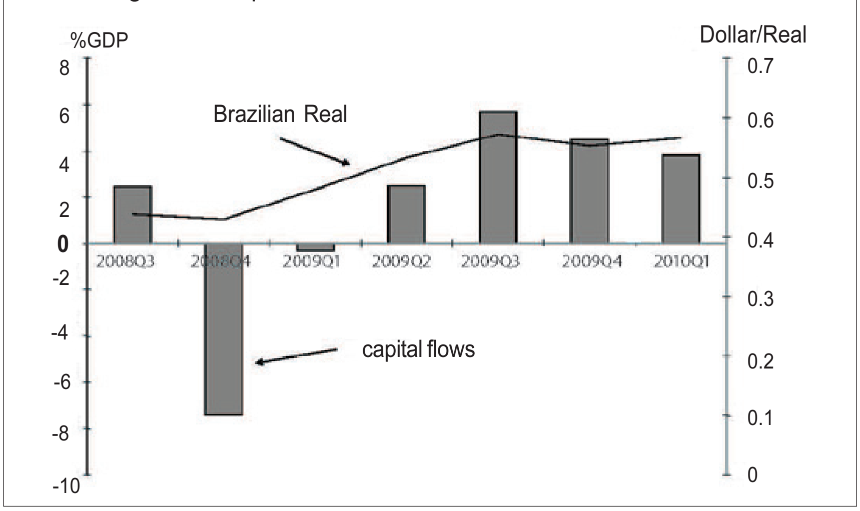
Figure 1: Capital Flows and Currencies in Asia



Asia includes South Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand.

Source: IMF (2010)

Figure 2: Capital Flows and Currencies in Latin America



Source: IMF (2010)

and threaten the macroeconomic stability of a nation.

The IMF's findings could not have come at a better time. Following the latest round of quantitative easing (QE2) by the US Federal Reserve (Fed), the carry trade is again bringing speculative capital to developing countries that could disrupt their recovery from the crisis. As pointed out by Ocampo (2010), '...monetary expansion may be largely ineffective in the country that undertakes it, but can generate large negative externalities on others.'

Barriers to effective controls

To make the proper deployment of capital controls effective, however, at least three obstacles need to be overcome. First, after a time, investors often evade prudential capital management through derivatives and other instruments. Second, US trade and investment agreements make capital controls difficult to implement. Third, speculative capital can still wreak havoc because hot money passes by countries that successfully deploy controls and flows into nations that do not.

Brazil started imposing a tax on hot money inflows in October 2009 and has been finetuning them ever since, in part because of the volume of flows, but also because the regulation was being evaded. Some investors have avoided controls by disguising short-term capital as FDI through currency swaps and other derivatives and by purchasing American depositary receipts (ADRs).

ADRs are issued by US banks and allow investors to buy shares of firms outside the US – enabling investors to purchase Brazilian shares in New York and thereby avoiding controls in Brazil. In a step in the right direction Brazil moved to levy a 1.5% tax on ADRs to stem speculation around the earlier controls. Now a Brazilian bank or investor that deposits its shares with foreign banks will be charged the tax.

Since 2003, US trade and investment treaties have made prudential management of capital accounts by developing-country trading partners difficult, if not impossible. The treaties have mandated the free flow of capital to and from countries – for instance, in trade deals with Chile, Peru and Singapore. In the case of Singapore and Chile, the countries resisted these measures, but ultimately agreed to the treaties. Pending deals with Colombia and South Korea would also ban prudential capital controls. Other higher-income countries and trade partners – such as Canada and Japan – grant countries the right to use the macroeconomic tool or at least grant exemptions to prevent or mitigate crises.

The third problem, which may be the most difficult, is that capital will simply flow by those nations that successfully deploy controls to nations that do not. Some economists, such as former IMF economist Arvind Subramanian, propose full-fledged coordinated capital controls among all emerging-market economies to circumvent the problem. This is a justifiable solution to the coordination problem but of course not all emerging markets will agree to coordinate. We propose attacking the problem at its source.

Regulating the carry trade

Actions taken by developing countries on their capital accounts may not be enough as the wall of money presently coming towards them is so large and potentially volatile. Therefore it may be desirable to complement these measures with action by the countries where the capital is coming from, especially from the US – due to QE2 and the general ease of US monetary policy. Given that the majority of the carry trade will in the near future come from the US, it could start regulating the outflow of capital from the carry trade.

The US could introduce measures to discourage the carry-trade flows to the rest of the world, and especially to developing countries. This could be done by taxing such flows. Also, foreign exchange derivatives that mimic such transactions could have high margin requirements to discourage them.

Such a measure would benefit the US economy as the purpose of QE2 is to encourage increased bank lending and lower interest rates in the US and not for funds to be channelled abroad. It would also benefit emerging markets, whose economies are being harmed by excessive short-term inflows that could cause future crises. It would be a big win-win for the world economy.

The results of the recent US elections make it very difficult for the US to currently pursue the first best policy to keep its economy recovering – further fiscal expansion. As Keynes showed, and we have seen during numerous crises, private investment and consumption will not recover on their own – due to both over-leveraging and lack of confidence – without the stimulus of aggregate demand, which only governments can give in these circumstances. Once the recovery is on track, fiscal policy needs to contract to avoid both overheating and excessive public debt.

The Fed has already brought the short-term interest rate to zero, so Ben Bernanke, to his credit, has ventured into the emergency toolkit. The Fed chairman should be applauded for his willingness to think past convention. As one of the last policymakers in developed countries with significant economic power, he is now almost the sole voice for an expansionary economic policy.

However, on its own, QE2 may not be enough to restore the US economy to growth. It will contribute to further overheating of asset prices in the emerging economies, which could complicate macroeconomic management for them now and also increase the risk of future crises.

To ensure QE2 helps the US economy to grow, mechanisms need to be found to channel the additional liquidity created by the Fed as credit to the real economy. The key is to expand credit to small and medium-sized enterprises, starved of funds at present, and to finance large investments in infrastructure, including that required to generate clean energy. Institutional innovations may be necessary to achieve this, such as the creation of an infrastructure fund.

Internationally, if the US dug into the emergency toolbox again, it could place prudent capital regulations on the outflow of speculative capital via the carry trade. This might help avoid future crises in the destination countries, which would harm not only them, but also the US and the world economy.

Controls on short-term outflows would facilitate the liquidity created by the Fed staying in the US and having a better chance of going towards productive investment. Such investment could help developing countries via trade rather than causing speculative capital to flow to emerging markets and wreak havoc on their financial systems and economies.

Road to the G20

Reorienting capital flows for productive development should be a priority as world leaders prepare for the next G20 meeting in Paris. Prudential capital account regulations, deployed in both the industrialised and the developing world, should be examined as a partial remedy to the problem.

It is promising that the French Finance Minister Christine Lagarde said in early December, 'Capital controls should only be done…in case of a surge of capital flows and in a coordinated fashion. There needs to be a referee.' Her emphasis on coordinated capital controls is significant as France heads the G20 for 2011.

To rectify some of the problems related to capital flows, industrialised nations (especially the US) should consider regulating the carry trade and providing safeguards in their trade treaties to allow developing nations to deploy prudential regulation. Developing countries should also put in place prudential regulations. The Financial Stability Board, as well as national regulatory authorities, should oversee them and take measures to limit avoidance. ◆

Stephany Griffith-Jones is with the Initiative for Policy Dialogue, Columbia University. Kevin P Gallagher teaches international relations at Boston University. *This article is reproduced from* Economic & Political Weekly *(Vol. 46, No. 3, January 15-21, 2011). Shorter versions have been published in the* Guardian *(18 November 2010) and in the* Financial Times *(17 December 2010).*

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Leading economists urge US to allow use of capital controls

In a letter delivered 31 January, more than 250 US and international economists have urged the Obama administration to reform US trade rules that restrict the use of capital controls. The statement reflects growing consensus among economists that capital controls are legitimate policy tools for preventing and mitigating financial crises. Below is the text of the letter.

South Koreans express opposition to their country's free trade agreement (FTA) with the US, which is currently pending Congressional approval. Many US FTAs contain provisions that strictly limit parties' ability to deploy captal controls.

WE, the undersigned economists, write to alert you to important new developments in the economics literature pertaining to prudential financial regulations, and to express particular concern regarding the extent to which capital controls are restricted in US trade and investment treaties.

Authoritative research recently published by the National Bureau of Economic Research, the International Monetary Fund, and elsewhere has found that limits on the inflow of short-term capital into developing nations can stem the development of dangerous asset bubbles and currency appreciations and generally grant nations more autonomy in monetary policy-making.[i]

Given the severity of the global financial crisis and its aftermath, nations will need all the possible tools at their disposal to prevent and mitigate financial crises. While capital account regulations are no panacea, this new research points to an emerging consensus that capital management techniques should be included among the 'carefully designed macro-prudential measures' supported by G20 leaders at the Seoul Summit.[ii] Indeed, in recent months, a number of countries, from Thailand to Brazil, have responded to surging hot money flows by adopting various forms of capital regulations.

We also write to express our concern that many US free trade agreements [FTAs] and bilateral investment treaties [BITs] contain provisions that strictly limit the ability of our trading partners to deploy capital controls. The 'capital transfers' provisions of such agreements require governments to permit all transfers relating to a covered investment to be made 'freely and without delay into and out of its territory'.

Under these agreements, private foreign investors have the power to effectively sue governments in international tribunals over alleged violations of these provisions. A few recent US trade agreements put some limits on the amount of damages foreign investors may receive as compensation for certain capital control measures and require an extended 'cooling off' period before investors may file their claims.[iii] However, these minor reforms do not go far enough to ensure that governments have the authority to use such legitimate policy tools. The trade and investment agreements of other major capital-exporting nations allow for more flexibility.

We recommend that future US FTAs and BITs permit governments to deploy capital controls without being subject to investor claims, as part of a broader menu of policy options to prevent and mitigate financial crises. ◆

Notes

i For some of the most important recent studies see: Ostry JD, Ghosh AR, Habermeier K, Chamon M, Qureshi MS and Reinhardt DBS (2010). 'Capital Inflows: The Role of Controls'. IMF Staff Position Note, SPN/10/04. Washington, DC, International Monetary Fund. Magud N and Reinhart CM (2006). 'Capital Controls: An Evaluation. NBER Working Paper 11973. Cambridge, MA, National Bureau of Economic Research. Further studies are available upon request.

ii 'Seoul Summit Document', Nov. 12, 2010.

iii See, for example, Annex 10-E of the US-Peru FTA.

For the list of signatories to the letter, please go to www.ase.tufts.edu/gdae/policy_research/CapCtrlsLetter.html.

This letter was initiated by the Global Development and Environment Institute, Tufts University (GDAE) and the Washington, DC-based Institute for Policy Studies (IPS).

An imbalanced recovery

While there has understandably been much talk about 'economic recovery and a return to business as usual', *CP Chandrasekhar* and *Jayati Ghosh* argue that there are major roadblocks and pitfalls in the path ahead and that such optimism may be unwarranted.

WITH 2010 behind us, there has been a spate of updates on the world economy. Led by the IMF, these agencies carried their estimates to the World Economic Forum in Davos to cheer business and political leaders who had gathered there. All of these estimates, however, seem influenced by the impatience that comes from having waited three years for the downturn to bottom out and reverse in the direction of recovery. To recall, the Business Cycle Dating Committee of the National Bureau of Economic Research in the US, which is the standard bearer when it comes to this activity, had dated the recession induced by the financial crisis to December 2007. It is not surprising, therefore, that the desire for a return to what would be 'business as usual' was and is overwhelming.

A protest in India against high food prices. World food and energy prices are threatening to spiral to levels characteristic of the period when the world experienced a food and fuel crisis.

Capitalism is, of course, not a system that tends to dip relentlessly to its own doom. More so because it is a system that functions in a context of nation states with national governments, that are bound to stretch themselves to correct recessionary trends. As a result, even when Great Recessions occur, a return to growth is more than likely. This is what did happen over the last three years, particularly the last two, when governments expanded expenditures and central banks pumped in liquidity to save the financial system and restore demand. Taking the world as a whole, GDP growth that had dipped from more than 5% in 2006 and 2007 to 2.8% and -0.6% in 2008 and 2009, had recovered to 4.8% in 2010 (Chart 1).

However, till recently most analysts were not happy with both the speed and the nature of the recovery for a number of reasons. The first, of course, was that, while GDP growth had returned to positive territory, job losses were not being fully recovered and the unemployment rate remained high. Thus, the unemployment rates in the US and France were disconcertingly close to 10% over 2010.

Secondly, growth was extremely unevenly distributed across regions and nations, making the thrust of the recovery appear to be largely restricted to a few emerging market countries. While developing economies saw their growth rate bounce back to 7.1% in 2010, led by developing Asia, the G7 major advanced economies recorded an indifferent 2.5% growth rate and the European Union a poor 1.7%.

Thirdly, even while the recovery was on average not spectacular, there were signs of overheating and inflation across the world, with the price rise being particularly sharp in countries where rates of growth have returned to high levels (Chart 2). Moreover, world food and energy prices are threatening to spiral to levels that are characteristic of the period when the world experienced a food and fuel crisis.

And, finally, while it is widely accepted that the financial crisis was generated by the accumulation of debt in the balance sheets of households that had been encouraged to indulge in a debt-financed spending spree, the resolution of the crisis has substantially increased debt on the balance sheets of governments in the developed countries (Chart 3). This is bound to increase the reticence of governments to substitute public for private expenditure as the stimulus to growth.

'Multispeed recovery'?

With this element of concern persisting, what seems to be occurring is a shift in the tenor of the discussion on the nature and significance of the recovery. In the effort to restore economic optimism and talk up global growth, the favourite phrases doing the rounds today are 'two-speed recovery' coined by the IMF and 'multispeed recovery'. Unevenness in growth, which was earlier seen as a sign of global imbalance, is now being celebrated as cause for optimism.

These phrases reflect the argument that all segments of the global economy are on a highway to recovery, even if on lanes that permit different speeds. There are at least three speeds at which the recovery is expected to proceed during 2011: 6% or more in the emerging economies led by China and India, 3% in the US and less than 2% in the euro area. Put together, these are presented as a significantly positive rate for the global economy as a whole. While the working people in a host of countries, developed and developing, may be short of jobs and incomes, a truly global perspective seems to provide cause for optimism.

This desire to talk up the world economy stems from two sources. The first is the challenge that high and persisting unemployment poses to the legitimacy of the market mechanism, triggering violent protest first in Europe and now in West Asia, which needs to be addressed. What better way than holding out the promise of growth even if it comes from developments either in distant lands or in the future?

The second reason is that financial markets across the globe, which bounced back using the large volumes of cheap liquidity pumped into the system in response to the crisis, are less confident and seem likely to slide downwards again. Imbuing the markets with optimism is therefore important as well. Uncertainty regarding the recovery generated by developments such as the sovereign debt problems in Europe is partly responsible. Not surprisingly, institutions and fora geared to promoting the legitimacy of market-driven systems are keen to talk up expectations of growth.

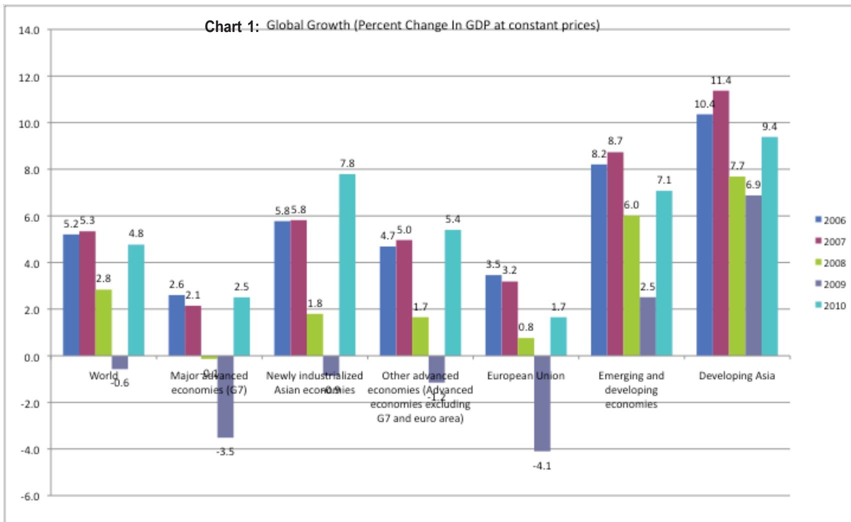


Chart 1: Global Growth (Percent Change In GDP at constant prices)

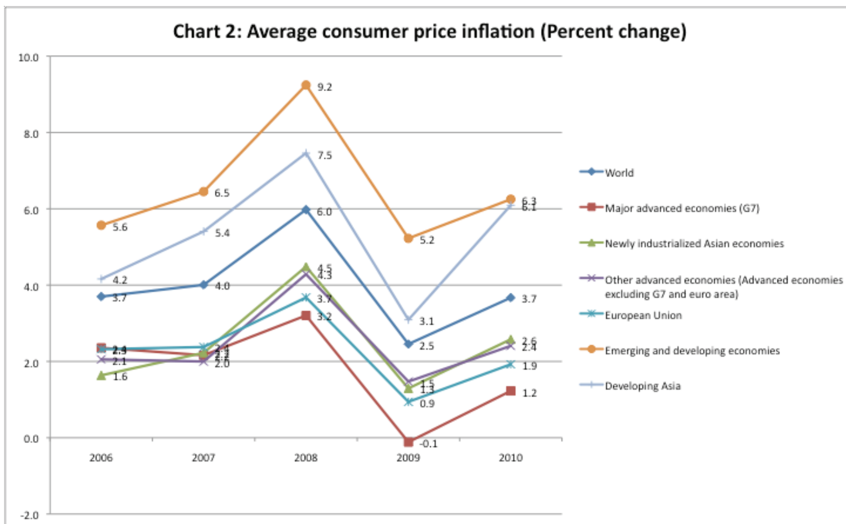


Chart 2: Average consumer price inflation (Percent change)

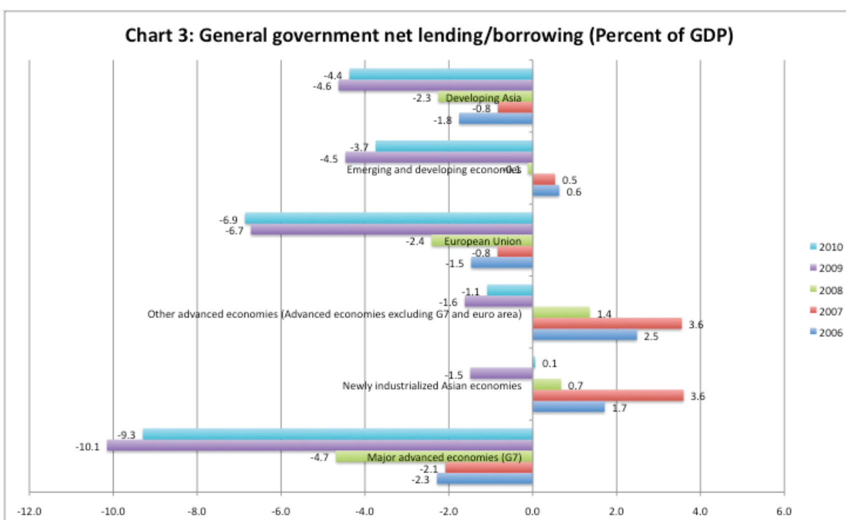


Chart 3: General government net lending/borrowing (Percent of GDP)

Dark clouds

The reality is less accommodating. In each of the segments of the world economy separated by speeds of recovery, there are dark clouds on the horizon. Take emerging markets, for example. Those recording the highest rates of growth are experiencing symptoms of overheating in the form of inflation in goods and/or asset prices. In China, where growth exceeded 10% in 2010, annual inflation stood at 5.1% in November, which was the highest in two years. Housing prices too rose 7.8% over the year by December. In India, the quick recovery in output growth has been accompanied by high and persisting inflation, initially focused on food prices but now increasingly generalised.

