

THIRD WORLD

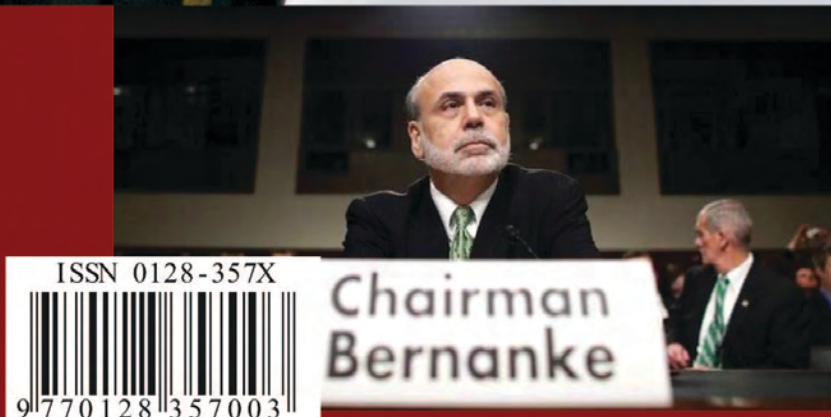
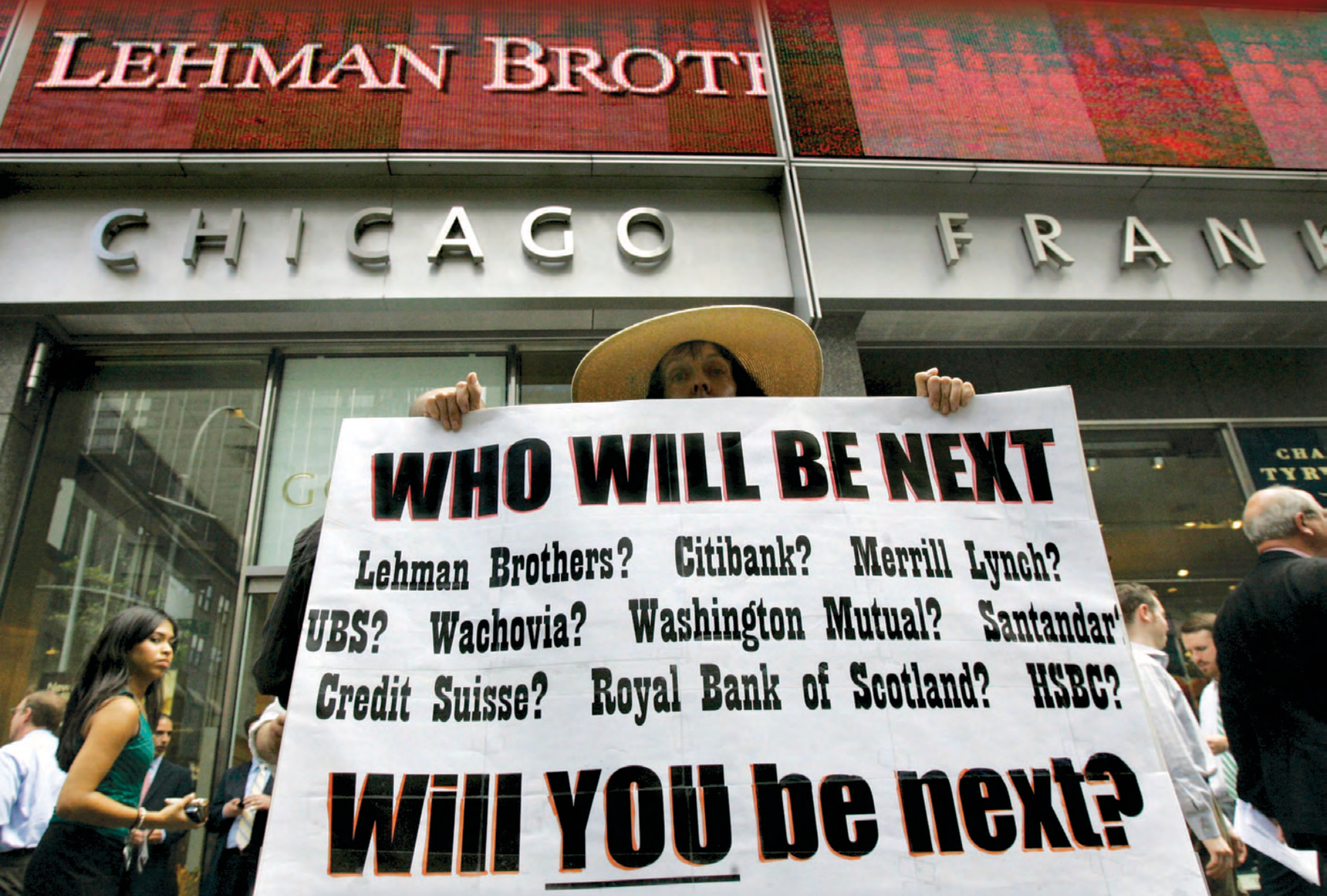
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The Great Recession FIVE YEARS ON



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Editor's Note

SEPTEMBER marked the fifth anniversary of the collapse of the Wall Street firm Lehman Brothers which triggered the 2008 global financial crisis. This led to a global recession (dubbed the Great Recession) from which the world economy has yet to fully recover.

The crisis was the product of policies of financial liberalisation and deregulation pursued by successive US administrations since the 1990s. Founded on a quasi-religious belief that the Market knows best and is capable of regulating itself, such policies entail the repeal of laws and regulations governing financial markets and firms. Finance, according to this dogma, can only work its magic if it is freed from such onerous regulations.

However, the dangers of deregulating financial markets had already become evident in 1997 when the Asian financial crisis broke out first in Thailand and then in other nearby countries. When the contagion hit the US market, it barely averted a disaster.

Another red alert was sounded in 2001 when speculation in the US stock markets on Internet company shares created a dangerous 'bubble' ('dotcom bubble') which threatened to plunge the US into another financial crisis. Again, the threat was barely contained.

Despite all this, the financial 'reforms' to free the financial markets continued apace. Laws and regulations designed to prevent reckless risk-taking and financial speculation were repealed, including some important legislation which had been enacted after the bitter experience of the 1930 Great Depression.

In this congenial, liberalised environment the financial firms soon became the dominant players in the US economy. They embarked on a frenzy of financial speculation involving huge leverage and short-term loans. They claimed that the new exotic financial instruments they had devised to package these loans as securities to be sold on financial markets reduced the dangers of a financial crisis erupting by spreading the risks.

The chickens finally came home to roost in 2007 when prices on the US housing market, which had provided the foundation for all this frenzied activity, began to drop precipitously. When the housing market finally collapsed the following year, it brought down with it the whole chain of interdependent lenders and creditors – house buyers, mortgage brokers and lenders, insurers and securitisers – who had been sustained by continuously rising house prices. Among the securitisers which specialised in converting the loans into securities for sale was Lehman Brothers. Far from reducing risk, the exotic financial instruments which Lehman and other Wall Street banks and firms had created proved to be so toxic that they transformed a property crash into a global financial crisis.

In the aftermath of the crisis, there was much talk of financial reform and a major piece of legislation was initiated by two US Congressmen (the Dodd-Frank Act) to give effect to the desired reforms. However, it is now clear that financial industry lobbyists have succeeded in gutting the Act so as to render it ineffective. As a result,

Wall Street has been able to carry on its business untrammelled. More ominously, many of the pre-crisis indicators of the 2008 maelstrom are resurfacing.

Although developing countries were not directly hit by the 2008 crisis, they were severely impacted by the resulting drop in world trade and investment. Fortunately, Chinese economic growth helped to pull these countries from the downturn.

However, the US failure to effect reforms leaves these countries starkly exposed to any economic shockwaves from the West. A foretaste of possible dangers was recently provided by the US monetary policy initiative known as quantitative easing. The US Federal Reserve has chosen to stimulate growth by, in effect, pumping some \$85 billion every month into the economy, without any regard to the impact of such a policy on the developing countries.

The point is that while the provision of such cheap monies may have helped to boost the US stock markets, it has otherwise only induced US borrowers to speculate on stocks, real estate and currencies in the emerging markets (EM). While this gave a temporary boost to these economies, the inevitable denouement came when the Federal Reserve chairman began speaking about a 'tapering' of the amount of quantitative easing. As a *Euromoney* article put it graphically: 'The market tremors from Fed chairman Ben Bernanke's flirtation in May with tapering reverberated from Sao Paulo to Johannesburg, wiping off \$1 trillion in EM stocks between May 22 and end-August, while a basket of 20 EM currencies fell to 2009 lows, amid fears that tighter global monetary conditions would trigger a slowdown in developing economies and capital outflows.'

By now it should be clear to developing countries that they cannot afford to wait for the US to get its act together. They have to get together regionally to develop further mechanisms to protect their financial systems against hot monies. Domestically, they have to institute capital controls to protect their economies. If they fail to take such necessary measures, they will have only themselves to blame.

Our cover story for this issue considers the situation five years after the Lehman debacle. We highlight the failure of the drive for financial reforms and the irresponsible manner in which the US is managing its effort to boost its economy. By spotlighting its adverse impact on developing countries, we seek to make a case for developing countries to take the initiative to secure their economies without waiting any longer for global action.