In addition, across emerging markets, the inflow of foreign capital fuelled by the availability of cheap credit in the developed countries is resulting in currency appreciation that undermines export competitiveness and hurts growth. Initially, the surge in capital flow to these markets was seen as a sign of strength and confidence. Even the January 2011 Global Financial Stability Report Market Update declared: 'Stronger economic fundamentals in some key emerging markets, along with low interest rates in advanced countries, have led to a rebound in capital flows, after the significant drop at the height of the financial crisis. Net inflows to emerging market countries now represent around 4% of GDP in aggregate. By comparison, inflows prior to the crisis were above 6% of GDP. Capital inflows have been accompanied by a large increase in equity and bond issuance, potentially limiting some of their effects on the price of these assets.' But not much later came news that in the weekend of 4 February 2011, global investors pulled out $7 billion from emerging markets, frightened by food price inflation, the turmoil in Egypt and much else. This flight to safety to developed-country markets merely reflects the fact that the recent surge in flows to the emerging markets was nothing more than speculative 'carry-trade' investments encouraged by the infusion of cheap liquidity.

The financial markets, which had bounced back using the large volumes of cheap liquidity pumped into the system in response to the crisis, are less confident and seem likely to slide downwards again.

Residential construction in China. Emerging markets recording the highest rates of growth are experiencing symptoms of overheating in the form of inflation. For example, housing prices in China rose 7.8% over the year by December.

Outlook for developed economies

Shift now to the slowest of the lanes on the three-speed global growth highway: Europe. There is no dispute over the fact that fiscal austerity, whether induced by the possibility of sovereign default or voluntarily adopted, is likely to keep growth in this region low well into the foreseeable future. What is disconcerting is that all the austerity notwithstanding, the prognosis is that the sovereign debt problem in many countries will just not go away but may have to be addressed with restructuring that could convert slow growth into a veritable decline.

Finally, there is the middle lane through which the world's most important economy, the US, trundles. There are indeed signs that the US seems to be recording some improvement in growth, even if that growth is jobless. But there are two dangers. The first is that the recovery seems to be financed with debt that makes it vulnerable. The second is that the growth in US consumer spending might encourage emerging markets to return to relying on export-led growth. That would only see a return to the global imbalances associated with the last crisis.

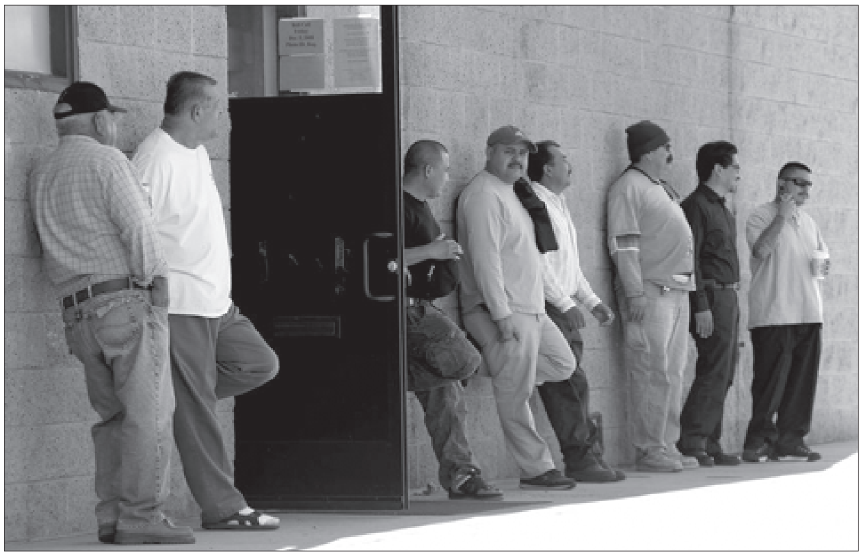
In sum, while the mood in Davos was to stress that the world's economies had got onto a three-lane highway to recovery, the evidence being ignored suggests that we are approaching toll gates that would slow the traffic. Moreover, the road beyond may be so narrow that it could halt the flow. ◆

CP Chandrasekhar and Jayati Ghosh are Professors at the Centre for Economic Studies and Planning, Jawaharlal Nehru University, New Delhi. *This article first appeared in* The Hindu Business Line *(8 February 2011).*

Global unemployment still at stubbornly high levels

Despite claims that the 2007 Great Recession is over and notwithstanding the fact that some countries are experiencing impressive economic growth, the global unemployment picture is as stark as ever.

Kanaga Raja



Americans in the unemployment queue. Unemployment in the developed economies continued to climb in 2010 although the economic recovery had already begun to take shape in earnest.

DESPITE a sharp rebound in economic growth in a number of countries, the number of unemployed globally stood at 205 million in 2010, essentially unchanged from the previous year, and 27.6 million higher than in 2007, with little hope for this figure to revert to pre-crisis levels in the near term.

This assessment was highlighted by the International Labour Office (ILO) in its *Global Employment Trends 2011* report released on 24 January.

The ILO noted that the elevated level of global unemployment stands in stark contrast to the recovery that has been seen in several key macroeconomic indicators: real global GDP, private consumption, gross fixed investment and world trade had all recovered by 2010, surpassing pre-crisis levels.

With global unemployment, as officially measured, at record high levels for the third straight year since the start of the economic crisis, the ILO warned that weak recovery in jobs is likely to continue in 2011, especially in the developed economies.

On the basis of current macroeconomic forecasts, the ILO projected the global unemployment rate to be at 6.1% in 2011, corresponding to global unemployment of 203.3 million. This represents little improvement over 2010 levels, it added.

The ILO's annual employment trends survey also pointed to a highly differentiated recovery in the labour markets, with persistently high levels of unemployment as well as growing discouragement in developed countries, and with employment growth along with continued high levels of vulnerable employment and working poverty in developing regions.

'In spite of a highly differentiated recovery in labour markets across the world, the tremendous human costs of the recession are still with us,' said ILO Director-General Juan Somavia.

'There is one common challenge: we need to rethink our standard macroeconomic policy mixes and make quality job creation and decent work a central target of macroeconomic policies, alongside high growth, low inflation and balanced public budgets. We must not forget that for people, the quality of work defines the quality of a society,' he added.

Output-unemployment gap

In its global employment trends survey, the ILO said that despite the negative GDP growth rate registered in 2009, real global GDP never actually shrank below the 2007 level during the crisis and is estimated by the International Monetary Fund (IMF) to have been more than 7% higher in 2010 as compared with 2007. Similarly, private consumption declined only modestly in 2009 and is estimated to have been 3.3% higher in 2010 than in 2007.

Furthermore, gross fixed investment contracted sharply in 2009, falling by nearly 10%; however, investment is estimated to have surpassed the 2007 level in 2010. Global trade dropped by nearly 12% in 2009, but this too is estimated to have risen above the 2007 level in 2010.

'Thus, while there is clearly tremendous regional and country-level variation in economic performance and recovery patterns, despite the massive and widespread shock that accompanied the collapse in growth in 2008 and 2009, based on these four key macroeconomic indicators, the global economy has recovered,' says the report.

M. Crozet/ILO

The global youth unemployment rate stood at 12.6% in 2010, 2.6 times the adult rate.

Unfortunately, the ILO says, the contrast between recovery in the macroeconomic indicators and the unemployment indicator could not be starker. Global unemployment began to grow in 2008 as the crisis increased uncertainty and led to reduced hiring. This was followed by a massive increase of more than 22 million in global unemployment in 2009. The year 2010 brought little change to this elevated level of unemployment.

In all, there were 27.6 million more unemployed people in the world in 2010 as compared with 2007, with little hope for this figure to revert to pre-crisis levels in the near future. The current projections for these indicators for 2011 show a further widening of the gap between the macroeconomic recovery and a recovery to pre-crisis unemployment levels.

Employment and unemployment trends

The ILO report provides an overview of global trends in employment and unemployment, labour force participation, productivity and a number of other key labour market indicators.

With respect to the issue of employment, the report finds that contrary to what may be expected, global employment has continued to grow throughout the crisis, though at less than half the rate observed prior to the crisis. Employment contracted sharply in 2009 in the Developed Economies and European Union (-2.2%) and Central and South-Eastern Europe (non-EU) and Commonwealth of Independent States (CIS) (-0.9%) regions, but total employment continued to grow in all other regions during the crisis.

While global employment continued to grow, the employment-to-population ratio, which represents the share of people of working age in employment, declined from 61.7% in 2007 to 61.2% in 2009 and was little changed at 61.1% in 2010. In the Developed Economies and European Union region, the employment-to-population ratio dropped from 57.1% in 2007 to 55.5% in 2009, with a further drop to 54.7% in 2010.

Clearly, the report explains, many developed economies are simply not generating sufficient employment opportunities to absorb growth in the working-age population, which again reflects the ongoing lag between economic recovery and a recovery in employment in this region. This contrasts with many developing regions, some of which saw an initial decline in the employment-to-population ratio but where, in all developing regions except East Asia, the estimated employment-to-population ratio in 2010 is little changed versus 2007.

Turning to the issue of unemployment, the report notes that despite the rapid recovery in the global economy that took place in 2010, following two years of severely adverse labour market conditions, global unemployment remained elevated in 2010. The number of unemployed stood at 205 million in 2010, essentially unchanged from the year earlier and 27.6 million higher than in 2007.

Given that the number of unemployed increased by more than 22 million in 2009 alone, 2010 brought about a halt to the surge in unemployment in the world as a whole, but conditions in labour markets did not improve enough to significantly roll back any of the damage that had been done. The global unemployment rate stood at 6.2% in 2010, versus 6.3% in 2009 and 5.6% in 2007.

While the global unemployment rate halted its rise in 2010, regional estimates reveal a clear divergence between developed and developing regions. In the Developed Economies and European Union region, which saw the largest regional increase in the unemployment rate between 2007 and 2009 (2.6 percentage points), the unemployment rate continued to increase in 2010, rising 0.4 percentage points, to 8.8%. In Central and South-Eastern Europe (non-EU) and CIS and East Asia, unemployment rates declined in 2010. All other regions saw little change in the incidence of unemployment.

Hence, the report underlines, a picture emerges of a continued rise in joblessness in the developed regions versus a steady to slightly improving unemployment picture in the developing regions.

Unemployment by sex and age

The report also draws attention to trends in unemployment among women and men, finding that globally, the number of unemployed men stood at 118.4 million in 2010, an increase of 17 million since 2007. The number of unemployed women stood at 86.5 million in 2010, up 10.6 million since 2007. The unemployment rate among men changed little (an estimated 6.0% in 2010 versus 6.2% in 2009), while the rate for women remained unchanged at 6.5%.

This difference in trends between the sexes is mainly driven by developments in the East Asia and Central and South-Eastern Europe (non-EU) and CIS regions, says the report. In other regions, there is no discernible sex-based difference in unemployment rate trends in 2010.

Globally, men had been somewhat harder hit than women during the crisis in terms of rising incidence of unemployment (an increase from 5.4% to 6.2% between 2007 and 2009, versus an increase from 6.0% to 6.5% for women). This was mainly due to a large increase in male unemployment in the Developed Economies and European Union region, where widespread layoffs occurred in predominantly male industries, especially construction and the financial sector.

As regards the trends among youth and adults, the report finds that based on the latest available data, the number of unemployed youth (aged 15-24) is estimated to have declined from 79.6 million in 2009 to 77.7 million in 2010, but still well above the pre-crisis level of 73.5 million in 2007.

The unemployment rate among youth aged 15-24 stood at 12.6% in 2010, 2.6 times the adult rate of unemployment, the ILO said, warning however that among 56 countries with available data, there were 1.7 million fewer youth in the labour market (between 2007 and 2009) than expected based on pre-crisis trends, and that such discouraged workers are not counted among the unemployed because they are not actively seeking work.

'This represents a huge waste of human potential, which could have serious long-term repercussions for the affected young people themselves and for societies at large,' the report stresses.

The ILO report notes that the youth unemployment rate rose in the Developed Economies and European Union region in 2010, where it stood at 18.2%, versus 12.4% in 2007. The rate declined sharply in the Central and South-Eastern Europe (non-EU) and CIS region, from 20.8% in 2009 to 18.9% in 2010, but still remains well above pre-crisis levels.

In contrast to the trend in youth unemployment, the number of unemployed adults (aged 25 and above) continued to rise in 2010, by an estimated 1.7 million, giving a total increase of 23.5 million since 2007. This corresponds to a global unemployment rate of 4.8% among adults in 2010. This is unchanged versus 2009 and up 0.7 percentage points since 2007.

As to the global outlook for growth and unemployment in 2011, the report cites the IMF as projecting global economic growth of 4.2% in 2011, down from 4.8% in 2010.

'Downside risks continue to be the dominant concern. As the effects of fiscal stimulus begin to wane and increased private sector investment is unlikely to fully compensate for reduced government expenditures, decelerations in growth are expected to occur in all regions except the Middle East and Sub-Saharan Africa (where growth is expected to accelerate) and North Africa (where growth is expected to remain roughly constant),' said the ILO.

On the basis of these macroeconomic forecasts, the ILO report projects the global unemployment rate at 6.1% in 2011, corresponding to global unemployment of 203.3 million, versus a rate of 6.2% in 2010.

Examining the trends in labour productivity and real wages, the report points out that the problem of delayed labour market recovery can be seen not only in the lag between output growth and employment growth and reduced unemployment but also, in some countries, in the lag between productivity growth and resumption in real wage growth.

'This phenomenon can threaten future recovery prospects, given the strong linkages between employment and growth in real wages on the one hand, and consumption on the other.'

In this respect, the report suggests that strong tripartite dialogue between workers, employers and governments is essential at the national level to ensure a fair distribution of the gains of productivity improvements and also to appropriately account for the concerns of both workers and employers when designing and implementing policies to foster labour market recovery.

The report also studies trends in employment across the three broad economic sectors: agriculture, industry and services. It finds that at the global level, a long-term trend is observed in which employment in agriculture has been on a steady downward march in terms of the share of total employment, while employment in services has steadily risen. Employment in services surpassed employment in agriculture in 2001 and the gap between the two has grown ever since.

While employment in agriculture has been on a steady decline, there were still an estimated 1.068 billion workers in the agricultural sector in 2009, and the number of workers in agriculture actually grew over the past decade, though the share of workers in the sector declined as employment grew at a faster rate in the other sectors. Total employment in the services sector reached 1.317 billion in 2009, an increase of more than 300 million from 1999. Employment in industry stood above 660 million in 2009, growing by more than 130 million since 1999.

On the effect of the crisis on employment across the three sectors, the report underlines that at the global level, it is clear that employment in industry suffered the worst outcome, which is not surprising given the impact of the crisis on manufactured exports and the construction industry. Total global employment in industry declined slightly in 2009, a major divergence from the historical annual growth rate of 3.4% over the period from 2002 to 2007.

The hardest-hit region in terms of industrial employment was the Developed Economies and European Union, where employment in the sector declined by 9.5 million between 2007 and 2009, with a drop of nearly 7% of total employment in the sector in 2009 alone. The Central and South-Eastern Europe (non-EU) and CIS and Latin America and the Caribbean regions also saw a major drop in industrial employment in 2009.

Vulnerable employment and working poverty

The report also examines trends related to workers in 'vulnerable employment', defined as the sum of own-account workers and unpaid family workers, which it says provides valuable insights into trends in overall employment quality.

On the basis of available data, the report says that the current estimate of the number of workers in vulnerable employment in 2009 is 1.53 billion, an increase of more than 146 million since 1999. This corresponds to a global vulnerable employment rate of 50.1%. The incidence of vulnerable employment has remained broadly unchanged since 2008, in sharp contrast to the steady and significant average decline in the years preceding the crisis.