— The Editors

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Although five years have elapsed since the Lehman Brothers collapse triggered a global financial crisis, the effects of the Great Recession are still being felt, including in developing economies. Picture shows a protest in India against a fall in the value of the rupee currency. 17

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Fukushima, fuel rods, and the crisis of divided and distracted governance

Although a potential catastrophe is unfolding in Fukushima, the authorities in Japan are not displaying a real sense of responsibility in handling the worsening nuclear crisis. *Andrew DeWit* exposes the shameful failure of leadership by Prime Minister Shinzo Abe.

JAPAN is more fluid than it has been in years. The end of Japan's *nejire kokkai* ('divided Diet') via Abe's resounding win in the 21 July Upper House elections was hailed in many circles in Japan and internationally as heralding three years of stability in government. But perhaps this sense of stability has very weak foundations.

Geopolitics and the economy certainly could deliver significant shocks to the regime. But if there is one thing that has immense, latent potential to disrupt the confident assumptions that the next three years will be smooth sailing, so long as the swollen multitude of officers and crew is kept compliant with rum and the lash, it is the worsening Fukushima Daiichi crisis. As Aaron Sheldrick and Antoni Slodkowski detail in an excellent overview in a 13 August Reuters dispatch ('After disaster, the deadliest part of Japan's nuclear clean-up'), among other deeply unsettling risks, removing spent fuel rods from above reactor number 4 is slated to begin in November.

It is worth summarising the sobering evidence that Sheldrick and Slodkowski present to their readers, before turning to what they inadvertently left out.

First the essential details. The roughly 1,300 used fuel rod assemblies in the pool weigh in the neighbourhood of 300 kilogrammes and contain 'radiation equivalent to 14,000 times the amount released in the atomic bomb attack on Hiroshima 68 years ago'. Being spent fuel, they contain cesium-137 and strontium-90,



Workers at the Fukushima Daiichi nuclear power plant inspecting radioactive underground reservoirs reported to be leaking into the sea. The handling of the clean-up operations at the plant has been characterised by a crisis of governance.

with half-lives of about 30 years. They also contain plutonium-239, with a half-life of 24,000 years. Sheldrick and Slodkowski rightly describe the latter as 'one of the most toxic substances in the universe'. The assemblies are to be removed from a concrete fuel pool 10 metres by 12 metres in area, and from within water 7 metres deep. The structure's base is 18 metres above ground level. Removing fuel assemblies is delicate enough at the best of times, but the pool itself may have been 'damaged by the quake, the explosion or corrosion from salt water that was poured into the pool when fresh supplies ran out during the crisis'.

Sheldrick and Slodkowski cite respected independent consultants

Mykle Schneider and Antony Froggatt, whose *World Nuclear Industry Status Report 2013* tells us that 'Full release from the Unit-4 spent fuel pool, without any containment or control, could cause by far the most serious radiological disaster to date'. The Reuters article also quotes Arnie Gunderson, a former US nuclear engineer who used to build fuel assemblies and is now director of Fairewinds Energy Education, who warns that Tokyo Electric Power Co. (Tepco), the operator of the Fukushima Daiichi nuclear plant, is 'going to have difficulty in removing a significant number of the rods'.

Last year, Tepco test-ran removal by extracting two unused fuel assemblies from the pool, but Gunderson

states that ‘To jump to the conclusion that it is going to work just fine for the rest of them is quite a leap of logic’. Like Schneider and Froggatt, Gundersen and other nuclear experts caution that there is serious risk ‘of a large release of radiation if a fuel assembly breaks, gets stuck or gets too close to an adjacent bundle’.

Gundersen points out the nature of the risk includes ‘an inadvertent criticality if the bundles are distorted and get too close to each other’. He adds, ‘The problem with fuel pool criticality is that you can’t stop it. There are no control rods to control it...The spent fuel pool cooling system is designed only to remove decay heat, not heat from an ongoing nuclear reaction.’ He also notes that the rods are vulnerable to fire in the event that they are exposed to air.

Sheldrick and Slodkowski’s investigation reveals that should the pool topple or be punctured during the

removal – a process slated to require a year but likely to be rather more protracted – ‘a spent fuel fire releasing more radiation than during the initial disaster is possible’. They add that this poses a threat to Tokyo only 200 kilometres away.

Tepco is of course quick to assure observers that they have shored up the building and that it can withstand a quake on the scale of the 2011 disaster. But as Sheldrick and Slodkowski point out – in what has to be the charitable understatement of the year – the company has a ‘credibility problem’. Indeed, given the litany of mishaps at Fukushima Daiichi over the past 29 months, it would be better to hear Tepco voicing grave concern rather than bold assurances. Not only is there debris in the fuel pool, further complicating matters, but Kimura Toshio, a technician who worked at Fukushima Daiichi for 11 years, cautions that the

normally ‘delicate task’ of removing spent fuel is normally done with the aid of computers, but won’t be in this case: ‘Previously it was a computer-controlled process that memorised the exact locations of the rods down to the millimetre and now they don’t have that. It has to be done manually so there is a high risk that they will drop and break one of the fuel rods.’

All of this is worrisome enough. But perhaps because there are just so many distressing forces at play in this crisis, Sheldrick and Slodkowski left out the water problem (see Andrew DeWit, ‘Water, water everywhere: Incentives and options at Fukushima Daiichi and beyond’, *The Asia-Pacific Journal*, Volume 11, Issue 32, No. 6, 12 August 2013). Expert commentary, including from the Ministry of Economy, Trade and Industry (METI)’s Nuclear Accident Response Director, has warned that the con-

The nuclear industry’s meltdown

Emily Schwartz Greco and
William A Collins

THE first thing to remember about nuclear power is that it’s not safe. Just ask Japan.

The second thing to remember is that nuclear power isn’t cheap. The US state of Connecticut draws half its juice from nuclear reactors and has the second-highest rates in the country, after Hawaii.

The third thing to know is that everybody lies about it. The power plant designers lie, the builders lie, the utility companies lie, the regulators lie, and the politicians lie.

Take Tokyo Electric Power Co. (Tepco), the utility that ran the reactors in Japan’s Fukushima prefecture that failed after a tsunami and earthquake struck. Tepco still won’t admit just how serious a disaster that was and continues to be.

But kids living downwind are already getting thyroid cancer, fish in the nearby sea are no longer safe to eat, and radioactive tuna are cruising the California coast. As with the Chernobyl disaster, tens of thou-

sands of people may never be free to return home.

Meanwhile at many US nuclear reactors, efficiency is declining and the risk of accidents is rising. Unlike at a coal-fired power plant, you can’t just hit the off switch if there’s a flood, drought, or power failure. All those spent nuclear fuel rods have to be cooled for years to come, whether you have water handy or not.

In Connecticut, Dominion Resources, the operator of the state’s only nuclear power plant, is seeking permission to keep pumping water from Long Island Sound, even when global warming has heated that body up beyond the temperature allowed by federal regulations.

Still not worried? Consider this: Former US Nuclear Regulatory Commission (NRC) Chairman Gregory B Jaczko declared in April that he believes every single nuclear power plant operating in the nation should be shut down, starting with the riskiest.

This isn’t completely far-fetched. So far this year, power companies have announced plans to close five reactors. Most recently, Entergy re-

lented on its mission to keep its creaky Yankee nuclear plant in Vermont operational over the state government’s clear objections.

At least 37 more reactor closures could follow, according to Mark Cooper, a senior fellow for economic analysis at Vermont Law School’s Institute for Energy and the Environment.

Can environmentalists celebrate this nuclear downsizing trend?

Nope. Most experts aren’t attributing this rash of reactor closures to any newfound safety concerns among the industry’s leaders. Instead, they’re blaming the fracking boom.

As it devastates the environment, cheap fracked gas is sapping demand for nuclear reactors and coal-fired power plants. ♦

Emily Schwartz Greco is the managing editor of OtherWords (otherwords.org) – a non-profit editorial service run by the Washington-based Institute for Policy Studies – from which this article is reproduced. OtherWords columnist William A Collins is a former state representative and a former mayor of Norwalk, Connecticut.

stant flow of water may lead to further structural instability of the buildings.

Keep in mind that the risky fuel-rod removal is likely to take a good deal longer than the year projected by Tepco. And recall that the Abe government's declared intent to intervene in the crisis is at present largely limited to debating the budget for a radical 'freeze' of ground water. The measure will not be funded until at least the start of the next fiscal year, 1 April, and is not likely to be in place before sometime in 2015. In the meantime, 1,000 tonnes of water per day runs down from the surrounding hills, further softening the ground under the facilities (which sits over an aquifer), sending more contamination (including strontium-90) out to sea, and distracting Tepco and its ostensible overseers in the Nuclear Regulation Authority (NRA).