Increases were observed in the vulnerable employment rate in three regions in 2009: Latin America and the Caribbean, North Africa and Sub-Saharan Africa. The number of workers in vulnerable employment is estimated to have increased by 8.5 million in South Asia, by 7.4 million in Sub-Saharan Africa and by 1.5 million in Latin America and the Caribbean in 2009, with smaller increases in South-East Asia and the Pacific, North Africa and the Middle East.

The report also finds that there were 630 million workers (20.7% of all workers in the world) living with their families at the extreme $1.25-a-day level in 2009. This corresponds to an additional 40 million working poor, 1.6 percentage points higher than projected on the basis of pre-crisis trends.

The share of workers living with their families below the $2-a-day poverty line is estimated at around 39%, or a total of nearly 1.2 billion workers worldwide.

Regional indicators

With respect to regional economic and labour market developments, the report finds that in the Developed Economies and European Union region, for instance, the unemployment rate rose from 5.8% in 2007 to 8.4% in 2009 and 8.8% in 2010. Hence, while the economic recovery began to take shape in earnest in 2010, unemployment continued to climb.

Fifty-five percent of the total increase in global unemployment between 2007 and 2010 occurred in the Developed Economies and European Union region, while the region only accounts for 15% of the world's labour force.

The outlook for 2011 is for a modest deceleration in economic growth, to a rate of 2.0% versus 2.3% in 2010. On the basis of current macroeconomic projections, the region's unemployment rate is expected to see little change in 2011, projected at 8.6% versus a 2010 estimate of 8.8%. This would represent a decline in unemployment of only 300,000, leaving the level of unemployment in the region more than 15 million above the level in 2007.

Following a sharp contraction in GDP growth in 2009, economic growth in Latin America and the Caribbean expanded strongly in 2010. The unemployment rate in the region decreased by 0.9 percentage points from 8.5% in 2000 to 7.7% in 2010. However, the economic crisis resulted in an increase in the share of vulnerable employment in 2009, the first increase in the region since 2002. The outlook for 2011 is continued growth but at a lower rate of 4.0%. The unemployment rate is projected to decrease by 0.3 percentage points to 7.4%.

In contrast to many regions around the world, the labour market in East Asia has recovered relatively quickly. The unemployment rate in the region is estimated to have declined from 4.4% in 2009 to 4.1% in 2010. Nonetheless, this still represents a higher rate than in 2007. Youth unemployment remains a major challenge as the youth unemployment rate, at 8.3% in 2010, is 2.5 times higher than the rate for adults. In 2011, economic growth is projected to slow to 8.6%, reflecting reduced stimulus measures, while the unemployment rate is expected to show little change at 4.0%.

In Central and South-Eastern Europe (non-EU) and CIS region, unemployment declined to 9.6%, having peaked in 2009 at 10.4%, the highest regional rate in the world. Youth unemployment rose more than in any other developing region in 2009, and one in five economically active youth in the region was unemployed in 2010. The 2011 prospects are sober, says the report, with GDP growth expected to slow, following global trends, to 4.3%. The unemployment rate is projected to remain relatively constant at 9.7%.

The report says that the economies of South Asia have largely held up well during the crisis and the region resumed rapid economic growth in 2010. Yet, the region has the highest rate of vulnerable employment in the world, at 78.5% of total employment in 2009. The regional unemployment rate is projected to see little change in 2011, at 4.1%. A key risk in 2011 is inflation, particularly in the price of food and basic commodities, which underlines the importance of expanding social safety nets for the poorest.

Sub-Saharan Africa has rebounded from the global economic crisis, although the region has not yet fully returned to pre-crisis rates of growth. The region's economic growth in 2010 is estimated at 5.0%, supported by exports and commodity prices in oil-exporting and middle-income countries.

The report notes that in 2009, more than three-quarters of workers (75.8%) in the region were in vulnerable employment, a rate significantly exceeding all other regions except South Asia. Due to the global economic crisis, the vulnerable employment rate is estimated to have increased by 0.5 percentage points in 2009, which is the first increase since 2001.

According to the report, Sub-Saharan Africa is also characterised by very high working poverty rates; in 2009, around four out of five workers were among the ranks of the working poor (at $2 a day). The report projects economic growth for the region in 2011 at 5.5%, which is the same rate as just before the global economic crisis in 2008. Current projections of the unemployment rate show little change between 2010 (8.0%) and 2011 (7.9%). ◆

Kanaga Raja is Editor of the South-North Development Monitor (SUNS)*, which is published by the Third World Network. This article is reproduced from* SUNS *(No. 7074, 26 January 2011).*

'From the Gulf to the Ocean', the Middle East is changing

The Egyptian revolution has shown the world that democracy and freedom in the Arab world needs no military funding, no political doctrines, no Great Middle East Democracy Projects, and no foreign invasions or foreign-backed military coups, says *Ramzy Baroud*.

NOW that the Egyptian people have finally wrestled their freedom from the hands of a very stubborn regime, accolades to the revolution are pouring in from all directions. Even those who initially sided with Hosni Mubarak's regime, or favoured a neutral position, have now changed their tune.

'Arabs celebrate from the Gulf to the Ocean,' proclaimed a headline on Al Jazeera TV. The phrase 'from the Gulf to the Ocean' is not a haphazard geographical reference, but very much a geopolitical one. Ever since former Egyptian president Anwar Sadat defied the will of the Arab collective and chose a self-serving (and according to popular Arab opinion, disgraceful) exit for his country from what was until then the 'Arab-Israeli conflict', the above phrase functioned only as an empty slogan. Sadat's signing of the Camp David treaty in 1979 had effectively marginalised the most committed Arab country from a conflict that was previously defined by Egypt's involvement. It thus left Israel's weaker Arab foes as easy targets for uneven wars, and in a perpetual state of defeat and humiliation.

Egyptians celebrate in Cairo's Tahrir Square after the ouster of President Hosni Mubarak. 'Perhaps one of the greatest achievements of the Egyptian revolution is that it was indeed exclusively Egyptian.'

Mubarak's importance

Mubarak's importance to Israel and the US stemmed from the fact that he guarded Israeli gains for the pitiful price of $1.8 billion a year. Most of this went to fulfil military contracts, upgrade military hardware and subsidise US military expertise aimed at 'modernising' the Egyptian army. Israel, of course, was given almost double that amount and was promised, through a separate agreement with the US, a military edge against its foes, Egypt included.

But Mubarak gained much more than hard cash. His greatest gains were related to US foreign policy in the region. While the US violated the sovereignty of various Arab countries, Mubarak's regime was left largely unscathed. Free from any effective resistance at home, and any serious criticism from abroad, members of Egypt's ruling National Democratic Party used the lack of accountability to accumulate unprecedented wealth, at the expense of 40% of Egypt's 84 million people who lived below the poverty line. The ruling party had indeed become a club for millionaires. The barely existing middle class shrunk even further, the working class lived with the dream of finding employment elsewhere, and the underclass – millions of whom lived in 'random' neighbourhoods, and often large graveyards – subsisted in a most humiliating existence.

All this mattered little to Washington, whose policies have only verified Lord Palmerston's assertion that 'there are no permanent allies…only permanent interests'. Henry Kissinger eventually took Egypt out of the whole Middle East equation, and others followed in his lead, ensuring that Egypt could never act in a way that disturbed Israeli interests. Ironically, it was also Washington that jumped on the opportunity to chase Mubarak – but not his regime – out of power. Soon after Mubarak's newly appointed vice president read the short statement of Mubarak's departure, Obama elatedly read his own statement. When he announced that the Egyptian people would settle for nothing less than 'genuine democracy', he sounded like one of the guys in Tahrir Square in Cairo, not the leader of the very country that had defended Mubarak's reign and defined the former president as a 'moderate' and a good friend. 'No permanent allies', indeed.

Two youths at work in a dilapidated handicraft workshop in Cairo. Egypt's ruling elite used the lack of accountability to accumulate unprecedented wealth at the expense of the 40% of Egyptians who lived below the poverty line.

It was also this very Obama – now using poetic language to describe Egypt's popular revolution – who chose Egypt in June 2009 to deliver his reconciliatory speech to Arabs and Muslims everywhere. Cairo was chosen because Mubarak had been a most faithful friend to the US and Israel. He had rallied the Arabs against Iraq in 1990. He had taken a stance against the Lebanese resistance in 2006. And he had championed Israel's 'security' by sealing off the Gaza border, resulting in the loss of thousands of Palestinian lives. To justify keeping the border shut, Mubarak had cited the Rafah Agreement of 2005, claiming that opening the border could harm Palestinian sovereignty somehow. As it turned out, Egypt under Mubarak was fully involved in suffocating Palestinian democracy, destroying any resistance to Israel and ensuring the success of the Israeli siege.

Hosni Mubarak speaking with US President Barack Obama. Mubarak had been 'a most faithful friend to the US and Israel.'

According to WikiLeaks, Omar Suleiman, until recently Egypt's intelligence chief, had, in 2005, made a promise to Amos Gilad, head of the Israeli Defence Ministry's Diplomatic Security Bureau: 'There will be no elections (in Palestine) in January. We will take care of it.' When this promise could not be kept, and Hamas was elected to power, Suleiman invited the Israeli army to enter into Egyptian territories to secure the siege on Gaza. The CIA was also allowed to torture 'terrorist suspects' under the supervision of Mubarak's goons, Suleiman in particular. A US official praised Suleiman's cooperation and the fact that he was not 'squeamish' about torture. It is important here to note that during nearly three weeks of Egyptian protests, the US pushed for a smooth and peaceful transition of power – from Mubarak to Suleiman.

The people's revolution

The determination of the Egyptian people, however, forced all such plans to be aborted. The schemers will continue to scheme, of course, but their options are quickly declining. When Egyptians said they wanted to change the 'regime', they really meant it.

Perhaps one of the greatest achievements of the Egyptian revolution is that it was indeed exclusively Egyptian. No American branding companies were hired to manage the moment, no former Bill Clinton advisers were needed to provide consultations to some self-serving opposition. No one from Cairo called on Washington, London, or even Tehran to come to their rescue. If any such calls were made, they were made to the 'Arab people' and to the 'free world' to stand in solidarity with ordinary Egyptians as they orchestrated their return as the rightful owners of their own country and shapers of their own destiny.

The Egyptian revolution has shown the world that democracy and freedom in the Arab world needs no military funding, no political doctrines, no Great Middle East Democracy Projects, and no foreign invasions or foreign-backed military coups. It only needs ordinary people to unearth their own, innate and extraordinary strength. The Egyptian revolution has finally restored the power back to the people, a collective experience that many of us will always remember with pride, and some will always fear, for good reason. ◆

Ramzy Baroud (www.ramzybaroud.net) is an internationally syndicated columnist and the editor of PalestineChronicle.com, from which this article is reproduced. His latest book is My Father Was a Freedom Fighter: Gaza's Untold Story *(Pluto Press, London), available on Amazon.com.*

Tunisia's wall has fallen

The signal for the Arab revolt came from Tunisia when its people rose up to overthrow their hated dictator. *Nadia Marzouki* explains the 'Jasmine Revolution'.

FOR the first time in decades, Tunisia is free of one-man rule. The extraordinary events of December 2010 and January 2011 have been nothing less than a political revolution: The consistent pressure of popular fury forced President Zine El Abidine Ben Ali first to make an unprecedented promise to relinquish power; then pushed him to step down; and finally halted an attempt at unconstitutional transfer of power, setting the stage for elections to be held at an undetermined date in the near to mid-term future.

President Zine El Abidine Ben Ali and his wife Leila in 2009. The protests that erupted in Tunisia in mid-December turned into a revolt that ended his 23-year tenure.

The uncertain aftermath has begun: Three days after Ben Ali's 14 January departure to exile in Saudi Arabia, the caretaker head of government Mohammed al-Ghannouchi announced a 'national unity' cabinet composed heavily of members of the long-time ruling party, the Rassemblement Constitutionel Democratique (RCD), who will retain (at least for now) the ministries of interior, defence, foreign affairs and finance. Opposition parties classified as 'legal' under Ben Ali also acquired posts. The announcement came after a night of gunfights reported around the presidential palace, opposition party headquarters and major banks, as well as drive-by shootings elsewhere in the capital of Tunis. The *Guardian*, citing human rights activists, attributed the attacks to militias made up of security men loyal to Ben Ali, while Ghannouchi said on state television that 'the coming days will show who is behind them'.

Much more consequential were the protesters outside the presidential palace on 17 January voicing their anger at reports that RCD members would be part of the interim cabinet. The protests were dispersed with water cannons, but popped back up when the cabinet was named. Several opposition members of the interim cabinet, three of them affiliated with the countrywide labour federation, the Union Générale des Travailleurs Tunisiens (UGTT), promptly resigned their posts amidst renewed 'RCD out!' demonstrations. Ghannouchi and others have now tried to quell the unrest by announcing their own resignations from the RCD, though not from the interim government. The outcome is very much in doubt. In any case, however, the original and remarkable achievement of Tunisian demonstrators stands: Ben Ali will not be back.

'Bread, water and no Ben Ali'

The fast-paced and utterly unexpected fall of Tunisia's dictator originated in what at first looked like a *jacquerie* of hungry, disenfranchised youths. Quickly, however, and spontaneously, the protests became overtly political as well as economic. They were certainly not the result of top-down manipulation by a specific party pursuing a ready-made political agenda, as the regime tried to pretend.

On 17 December, Mohammed Bouazizi, a 26-year-old street vendor from the town of Sidi Bouzid, set himself on fire after police confiscated his merchandise, telling him he did not have a permit to sell his goods. The desperate gesture of this under-employed university graduate immediately sparked protests throughout the country. Anger at the status quo ignited within Tunisians of all generations, social classes, professional categories and ideological sensibilities, despite the forceful police crackdowns, which likely killed some 200 people. (The UN said on 19 January it could confirm some 100 deaths, including 42 in a prison fire that claimed the lives of many protesters, but this number is almost certainly too low.) The uprising began as a movement against unemployment and high prices, particularly for food, but it rapidly transformed into a revolution demanding civil liberties and the ouster of the man who had long suppressed them. 'Bread, water and no Ben Ali,' the crowds chanted.

Accustomed to setting his own schedule, Ben Ali was compelled by the protests to address the people three times in one month. On 28 December, he first attempted to pass off the unrest, in the usual manner of autocrats, as the work of 'extremists'. On 11 January, chastened, he pledged to create 300,000 jobs, hoping to calm the streets with state largesse. Two days later, he finally acknowledged the political nature of the protests, telling the country he would not run for reelection in 2014, freeing all protesters who had been arrested and lifting restrictions on the media. The unanimous verdict of the Tunisian people was: too little, too late.

In the early afternoon of 14 January, Prime Minister Ghannouchi announced that the president was temporarily unable to perform his functions and that he would take over until new elections could be organised. Opposition figures, however, immediately pointed to the breach of Article 57 of the constitution, according to which the speaker of Parliament, and not the prime minister, assumes the presidential role in cases of vacancy at the top. On the morning of 15 January, the Constitutional Court, Tunisia's highest authority on such matters, declared that 'the post of president is definitively vacant,' leading Ghannouchi to give way to Fouad Mebazaa, the parliamentary speaker, who promised to hold elections within the constitutionally prescribed period of 45 to 60 days. The opposition forces vociferously object, and want to delay the elections to six or seven months from January to allow more time for logistical arrangements and campaigning.

The Tunisian events, though surprising to most everyone, are not a random outburst of frustration. Rather, they represent the logical consequence of an unsustainable formula for fake political and economic stability, the very formula that many Western policymakers have lauded as the 'Tunisian miracle'. While dramatic, the self-immolation of Bouazizi (who later died of his burn wounds) was only the trigger rather than the cause of the protests, whose roots are much deeper and older.

Ben Ali's international backers often portrayed his rule as beneficent. In April 2008, on an official visit to Tunis, French President Nicolas Sarkozy declared that 'some people are way too harsh with Tunisia, which is developing openness and tolerance in many respects'. 'The space for liberties is progressing,' he continued.[1] Sarkozy was echoing the sentiments of his predecessor Jacques Chirac, who had argued when visiting Tunisia in December 2003 that 'the first of human rights is the right to eat…. From this point of view, one has to acknowledge that Tunisia is in advance of other countries.'

The Tunisian events represent the logical consequence of an unsustainable formula for fake political and economic stability.

Since the late 1990s, meanwhile, the World Bank, International Monetary Fund (IMF), European countries and the United States have singled out Tunisia for systematic praise as a model of economic reform in North Africa. In 2008, for example, the World Bank called Tunisia a 'top regional reformer' in the domain of easing access to credit and the Bank's present country profile marvels that the Mediterranean nation has doubled its exports of goods and services over the last decade. Dominique Strauss-Kahn, head of the IMF, stated in November 2008 that the 'Tunisian economy is going well' and that Tunisia is a 'good example for emerging countries'.[2] On both the political and economic counts, however, the reality has been much darker.

Following his 1987 coup, which removed the long-time 'president-for-life' Habib Bourguiba, Ben Ali methodically stamped out the few political and civil liberties that Tunisians had managed to attain. He was a master of staging demonstration elections that returned him to power with more than 90% of the vote. After two such sham electoral victories in 1994 and 1999, he amended the constitution in 2004, eliminating the three-term limit on the presidential mandate, so that he could run again in 2009. The RCD won every legislative election in this period in a landslide.

Through the party apparatus, the regime carefully tracked the activities of labour unions, student associations, women's rights groups and media outlets, as well as dictated the content of cultural events. The programme of state surveillance manifested itself at three levels: First, political activists were subject to severe repression and intimidation at the hands of the police. Tunisia was among the most heavily policed states in the world, with about 100,000 policemen in uniform in a country of 10.4 million. Torture of political prisoners has been repeatedly documented and denounced by domestic and foreign human rights organisations. Second, the president's party established a very complex and pervasive regime of monitoring of ordinary citizens, described by the French political economist Béatrice Hibou as a 'control grid' (*dispositif de quadrillage*). A Tunisian citizen had to take care not to incur the local RCD watchdog's wrath in order to conduct her ordinary life undisturbed. Officials might otherwise interfere with her enrolment at a university, her exams, her wedding or her desire to open a restaurant or shop, buy property, give birth in a hospital, obtain a passport or even buy a cellular phone. Third, and due to the intrusive state measures, paranoia spread among the populace. After 23 years of internalising fear, Tunisians became their own censors.