Tepco is of course trying to pump up some of the flow of water and store it in tanks, but its capacity to handle the flow as well as construct and put it in storage tanks is not infinite. It is also trying to do this as cheaply as possible, because even though it is a nationalised entity (as of 25 July of last year), any financial assistance it receives from public coffers is deemed a loan that it has to pay back. So it is doing everything with an eye on costs, including constructing the storage tanks for contaminated water out of the cheapest materials possible. Apparently, some of these containers have already begun leaking (according to statements from former workers at the site). And it is almost certain that there will be significant leakage as the months go by due to the rusting of bolts and other parts of the tanks, which are in contact with highly contaminated and thus corrosive water.

What, me govern?

Consequently, the incredible – and inexcusably risky – crisis of governance at Fukushima Daiichi has been gaining increasing and very well-deserved attention. As the *Financial Times* reported on 25 October 2012,

the nationalisation process allowed significant leeway for Tepco to work with its political allies and fight over 'everything from the level of government ownership to salary cuts for managers and the size of a rate increase for Tepco's residential customers, which the utility said it needed to cover accident-related costs'. The *Financial Times* noted that observers regarded this as 'bewildering'. This was because the company was in such an obviously weak position in the wake of extraordinary irresponsibility on all fronts. The paper reported that 'the process underscored the depth and resilience of Tepco's influence, and that of the "nuclear village" of utility executives, bureaucrats and lawmakers that built Japan's atomic power industry, which before Fukushima generated 30% of the country's electricity'.

The company's scope to conduct operations according to its in-house priorities rather than public safety is thus considerable, even after nationalisation. Prime Minister Abe Shinzo met with the Tepco chairman and other outside board members in April of this year and declared that the government would help the firm deal with its multiple problems. According to the *Wall Street Journal* of 1 August this year, Abe insisted 'it is important that Tepco is reborn as a business organisation'. But tellingly, Abe's encouraging words came with no concrete commitments in regard to the outside board members' requests for assistance with 'compensation, decommissioning and cleaning up the site' (Fukushima Daiichi and its environs), which they regard as 'beyond one company's capabilities'. Abe's 8 August announcement that the government would get involved has essentially maintained the ambiguity of roles and responsibilities, even though the crisis is potentially more a threat to national security than anything the North Koreans are up to.

So, here we have a potential catastrophe unfolding in plain sight, in that the flow of water, its contamination, the constraints on storage capacity, and other factors are generally understood by the overseers. They

know – or certainly should know – that they are drifting into ever more risky circumstances, as the volumes of water increasingly render the ground underneath the reactors unstable. All parties also know that Tepco is prepared to start removing fuel rods from November, in an operation made highly dangerous by the high levels of ambient contamination, the subsidience of the ground, and poor coordination of human resources on the site (including multiple chains of command which prevent or at least greatly impair implementation of decisions), among other factors.

And yet the multiplicity of actors (the Abe Cabinet, Tepco, METI, the NRA and others) leads to buck-passing rather than responsible and decisive decision-making. Indeed, in a 17 August editorial, the *Asahi Shimbun* outlines how even the NRA 'is not showing an all-out commitment to the challenge'. The *Asahi* declares, 'It would be shameful if TEPCO, the industry ministry, which has been a champion of nuclear power generation, and the NRA, the nuclear regulator, try to shuffle off responsibility onto one another or make their responsibility vague, thereby causing delays in the implementation of necessary measures.'

Given the implications of a mishap in fuel-rod removal, as well as the myriad other problem areas at the plant, the word 'shameful' seems hardly strong enough. To help bolster the Abe administration's incentives, perhaps the International Atomic Energy Agency (IAEA), the global nuclear village, and others keen to promote nuclear power in the face of Fukushima, might take a long, hard look at the facts and provide leadership to resolve what is unravelling on site. Each crisis at Fukushima costs them too, and a catastrophe would render all their efforts for naught. ♦

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Get the frack out!

On one level, the debate over fracking, i.e. hydraulic fracturing, is about energy extraction and the impact of this process on the environment. But dig deeper and there are bigger questions to be asked and answered, says *Almudena Serpis*.



A demonstration against fracking in New York state in the US. Fracking has prompted worldwide protest.

THE images of farmers in the United States igniting their tap water have gone round the world. These astonishing cases are one of the consequences of fracking, as shown in the Oscar-nominated documentary *Gasland*. 'Fellow citizens of Pennsylvania, we have a serious problem.' These were the words of *Gasland* creator Josh Fox, addressing a crowd in November 2012. Almost a year on, crisis-stricken times have taken fracking to the forefront on a global scale.

Fracking is rife in the United States, and some European countries are giving it the green light. The UK, for example, lifted its ban on fracking just a few months ago, prompting strong protest. But it's not just Britain doing a U-turn: countries such as Greece, Spain, Germany and Sweden are also jumping onto the fracking bandwagon. This complex practice of extracting shale gas from deep underground is sold as a promise of getting nearer to energy self-sufficiency, but it has been proven to have gloomy consequences for the environment.

'The current economic situation coupled with high levels of political corruption makes it easy for the en-

ergy lobby to find open doors wherever it pleases,' says a member of the anti-fracking assembly of Burgos in northern Spain. He tells us that now that the fight for fossil fuels is getting tougher, the search for other resources has begun in earnest.

So what is fracking about?

Fracking (hydraulic fracturing) consists of fracturing shale rock to release natural gas through the 24-hour non-stop exploitation of wells that could be several kilometres deep. Because the gas is found scattered throughout the rock, it is accessed using explosives to open up cracks into which high-pressure fluid is injected to force the gas into the pipes that will carry it up to ground level.

Paco Ramos, Climate and Energy Unit Head of Greenpeace Spain, explains that the fluid used in fracking is made up of 98% water and sand, the remaining 2% being a mix of some 600 highly toxic chemical agents (including mercury, lead, uranium and methanol). The migration of this fluid – usually due to bad sealing and poor well construction – is a commonly documented problem. And it is the leaching of these contaminants into the surrounding land and water sup-

plies that is causing all the concern and controversy, with many objectors warning that this pollution contaminates and even destroys aquifers. Evidence of this is cited in a report on fracking compiled by the Spanish organisation *Ecologistas en Accion*. And this contamination is also the reason why US farmers' water may actually catch fire.

The average life of an extraction operation is just seven years, with productivity slumping by 60-80% in the first year alone. Fracking is so intensive because, in order to maintain high levels of extraction, new platforms have to be built and run continuously.

Last year, the anti-fracking group Fracking EZ Araba published a report on fracking, which estimated that in order to produce just 10% of gas consumption in Britain for the next 20 years, some 25,000 to 30,000 wells would be needed; this would dictate an opening rate of 1,250 to 1,500 wells each year for the next two decades. The same report also warns that badly sealed and abandoned wells can result in the leakage of methane – a much more potent greenhouse gas than CO₂ – into the atmosphere.

Equally worrying, a study carried out by seismologist Austin Holland at the Oklahoma Geological Survey in August 2011 established a link between fracking and unusual seismic activity, which can cause low-magnitude earthquakes. In the UK, Cuadrilla Resources had to cease its fracking activities in May 2011 after two earthquakes near Blackpool were linked to them. But the company was subsequently given the go-ahead again.

Uncovering the truth

You may find some groups claiming that fracking first started 40 years ago in the United States and that since then, and thanks to four decades of

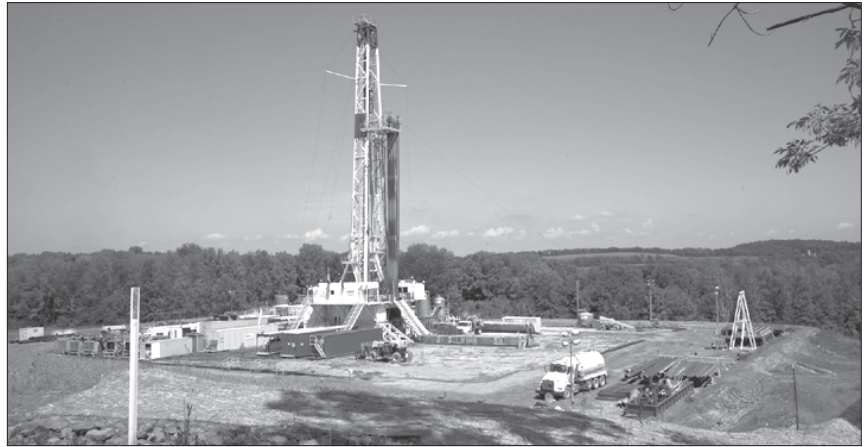
experience, all the right legislation has been passed to make the practice safe. But Paco Ramos suggests otherwise: 'Around 40 years ago the United States was running tests on fracking, but it was not until 2005 that this process truly began. So that makes it very recent. And to be able to get going so quickly, they did not focus on special legislation, but instead simply repealed existing environmental protection laws.'

In 2005 the fluids used in hydraulic fracturing were exempted from protection under the Safe Drinking Water Act enforced by the US Environmental Protection Agency, creating what is known as the Halliburton loophole, after a highly controversial review established that there was no real threat to drinking water.

Not only does Europe lack common legislation covering the environmental protection and safety requirements of fracking activities, but there is also a deep division of opinion between countries. Whilst France, Ireland and Bulgaria have declared a moratorium on fracking, in countries like Spain and the UK the headlines concentrate on the alleged benefits of fracking.