Repression, however, is not the only factor accounting for the resilience of the regime. Rather, the longevity of the authoritarian system has come about through a combination of coercion and consent, what Hibou, in her book *La Force de l'obéissance* (2006), called a 'security pact'. By the terms of this tacit deal, in exchange for relatively easy access to credit and consumer goods, the Tunisian people were expected to acquiesce to the lack of civil and political liberties.

Credit and consumption, indeed, were a large part of the 'Tunisian miracle'. The regime had compromised the old productive base of the economy by adopting the usual IMF and World Bank recommendations to sell off and downsize public-sector industries and agricultural cooperatives. In its place grew a more contingent economy of textile enterprises and call centres operated by foreign investors, who offered short-term and low-paying jobs, and tourist resorts on the country's sun-splashed beaches. Tourism and call centres, where Tunisians record the orders of Western consumers, are two of the main exports in the World Bank's accounting. The promise of credit, which as elsewhere was to have aided Tunisians in starting small businesses, has proven ephemeral, in part due to rampant corruption: Persons with connections in high places took the most lucrative opportunities for themselves.

Under Bourguiba there was a strong and dynamic middle class, highly educated and entrepreneurial. The corruption and bad governance of Ben Ali's reign have contributed to the increasing pauperisation of this middle class and the dramatic rise of unemployment, especially among university graduates. Forty-six percent of youth who have university degrees, as Bouazizi did, have no jobs commensurate with their education. The avarice of the president and his wife's relatives gradually alienated Tunisian and foreign investors, who were tired of paying a tithe to the reigning family, and preferred relocating to the more transparent Gulf countries. The so-called economic success story of Tunisia became a nightmare for the Tunisian people.

When the protests erupted in mid-December, press coverage referred to them primarily as social movements, a 'revolt against misery and corruption'[3] or, as the satellite channel Europe 1 put it, a 'revolt of the youth'. The protesters' motives were assumed to be limited to economic frustration and despair of social advancement. Initially, commentators insisted as well that the demonstrations were disorganised, almost random, lacking in structure and direction. Most important, the movement was alleged to be unsustainable: In the absence of leadership from formal opposition forces, many analysts argued that it could not succeed.

As late as 11 January, French journalist Christophe Ayad described an 'alternative' to Ben Ali's regime as 'difficult' to envision, explaining that 'all the opposition formations, no matter how respectable, are anaemic (*exsangues*).'[4] Earlier, on 6 January, the reporter Marie Kostrz defined the Tunisian opposition as completely 'disconnected from reality' and assured her audience that the 'political void created by Ben Ali leaves no illusions for Tunisians: No one argues that the regime will collapse in a week or in a month.' Her article quoted an analysis by the political scientist Vincent Geisser, who claimed that 'change won't be radical, and will come from inside' the regime.[5] Despite all these negative predictions, the popular movement not only continued, but also turned into a revolt that ended the 23-year tenure of a brutal dictator.

Stereotypes challenged

The events of December and January were propelled by an organic convergence of various currents of discontent. Successively joining the unemployed graduates who started the movement were students, lawyers, bloggers, artists, hackers, housewives, children, doctors, professors and shopkeepers – each group harbouring specific grievances and using its own symbolic vocabulary, but all united in overall purpose. These divergent clusters of protest coalesced into a movement of civil resistance with stunning speed, adapting along the way to the regime's tactics of repression.

The transformation of Tunisia's 'First Family', as the US ambassador in Tunis called them in cables revealed by WikiLeaks, into an extraordinarily predatory power is the key to understanding why the 'security pact' identified by Hibou dissolved so rapidly and with such seeming ease after 23 years. The middle class and the professional bourgeoisie (among them, the lawyers, professors and doctors who joined the protests) stopped accepting the pact as it became clear that one side was no longer honouring it. It may be argued that, in contrast to such countries as Syria, where the Asads and their relatives are also steeped in corruption, the reigning clans of Tunisia got so greedy that they lost their ability to redistribute even a small portion of the booty among the upper reaches of society. They neglected to keep the complicity of the bourgeoisie in place. Beyond the cross-class dimension, three aspects of the popular uprising were particularly critical.

The first, which has attracted somewhat breathless coverage in the West, was information sharing. The state-run media was, of course, a fount of disinformation, and the regime exerted great effort to muzzle other media and prevent citizens from learning the details of what was happening. On several occasions in the past, the state has blocked the websites of foreign media outlets and shut down the Internet reporting efforts of Tunisians themselves. Police intimidation of journalists and warnings to foreigners to stay indoors were largely effective on this occasion, as well, in keeping the foreign media mute. The major exception was the Qatar-based satellite channel Al Jazeera, which consistently braved the police in the streets and won over many Tunisians with its strong emphasis on the protest movement story from its very inception.

The Tunisian events were not simply another illustration of the mighty 'Al Jazeera effect', though, since much of what this and other channels broadcast was made possible by a unique collaboration with Tunisians. There has been no official Al Jazeera bureau in Tunisia since 2006, when, incensed by the channel's coverage, Ben Ali recalled the Tunisian ambassador from Doha. Especially at the outset, the channel had to rely on amateur videos, photos and interviews sent in by Tunisian protesters themselves.[6]

In December and January, more to the point, Tunisian youth managed to share critical information with each other, including live audio and video, about the exact unfolding of events. Using such Web 2.0 platforms as nawaat.org and other social media, the movement broadcast its own news of kidnappings of protesters and its own summaries of the analyses of international observers, as well as the time and location of upcoming demonstrations. The protesters also used these devices to compare notes on the respective roles of competing security institutions, such as the army and various police units, giving them insight into the progressive weakening of the apparatus of repression. The Tunisian events have accordingly been dubbed the first 'Twitter revolution'.

In his last speech, delivered on 13 January, Ben Ali offered to stop censoring YouTube and other Internet outlets, provoking a swift and dismissive response. The majority answer on Twitter and other social media platforms could be summarised as follows: 'We don't want free YouTube or virtual democracy. We want a true regime change, conditioned upon the departure and eventual trial of Ben Ali, and the organisation of free elections.' Perhaps misled by years of complaints about Internet restrictions, Ben Ali appeared to believe that the protesters' demands were about means of communication, rather than politics and justice.

The intense public debates did not take place solely on the Internet, however. They also occurred in the streets, which were transformed into a sort of large coffeehouse where excitement at the recovered freedom of speech coexisted with fear under the threat of state violence. Indeed, hundreds of people were killed and injured. Yet in addition to, and taking precedence over, the brutality, a remarkable sense of happiness, loquacity and humour filled the streets of cities like Tunis, Gafsa, Sousse and Sidi Bouzid. Each demonstrator tried to outdo her neighbour's story of regime depredations, not only describing her personal confrontation with deprivation and everyday corruption, but also proposing a line of political analysis and formulating predictions about the future.

Institutions that had been de facto instruments of the regime adapted to this awakening of civil society in very short order. For example, the UGTT, which supported Ben Ali from the late 1980s forward, changed its attitude entirely. Beginning with postal workers and primary-school teachers, numerous local and regional chapters of the UGTT organised grassroots-level debates about the course of events. The sense of collective delight that emerged from this recovered right to speak was a challenge to the widespread notion that the 'Arab street' is a space of little but anomie and diffuse anger.

The Tunisian revolution has set a dramatic precedent for how democratisation from below might begin.

A surprisingly under-covered aspect of the Tunisian demonstrations is the impressive visibility of women, also in contrast to stereotypes about the 'Arab street' that propagate the image of a male-dominated public space. These stereotypes are closely tied to others about religion. Along with his fellow dictators, Ben Ali had long gulled his backers in the West with the idea that if the 'Arab street' was ever opened, it would be filled with enraged Islamist men calling for the imposition of *shari'a* law and the intensification of gender inequality, if not also jihad. Yet at all the major demonstrations leading to Ben Ali's flight from the country, men and women marched side by side, holding hands and chanting together in the name of civil rights, not Islam. The national anthem, not '*Allahu akbar*', was the dominant rallying cry, and the women were both veiled and unveiled. The tone of the protests was rather one of reappropriating patriotic language and symbols: Women and men lay in the streets to spell 'freedom' or 'stop the murders' with their bodies and worked together to tear down and burn the gigantic, Stalin-style portraits of Ben Ali on storefronts and street corners.

The question now is how this confluence of social actors will respond as the transition away from Ben Ali jerks forward. Certainly, the announcement by Ghannouchi that the RCD would retain the key ministries in the interim cabinet was widely perceived as a mockery of the uprising and an insult to the dead and wounded. Thousands of people have streamed back into the streets, despite the curfew maintained by the army and police, chanting for the dissolution of the RCD and the resignation of the prime minister and all members of the caretaker government who were part of Ben Ali's regime.

The public debate now appears to structure itself around two major trends. Some argue that it is crucial to give the interim government a chance to organise itself and achieve some measure of stability, while the bulk of the people denounce the illegitimacy of the interim arrangements and demand 'a new parliament, a new constitution and a new republic' right away. Such was the slogan of the thousands of protesters marching in the streets of Tunis on 19 January. Although the situation remains very uncertain, at publication time it seemed that the balance of power in the streets favoured the detractors of the interim government.

The persistence of protest following the departure of Ben Ali secures a momentous legacy for the events in Tunisia: In terms of political symbolism, this revolution is the equivalent for the Arab world of the fall of the Berlin Wall in 1989. It has shown, if nothing else, that the region's many dictators do not have to rule until they die, whether of natural or unnatural causes. No matter what happens over the coming weeks and months, and even if it is interrupted or 'stolen', the Tunisian revolution has set a dramatic precedent for how democratisation from below might begin. ◆

Nadia Marzouki is a Jean Monnet Fellow at the European University Institute in Florence, Italy. This article is reproduced from the MERIP (the Middle East Research and Information Project) website (www.merip.org).

Endnotes

[1] Quoted in Marc Semo, 'La volte-face tardive de la France,' *Liberation*, 17 January 2011.
[2] *Oumma*, 13 January 2011.
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[4] Christophe Ayad, 'Autour de Ben Ali, la politique du vide,' *Liberation*, 11 January 2011.
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[6] *Le Monde*, 19 January 2011.

Labour anger does not end with Mubarak

In international media reports on the revolt in Egypt, the role played by working people in bringing about this historic change has been totally ignored. *Emad Mekay* fills in on this missing dimension.

BEFORE his ouster on 11 February, toppled Egyptian President Hosni Mubarak had made one of the biggest mistakes of his reign: not learning the lessons from hundreds of small labour and professional strikes that littered the country since 2005. These were the actual precursors to the 25 January Revolution that ended his 30-year autocratic rule.

'We were lucky that the regime failed, in its arrogance and aloofness, to draw lessons from the many strikes and protests over the past five years,' said Mohammed Fathy, 46, a labour activist in El-Mahalla, whose bid for office in the government-sponsored General Labour Union was stifled because of his anti-regime views.

'We were even luckier that they didn't understand that there were genuine economic, professional and labour grievances, especially here in El-Mahalla on 6 April 2008.'

It was on 6 April 2008 that Egypt saw the first example, in decades, of labour action spilling over into a popular uprising – a mini-revolution on the streets of this industrial city that attracted men, women and children.

It was here that labour activists organised two days of massive protests that saw local residents leaving their homes, and pulling down Mubarak's pictures and posters for the first time since he came to office in 1981.

That signalled the birth of the anti-Mubarak Internet activists' group, the April 6 Movement which took its name from that historic day.

Less than three years later, the group helped organise the events of 25 January 2011. This time, they succeeded in pulling down not only Mubarak's pictures but Mubarak himself.

A public transport workers' strike in Cairo on 14 February, three days after Hosni Mubarak's departure. Labour protests have continued in post-Mubarak Egypt.

Had Mubarak taken note of the labour protests, he may have learned some ways to pre-empt or foil the 25 January Revolution, labour leaders say.

Until today Egypt's workers feel left out of a rightful place.

'The reaction of the Mubarak supporters was that we are just a bunch of kids who can be easily crushed by the police. Their only response was more and more security – nothing political and nothing economic. They didn't realise how upset the country's labour force is,' Fathy said.

The country's labour force is upset indeed – even today, days after Mubarak's ouster. Years of police harassment, anti-worker policies and poor economic conditions have left a deep scar on the country's workers who until today feel left out of a rightful place.

Little wonder then that labour protests continue unabated, prompting the Supreme Council for the Armed Forces, which is running the country, to issue its fifth communique specifically calling on labour leaders to tone down their protests.

The interim government of Ahmed Shafiq had complained to the Supreme Council that continuing strikes are not helping bring life back to normal in this nation of 85 million.

Almost every sector of the economy, from chemicals production to schools and telecommunications, is being affected.

Demonstrators outside the El-Mahalla police station demand the release of people arrested during protests in April 2008. Those protests marked the first instance in decades in Egypt of labour action spilling over into a popular uprising.

The Central Bank of Egypt had to give the banking sector an unplanned holiday on 14 February, to go with a religious holiday the next day, in a bid to foil growing strikes among bank workers demanding investigation into high payments for top executives.

Even the police are blaming poor pay for corruption within the force, and are protesting for better job benefits.

This wave of post-Mubarak strikes is highlighting a split among labour leaders, between those who want immediate benefits for workers in the heat of the moment and those who want to give the new caretaker government some time to catch its breath, and time to meet labour demands.

'We should give the new rule some time, but fight for rights still,' said Mohamed Mourad, a railway worker and labour activist in El-Mahalla.

Mourad said Mubarak's fall is meanwhile good news for the country's disgruntled workforce, as it means an end to some of the anti-worker policies.

'With Mubarak gone, his policies that impoverished workers and pulverised independent labour unions will be gone too,' said Mourad, as he sipped black tea in his railway office surrounded by several co-workers nodding in support.


Workers at an Egyptian textile factory. Years of police harassment, anti-worker policies and poor economic conditions have left a deep scar on Egypt's workers.

Mourad specifically mentioned policies of privatising state-run companies, tampering with labour union elections, and police interference as impediments that will sink with Mubarak.

While this may be true, it still doesn't offer immediate relief for impatient workers, suppressed and suffering for years.

Here in El-Mahalla, the average base salary for textile workers at Egypt for Weaving and Spinning, the largest textile factory in the Middle East with 25,000 workers, is only 600 Egyptian pounds ($102). Most workers end up working one or more extra jobs.

For that to be corrected, they suggest that the new government work to confiscate billions of dollars in wealth of corrupt members of the former regime and invest that for the benefit of workers.

Mubarak spent heavily on security and that could be trimmed too to re-channel funds for the impoverished workers, according to Hamdi Hussein, a leading labour activist.

Labour leaders say that most strikes and labour protests have three goals: ending corruption at the top management at some companies, increasing the minimum base wage to at least 1,500 Egyptian pounds ($255), and holding free elections for labour unions.

'If those three demands are not met soon,' said Hussein, who works for the Coordinating Committee for Labour Freedoms and Rights, 'workers will continue to act until the revolution means real change for them.' – *IPS* ◆

Egypt: Democrats and tyrants

The response to the revolt in Egypt has made it clear that, for the West, democracy and freedom are not the absolutes they have been cracked up to be. They are partial, conditional and highly circumscribed.

Jeremy Seabrook

Protesters ripping a poster of Hosni Mubarak. Western leaders' reactions to the Egyptian protests were characterised by a marked hypocrisy.

THE ever-fainter clarion-calls of democracy and freedom issuing from Western capitals dismayed those who remained on the streets of Cairo until Hosni Mubarak actually departed for his palace in Sharm el Sheik, a residence sometimes occupied by his friend Tony Blair. The euphoria and elation of this event, accomplished without violence on the part of the people, are their own reward, as the rejoicing all over the country testified.

The West, however, recently supportive of regime change in Iraq, showed far greater reluctance to dethrone the tyrant of Cairo. It declared Egypt to be a 'sovereign nation' it was powerless to control, despite having supported and underpinned its violence for three decades.

Western leaders, when compelled to address tyrants, 'call upon' them to eschew violence. They 'urge' dictators to avoid bloodshed. They demand 'assurances' or 'pledges' of juntas and strongmen, and occasionally offer 'stern warnings'. When these mild admonitions are perceived as a betrayal of all the fine words with which they ornament conferences, meetings and press conferences across the globe, they then entreat the butchers and bloodsuckers upon whom they have relied, sometimes for decades, to assure 'stability', to ensure an 'orderly transition'. They entrust to the bringers of disorder the restoration of an order that has never existed.

Hypocrisy

So it has been with the evolution of the 'thinking' of world leaders (if that word does not ennoble their self-seeking calculations) in the presence of the forbearance, altruism and determination of the people of Egypt, young and old, women and men, secular, Muslim and Christian. When Mubarak appeared on TV and declared *après moi le deluge*, the paltry sagacity of those same 'leaders' wondered whether in fact, the downfall of their cherished tyrant might not unleash forces of 'extremism' which he threatened, should he – or at least the system he has so carefully put in place, financed by those same Western leaders – be evicted from power.

In November 2010, Hillary Clinton, with the icy grace and spontaneity of a mortuary flower, had hailed the 'partnership' between the US and Egypt as a 'cornerstone of stability and security in the Middle East and beyond'. On 25 January, her verdict was still that the government of Mubarak was 'stable and responding to the legitimate needs and interests of the Egyptian people'. By the following day, she had changed, if not her tune, at least her refrain. 'We support the universal rights of the Egyptian people, including the rights to freedom of expression, association and assembly.' No vacillation, no sudden reversal, no about-turn is too crude in the maintenance in power of a safe pair of hands, even if these are the hands of a strangler. Hence Western retreat into an empyrean of abstraction: the 'legitimate grievances' and 'aspirations of the Egyptian people', when these have been tortured, jailed and killed by the champions of stability.