Taking action

Unsurprisingly, fracking has prompted worldwide protest, with



A fracking rig in the US. Critics warn that the pollution caused by fracking can contaminate and even destroy aquifers.

anti-fracking action led by ecology groups, NGOs and other environmental organisations. And slowly ordinary citizens are saying no to fracking too. Last year a coalition of 36 environment and health-related NGOs from Europe, the United States, Australia and South Africa published a manifesto against fracking, aimed at raising awareness.

Paco Ramos stresses that it is important to remember the basics: 'We really can't know how much [shale] gas there is: we are just speculating. It could meet less than 10% of demand, and we have to remember that fracking is competing against renewable energies.'

He is right because, whatever the threat to the environment and health,

the fracking debate does throw up questions we ignore at our peril – particularly those pertaining to how best to meet our collective energy demands. A UK mining engineer told me: 'We all use electricity; we want to travel by car or go on holiday by plane. Where do we think all this comes from? If it is not in our backyards but in a faraway distant land, then people think that's OK. But now it looks like we might have to make some sacrifices to meet our energy needs. It seems it's another story entirely.'

Anti-fracking organisations believe that the issue is not whether we 'frack or crack', but how we address the issues behind the question of consumption to find ways in which our overall energy, economic, social and political models become sustainable.

'Opposition is big and hopes are high,' says a member of the anti-fracking assembly of Burgos.

However, rethinking the way we use our resources is difficult for anyone who is not in contact with how we acquire those resources in the first place – which might be where we all need to start. ♦

Almudena Serpis is an activist and writer involved in social movements in Spain. This article is reproduced from Resurgence & Ecologist magazine (No. 280, September/October 2013). To buy Resurgence & Ecologist, read further articles online or find out about The Resurgence Trust, visit www.resurgence.org. All rights to this article are reserved to The Resurgence Trust; if you wish to republish or make use of this work, you must contact the copyright owner to obtain permission.



Anti-fracking organisations see a need to address the issues behind the question of consumption to find ways in which our overall energy, economic, social and political models become sustainable.

Colombian protests show cracks in disastrous economic model

The wave of popular unrest sweeping through Colombia, particularly in the rural areas, is the result of two decades of neoliberal economic policies pursued by successive governments. However, as *Patrick Kane* points out, it is the country's free trade agreements with the US and Europe which have sparked off the recent upheavals.

COLOMBIA bore witness to a remarkable uprising in recent weeks. Hundreds of thousands of small and medium-scale farmers, miners, students, health workers, lorry drivers and teachers staged a national 'agrarian and popular strike' for almost three weeks, despite facing a military response by President Juan Manuel Santos' government which left at least 12 protestors dead and over 200 injured. The strike was the latest, and largest, in a wave of protests across different sectors which have engulfed the country this year. The unrest is only set to get deeper as the country's disastrous bilateral trade agreements increasingly impact upon a population already suffering two decades of neoliberal economic policies.

The latest uprising dominated the Colombian media, which carried footage of road blocks, mass marches, noisy protests and bloodied protestors in cities and rural areas across the country. In a symbolic demonstration, farmers poured thousands of litres of milk and other farm produce onto the road. The country's free trade agreements (FTAs) with the US and European Union (EU) have been a common thread throughout this year's protests which have united varied sectors.

Disastrous impact

In signing the FTA, which entered into force in May 2012, Colombia and the US ignored widespread predictions of the disastrous impact which it would have upon the Colombian population. In opening the Colombian economy up to US busi-



The 'agrarian and popular strike' in September was the latest and largest in a wave of protests across different sectors which have engulfed Colombia this year.

nesses selling anything from agricultural produce to university degrees, the deal forces Colombian businesses to compete with companies from the world's most powerful economy (the EU quickly followed suit and tied up its own FTA which came into force in August 2013 despite not yet having passed through the necessary parliamentary hurdles on either side of the Atlantic). The ostensible purpose of the pacts is to benefit both sides through varied measures which remove barriers to trade. However, in his 2012 State of the Nation address President Obama made clear the real *raison d'être* of the US's bilateral trade agreements when he stated, 'I will go anywhere in the world to open new markets for American products.'

The situation of Colombian farmers is emblematic of the growing unrest in the country. Having suffered

two decades of growing economic hardship under governments which have gradually increased dependence upon imported produce and eaten away at any support which they previously had, the campesinos (peasant farmers) must now contend with the impact of the FTA and the raft of legislation which the government has enacted over recent years in anticipation of the agreement coming into force. One leader told me, 'It's like putting a straitjacket onto somebody who you've already beaten senseless.' Under the pact, Colombian producers must compete with agricultural imports from the US. However, whilst the US government continues to heavily subsidise its farmers, the FTA explicitly forbids the Colombian government from subsidising Colombian agriculture.

In order to end the strike the gov-



Under Colombia's free trade agreement with the US, Colombian farmers must compete with subsidised agricultural imports from the US.

ernment agreed in the week of 9 September to freeze one of the most controversial laws passed in preparation for the implementation of the FTA. The law has been dubbed the 'Monsanto law' by the campesinos because it effectively prohibits them from using any seed which has not been 'certified' by the state, and thereby forces Colombian farmers to use the seeds of agribusiness multinationals such as US giant Monsanto. The process of certifying a seed is expensive and very technical, and thus beyond the means of many small and medium-scale producers. According to the recent documentary *9.70*, only 8% of certified seeds were registered by Colombian companies.

Furthermore, because seeds are deemed to be the intellectual property of the company which registered them, the traditional practice of holding back some seeds to use as seeds for the following year's crop is now a crime for which a farmer can be sent to jail for four years. It has been reported that more than 2.5 million tonnes of 'illegal' food has been seized and destroyed by the Colombian authorities since the decree was passed in 2010, in a country where around 40% of the rural population live in extreme poverty. This is the twisted logic of the free trade agreement.

This isn't how it was supposed to be for Colombia. Economic ana-



US President Barack Obama being applauded after signing the US' free trade agreement with Colombia in October 2011. In inking the agreement, which went into force in May 2012, the US and Colombia ignored widespread predictions of the disastrous impact it would have upon the Colombian population.

lysts have pointed to varied reasons for optimism for the country's prospects: consistently strong economic growth, bilateral trade agreements with the US, the EU and Japan, and talk of a boom in natural resource extraction-related foreign investment if and when a peace agreement is signed between the government and FARC guerrillas ending the decades-old internal conflict.

Colombia has for decades been the United States' South American model pupil. From the implementation of the national security doctrine in waging war against its own civilian population, to the implementation of 'Washington Consensus' neoliberal economic programmes and Plan Colombia, Colombia's rulers have obediently implemented policies concocted in Washington which have caused untold suffering for tens of millions of Colombians. However, for many of those involved in the protests over the past few weeks, the free trade agreements with the US and the EU are the final straw.

The agrarian and popular strike may have ended but more protests are in the offing, with university students ready to begin a new wave of protests to defend higher education against the reforms which the FTA obliges the government to enact. And therein lies the problem. Despite making positive noises about the need to create 'defence mechanisms', there is scant prospect of the US or EU permitting any meaningful alteration to their respective free trade agreements. And even less chance of the government moving away from the extractive-based neoliberal economic model. Hence its only answer to the protests is increased violence and repression of the social movement and those who defend them. In the first six months of this year, 37 human rights defenders were assassinated in Colombia, the highest six-month toll for a decade. The talk may be of peace, but stormy times lie ahead. ♦

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Less hunger, but not good enough

The annual *State of Food Insecurity in the World* report which tracks world hunger underscores the fact that despite overall progress made in hunger reduction, marked differences persist across regions, with many countries left far behind.

**Jose Graziano da Silva,
Kanayo Nwanze and
Ertharin Cousin**

EVERY year, we take a snapshot of world progress in the fight against chronic hunger. This year, the picture is looking better, but it's still not good enough.

Some 842 million people are estimated to have been suffering from chronic hunger in 2011-13, according to *The State of Food Insecurity in the World*, a report released jointly by the Food and Agriculture Organisation of the United Nations (FAO), the International Fund for Agricultural Development (IFAD) and the World Food Programme (WFP).

This figure is down from 868 million during 2010-12, and represents a decline of 17% since 1990-92. Significant as this progress may be, it cannot disguise the harsh reality: roughly one person in eight suffers from hunger.

The vast majority of undernourished people, 827 million, live in developing countries, while 16 million live in developed countries. It is unacceptable that in a world of plenty, hundreds of millions of people are denied their most basic right to freedom from hunger. The only acceptable number is zero.

One of the hard truths underscored by the report is that, despite overall progress made in hunger reduction, marked differences persist across regions, with many countries left far behind. Sub-Saharan Africa has made modest progress in recent years, but remains the region with the highest prevalence of undernourishment (24.8%).

Western Asia has seen no discernible improvement, while Southern Asia and Northern Africa have regis-



Sub-Saharan Africa has made modest progress in recent years but remains the region with the highest prevalence of undernourishment.

tered slow progress. Eastern Asia, Southeastern Asia and Latin America, on the other hand, have seen greater relief from the grind of extreme hunger, with significant reductions in both the number and the proportion of hungry people.

Equitable growth

Food security depends on a host of factors. While food availability is important, it is equitable economic growth and access to employment for the poor that enhance access to nutritious food. The report shows that transport, communication, safe water, sanitation, and appropriate healthcare and feeding practices are also crucial for reducing chronic hunger and under-nutrition.

Given that 75% of the world's poorest people live in rural areas and mainly depend on agriculture for their livelihoods, fostering inclusive growth means investing in agriculture. And this investment has been shown to pay dividends in poverty

It is unacceptable that in a world of plenty, hundreds of millions of people are denied their most basic right to freedom from hunger.

reduction.

It is estimated that growth in agriculture is five times more effective in reducing poverty than growth in any other sector. In sub-Saharan Africa, it is 11 times more effective. Since smallholder farmers produce up to 80% of available food in sub-Saharan Africa and parts of Asia, there is an obvious impact on food security as well.

Economic growth that reaches large parts of the population can reduce poverty, leading to improvements in food security. In Ghana, eq-

uitable economic growth contributed to lifting some five million people out of poverty in just 15 years, and fewer than 5% of the population were undernourished in 2011-13.

However, such growth is not always sufficient to ensure that everyone has what they need to live healthy and productive lives. In many cases, despite a reduction in hunger, nutritional status may deteriorate, for example, with the increased prevalence of child stunting.

Inadequate intake of vitamins and other micro-nutrients, a high disease burden, unsafe water, poor sanitation and poor child feeding practices at key stages of child development cause serious health problems for up to two billion people globally. Greater efforts with a holistic approach are needed to combat malnutrition.

Sustained action

Thirteen years ago, world leaders set out a series of development targets to be met by 2015 through a global partnership, known as the Millennium Development Goals (MDGs). Under MDG 1, which aims



Despite a reduction in hunger, nutritional status may deteriorate, for example, with the increased prevalence of child stunting.

to eradicate extreme poverty and hunger, the world sought to halve, between 1990 and 2015, the proportion of undernourished people.

With only two years remaining, 62 countries have already reached this target. Twenty-two of them have also achieved a higher goal, established during the 1996 World Food Summit in Rome, to halve the absolute number

of hungry people in the same time period. But extending that achievement across the board will require urgent, sustained action.

Countries need to address hunger and poor nutrition by integrating food security and nutrition into public policies and making the necessary resources available.

We urge governments, organisations and community leaders in every region to make economic growth more inclusive through policies that target family farmers and foster rural employment; strengthen social protection; scale up nutrition-enhancing interventions to improve dietary diversity and the health of the environment, especially for women and youth; and promote the sustainable management of natural resources and food systems.

Only with sustained efforts and long-term commitment will we be able to reach well beyond the MDG targets to fully interrupt the cycle of extreme hunger, malnutrition and poverty that is stifling the potential of future generations.

Better is good, but when it comes to hunger, better is not good enough. There are 842 million reasons why. —
IPS ◆

Jose Graziano da Silva is Director-General of FAO, Kanayo F Nwanze is President of IFAD, and Ertharin Cousin is Executive Director of WFP.



It is estimated that growth in agriculture is five times more effective in reducing poverty than growth in any other sector.

Short-term fixes – the bane of West African agriculture

Boosting agricultural productivity in the Sahel region is crucial to reduce chronic food insecurity, improve families' nutrition, promote economic growth and help build people's resilience, say experts, but governments still underfund the sector, as do international donors who favour short-term fixes.

WHILE there has been a renewed interest among West African states in investing in agriculture over the past five years, partly spurred by a drive towards more self-sufficiency given rising food prices (which spiked in 2008 and remained high), the sector is still underserved.

In 2009 the Economic Community of West African States (ECOWAS) renewed the 2003 Maputo pledge to commit at least 10% of their national budgets to agriculture. But on the 10th anniversary of the accord in July, only 10 of the 54 African Union countries had met this goal.

While growth in small-scale agriculture can benefit the poor twice as much as growth in other sectors, global development aid for agriculture declined by 77% between 1983 and 2006, according to a report by NGO Oxfam.

In Senegal, for example, where agriculture accounts for nearly 14% of the country's GDP and employs more than two-thirds of the labour force, NGO ActionAid says the government invested just 4.7% of its budget on agriculture in 2012.

Consciousness did rise, however, in 2008, when food prices spiked and West African governments realised they were overly dependent on imported staple grains.

'Many countries realised that being too dependent on the international market was not sustainable, and from that moment on, said "OK, if we want to be able to feed ourselves and if we want to improve the food security of our populations, we need to have a minimum level of food sovereignty. And to do this, we need to invest more in agriculture",' said Eric Hazard,



Jennifer Lazata/IRIN

Women farmers planting millet seeds in Burkina Faso. In most countries in West Africa, the majority of the population lives in rural areas, where agriculture is the main provider of food and income.

campaign manager for Oxfam's GROW campaign. Since then 'agriculture has been back on the agenda in the region'.

But in those countries that have achieved the 10% goal, such as Burkina Faso and Niger, Hazard said, the quality of the investment remains an issue.

'When you secure, say, 17% of your budget for agriculture, but only spend 65-70% of that on farmers, and the rest goes to expenditures of the Ministry, such as meetings, salaries, 4x4s, etc., you haven't really hit that 10% mark,' he told IRIN news service.

Benefiting the poor

Investment in smallholder farmers is especially important, as not only do they contribute to an estimated

80% of the continent's food production, but they are also among the region's most vulnerable and food-insecure people.

'In most countries in West Africa, the majority of the population lives in rural areas, where agriculture is the main provider of food and income,' said NGO Catholic Relief Services' (CRS) regional technical adviser for agriculture Mireille Totobesola Barbier. 'But production assets and financial access constraints, limited knowledge of improved production techniques and marketing skills, all impede growth [in the sector],' she said.

In the Sahel, repeat drought also impedes projects to boost production. It can take 3-4 years to recover from a crisis like the 2012 drought, and only if those years are good, said UN Food and Agriculture Organisation

(FAO) regional head Patrick David. 'There has been a gradual erosion of farmers' livelihoods in the Sahel – more and more farmers are moving to cities,' he said.

When a harvest fails, small farmers will sell the few animals they have; pull their children from school; become further indebted; exhaust their food and seed stocks; become more food insecure; and will be all the weaker in the face of the next crisis. This is the cycle of impoverishment in the Sahel, said David.

Burden on aid agencies

The lack of or poorly directed government funding has put increased pressure on aid agencies to secure donor funding, which is a struggle.

'Donors are often more keen to give money toward emergency or crisis situations [as opposed to long-term development projects], where you might not see the impact of the investment right away,' said the UN World Food Programme (WFP)'s West Africa focal point for its Purchase for Progress scheme, Isabelle Mballa.

FAO, for example, called for \$122 million to aid agriculture in the 2012 Sahel food security crisis, but only 48% of the requested funds were received. Activities that suffered included seed distribution, soil and water conservation projects, vaccinating animals, sending fodder to animals, and other schemes.

This year, agriculture has received just 23% of the agricultural funds it has called for, for the Sahel.

This underfunding has especially affected smallholder farmers, who often cannot afford basic inputs, such as seeds and fertilisers, and cannot access credit. Not only does their overall agricultural productivity suffer, but a lack of investment puts them at an increased risk of vulnerability during times of crisis and increases their dependence on external food aid.

FAO has three main areas of emergency response in the Sahel: supporting families to plant market gardens in the dry season; supporting rain-fed planting during the July-Sep-

tember rainy season; and helping families practise planting when water recedes from flood plains from August to December.

This year's poor funding response means 'it's too late to do any more for this year's rain-fed harvest', said David. As Robert Piper, humanitarian coordinator for the Sahel, put it, 'The window is closed.'

What smallholder farmers need

Todd Crosby, the assistant director for YaaJeende, the US Agency for International Development (USAID)'s Feed the Future's Senegal programme, told IRIN: 'The idea [behind investing in smallholder farmers] is to give them everything they need in order to succeed. It's to provide them with things like seeds, fertiliser, tools, and crop and livestock insurance. Teach them better land preparation and irrigation techniques, if they need. Help them get their product to the market.'

By doing so, farmers can not only produce more, high-quality crops – which will increase their incomes – but can also help reduce the rates of undernutrition and malnutrition in the country.

Research from Feed the Future, which works with 12 African countries to reduce poverty and undernutrition through investing in agriculture, says it was able to increase the value of food exports by \$84 million in 2012 by focusing on smallholder farmers. This has meant that more than seven million smallholder farmers in the region saw increased profits last year.

CRS's Development Assistant Programme in Burkina Faso helped increase the crop yields of millet and sorghum by an average of 30% between 2004 and 2010, simply by teaching smallholder farmers how to better manage water, preserve good seeds for replanting, and other activities.

Despite these and other successes, donors shy away from funding smallholder farmers, favouring emergency aid or larger-scale

agribusiness.

'These small farmers, they are seen as not being competitive with large-scale producers, because they don't have the tools, the technology, the resources or the means,' said WFP's Mballa. Many believe smallholders cannot produce quality products in sufficient quantities. 'But if they [smallholder farmers] are just given a little help, they too can be successful. Being a small-scale farmer does not mean you can't be productive and that you cannot earn money.'