The hypocrisy of the tepid enthusiasm of the 'international community' for the people of Egypt became even more marked after the removal of Mubarak. They were swift to announce they shared the people's 'joy', they celebrated the achievements of the people; and with the peculiar vengefulness reserved for fallen idols, they began a belated vilification of their puppet, his ill-gotten billions, his police state and apparatus of repression – the very elements that had been viewed as indispensable to stability.

It is clear that democracy and freedom are not quite the absolutes they have been cracked up to be. They are partial, conditional and highly circumscribed. On 14 February, Clinton hailed the 'courage' of the protesters in Iran with all the gusto she had suppressed in her initial reaction to their sisters and brothers in Egypt; only retrospectively did their struggle become a shining example; and then only insofar as it could be used to beat a regime to which the US is hostile. Protests in Bahrain, base of the US Fifth Fleet, were also met with a deathly silence Washington maintains to protect its own anointed and appointed.

Indeed, the US loves democracy so much, it has a preferred (and if not elected, sometimes forcibly installed) candidate in every country in the world. Democratic elections that bring about the 'wrong' result – Hamas in 2006, for example – are simply condemned as illegitimate, or not 'full democracy', a term which indicates the maturity of states that have voluntarily eschewed all choice of significant change.

A girl posing with a soldier on a tank after the departure of Mubarak. The army's response to the events in Egypt has so far been ambiguous and indecipherable.

Synchronised

The responses to events in Egypt were chorally synchronised, so that it was impossible to say out of which vacuous talking head they issued; the pale indictment of their reliable proxy torturer never amounted to an unequivocal insistence on his immediate departure. It seemed that the Egyptian people were to pay the price for Western loyalty to its own tyrant. Nothing could be more revealing of their sense of the obligations of kinship; and if they have so little regard for the self-determination of the people of Egypt, should this be viewed as simply a remnant of imperial racism, or does it suggest they entertain, in private, a similar opinion of their own people?

In the equivocations of these world leaders-without-followers, you could actually feel them making enemies of those Egyptians who, naively, idealistically, had taken at face value their commitment to freedom. It might have been thought that the US had alienated enough people in the world. Apparently not. There seems to be no limit to its capacity for inciting revulsion, not only against its mendacity, but against the values it claims to stand for but fails to defend.

Of course, this does not tell the whole story; indeed, whole stories are, by their nature, elusive. But a crucial element in the desire to perpetuate 'stability' is the protection of Israeli impunity. Israel proclaims it is 'the only democracy' in the region; a distinction it will clearly do anything to retain, since its government was one of the few to have insisted that Mubarak should not relinquish his 30-year tenure of power.

At the time of writing, nothing is concluded. The military remains, vigilant, powerful. The army has not only been the principal support of governance in Egypt, it also has great economic power, with interests in water, cement, construction, hotels, gasoline. It even makes TV sets and controls bakery and milk concerns. It hovered over the protesters, now buzzing them with military aircraft, now fraternising with the people, now permitting the onslaught of 'Mubarak supporters' – an ugly mob whose violence against the peaceful demonstrators told its own story.

Then, more than two weeks after the beginning of the protest, stories emerged of beatings, torture, disappearances by the army, backed, no doubt, by the State Security intelligence, led by that shining symbol of renewal, Omar Suleiman. His appointment as Vice-President, when his involvement in the programme of CIA 'renditions' to the benign interrogation facilities of Egypt was no secret, was, like all the other 'concessions', an insult to the people. The 'eventual' departure of Mubarak, the disavowal of his detested son as successor, the dismissal of the old cabinet – all this was trumpeted by the Western media as evidence of radical 'change'; supported by tales of heartbreak from the tourist industry. Western tourists are 'rescued' as though they were war veterans, and while the Egyptian economy was 'suffering' to the tune of $3 billion, no sum was placed on the suffering of the Egyptian people.

Reproach

The endurance, passion and idealism of people who have maintained the vigil in Tahrir Square are a reproach to those who were expected to demonstrate their commitment to values they never cease to urge upon others. It is not the fault of the young that there is a void at the heart of their just cause: that is the vacant space where socialism ought to be, cancelled, as it has been, by the monopolists of the only version of secularism left in the world, one which involves the maintenance of monstrous social injustice and growing inequality.

But it was one thing when the West could support dictators in distant countries about which their people had little knowledge and less information; but for a Facebook generation, everyone is our neighbour, and Western connivance at repression in Egypt, or indeed anywhere else, reveals where the true heart lies of these deceivers and deniers of democracy, whose calls for 'restraint' may yet ensure the survival of the system minus Mubarak.

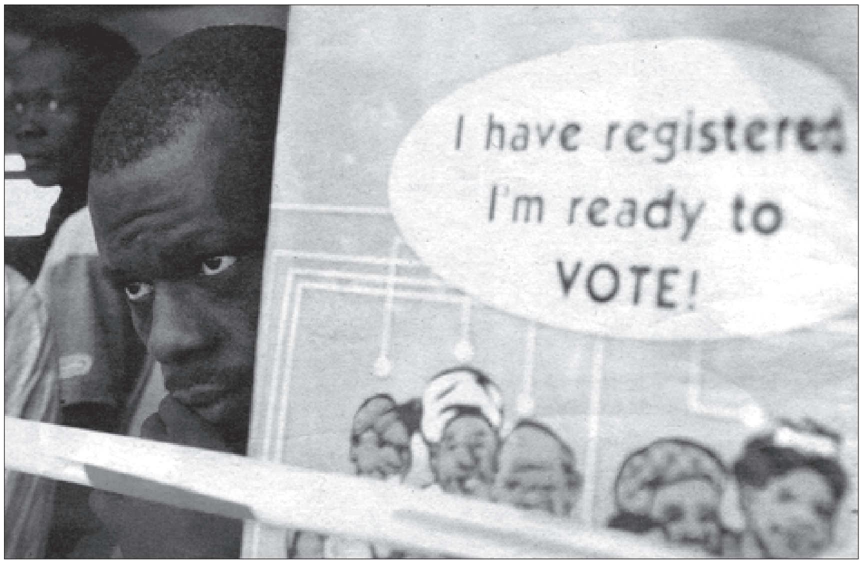
If Mubarak is the fallen Pharaoh, the army remains the Sphinx, since, upholder of the regime for 30 years, its response has, so far, been ambiguous and indecipherable. It is committed to realising the popular desire for democracy, but will honour existing treaties; and everyone knows what that means. Armies rarely find good reasons voluntarily to set aside power they have held for generations; and behind the public jubilation and the effusiveness of Western leaders, the undismantled skeleton of the police state looms, a continuing spectre at the feast of liberation. ◆

Jeremy Seabrook is a freelance journalist based in the UK.

The break-up of Sudan

The people of Southern Sudan voted overwhelmingly in a historic referendum in January to secede from Africa's largest state and constitute a separate nation-state of their own. In the following comment written before the recent Arab revolt was fully under way, *Mohamed El Mokhtar* says the problem of Sudan is a reflection of the political bankruptcy of the ruling Arab elites.

ON the one hand one cannot but express a sigh of relief and share the joy and happiness of the peoples of south Sudan who are, now, freely exercising their legitimate right to self-determination and defining, at last, the configuration of their own independent, and let's all hope viable, state after decades of prolonged wars, senseless bloodletting, large-scale displacements and all kinds of undeserved suffering.



A man waiting in line to cast his vote in the south Sudan referendum. The peoples of south Sudan have freely exercised their legitimate right to self-determination.

On the other hand, it's quite sad and heartbreaking indeed to see, or contemplate powerlessly, an unusual Arab country as original and potentially promising as Sudan falling apart in this manner and for such preposterous reasons as religious intolerance, racism and exclusion.

Sudan, this rare masterpiece of ethnic diversity endowed with unparalleled assets (geo-strategic centrality, important arable landmass, plenty of water, huge reserves of oil, lots of minerals…); this exceptional and colourful land, this rare kaleidoscope of ancient cultures, of civilisations and traditions, this awesome mosaic of peoples and languages, living under an ecological rainbow of beauty; this sub-continental country, a true jewel of nature, provided with such a talented intelligentsia, could not, after half a century of political independence, nurture a sense of common national identity, or cultivate a modern concept of citizenship. Worse, it could not keep intact its territorial integrity for simply not having been capable of valuing, on time, that uncommon treasure: its rich diversity.

Thus, despite its natural potential, Sudan is, alas, finally breaking up. After decades of autocratic rule and mismanagement, after a long night of nefarious plots and foreign interference, after a long succession of man-made disasters, this amazing country is, at last, splitting into two separate entities, and maybe even more, divided along ethnic and religious lines.

Structural impotence

Beyond the fact that this hodgepodge of manufactured frontiers was, in large part, a legacy of British colonialism, there is no doubt that the current painful outcome is primarily the result of an enormous political failure; a failure of governance; a failure of leadership; a failure of integration, a failure of coexistence. It is, also and mainly, the outcome of a much deeper, and sinister, reality: the overall impotence of the Arab world.

The break-up of Sudan is not just an internal Sudanese problem. It is much bigger than that. It is an extension of a structural impotence; it's the tragic expression of a low point of powerlessness and helplessness gripping for so long the entire region. It epitomises, if need be, a common point, a hallmark of today's Arab leaders: lack of vision, and worst of all, the total absence of political legitimacy. The long-term deliberate neglect of Egyptian rulers, the current ailing and senile head of state in particular, of their own southern flank is an eloquent indication of an indisputable fact: the indifference of autocratic rulers to the well-being and vital interest of their own peoples.

If Mubarak were truly representative of the will of his people, would he have acted as though Sudan did not exist or represent anything of importance to Egypt, to its vital national security and long-term strategic interests? That's the question. Therein lies, perhaps, the source of the problem. One cannot watch, indifferently and carelessly, its brotherly neighbour slowly drown and then begin screaming of the heavens falling, like

Chicken Little, after the body has sunk, just as the Egyptian political leadership has done in relation to Sudan.

National leaderships that are inherently illegitimate and rule by illegal coercive security means are never at ease with themselves; therefore they can never think beyond the immediate horizon of their political survival. Like animals they behave in accordance with their gut feelings or survival instinct. They often camouflage their impotence with a veil of jingoistic slogans and stultifying demagoguery. They could not care less about the future of their own country or its long-term interests. Their sole focus is the power they have stolen and are illegally holding; staying in charge or perpetuating the incumbency of the political regime is their only and unique preoccupation. Any other task is secondary.

To get a better sense of this obsession with power, let's ponder this grim, and really pitiful, spectacle: Hosni Mubarak, that ailing and senile autocrat, is pathetically clinging, come hell or high water, to an evanescent seat by all means (coercion, fraud and corruption) instead of retiring, like a respected Mandela or a perceptive Senghor, and enjoying his last remaining days. Doing so, he hopes to delegate, before his death, the presidency of Egypt to his preferred heir, the corrupt and hated son who is now a multi-billionaire, thanks to his unscrupulous business deals and paternal connections, in a country where 20% of the people live under the threshold of poverty, namely with less than a dollar a day.

Record of underachievement

When citizens are kept outside the equation of power or the process of political decision-making, when they cannot hold accountable their rulers, when they cannot get involved in shaping their own future, the result is what we see in Sudan and many other Arab countries: chronic domestic vulnerabilities, record of underachievement, sectarian violence, foreign intervention, wide-open wounds…

A street scene in Khartoum. There has been a failure to nurture a sense of common national identity or cultivate a modern concept of citizenship in Sudan.

But the plight of Sudan, like anywhere else, is, first of all, the result of the actions of the Sudanese themselves. One can blame, at will, the British and their colonialism, the Egyptians and their negligence, the Libyans and their past nefarious intervention, Israel and its infinite plots, the US and its neo-imperialist plans, but none of that can take hold had it not been for the mistakes of the Sudanese ruling elites themselves. From Numeiri to Turabi to El Bashir, they all set a record of underachievement, a litany of socio-political fiascos, not least of which is the lack of a sound consensus-based and participatory system of governance.

The fact that the citizens of the country were for so long, in the South in particular, oppressed and completely disenfranchised, undoubtedly explains a great deal of what is happening now. Nationhood is not an abstract phenomenon. It is a work continuously in the making; a work that requires effort and dedication, vision and leadership; most importantly, it requires the collective free will of the people. Today's world is different from 19th-century Italy or Germany or Napoleonic France where force could be used at will to unify a vast land or impose a cultural or linguistic identity upon a diverse group of peoples.

To forge a free nation today you need the assent of all. No identity can be unduly imposed anymore. Moreover, everyone should have a stake in the decision-making process of the collectivity. The role of the state is to manage those differences, not to impose blindly a mythical idea of uniformity. Its main task is to nurture a notion of collective belonging, a culture of civic citizenship, a sense of ownership, of national entitlement regardless of ethnic origin or economic class. That's how modern statehood should be conceived and constructed.

Unfortunately that democratic ideal has been lacking in the Arab world where, as Rami Khouri put it: 'The modern Arab state has been transformed heavily into a security apparatus and a facilitator of shopping malls and real estate investments because the alternative route to national stability and sustained, equitable development – democratic participation and the consent of the governed – have never been attempted on a serious basis.'

Let's hope that the 'Jasmine Revolution' in Tunisia will be the linchpin for the long-awaited awakening of this great nation from the Atlantic to the Euphrates; and its liberation from the chains of tyranny, the yoke of foreign domination, and the shackles of economic misery. ◆

Mohamed El Mokhtar Sidi Haiba is a political analyst. This article is reproduced from PalestineChronicle.com.

Key challenges for Southern Sudan after split

The release of referendum results for Southern Sudan's historic independence showing that 98.83% voted for secession means formal independence is scheduled for 9 July 2011, but key challenges still remain to be negotiated.

The contested border region of Abyei was due to hold a separate referendum at the same time as the south, but progress on that vote remains in deadlock. Picture shows students from Abyei protesting against the delay.

UN Secretary-General Ban Ki-moon has asked the international community 'to assist all Sudanese towards greater stability and development', while US President Barack Obama welcomed the 'successful and inspiring referendum' but urged north and south to work quickly on post-referendum arrangements.

These issues, observers say, must now be hammered out by the two ruling parties – the north's National Congress Party (NCP) and the south's Sudan People's Liberation Movement (SPLM).

The often rocky relationship between the two parties has been eased by the swift acceptance of the results by President Omar al-Bashir, but observers note that progress on negotiations has so far been slow, with the south accusing the north of dragging its heels. Some fear the north will now seek to extract a high price from the south for its separation.

Below are some key issues that have to be negotiated between now and July:

Abyei –The contested border region was due to hold a separate referendum at the same time as the south, when its residents would decide whether to become part of the north or south. But progress on that vote remains in deadlock, with the largely northern-supported Misseriya community – who travel through the region annually to graze their cattle – demanding a right to vote. The largely southern-supported Dinka Ngok people reject that demand, and southerners say only permanent residents should be allowed to vote. The area's future is expected to be wrapped into the huge negotiations ahead, with the south demanding it be ceded directly to join the new nation (see accompanying article).

Oil and water – A new deal must be agreed to renegotiate the current equal sharing of oil pumped in the south. The economies on both sides depend hugely on oil – forming 98% of the southern government budget. Oil reserves lie mainly in the south but all pipelines run north. For once, observers hope oil can provide a factor for peace, as for either to benefit, the future two states will be forced to cooperate post-secession.

In addition, negotiations will have to be agreed on the future sharing of Nile river water, an issue that neighbouring Egypt will be watching keenly, reluctant to see its share of the river cut.

Debt – Sudan's crippling debt, estimated at $38 billion, remains a major concern. It is an emotional issue: the southerners say Khartoum spent the cash on arms during the 1983-2005 civil war. The north wants to obtain international debt forgiveness to allow fresh loans, but that would still take many years. Persuading the south to take on some of that will be hard, but the north hopes that the south could then expect to have it written off more easily.

Citizenship – Concern remains for the many Sudanese living in the border areas, as well as southerners and northerners based in the 'other' side of Sudan. Hundreds of thousands of southerners remain in Khartoum, but the north has so far appeared reluctant to accept any dual nationality status. The south would reportedly like people to be able to choose.

Borders – Sudan's giant north-south border remains un-demarcated, with progress slow on fixing the boundaries. Negotiations are based on colonial-era maps as the border stood at Sudan's independence in 1956, but with the frontier crossing oil- and mineral-rich areas, the issue is contentious.

Common problems

Returnees – More than 180,000 southerners have returned from the north in the past three months, adding pressure to communities already struggling to cope. Major humanitarian and development problems remain. According to Refugees International, 22,000 southerners are stranded in and around Khartoum still waiting for transportation to the south.

Conflict – The south proved the critics' warning of war wrong: the voting period was peaceful. Acceptance of the result by the NCP has allayed fears of north-south conflict. However, tensions remain in the volatile south. Clashes in early February between armed factions in the south's oil-rich Upper Nile state left over 50 dead, and showed the potential for violence. Southern Sudan has been accused of hosting Darfuri rebel leaders fighting Khartoum, while the north is accused of backing militias battling the southern army. Both deny the charges.

Economy – Sudan's economy is struggling, with high demand for foreign currency, rising inflation and a recent slide in the value of the Sudanese pound. Price hikes on basic goods are hitting the poorest the hardest, while Khartoum remains concerned about political unrest, following popular uprisings in Egypt and Tunisia. The two sides must also fix their currency, and decide whether a replacement for the Sudanese pound will be introduced. Rumours in early February that the north plans to scrap the pound saw its value plummet.

Building a southern identity – Without a common northern enemy, many fear fractures within the south. Leaders must work to bring together often disparate groups, including opposition forces and those outside the mainstream SPLM movement.