Try machines

USAID's Crosby said there now needs to be a shift towards mechanised agriculture, as well as agricultural credit for smallholder farmers. 'Smallholder farmers often lack tractors and other machinery in the field, and there's only so much you can do with a hand hoe. But in order to get those tools, you need to have access to credit,' he told IRIN.

While there are currently a variety of microfinance schemes that offer farmers agricultural credit, Oxfam's Hazard said most have loan rates of 14-30%, which makes it nearly impossible for small farmers to earn enough money to pay back the principal plus interest within the six-month lending period, and still earn a profit.

Many of these microfinance schemes also tend to target larger-scale, urban producers.

'It's a lot harder to work with small, rural farmers because they're much more dispersed and also riskier, than a few big companies or producers,' Crosby said. 'Their [smallholder farmers'] livelihoods – and the ability to pay back the loan – often depend on weather and other factors outside their control.'

Crop and livestock insurance is one answer – it could help reduce some of the production risks, and make farmers more adaptable and resilient to climate change. The question is: where are the investors to make this work? – *IRIN humanitarian news and analysis service* ♦

A corporate coup of a different order

Although it is the US which is spearheading the Trans-Pacific Partnership agreement, there is growing resistance in the country to this free trade pact, says *Arthur Phillips*.



Civil society groups in the US have been mobilising against the Trans-Pacific Partnership (TPP), which critics say will promote corporate interests at the expense of national sovereignty.

TRANSPARENCY was supposed to be a White House priority from the very start. In his first inaugural address, when the world celebrated a historic and improbable election, Barack Obama made the case for how an open government was necessary to earn the trust of the people. The next day, he issued a memo that asserted his commitment to creating an ‘unprecedented level of openness’. And in February, more than four years later, President Obama claimed his to be ‘the most transparent administration in history’.

Perhaps the least publicised example of that statement’s dishonesty is the White House’s efforts to negotiate the biggest trade agreement since the mid-1990s in near-total secrecy.

The Trans-Pacific Partnership, or TPP, has been in negotiation since 2007. In November 2009 the Obama administration made it a centrepiece of the United States Trade Representative (USTR)’s work. The 12 countries currently negotiating the deal, which include Australia, Chile, Japan, and Singapore, account for nearly 40% of the global economy and one-third of international trade. Yet to characterise the TPP as a trade deal is imprecise, if not disingenuous. The agreement has less to do with the exchange of goods than with altering regulations

covering medicine, agriculture, finance, intellectual property, and labour and environmental standards. For example, under the TPP, if a US law conflicted with the pact’s mandates, foreign investors could sue through an independent tribunal to re-coup

June, two-thirds of Democratic freshmen in the House of Representatives signed a letter to party leadership about the lack of debate. Shortly thereafter, in response to a wave of citizen comments, the USTR gave Representative Alan Grayson access to the TPP’s text. In an email to supporters, he wrote that the TPP ‘hands the sovereignty of our country over to corporate interests’.

Around the same time, Senator Elizabeth Warren wrote a letter to then-nominee for Trade Representative Michael Froman, challenging the rationale for keeping the agreement private. ‘If transparency would lead to widespread public opposition to a trade agreement, then that trade agreement should not be the policy of the United States,’ Warren wrote. Less than a week later, Warren voted against Froman’s confirmation.

A boon for workers?

In the absence of public debate, the administration has sought to drum up political support for the TPP by making grand projections for economic growth and job creation. American labour groups have apparently not been impressed. At the AFL-CIO’s 2013 convention, held 8-11 September, the nation’s largest labour federation reached a resolution that, in a nod to the Occupy movement, read, ‘So long as the TPP appears poised to promote the rights of the 1% – rather than shared gains from trade – we, along with our international labour movement and civil society partners, will oppose its adoption and implementation.’ On 10 September the Center for Economic and Policy Research published an analysis that found the overall economic gains from the deal would be negligible, while only the highest-paid workers would gain if it became law.

their so-called ‘expected future profits’. The TPP stands as a threat to sovereignty at the federal, state and local level.

Prying at the text

Despite its claims to the contrary, the Obama administration has been far less transparent on trade-related deals than its predecessors. In 2001, during negotiations over the Free Trade Area of the Americas (FTAA), George W Bush’s trade representative made the deal’s working text public, with some redactions so as to preserve anonymity. The current administration has so far refused demands to release the TPP text. What little is known about the deal is based on the generalised testimony of those who have seen the text and on portions that have been anonymously leaked.

Frustration and outrage have been building. In March of this year, 400 civil society groups, including the Sierra Club and Global Exchange, signed a letter deploring the administration’s secrecy and demanding a public debate around the deal. Even members of Congress have been denied access to the text, and those who have seen parts of it have been unable to share it with their assistants because of its classified status. In

Given that the TPP follows in the model of previous treaties such as the North American Free Trade Agreement (NAFTA) and various bilateral trade pacts, its projected effects on employment and inequality are unsurprising. President Bill Clinton, who championed the model of corporate globalisation, had famously promised that NAFTA would bring 200,000 new high-wage jobs to the US. What actually happened was the opposite. The year before NAFTA was signed, the US trade balance with Mexico was a \$1.6 billion surplus. In 2011, it had become a \$64.5 billion deficit, representing hundreds of thousands of lost jobs.

More recently, in October 2011, President Obama signed bilateral trade agreements with Colombia, Panama, and South Korea. The administration's main promotional pitch was, again, the promise of jobs. According to the White House, the deal with Korea would support 70,000 jobs in the US and boost economic growth by \$11 billion. Yet after just one year, the Economic Policy Institute found that the US trade deficit with Korea increased by nearly \$6 billion, representing a net loss of more than 40,000 US jobs, many of them in manufacturing.

Resisting a threat

If the TPP only concerned trade – import tariffs and export quotas, for example – perhaps citizens and elected officials would not be so alarmed by the lack of transparency. But as Sharon Treat, a member of Maine's House of Representatives, explained to the Toward Freedom website, 'These agreements cover soup to nuts: you're talking about everything from financial regulations to environmental regulations to labour policies to, well, everything.' Treat is a member of one of 28 committees that are granted access to portions of the TPP's negotiating text, ostensibly as a way for officials to receive public input; however, the vast majority of those who sit on the committees, more than 600 individuals, are corporate executives and lobbyists. She

went on, saying, 'I know more about this sort of thing than the average person, yet I've been taken aback by some of what I've learned in terms of how these agreements reach into everything and could potentially overturn many of the laws and regulations that protect public health and the environment.'

On 21 September, while TPP negotiators were wrapping up meetings in Washington DC, people from environmental and social justice groups including Veterans for Peace, CODEPINK, and Earth First! were busy planning demonstrations against the deal. Two days later, protesters successfully scaled the Office of the USTR and dropped a series of yellow banners that read, in red and black text, 'Transparency: Release the Text' and 'Corporate Coup against the People and the Planet'. The next day, activists formed a train they called a 'Fast Track Express' which they rode through the streets of the capital, ending at the Chamber of Congress. Their aim was to bring attention to Obama's request to have Congress grant him Trade Promotion Authority, more commonly referred to as 'fast-track'. This provision would allow White House negotiators to agree to a deal before presenting it to Congress, which would then hold an up or down vote, without the opportunity to alter or substantively debate the agreement.

Bill Moyer, a musician and activist who leads the Washington state-based Backbone Campaign and who helped organise the actions as part of a campaign called Flush the TPP, explains: 'If the progressive story is one of expanding a sense of rights and dignity and stewardship, this is the direct threat to that.' He also recognises the difficulty of organising against something that is not only incredibly secretive, but also convoluted and dry. 'I think people are disempowered by a culture that makes them feel like they have to be an expert before they have the authority to say anything,' Moyer says. 'It's really important that we get to the underlying values of the issue. I think social movements are built around the things we love, the things we can connect to

on an intimate basis.'

According to one organiser of the Occupy Wall Street movement's two-year anniversary actions, it was relatively easy to agree to focus on the TPP and the economic model it embodies. 'The TPP has been described as the anti-Occupy bill,' says Adam Weissman, a member of the Occupy Wall Street Trade Justice working group. 'If you can find an issue that Occupy is working on, the TPP is going to undermine that work. It really is a 1% power grab,' Weissman adds.

Actions in New York on 17 September included a rally in Washington Square Park, a street theatre performance in Times Square, and a march through the financial district. Reflecting on the events, Weissman says that, on the day that also marked the 226th anniversary of the signing of the Constitution, 'it seemed entirely appropriate to stand on the steps of Federal Hall, the birthplace of the Bill of Rights, directly across the street from the Stock Exchange, and talk about how we want to defend the Constitution'.

As the Obama administration ramps up its negotiations and its pursuit of 'fast-track' authority, opposition from lawmakers and activists has similarly escalated. Representative Treat, whose state legislature this year unanimously passed a joint resolution opposing 'fast-track', sees potential for a broad coalition to challenge the TPP. 'One of the things about this issue that has been kind of remarkable is that it is completely bipartisan,' she says. One group involved in planning the actions in Washington points to 14 trade agreements that have been stopped in past years due to public pressure, including the FTAA and the US-Taiwan Free Trade Agreement. Moyer offers his own rationale for resisting the TPP: 'The illusion of inevitability is a weapon of our opponent. When our opponent says we're almost done, this is a done deal – that's bullshit. Now is the time to engage.'