Tackling corruption – Southern Sudan will rely on international donors to rebuild a land left in ruins by years of war. But it will have to ensure it strengthens its efforts to curb corruption to avoid losing wider support.

An oil refinery 80km outside Khartoum. Oil reserves lie mainly in the south but all pipelines run north.

Darfur – The wartorn western region remains a major concern with conflict continuing. Khartoum has pulled out of peace talks and returned to fighting against the only rebels they signed an agreement with, the Sudan Liberation Army (SLA) faction of Minni Minnawi. Some fear that the south's preparations to break away will embolden rebels to increase their demands from Khartoum.

Southern Kordofan and Blue Nile – Key battlegrounds in the civil war, these two transitional areas are in the north, but have strong support for the south's ruling SPLM. Ongoing 'popular consultations' set up as part of the 2005 Comprehensive Peace Agreement (CPA) are intended to allow the people to shape their future. However, unlike the south and Abyei, they do not have a referendum that could allow them to join an independent south. Many of those there who fought with the south during the civil war could be bitterly disappointed if they feel abandoned in the north. – *IRIN humanitarian news and analysis service* ◆

A street market in Khartoum. Sudan's economy is struggling, and price hikes on basic goods are hitting the poorest the hardest.

A mislaid land

Ethnic tensions and the scramble for oil reserves may lead to a confrontation in Abyei and adjacent borderline areas between northern and southern Sudan, cautions *Gamal Nkrumah* in this article written before the referendum outcome was announced.

SPARE a thought for Abyei. Prospects for peace in Sudan in the next month or two depend as much on peace and prosperity in Abyei as they do on the result of the referendum on southern Sudan. Abyei, a territory of 10,000 square kilometres in the heart of Sudan, is of vital strategic importance and symbolic significance to both northern and southern Sudanese. The ethnic and religious composition of its inhabitants is of critical consequence to the political future of Sudan – north and south.

All politics is local, and Abyei is no exception to the rule. A fresh wave of violence has hit Abyei. The death toll is estimated to have reached 40 in mid-January.

The British colonial authorities, it must be noted from the outset, created the crisis of Abyei when in 1905 they forcibly transferred the administration of nine ethnic Dinka Ngok chiefdoms to Kordofan.

No political or religious opinion, no matter how strongly held at the time, justified the transfer of Abyei to Kordofan. The result of this heinous colonial crime was to perpetuate the suffering of the people of Abyei for more than a century.

Arab Misseriya tribesmen moved into Abyei in search of greener pastureland for their livestock, displacing in the process the indigenous Dajo people now dispersed in Darfur and other parts of Kordofan and Blue Nile provinces, all technically parts of northern Sudan. A substantial number of the local ethnic Dinka Ngok people also migrated to Khartoum in search of better employment opportunities, swelling the numbers of the slum-dwelling residents of the shantytowns surrounding Khartoum.

The burning question at the moment is who exactly is eligible to vote to decide the political future of oil-rich Abyei. The inhabitants of Abyei were not permitted to vote in the January referendum deciding the political future of southern Sudan.

Abyei is of vital strategic importance and symbolic significance to both northern and southern Sudanese. The ethnic and religious composition of its inhabitants is of critical consequence to the political future of Sudan – north and south.

The Permanent Court of Arbitration based in The Hague, Netherlands, gave the Misseriya tribesmen grazing rights in Abyei together with the Dinka Ngok pastoral peoples. The settled Dinka Ngok people also have grazing rights according to the 2004 Protocol on the Resolution of the Abyei Conflict in the Comprehensive Peace Agreement signed between the Sudan People's Liberation Movement (SPLM) and the Sudanese government headed by President Omar Hassan Al-Bashir's National Congress Party (NCP) in 2005. Under the terms of the CPA, the people of Abyei are to decide in a 'popular consultation' whether the region is to remain administratively part of northern Sudan or whether it is to become part of southern Sudan.

Abyei is a hydrocarbon-rich area sandwiched between northern and southern Sudan. Both north and south Sudan therefore covet Abyei. At present the oil-rich enclave has special administrative status. Yet, its political status is untenable. South Sudan sees Abyei as an integral part of the region. Khartoum, in sharp contrast, firmly believes that it is northern territory.

Given the history of Abyei, it is hardly surprising that the brewing fight between the Dinka Ngok people and the Misseriya Arab tribesmen can only escalate in the coming months. It is a conflict that in turn will cast a long shadow of doubt over the peaceful coexistence of northern and southern Sudan. The Dinka Ngok people are strong supporters of the SPLM, while the Misseriya back the NCP of Al-Bashir.

The Misseriya militias are said to be armed to the teeth by the Sudanese armed forces and to have encroached on Dinka Ngok lands massacring defenceless villagers. The SPLM has threatened retaliation.

The Abyei crisis has moved online, with Dinka Ngok activists bringing down pro-Sudanese government sites and the Al-Bashir regime facing accusations of disrupting Facebook accounts sympathetic to the cause of Abyei joining southern Sudan.

The political future of Abyei hangs in the balance, and so does the future of other borderline areas that straddle the 1,500km faultline between northern and southern Sudan. Abyei is the barometer, but other equally combustible areas such as southern Kordofan, the Nuba Mountains and Blue Nile could easily follow suit and turn into potential trouble spots that would mar the lessons learnt from the southern Sudanese referendum. The inhabitants of these areas are administratively governed as integral parts of northern Sudan, but it is clear that their political loyalties lie with their kith and kin in southern Sudan and with the SPLM. ◆

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Stakeholders in the Côte d'Ivoire crisis

Reports in the international media on the post-election crisis in Côte d'Ivoire are rarely illuminating with regard to the main players in the crisis. In the following piece, *Sanou Mbaye* analyses the five main parties affected by the crisis.

IN 2002 Côte d'Ivoire was rocked by a rebel uprising that partitioned the country into two parts, with the government led by President Laurent Gbagbo controlling the south, the rebels the north and the French army camping between the two. As a member of the Security Council, France managed to give this intervention the stamp of international approval under a UN mandate. In 2004, to avenge the death of nine French soldiers, the French army destroyed Côte d'Ivoire air defence and killed dozens of unarmed civilian demonstrators.

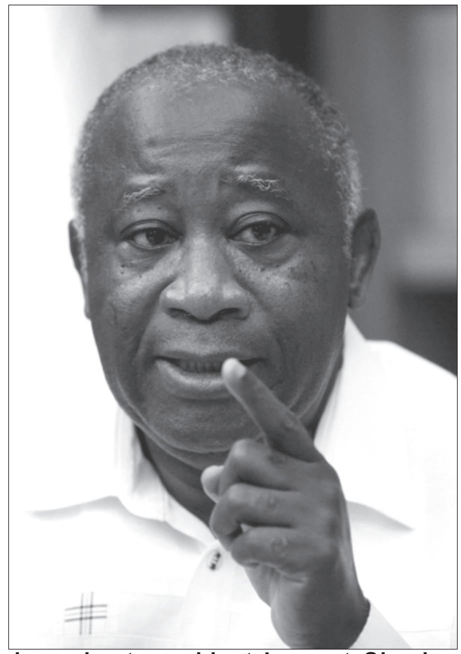
After a peace conference in 2005 a government of national unity was established. In November 2010 Laurent Gbagbo organised a much-delayed presidential election. His opponents were former president Henri Konan Bédié and former prime minister Alassane Ouattara. Once it was all done with, the country ended up with two stated presidents. Ouattara was declared winner by the independent electoral commission and the international community. Gbagbo was confirmed re-elected by the Constitutional Court. As a result, Côte d'Ivoire is now plunged into a deadly tale of five stakeholders.

The first stakeholder is the incumbent president Gbagbo. During his 10-year tenure, Gbagbo sought to accredit his opposition to French neocolonialism, and his socialist and anti-imperialist credentials while strengthening a new class of rich Ivorians including the military. Their sources of enrichment were enhanced in 2006 when oil and gas revenues supplemented the traditional cocoa and coffee incomes.

The second stakeholder is Ouattara. In his professional background as head of the Africa desk of the International Monetary Fund (IMF), governor of the West African central bank, prime minister of Côte d'Ivoire, and deputy managing director of the IMF, Ouattara presided over the deregulation and the liberalisation of the Côte d'Ivoire economy. He liquidated Côte d'Ivoire's valuable and strategic assets to French conglomerates at knockdown prices after the 100% devaluation in 1994 of the CFA franc. Ouattara kept for years pocketing a double salary as a prime minister and central bank governor. He stopped this practice only when this was discovered and exposed by then opposition leader, Gbagbo, whom he jailed.

The France factor

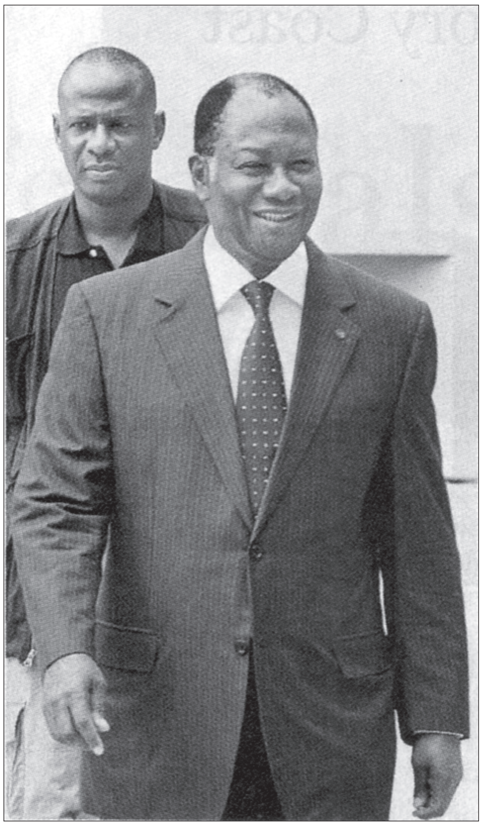
The third stakeholder is France, which granted independence to its former African colonies on condition that French troops remained stationed on their territories and they maintain the colonial CFA franc as their common currency. The CFA franc is convertible and its convertibility is guaranteed by the French Treasury which holds a right of veto over the management of the two central banks which issue the currency: BCEAO of the West African Economic and Monetary Union (WAEMU) and BEAC of the Central African Economic and Monetary Community (CEMAC). A capital control limits the free transfer of the currency to France. The credit that these central banks could extend to each member country was capped at 20% of any country's public revenue in the preceding year. These countries also signed up to an obligation to keep 65% of their foreign exchange reserves in a *compte d'operations* held at the French Treasury, as well as another 20% to cover financial liabilities. According to figures published by Banque de France, foreign exchange reserves were estimated in 2008 at $15.8 billion for CEMAC and $9.3 billion for WAEMU. Except for the French mandarins from Banque de France and the Treasury, nobody, not least African officials, has access to these figures, and no independent audit has ever been carried out.



Incumbent president Laurent Gbagbo. During his 10-year tenure, Gbagbo sought to burnish his socialist and anti-imperialist credentials while strengthening a new class of rich Ivorians.

At a fixed-rate of 665.957 to each euro, the exchange rate of the CFA franc is grossly overvalued. This is tantamount to economic suicide when one considers that countries around the world battle to keep their exchange rates low in order to make their exports competitive. But this suits French businesses, which can transfer all their earnings to France at this very advantageous exchange rate.

Another advantage of the system for France is that the enormous wealth that the African leaders accumulate in exchange for their adherence to such a system is recycled uniquely through the French banking system and duly recorded. So, every now and then, some shadowy civil society organisation would bring a corruption libel case against a few of these African leaders before a French judge. The latest targets of such proceedings were the late Omar Bongo of Gabon, Sassou-Nguesso of Congo and Paul Biya of Cameroon. The cases are then vastly publicised in French and world media before being suddenly dropped, an elaborate and not-so-subtle way of keeping these leaders in check.



Former prime minister Alassane Ouattara *(pic)* presided over the deregulation and liberalisation of the Côte d'Ivoire economy.

Under siege

The fourth stakeholder is the Ivorians themselves, a population under siege, governed by two declared winners of the same election, divided along ethnic and economic lines and fed with the venom of hatred, ready to massacre each other as they did in the deadly civil war they went through between 2002 and 2003.

The fifth stakeholders are two regional organisations: the African Union and the Economic Community of West African States (ECOWAS). They endorsed the international community's stand in favour of Ouattara. France and the US were instrumental in shaping world opinion. France easily secured the European Union members' support. Jendayi Frazer, an African American, a former US Assistant Secretary of State for African Affairs in the Bush administration and present US Ambassador to South Africa, was instrumental in shaping the Obama administration's stand. France's former African colonies carried the day within the African regional organisations.

This is comprehensible. What is less understandable is Nigeria's readiness to spearhead a military intervention to dislodge Gbagbo when Côte d'Ivoire is home to two million informal sector operator Nigerians in addition to the millions of other migrant workers who were attracted into Côte d'Ivoire to work on cocoa, coffee and banana plantations. They were the real architects of what was then dubbed 'the Ivorian miracle'. Military intervention could entail the destabilising effects of seeing them flocking back to their countries of origin, not to mention the killings and the horrors already witnessed in the previous civil war.

But beyond all the rhetoric, the banning and condemnation, what are at stake in Côte d'Ivoire are the consequences of French ongoing colonisation and ruthless exploitation in connivance with unscrupulous local leaders of swathes of west and central Africa. France has been able to phantom the politics and the economics of its former colonies so far. But, in a changing world and an increasing shifting of the world balance of power, its dominance will be more and more questioned. ◆

Sanou Mbaye is a London-based independent economist and the author of L'Afrique au secours de l'Afrique (Africa to the rescue of Africa)*. This article first appeared in* Pambazuka News *(Issue 514, 27 January 2011, www.pambazuka.org, English edition ISSN 1753-6839).*

French soldiers in Côte d'Ivoire undergoing a training exercise. France had granted independence to its former African colonies, like Côte d'Ivoire, on condition that French troops remained stationed on their territories.

From military-industrial complex to Permanent War State

50 years ago US President Dwight D Eisenhower warned his countrymen of the threat posed by the 'military-industrial complex' to the making and implementation of his country's national security policy. *Gareth Porter* surveys the developments since that famous speech and considers the situation today.

US President Dwight Eisenhower delivering his speech on the 'military-industrial complex' on 17 January 1961.

FIFTY years after Dwight D Eisenhower's 17 January 1961 speech on the 'military-industrial complex', that threat has morphed into a far more powerful and sinister force than Eisenhower could have imagined. It has become a 'Permanent War State', with the power to keep the United States at war continuously for the indefinite future.

But despite their seeming invulnerability, the vested interests behind US militarism have been seriously shaken twice in the past four decades by some combination of public revulsion against a major war, opposition to high military spending, serious concern about the budget deficit and a change in perception of the external threat. Today, the Permanent War State faces the first three of those dangers to its power simultaneously – and in a larger context of the worst economic crisis since the Great Depression.

When Eisenhower warned in his farewell address of the 'potential' for the 'disastrous rise of misplaced power', he was referring to the danger that militarist interests would gain control over the country's national security policy. The only reason it didn't happen on Ike's watch is that he stood up to the military and its allies.

The Air Force and the Army were so unhappy with his 'New Look' military policy that they each waged political campaigns against it. The Army demanded that Ike reverse his budget cuts and beef up conventional forces. The Air Force twice fabricated intelligence to support its claim that the Soviet Union was rapidly overtaking the United States in strategic striking power – first in bombers, later in ballistic missiles.

But Ike defied both services, reducing Army manpower by 44% from its 1953 level and refusing to order a crash programme for bombers or for missiles. He also rejected military recommendations for war in Indochina, bombing attacks on China and an ultimatum to the Soviet Union.

After Eisenhower, it became clear that the alliance of militarist interests included not only the military services and their industrial clients but civilian officials in the Pentagon, the CIA's Directorate of Operations, top officials at the State Department and the White House national security adviser. During the Kennedy and Johnson administrations, that militarist alliance succeeded in pushing the White House into a war in Vietnam, despite the reluctance of both presidents, as documented in my book *Perils of Dominance*.

But just when the power of the militarist alliance seemed unstoppable in the late 1960s, the public turned decisively against the Vietnam War, and a long period of public pressure to reduce military spending began. As a result, military manpower was reduced to below even the Eisenhower era levels.

For more than a decade the alliance of militarist interests was effectively constrained from advocating a more aggressive military posture.

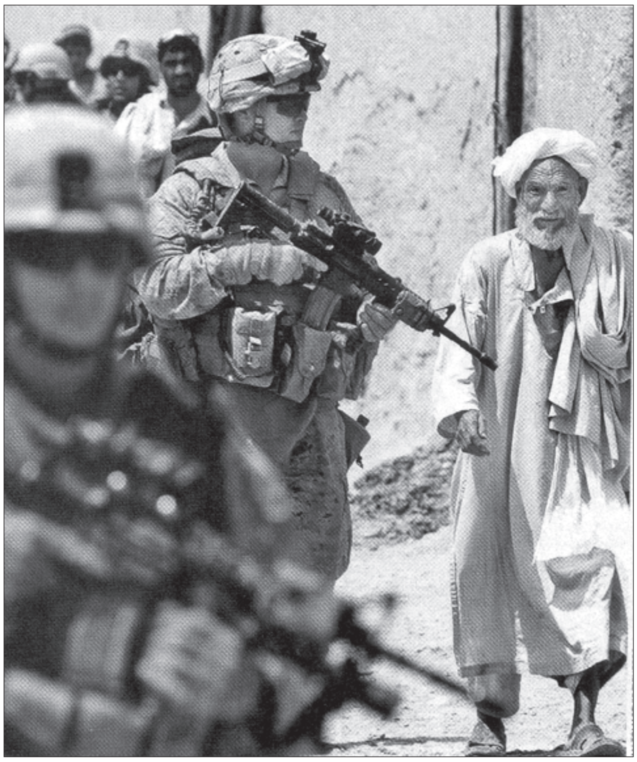
Even during the Reagan era, after a temporary surge in military spending, popular fear of the Soviet Union melted away in response to the rise of Gorbachev, just as the burgeoning federal budget deficit was becoming yet another threat to the militarist bloc. As it became clear that the Cold War was drawing to a close, the militarist interests faced the likely loss of much of their power and resources.

Rise of militarism

But in mid-1990 they got an unexpected break when Saddam Hussein occupied Kuwait. George H W Bush – a key figure in the militarist complex as former CIA Director – seized the opportunity to launch a war that would end the 'Vietnam syndrome'. The Bush administration turned a popular clear-cut military victory in the 1991 Gulf War into a rationale for further use of military force in the Middle East. Secretary of Defence Dick Cheney's 1992 military strategy for the next decade said, 'We must be prepared to act decisively in the Middle East/Persian Gulf region as we did in Operations Desert Shield and Desert Storm if our vital interests are threatened anew.'

The Bush administration pressured the Saudis and other Arab regimes in the Gulf to allow longer-term bases for the US Air Force, and over the next eight years, US planes flew an annual average of 8,000 sorties in the 'no-fly zones' the United States had declared over most of Iraq, drawing frequent anti-aircraft fire.

The United States was already in a de facto state of war with Iraq well before George W Bush's presidency.



US troops on patrol in an Afghan village. The military leadership used its political clout to ensure that US forces would continue to fight in Afghanistan indefinitely.

The 9/11 attacks were the biggest single boon to the militarist alliance. The Bush administration exploited the climate of fear to railroad the country into a war of aggression against Iraq. The underlying strategy, approved by the military leadership after 9/11, was to use Iraq as a base from which to wage a campaign of regime change in a long list of countries.

That fateful decision only spurred recruitment and greater activism by al Qaeda and other jihadist groups, which expanded into Iraq and other countries.

Instead of reversing the ill-considered use of military force, however, the same coalition of officials pushed for an even more militarised approach to jihadism. Over the next few years, it gained unprecedented power over resources and policy at home and further extended its reach abroad:

• The Special Operations Forces, which operate in almost complete secrecy, obtained extraordinary authority to track down and kill or capture al Qaeda suspects not only in Iraq and Afghanistan, but in many more countries.

• The CIA sought and obtained virtually unlimited freedom to carry out drone strikes in secrecy and without any meaningful oversight by Congress.

• The Pentagon embraced the idea of the 'long war' – a 20-year strategy envisioning deployment of US troops in dozens of countries – and the Army adopted the idea of 'the era of persistent warfare' as its rationale for more budgetary resources.

• The military budget doubled from 1998 to 2008 in the biggest explosion of military spending since the early 1950s – and now accounts for 56% of discretionary federal spending.

• The military leadership used its political clout to ensure that US forces would continue to fight in Afghanistan indefinitely, even after the premises of its strategy were shown to have been false.

Those moves have completed the process of creating a 'Permanent War State' – a set of institutions with the authority to wage largely secret wars across a vast expanse of the globe for the indefinite future.

But the power of this new state formation is still subject to the same political dynamics that have threatened militarist interests twice before: popular antipathy to a major war, broad demands for reduced military spending and the necessity to reduce the federal budget deficit and debt.

The percentage of Americans who believe the war in Afghanistan is not worth fighting has now reached 60% for the first time. And as the crisis over the federal debt reaches its climax, the swollen defence budget should bear the brunt of deep budget cuts.

As early as 2005, a Pew Research Center survey found that, when respondents were given the opportunity to express a preference for budget cuts by major accounts, they opted to reduce military spending by 31%. In another survey by the Pew Center a year ago, 76% of respondents, frustrated by the continued failure of the US economy, wanted the United States to put top priority in its domestic problems.

The only thing missing from this picture is a grassroots political movement organised specifically to demand an end to the Permanent War State. Such a movement could establish firm legal restraints on the institutions that threaten American democratic institutions through a massive educational and lobbying effort. This is the right historical moment to harness the latent anti-militarist sentiment in the country to a conscious strategy for political change. ◆

Gareth Porter is an investigative historian and journalist on US national security policy who has been independent since a brief period of university teaching in the 1980s. Dr Porter is the author of four books, the latest of which is Perils of Dominance: Imbalance of Power and the Road to War in Vietnam *(University of California Press, 2005). He has written regularly for Inter Press Service on US policy toward Iraq and Iran since 2005. This article is reproduced from CommonDreams.org.*

WORLD AFFAIRS

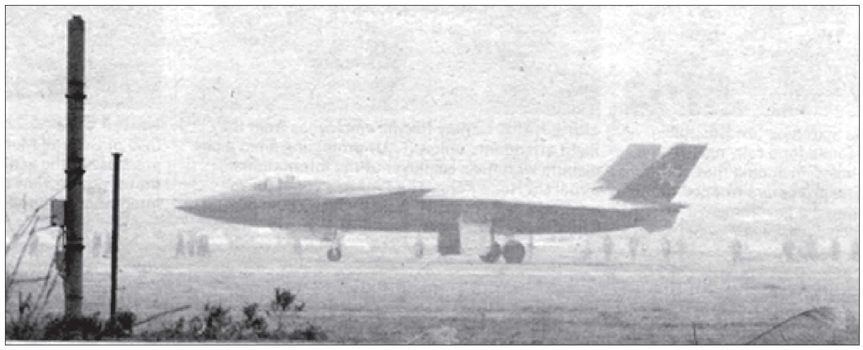
Pentagon ecstatic over new Chinese 'threat'

The recent publication in unofficial Chinese websites of photographs of what appears to be a Chinese stealth fighter plane has proved to be a godsend to the US 'military-industrial complex' in its fight to increase defence spending. *Andrew Cockburn* comments on this attempt to invoke the 'threat' of China to expand the already bloated US defence budget.

ONCE upon a time, as the FY (fiscal year) 1964 defence appropriations bill was making its way through Congress, there came a sombre moment when it looked as if the US Navy might actually receive a lesser increase in its appropriation than its hated Air Force rival. Then, just when all seemed dark, a Soviet November class nuclear attack submarine surfaced a few miles off San Francisco Bay. Instantly, the situation on the battlefield was reversed, as press and Congress urged emergency budgetary measures to ward off the looming threat of the Red Navy. Queried at a Pentagon press conference as to the convenient coincidence of the sub's appearance, the chief navy flack simply smiled and said, 'I don't know; we just got lucky I guess.'

For much of the 1990s, luck deserted our military-industrial complex. Its formerly reliable Soviet partners ceased to play their part, leaving the Pentagon to scour the world for a 'peer or near-peer competitor'. There were hopes, always futile, for a reconstituted USSR, or perhaps an emergent China (always popular on the right in those days), which was followed by the putative menace of regional competitors (Iran, Iraq, North Korea) combining against America.

Help finally came from the CIA's former jihadi ally Osama bin Laden, whose 9/11 attack sufficiently traumatised society to allow the Pentagon to spend any money it wanted on anything it wanted, relevant to the task at hand or not. Even so, old hands yearned for the days when a military spend-up could be justified by whatever the other guy was up to, especially with ominous talk circulating in Washington about restraining (not cutting, of course) the defence budget.



A prototype of China's J-20 stealth fighter being tested. The 'threat' of the J-20 is being invoked to justify further increases in the US defence budget.

China's stealth fighter

Now, just like that long-ago Soviet sub captain, the Chinese have stepped up to the plate.

Our Asian friends have suddenly offered a titillating peek from an airfield in Chengdu at their newest warplane, described as a radar-evading 'stealth' fighter like our own F-22.

The reaction from some quarters has been predictably enthusiastic. 'From what we can see, I conclude that this aircraft does have great potential to be superior in some respects to the American F-22, and could be decisively superior to the F-35,' claims Richard Fisher, a senior fellow on Asian military affairs at the International Assessment and Strategy Center, a Washington-based security think-tank.

Other denizens of the military-industrial complex have pushed hyperbole further, with predictions that the plane – though it looks enormous in the photographs – may be pretty much invisible to radar.

'You can tell it has some serious stealth technology,' proclaims one former Navy pilot now in the defence investment business quoted by Fox News. 'My F-18 looks like an 18-wheeler on radar. That thing might not even show up.'

Arriving in Beijing shortly after the news broke, US Defence Secretary Robert M Gates added his own voice of concern. 'We knew they were working on the stealth aircraft,' he said. 'What we've seen is that they maybe are somewhat further ahead in the development of that aircraft than our intelligence had earlier predicted.'

We should not have to wait too long before some obliging member of Congress calls for the reopening of the F-22 production line, cut off by Gates in 2009 after a mere 187 planes had been built.

To those with fond memories of the Cold War, when it seemed that the arms race was a two-nation affair, things are moving in a familiar pattern. Reading *Aviation Week & Space*

Technology in those days left you with your heart in your mouth, as it regularly broadcast the news that Soviet techno-military ingenuity was on the point, again, of overwhelming our own puny and underfunded efforts. 'The Soviet Union is producing and fielding inventory aircraft with major performance improvements at twice the US aircraft production rate,' ran one typical jeremiad in June 1982. 'The NATO technological lead is decreasing.'

It was never true. Soviet warplanes always suffered from a fundamental deficiency of 'short legs' – insufficient range – due to heavier airframes – retarded (deficient metalworking technology) – and shorter-lived engines (ditto), not to mention myriad other deficiencies. Whenever actual examples of some highly touted Soviet warplane arrived on public view in the West, the reality invariably fell far short of the advance billing. When the MiG-25 Foxbat, once promoted in *Aviation Week* and elsewhere as a wonder plane that could fly vast distances at 3-1/2 times the speed of sound, was inconveniently delivered by a defecting pilot to Japan in 1976, it turned out to have one-third the advertised range and engines that melted well short of the advertised speed.

Anyone speculating that the Chinese turn out a better product should know that their efforts to rip off the Russians by copying Russian engines have produced only engines that make the Russians look good, forcing them to rely on the original product, deficient as that may be.

The US' F-22 stealth plane. Those now in service with the US Air Force cost at least $355 million each.

One characteristic of Soviet military aviation culture that the Chinese may indeed be emulating was deference to American technological fashion. Thus, just as the US Air Force was concluding that the 'swing-wing' technology of the 1960s F-111 bomber had been a technological misstep, the Soviets produced their own even more unwieldy Su-24. Other bad ideas – especially in the field of electronics – were also regularly and dutifully duplicated on the other side of the Iron Curtain. (An official in the CIA's Office of Strategic Analysis swore to me in the 1980s that the entire contents of *Aviation Week* were transmitted in encrypted form from the Soviet Embassy in Washington to Moscow as soon as it appeared on Monday mornings.)

The Pentagon headquarters of the US Defence Department.

If the Chinese have indeed invested the necessarily vast sums that an F-22 lookalike programme would require, those disposed to fear the Middle Kingdom need only rejoice. The F-22s now in service with the US Air Force cost at least $355 million each (the total cost is probably higher); it is doubtful whether the F-22 can achieve 'supercruise' – the ability to fly faster than the speed of sound without afterburners, once touted as a distinguishing feature – for more than a few minutes. Most tellingly, its vaunted stealth performance has proved sadly disappointing. Although it is indeed less visible (though never actually invisible) to tracking radars such as that carried on other fighters or air defence missiles, longer wavelength search radars can detect its presence at considerable distances. In 1999, the Serbs used radar defences to down one F-117 stealth fighter and severely damage another.

Unfortunately, while some may applaud a Chinese initiative to spend the money that Wal-Mart sends them on a weapon of dubious utility, we too may end up paying a price, as the 'threat' of China's J-20 is invoked to justify further increases in our own obscenely bloated defence budget. ◆

Andrew Cockburn published The Threat *in 1983, the only accurate assessment of Soviet military potential in the 20 years before the fall of the Soviet Union. This article is reproduced from the CounterPunch website (www.counterpunch.org).*

Tunisia speaks up, shakily

Freedom of expression, freedom of assembly and freedom of the press are the big gains of Tunisia's so-called Jasmine Revolution, according to a top Tunisian economist, writer and opposition figure. But he warns that dark days still lie ahead.

AD McKenzie

Protesters hold up a banner calling for President Zine El Abidine Ben Ali's resignation on 14 January. 'Tunisians have shown that democracy is not a foreign value.'

'NOT even political scientists could have imagined people's deep hunger for democracy,' says Mahmoud Ben Romdhane, author of the just published *Tunisie: Etat, économie et société* and one of the keynote speakers at the 17th Maghreb Literary Fair (Maghreb des Livres) that ended in Paris on 6 February.

'Tunisians have shown that democracy is not a foreign value,' Romdhane told Inter Press Service (IPS). 'They have shown that our need for freedom and international human rights values is no less important that it is in the established democracies.'

Romdhane was one of the invited writers at the literary fair, which took place within the grand, gilded halls of the Paris Hôtel de ville. It drew more than 5,000 people who came to buy books and to listen to North African writers discussing the revolutions taking place in their region.

The two-day annual fair focuses each year on one particular country in the Maghreb. This year, coincidental to current political events, the chosen country was Tunisia, giving the event an added layer of significance because of the growing upheavals that began with the revolution there and that have since spread to Egypt and other countries.

Some 30 of the 132 authors who participated came from Tunisia while others represented Morocco, Algeria and the Maghrebi communities in France. At the last moment, the fair's organisers added a session to the programme titled 'Tunisia: Regaining the Word' that was widely attended.

'You can see on television and know from what you read in the newspapers that freedom has arisen again,' Romdhane said, as the public crowded around tables piled with books and as debates unfolded in the background.

'The revolution succeeded in the destruction of a tyrannical regime, which was thought impossible to destroy, and we've had the release of every political prisoner, including writers,' he said.

He added, however, that Tunisia's problems will not go away anytime soon as the national unemployment rate among the country's university graduates is more than 30%. It will near 60% this year in Sidi Bouzid, where the protests began after a young street vendor set himself on fire on 17 December.

'Thousands of graduates are leaving the universities and there is no work for them,' Romdhane said.

He and other writers stressed that solid economic growth will be among the factors needed to help the new government to succeed and to shore up civil liberties. He told IPS that lasting press freedom will also have to form part of the changes for any new regime to be accepted by the people.

Already human rights groups have accused the security authorities under the interim government of continuing to take sporadic repressive actions against the press. Romdhane's opposition Tajdid party has a minister in the new administration but he says this does not 'imply we support the current government'.

The Brussels-based International Federation of Journalists (IFJ) has noted assaults on media workers since the fall of the administration of President Zine El Abidine Ben Ali. These include the roughing up of a French photographer when he filmed the police clubbing and kicking a youth.

On 5 February, even as the writers in Paris discussed the revolution, police in northwestern Tunisia fired into a crowd that was attacking a police station, reportedly killing two people and injuring several others.

'I think it's too early to say that things have changed fully,' Ernest Sagaga, IFJ human rights and information officer, told IPS. 'On the ground, yes, there have been changes, including promises by the new regime to respect press freedom and to refrain from interfering in media affairs. But this government is still very shaky.'

PEN, the international organisation of writers, said it welcomed 'the release of all Tunisian journalists, bloggers and other political prisoners, following the protests which ended 23 years of President Ben Ali's rule'.

The group, which has campaigned for many years on behalf of detained writers and journalists, said it hoped for a 'full recognition of free speech and the right to assembly in Tunisia'.

'This is one of those extraordinary moments when there is an opening up because the president and his family have left,' PEN International's president John Ralston Saul told IPS by telephone.

'But the country is still in an interim phase where people of goodwill are working for change, while there are others who would like to keep elements of the old regime. Tunisian writers know that they are going to have to be vigilant to make sure that the end result is not going to be a similar regime. We can't be romantic about it.'

Separately, PEN said it was also alarmed and concerned by 'the trampling on the rights of citizens to transparency, information, knowledge and freedom of assembly elsewhere, most recently in Egypt over the past several days'.

The group said it feared that opposition activists, writers and journalists in Yemen and Syria were at increased risk of arrest.

While these countries are not part of the Maghreb, their future and that of the Middle East in general was an unavoidable topic at the Maghreb Literary Fair.

'History is a question of chance,' said Georges Morin, president of Coup de soleil, the civic group that organises the fair in association with the Paris mayor's office. 'It's just coincidence that the fair is taking place at the same time as the revolutions, but it meant more people came out to listen.'

France is home to Western Europe's largest Muslim and Jewish populations (estimated at five million and 600,000 respectively), and Morin's Coup de soleil group works to strengthen links among those from the Maghreb, whether they are 'Arab-Berbers, Jews or Europeans'. The literary fair is one such initiative.

– IPS ◆

WOMEN

Egyptian riot grrls: Finding the feminine face of fury

For Egyptian women, the decision to fully participate in the mass demonstrations that toppled Mubarak was also a decision to take back their streets – the very streets where sexual harassment and stalking were rampant.

Beenish Ahmed

MUCH has been aflutter on Twitter about the very visible presence of women among the protests that have taken Egypt by storm over the last few weeks, but images of them have remained sparse amid the digital slideshows strung together by major media outlets, portraying mainly dense crowds of the manly.

What falls within these frames does not necessarily paint a full picture, since as Egyptian Organisation for Human Rights activist Ghada Shahbandar claims, the crowd in downtown Cairo is up to 20% female. Others have put the number much higher, at 50%.

Women were a very visible presence in the Egyptian protests.

Although they are less prevalent, some efforts have been made to depict the role of women in this popular uprising. The Global Post put together a slideshow on the 'Women of Egypt' among the March of Millions in Tahrir Square, and a compilation of photographs from various sources can be found on sawt al niswa, a self-described 'feminist webspace'.

A quick look through the reels of these images reveals the feminine side of fury and eliminates any remaining shred of doubt that the issues of unemployment and corruption that are widely cited as the primary causes for this unrest affect only men.