Arthur Phillips is a writer and researcher based in New York. This article is reproduced from the Toward Freedom website (www.towardfreedom.com).

The TPP talks and tobacco: Obligations vs rights?

The latest round of Trans-Pacific Partnership negotiations in Brunei provided a dramatic reminder of how free trade agreements can ride roughshod over human rights. *Shila Kaur* explains.

ARTICLE 25(1) of the Universal Declaration of Human Rights states: 'Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.'

The UN Guidelines for Consumer Protection and Consumers International list eight basic consumer rights, including the rights to safety, information, choice, be heard and a healthy environment.

The World Health Organisation (WHO)'s Framework Convention on Tobacco Control (FCTC), the world's first public health treaty, addresses the global tobacco epidemic through a variety of measures to reduce tobacco demand and supply, including price and taxation (Article 6), exposure to tobacco smoke (Article 8), packaging and labelling of tobacco products (Article 11), tobacco advertising and sponsorship (Article 13), cessation and treatment (Article 14), illicit trade (Article 15), and sales to minors (Article 16). With 177 member parties, the FCTC is one of the most successful treaties ever established.

Free trade agreements like the Trans-Pacific Partnership (TPP), driven by US economic interests, ride roughshod over human rights, con-



An anti-smoking billboard in Malaysia. In ongoing trade talks on the Trans-Pacific Partnership, Malaysia has sought to block the US' attempt to lift trade restrictions on tobacco products.

sumer rights and a treaty, in a shameful show of complete and utter disrespect for UN instruments and the sovereign rights of nations.

In a skirmish with the United States that has caught the attention of the international public health community, Malaysia's position on the TPP talks is noteworthy. Malaysia has made a brave stand to protect the sovereign health rights of its citizens by blocking the United States' attempt to lift trade restrictions on tobacco products. In a face-off in Brunei in August this year during the 19th round of negotiations towards the TPP, Malaysia put a spoke in the wheel when it asserted its right to regulate the sale of foreign and potentially far cheaper

tobacco products.

Also, Malaysia's position over tobacco in the TPP resonates with civil society demands to curb tobacco industry interests. As one of the 177 parties to the FCTC, Malaysia has worked hard to uphold the commitments enshrined in the treaty. The TPP will in effect dismantle the efforts Malaysia has made to date to reduce the burden of disease and death caused by tobacco products.

Interestingly the United States is the only one among the 12 countries negotiating the TPP that has yet to ratify the FCTC.

Malaysia signed the FCTC on 23 September 2003 and ratified the treaty on 16 September 2005.

To reduce the burden of tobacco-related disease and death, Malaysia has committed to implementing national tobacco control policies based on the requirements of the FCTC.

Prior to the FCTC, the Malaysian government enacted the Control of Tobacco Products Regulation 1993, which was strengthened in 2004 to prohibit tobacco product advertisement and sponsorship, restrict smoking in designated areas, ban sale to minors, and control the labelling, packaging and sale of tobacco products. Since ratifying the FCTC in 2005, Malaysia has made progress in developing and implementing stronger, more comprehensive tobacco control strategies supported by national anti-tobacco campaigns.

The TPP raises issues of obligations overriding rights. The 'compro-



TPP negotiators at the 19th round of talks in Brunei in August.

mise' that the United States offers in the TPP negotiations is laughable and adds insult to injury: 'If any tobacco-related trade dispute were to arise due to the imposition of health-related regulations, health officials would be "encouraged" to engage in consultations for tobacco control and public-health efforts.' No country should be placed in a position where its highest officials must negotiate for the nation's public health. No country should be party to a treaty where the health rights of its citizens are traded off for the economic benefit of another country. An agreement that puts a premium on trade and profits favouring one nation over the public health of numerous other nations, not only

disrespects national sovereignty but also defies all human rights principles. It is in effect an agreement that is non-negotiable and unacceptable.

No country should be party to a treaty where the health rights of its citizens are traded off for the economic benefit of another country.

The United States' position on tobacco being given no special consideration in the TPP is clearly unpopular as the health implications are

profound. The proposal has been severely criticised at both the highest policy and civil society levels in the US, including by New York Mayor Michael Bloomberg, Co-Director of the Centre for Policy Analysis Ellen R Shaffer and Director of the Citizens Trade Campaign at Public Citizen Arthur Stamoulis. All three have decried the public health implications of lowered tariffs on cigarettes and tobacco products. There is clear consensus that the proposals to lift trade restrictions will be counter-productive to public health and violate tobacco control measures.

US critics aside, the Malaysian government's proposal has also reportedly been viewed favourably by Japan – a positive sign given the latter's economic strength.

The treaty as it currently reads fails to prevent tobacco control measures from being challenged as violations of trade agreements. By making a stand against the United States' attempt to lift trade restrictions, Malaysia is also sending a clear message to the tobacco industry: it will not tolerate tobacco control measures being challenged as trade violations. In the past the tobacco industry has taken developing countries, which lack financial and legal resources, to court based on their tobacco control regulations. In view of all the ground that it has covered with regard to the FCTC and tobacco regulations, Malaysia's stand is understandable. What remains is for the rest of the 12 countries in the TPP talks to mount similar objections.

While it is clear that the United States is willing to sacrifice public health and welfare for economic interest, what is outrageous is its presumption that other nation states will share this position. The stalemate in the TPP talks is a sure signal that nations will not be coerced by US tactics. The positive fallout from the stalled talks is that the average consumer in Malaysia is beginning to sit up, take notice and follow the TPP negotiations – a development that civil society groups welcome. ♦

Shila Kaur is a health consultant with the Third World Network.



A conference of member states of the World Health Organisation's Framework Convention on Tobacco Control. The TPP could undermine tobacco control measures envisaged under the FCTC.

No respite, five years after Lehman

Five years after the Lehman Brothers collapse triggered the global financial crisis and the recession that followed, there are still no effective financial regulations in developed countries, while the developing countries face big new challenges.

Martin Khor

SEPTEMBER marks the fifth anniversary of the collapse of Lehman Brothers that was the immediate trigger for the United States and global financial crisis.

Lehman was the tip of the iceberg. Below the surface were many contributory elements. They include financial deregulation and the conversion of finance from serving the real economy into a beast that thrived on speculation, creaming layers off the productive sectors and unsuspecting consumers through new manipulative instruments.

The US subprime housing mortgage crisis was the boil that burst – where massive loans were given to homeowners who could not pay, the loans were securitised and sold to unsuspecting investors, derivatives magnified the proportions of the crisis, while the bankers made billions selling very risky ‘financial products’ as very creditworthy investments. Many collapsed or collapsing banks in the US and Europe had to be rescued in bailouts totalling trillions of dollars.

The crisis also exposed the deep deficiencies of the global financial system. The globalisation of finance meant a crisis in one part could be quickly transmitted to other parts of the system.

The deregulation of capital flows caused booms and busts in emerging economies that received inflows and then suffered sudden reversals. The lack of a stable system of currency rates results in big fluctuations.

The lack of an international arbitration system for resolving sovereign debt crises meant indebted countries could be mired in a debt-income death spiral for years.

Five years later, the lessons have



The 2008 collapse of investment bank Lehman Brothers was the immediate trigger for the US and global financial crisis.

not been learnt with respect to the US, according to Princeton University economist and former Federal Reserve vice-chairman Alan Blinder, in a *Wall Street Journal* article. The US Dodd-Frank Act of 2010 was a weak response to the crisis which, worse, is withering in the poor follow-up.

‘Far from being tamed, the financial beast has gotten its mojo back and is winning. The people have forgotten and are losing,’ Blinder concludes, giving four examples of how Dodd-Frank is not working.

First, on mortgages and securitisation, the rule that Wall Street firms that issue asset-backed securities retain at least 5% of the credit risk (to make them cautious on what they securitise) has definitional escape clauses that allow exemption for up to 95% of all mortgages.

Second, the attempt to rein in the deadly derivatives that were the source of reckless leverage that blew up in the crisis, has been woefully inadequate. Dodd-Frank calls for greater standardisation with a safer and more transparent trading environment – but the law exempts the vast majority of derivatives, and the implementation of this already-weak law has run into resistance.

Third, although credit rating agencies were blamed for their role in the crisis by blessing financial junk with top ratings, the US Congress has so far only asked for a study to reform the way the agencies work. The report has come out but is gathering dust.

Fourth is the attempt to ban banks from ‘proprietary trading’, i.e., gambling using their own funds. The so-called Volcker rule has not been implemented since Dodd-Frank became law in July 2010 because of resistance from the banks and bureaucratic squabbles.

Blinder warns that the Dodd-Frank Act is ‘taking on water fast’ (meaning: the ship is sinking) and proposes that the new Federal Reserve chair must move bureaucratic mountains and fend off banking lobbyists, instead of sympathising with Wall Street.