Whether the faces of these women are framed by tightly wrapped black scarves pinned neatly to billowing *abayas*, or by an unruly sweep of curls, it is striking that these women have found the very streets where sexual harassment and relentless stalking once ran rampant suddenly transformed into safe havens, even amid the recent violence that has broken out.

While public demonstrations in Egypt have brought about brutality against women in the past, many note that the current protests bear too heavily on the future to fall to the brutish side of man. This has led Mike Giglio, a correspondent for The Daily Beast, to dub this latest round of civil uprising in Egypt the Purity Protests.

Rallying a cry against riot police, a young Egyptian woman in a bright pink headscarf puts Nancy Sinatra to shame* by leading a call and response that booms, 'What does Mubarak want anyways? All Egyptians to kiss his feet? No Mubarak! We will not! Tomorrow we'll trample you with our shoes!' And although 'the bravest girl in Egypt' stands out with her brightly coloured ensemble and resounding voice, she is not the only Egyptian girl taking a stand against a paternalistic regime in a patriarchic society.

Aside from making a push strictly for political reform, these protests appear to bode well for the future of women within Egyptian civil society. To be sure, it was 27-year-old human resource specialist Esraa Abdel Fattah who was largely credited with organising the April 6 Movement in 2008 which quickly developed into a 70,000-strong strike that spanned the nation. Catalysed by textile workers in state-owned factories in El-Mahalla El-Kubra around the issues of low wages and rising food costs, the effective use of social media technologies by Abdel Fattah to promote the cause earned her the nickname 'the Facebook Girl' – as well as three weeks in Cairo's Al Kanater prison.

While some might write off their efforts as the exception or else aestheticise them beyond any real import, the fact remains that Egyptian women have decided to take back their streets – proving they are as much a part of the protests as the men who once made them wary to step out into them. ◆

Beenish Ahmed recently received an MPhil in Modern South Asian Studies while studying at the University of Cambridge as a Fulbright Scholar to the United Kingdom. She is an award-winning writer and activist. This article is reproduced from the PULSE website (pulsemedia.org).

Editor's note

* In her 1966 hit 'These boots are made for walkin'', American pop music artiste Nancy Sinatra sang, 'These boots are made for walking, and that's just what they'll do/one of these days these boots are gonna walk all over you.'

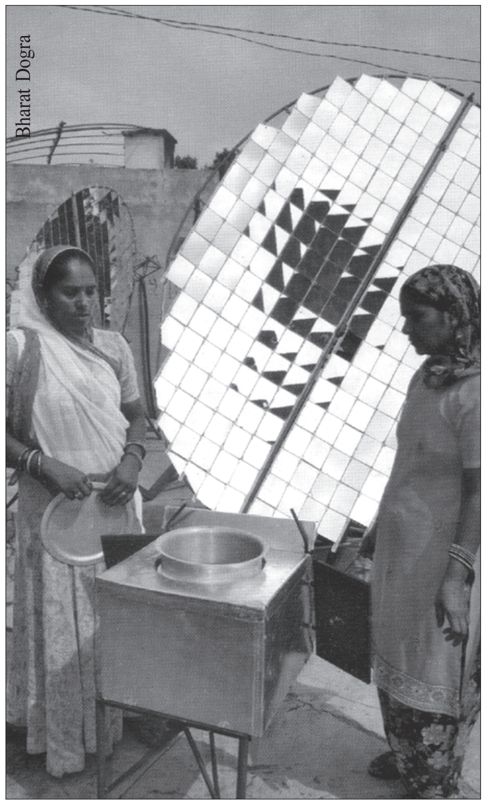
Crucial role of *panchayats* in decentralised energy model

The many-sided benefits of renewable energy sources are now widely accepted. The challenge now is to create a model of renewable energy development that is most suited to the needs and potential of a rural-based economy like India, says *Bharat Dogra*.

A DECENTRALISED, rural-based model of renewable energy will be most beneficial for a country like India. Nearly 70% of the population lives in villages but the over-centralised energy model that exists today has been found inappropriate in many ways for meeting the energy needs of the rural population. A decentralised renewable energy model, on the other hand, is particularly suitable for meeting the needs of villages, particularly the more remote and inaccessible villages which are least covered by the centralised grids.

While planning such a decentralised energy model, it will be most useful to link up this planning with the *panchayat raj* institutions in the country (PRIs or rural local self-government institutions). The functioning of *panchayats* at present is far from ideal and there is growing agreement that PRIs should be reformed in such a way that the *gram sabha* or the assembly of all villagers can play a more effective role. Village plans should be prepared on the basis of extensive discussion in the *gram sabha*, with adequate opportunities for weaker sections and women to present their views. The planning for renewable energy should also be linked to this process.

For example, there is a lot of potential for the development of watermills in hilly areas. While travelling in many hill villages, I noticed that traditionally water mills played a very useful role particularly for milling wheat, but there has been a decline in recent years. Several well-informed persons told me that watermills can still be very useful and the generation of very small-scale hydel power (micro hydel) can be added to watermills. There will be no adverse effect while a lot of employment will be generated. This decentralised model is very different from the centralised model of inflicting large dams on villagers with highly disruptive social and environmental impacts in many cases.



Local villagers trained by the Barefoot College go on to become 'barefoot solar engineers' working in decentralised renewable energy

When thousands of *gram sabhas* prepare watermill-cum-micro hydel plans, keeping in view local conditions and sensitivities so as to minimise the possibility of any adverse impact, then opportunities of making available electricity to villages at a low cost and with minimum adverse effects are opened up. While each effort is small, adding up the efforts of thousands of *panchayats* will lead to considerable electricity generation in a safe and environmentally secure way.

This is precisely the beauty of the decentralised model – that it makes it possible to harness the potential of so many local people for obtaining best development results.

In this context a very important contribution has been made by the Barefoot College (BC) based in Tilonia (Ajmer district, Rajasthan state). BC has spread solar energy in very remote villages and what is most remarkable is that this task was mainly performed by villagers (with up to class X school education). Barefoot College has been organising many trainings in solar energy. After about six months' training many villagers emerge as 'barefoot solar engineers' although on-the-job learning continues long after this.

The work done by BC and the success of its barefoot solar engineers has increased the possibilities of harnessing the neglected talent of villagers and providing them a lot of employment in decentralised renewable energy systems. If we did not have this example of Tilonia's barefoot solar engineers before us, then probably local villagers would not even be considered for many technical tasks which they can certainly accomplish with good training. The success of the barefoot solar engineers can be replicated in the case of several other renewable energy sources as well.

The model in sharp contrast to the Tilonia model is one in which a company installs a solar system in a village without involving the villagers in the task. This model neither increases the self-reliance of villagers, nor enhances their skills or employment opportunities. The Tilonia model, which increases self-reliance, skills and employment prospects of villagers, should certainly be the preferred model.

Recently the cause of decentralised renewable energy-based systems has been helped by the campaigns of Greenpeace. In particular, attention has been drawn to an intensive campaign in Bihar state which convinced many people of the usefulness of decentralised renewable alternatives for villagers who have been treated so shabbily by the centralised electricity systems and grids. As this organisation's campaign asserted strongly, 'Greenpeace believes that a resurgent Bihar can chart an alternative development pathway via decentralised energy infrastructure to provide for the energy needs of the rural population in an equitable and sustainable manner. Bihar needs an energy revolution now and decentralised renewable energy can fuel that change.'

Greenpeace has demanded that a state-based regulatory framework should be developed to encourage utilisation of renewable energy through a Renewable Energy Law. The new law should be drafted with proper and wide consultations. Adequate infrastructure should be created at the government level for successful implementation of decentralised renewable energy.

These and other various efforts for the progress of decentralised renewable energy systems should link up with *panchayat raj* and reform of *panchayat raj* so that the chances of such a decentralised renewable energy model succeeding in more and more villages can increase. ◆

Bharat Dogra is a freelance journalist and currently a Fellow at the Institute of Social Sciences, New Delhi. This article is extracted from a booklet by the same author entitled Renewable Energy & Panchayats *(2010).*

Tribute to Patrice Lumumba on the 50th anniversary of his assassination

It was in January 1961 that Patrice Lumumba, the great African freedom fighter and the first lawfully elected prime minister of Congo, was assassinated. *Carlos Martinez* pays tribute to this passionate anti-colonialist on the 50th anniversary of his death.

Patrice Lumumba being taken to prison after being ousted in a coup. He would later be assassinated by firing squad after several days of beatings and torture.

MALCOLM X, speaking at a rally of the Organisation of Afro-American Unity in 1964, described Patrice Emery Lumumba as 'the greatest black man who ever walked the African continent. He didn't fear anybody. He had those people [the colonialists] so scared they had to kill him. They couldn't buy him, they couldn't frighten him, they couldn't reach him.'

This was three years after Lumumba was assassinated by Belgian mercenaries in the breakaway state of Katanga (southern Congo).

Why was Lumumba killed? Because he was a relentless, dedicated, intelligent, passionate anti-colonialist, Pan-Africanist and Congolese nationalist; because he had the unstinting support of the Congolese masses; because he stood in the way of Belgium's plan to transform Congo from a colony into a neo-colony.

Until the mid-1950s, the nationalist movement had been dominated by the small Congolese middle class. It was not a radical movement; it was composed of clerical workers, mid-level army officers, supervisors and so on, who were getting a cut of the enormous profits Belgium was making out of Congo. They opposed direct colonialism in the sense that they disliked white rule and were sick of being second-class citizens in their own country; however, the basic economic institutions of colonialism suited them quite well. They were scared by the Congolese masses – the peasants, the workers, who worked in slave-like conditions for a pittance, and who bore the brunt of the famines and the genocidal actions of the colonisers.

The masses wanted control. They wanted the Belgians out, not just moved from the front seat to the back seat. They didn't want white oppressors to be replaced with black oppressors; they wanted freedom and justice; they wanted democracy; they wanted nationalisation; they wanted to be listened to; they wanted to rule.

Total decolonisation strategy

Lumumba was the key figure in mobilising these masses. Joining the nationalist movement around 1955, he quickly grew disillusioned with the middle-class elite and addressed himself to the most oppressed sections of society. The peasants and workers of Congo were constantly radicalising him. He developed a clear strategy for total decolonisation, to be brought about on the basis of broad political action by the masses.

In 1958, he and others formed the broad-based Mouvement National Congolais (MNC), which immediately established itself as the key organisation in the struggle against colonial rule.

The Belgians and their friends in the 'international community' were shocked by the pace of development of the nationalist movement. In the mid-1950s, Belgium – which had exercised the most vicious, murderous, plunderous rule over Congo – was confident that it would retain its African colony for at least another century. However, by 1959, the MNC had gained such popularity and credibility that the Belgians knew their time was up.

But they had a backup plan: to replace traditional colonialism (white rule, backed by a military occupation) with neo-colonialism (black rule in white interests, backed with Belgian money, advisers and mercenaries). That way, Belgium's theft of Congo's sumptuous natural wealth (including massive reserves of coltan, diamonds, copper, zinc and cobalt) would continue uninterrupted.

Reading the writing on the wall, the Belgians decided to grant independence much sooner than anybody was expecting, in the hope that they would prevent the further growth of the nationalist movement; that it would be denied the chance to develop a coherent organisational structure and would therefore be heavily reliant on Belgium's assistance. However, Lumumba had rallied the best elements of the nationalist movement around him and clearly had no intention of capitulating.

At the independence day celebrations on 30 June 1960, Belgian King Baudouin made it perfectly clear that he expected Belgium to have a leading role in determining Congo's future. In his speech, he chose not to mention such unpleasant moments in history as the murder by Belgian troops of 10 million Congolese in 20 years for failing to meet rubber collection quotas. Instead he advised the Congolese to stay close to their Belgian 'friends': 'Don't compromise the future with hasty reforms, and don't replace the structures that Belgium hands over to you until you are sure you can do better… Don't be afraid to come to us. We will remain by your side and give you advice.'

He and his cohort were therefore shocked when Lumumba, newly elected as Prime Minister, took the stage and told his countrymen that 'no Congolese worthy of the name will ever be able to forget that it is by struggle that we have won [our independence], a struggle waged each and every day, a passionate idealistic struggle, a struggle in which no effort, privation, suffering, or drop of our blood was spared.'

Referring clearly to Belgium, Lumumba stated that 'we will count not only on our enormous strength and immense riches but on the assistance of numerous foreign countries whose collaboration we will accept if it is offered freely and with no attempt to impose on us an alien culture of no matter what nature'.

Lumumba, caring nothing for being polite to the Belgian dignitaries in the audience, concluded: 'Glory to the fighters for national liberation! Long live independence and African unity! Long live the independent and sovereign Congo!'

Ludo De Witte writes of this historic speech: 'Lumumba [spoke] in a language the Congolese thought impossible in the presence of a European, and those few moments of truth feel like a reward for eighty years of domination. For the first time in the history of the country, a Congolese has addressed the nation and set the stage for the reconstruction of Congolese history. By this one act, Lumumba has reinforced the Congolese people's sense of dignity and self confidence.' (De Witte, *The Assassination of Lumumba*)

Colonial machinations

The Belgians, along with the other colonialist nations, were horrified at Lumumba's stance. The Western press was filled with words of venom aimed at this humble but brilliant man – a man who dared to tell Europe that Africa didn't need it. The French newspaper *La Gauche* noted that 'the press probably did not treat Hitler with as much rage and virulence as they did Patrice Lumumba.'

In the first few months of independence, Belgium and its Western allies busied themselves whipping up all kinds of political and regional strife; this led to pro-Belgium armies being set up in the regions of Katanga and Kasai and declaring those regions to be independent states. This was of course a massive blow to the new Congolese state. Meanwhile, behind the scenes, the Belgians (along with their friends in France and the US, and with the active support of the UN leadership) developed plans for a *coup d'etat* that would remove Lumumba from power. This was effected on 14 September, not even three months after independence.

But even under house arrest, Lumumba was a dangerous threat to colonial interests. He was still providing leadership to the masses of Congolese people, and he still had the support of the majority of the army. Therefore the Belgians connived with the CIA and with their Uncle Tom stooges in Congo to murder Lumumba. That Belgium is most responsible for Lumumba's death is amply proven in Ludo De Witte's book, *The Assassination of Lumumba*. Furthermore, the UN leadership was complicit, in the sense that it could very easily have put a stop to this murderous act.

Lumumba, along with three other leading nationalists, was assassinated by firing squad (led by white Belgian officials in the Katangan police force), after several days of beatings and torture.

When the news of Lumumba's murder broke, there was outrage around the world, especially in Africa and Asia. Demonstrations were organised in dozens of capital cities. In Cairo, thousands of protesters stormed the Belgian embassy, tore down King Baudouin's portrait and put Lumumba's up in its place, and then proceeded to burn down the building.

Sadly, with Lumumba and other leading nationalists out of the way, the struggle for Congo's freedom suffered a severe setback which was not to be reversed for over three decades.

There are a lot of important lessons to learn from this key moment in the history of anti-colonial struggle; lessons that many people have not yet fully taken on board. As Che Guevara said: 'We must move forward, striking out tirelessly against imperialism. From all over the world we have to learn lessons which events afford. Lumumba's murder should be a lesson for all of us.'

To this day, Western governments and media organisations use every trick in the book to divide and rule oppressed people, to stir up strife, to create smaller states that can be more easily controlled. To this day, they use character assassination as a means of 'justifying' their interventions against Third World governments – just look at how they painted Aristide in Haiti, or how they paint Chavez, Castro and many others. To this day, 'UN intervention' often means intervention on the side of the oppressors. To this day, the intelligence services use every illegal and dishonest means to destabilise and cause confusion. We all fall for these tricks far too often.

On the bright side, the past decade has been one of historic advances; advances that point the way towards a different and much brighter future. The political, economic, military and cultural dominance of imperialism is starting to wane. As Seumas Milne pointed out at the recent Equality Movement meeting, the war on terror has exposed the limits of Western military power. Meanwhile, the economic crisis has started to discredit the entire neoliberal model. The rise of China, the wave of progressive change in Latin America, the emergence of other important Third World players – these all indicate a very different future.

In Congo itself, progress is being made, although it often seems frustratingly slow (principally because the West is still sponsoring armies in support of its economic interests). But, as De Witte writes, 'the crushing weight of the [Mobutu] dictatorship has been shaken off'. We can't overstate the importance of this step.

As we all move forward together against imperialism, colonialism and racism, we should keep Lumumba's legacy in our hearts and minds.

'Neither brutal assaults, nor cruel mistreatment, nor torture have ever led me to beg for mercy, for I prefer to die with my head held high, unshakable faith and the greatest confidence in the destiny of my country rather than live in slavery and contempt for sacred principles. History will one day have its say; it will not be the history taught in the United Nations, Washington, Paris, or Brussels, however, but the history taught in the countries that have rid themselves of colonialism and its puppets. Africa will write its own history and both north and south of the Sahara it will be a history full of glory and dignity … I know that my country, now suffering so much, will be able to defend its independence and its freedom. Long live the Congo! Long live Africa!' (Lumumba's last letter to his wife, Pauline). ◆

Carlos Martinez is a London-based political analyst who focuses on issues of racism and culture, and runs the website Beat Knowledge (beatknowledge.org), on which this article first appeared.

Kyongjoo Hong Ryou (1959-2007) was Assistant Professor of 20th-century British and American poetry at Sookmyung Women's University, Seoul. Poetry was her lifelong passion and while she was well known as a translator of poetry, she is best remembered as an accomplished poet in her own right.

Jasmine

Kyongjoo Hong Ryou

Saturday evening grows
darker as the teapot
whistles: I get a mug,
humming, and breathe
the ancient scent,
faintly familiar.

Every summer we
gathered the young
jasmine leaves, while I sang
songs that I learned in school.
On sunny days, she spread
the leaves out in the back
yard where I sat and dreamt
the scent of long winter
nights beside the hot stove.
Immense warmth calms my throat

as I hear
what's not there anymore.
Mama's dead: someone else
is picking the leaves,
drinking my tea
in nights of winter.