But the tone of his article is pessimistic indeed. We can conclude we can’t expect effective changes in the US, where inadequate policy response and rollback are caused by the strong banking lobby, the weak bureaucracy and an accommodative Congress and administration.

Five years after Lehman, if the

situation is bad on the regulatory front, it has even worsened in two other areas.

One is in economic policy to counter the recessionary effects of the financial crisis. The Keynesian-type reflationary actions of major economies coordinated by the G20 (through its London summit of 2009) did not last long, as conservative forces hit back with austerity-centred fiscal policies that seem to rule today in Europe and the US.

The big economies resorted instead to a cheap-and-abundant-credit strategy, the most important of which was the 'quantitative easing' (QE) policy of the US Federal Reserve pumping \$85 billion a month into the banking system.

But critics point out that this is planting the seeds of a new crisis in both developed and developing countries.

A significant outcome was the renewed boom of speculative capital to emerging economies, thus continuing the boom-bust cycle.

This brings us to the worsening in the second area. Many developing countries which had recovered fast from the 2008-10 crisis now face new potential crises. Their economic growth rates are dropping, their currencies falling, capital flows are reversing, and prices and demand for commodities are weakening.

Developing countries' leaders correctly point out that their economies have been victims of the developed countries' monetary policies, especially the Federal Reserve's QE.

A lot of the QE funds ended up in developing countries' equity and bond markets, as US investors searched for higher yields there, since the US interest rates have been kept near zero.

However, when the Fed chairman indicated the QE would be 'tapering off' and long-term interest rates started rising in response, the capital invested in developing countries has been flowing back to the US.

Vulnerable emerging economies have been hard hit, and worse may yet come. Especially vulnerable are those which have a current account deficit, since they depend on capital inflows to fund these deficits.



US President Barack Obama signing into law the Dodd-Frank Act in 2010. Already considered a weak response to the economic crisis, the financial reforms envisioned in the Act have not been properly followed up on.

The outflow of needed capital and the increased risk have caused their currencies and their stock markets to plunge. This in turn leads to more capital outflow, due to anticipation of further falls in equity prices and in the domestic currency itself. The currency depreciation also fuels inflation.

Thus, former stalwarts India, Indonesia, Brazil, South Africa and Turkey are now the victims of a vicious circle.

The countries affected have a few policy tools to deal with the situation. One is to try to stabilise the currency through the central bank purchasing the local currency by selling the US dollar.

But this is expensive, and the country may draw down its reserves, especially if speculators keep betting that its currency will fall by more. This is the bitter lesson that Thailand and others learnt in the 1997 Asian financial crisis.

Another policy measure is capital controls. Ideally this should be imposed to prevent inflows. But most countries allow the inflows in the good times, and then when these suddenly turn into outflows, the boom-bust problem is laid bare.

Malaysia in 1998-99 imposed controls on outflows of both residents and foreigners, which was effective in stopping the crisis. It was heavily criticised at that time, but now even the International Monetary Fund is recommending capital controls if the situation is bad enough.

Ultimately there have to be inter-

national reforms to prevent excessive capital flows from the source countries, and developed countries have to be disciplined so that their economic policies do not have negative fallout effects on developing countries.

But we will have to wait for such useful international coordination on capital flows and economic policies to take place.

Other required reforms in the global financial system are also still lacking: there are as yet no adequate measures to discipline credit rating agencies, to reform the reserve currency system, to set up a sovereign debt resolution mechanism, and to assist developing countries facing financial and trade shocks.

One bright spot is that developing countries are taking measures to help themselves. The Chiangmai Initiative – in which Asian countries can avail themselves of funds to fight off speculative attacks and fill in gaps in a balance-of-payments crisis – has been joined by a similar type of arrangement with \$100 billion funding by the BRICS countries (viz., Brazil, Russia, India, China and South Africa), announced at the sidelines of the recent St. Petersburg G20 summit. A BRICS development bank is also to follow.

It is at times of crisis or impending crisis that countries are spurred on to new initiatives to defend themselves. ♦

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.

The need for global financial reform – a Chinese view

There is a need for a systemic approach to deal with systemic financial risks and system failures, says a former chairman of the China Banking Regulatory Commission.

Liu Mingkang

WHEN the US investment bank Lehman Brothers collapsed five years ago, emerging-market economies did not hold many of the toxic financial assets – mainly American subprime mortgages – that fuelled the subsequent global financial crisis. But they were deeply affected by the drop in world trade, which recorded a peak-to-trough decline of at least 15%, with trade finance also contracting sharply, owing to a shortage of dollar liquidity. Have policymakers responded appropriately since then?

Soon after the crisis erupted, the G20 countries embraced massive stimulus packages, unconventional monetary policies in the advanced economies, and major institutional efforts, such as the Dodd-Frank financial-reform legislation in the United States and the Basel III initiative to strengthen banking standards. China's RMB4 trillion stimulus package, unveiled in November 2008, restored confidence in global commodity markets. Led by strong Chinese growth, emerging markets stabilised.

Since 2009, quantitative easing (QE) by the US Federal Reserve has resulted in record-low interest rates around the world. But, while the resulting surge in capital flows to emerging markets stimulated economic growth, it also inflated asset bubbles.

Now, with the Fed publicly considering an end to its massive, open-ended purchases of long-term securities and foreign capital fleeing home from emerging markets, many fear that Asia's economies could come crashing down, as they did in the late 1990s. Leverage in some emerging markets' household and corporate sectors has reached record levels. Chi-



There has been no major reform of the global financial architecture, with the dollar, for example, retaining its role as the world's main reserve currency.

na's annual economic growth has slowed to around 7.5%, while Indonesia and India – and, outside Asia, Brazil and South Africa – are experiencing sharp downward pressure on their exchange rates.

Moreover, there has been no major reform of the global financial architecture. China's renminbi is internationalising, but its share of global payments remains relatively small, with the dollar retaining its role as the world's main reserve currency. And, while regulatory reform is progressing, its effectiveness in addressing the weaknesses exposed by the global financial crisis will depend not only on the new rules that emerge, but also on the consistency and quality of their implementation.

There has been commendable progress on the Basel III capital requirements for banks, with 25 of 27 Basel Committee members having issued final rules. Likewise, the impact of regulatory changes resulting from major legislation and policy directives in the United States, Europe, and the United Kingdom on banking, insurance, financial-transaction taxes, anti-money laundering, and cyberspace is likely to be substantial.

Although rules on shadow-banking have yet to be formulated, another problem exposed by the crisis has

abated: America's external deficit has shrunk to a much more manageable 2-3% of GDP, accompanied by drops in the surpluses run by Japan and China. Global trade rebalancing has arrived.

Still, fiscal conditions in the advanced economies remain unsustainable, with many OECD members' debt levels hovering around 100% of GDP. Japan, which has one of the world's highest debt/GDP ratios, currently well over 200%, is engaging in a risky experiment with further monetary stimulus to try to target 2% annual inflation. In many advanced economies, both monetary and fiscal policies have reached the limits of their effectiveness.

The key questions now are whether global economic growth is self-sustaining without QE, whether emerging markets' output will continue to rise strongly, albeit at a slower pace, and whether current global financial-reform efforts will be sufficient to prevent another crisis in emerging markets.

Given the high degree of trade and financial globalisation that now characterises the world economy, there is no doubt that the slowdown in the advanced economies, which account for two-thirds of global GDP, will undermine emerging-country

growth. Indeed, the threat to withdraw QE is already having an enormous impact on emerging economies' asset markets. As real interest rates and risk premia begin to rise, the level of global trade and investment will decline.

In the coming years, emerging markets will most likely struggle with implementation of global financial regulatory standards, which apply mostly to more sophisticated financial markets. They will also confront a rapidly changing external environment and a growing need to manage capital flows more effectively, which will require much closer coordination between central banks and financial regulators.

Indeed, perhaps the most important lesson learnt in the aftermath of the collapse of Lehman Brothers is that we can no longer afford to examine problems in terms of individual institutions and from regulatory 'silos'. The global economy's high degree of interconnectivity, interdependence, and complex feedback mechanisms imply that one weak hub can bring down the entire system.

In other words, the world needs a systemic approach to deal with systemic risks and system failures. Unfortunately, there may be little hope of strengthening global financial governance as long as implementation and enforcement of rules remain at the national level.

Like other emerging markets, China is committed to financial stability and playing its role in reforming the global financial system. China was one of the first countries to sign up to the Basel III standards, and further renminbi internationalisation will be implemented in a prudent and pragmatic manner. Domestic financial reforms will focus on strengthening policy coordination and moving toward market-determined interest rates and exchange-rate flexibility.

All of these steps will contribute to sustainable domestic growth and a more stable global financial system. Other major emerging economies' policymakers would be wise to act with the same purpose in mind. –
Project Syndicate ◆

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International Conference on Modern Biotechnologies: Sustainable Innovation and Regulatory Needs



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The International Conference on Modern Biotechnologies: Sustainable Innovation and Regulatory Needs took place in Penang, Malaysia, on 7-10 November 2012. It was co-organized by GenØk-Centre for Biosafety, Norway and Third World Network.

With the increasing development and use of modern biotechnologies in agriculture, public health and industrial applications, the strengthening of knowledge of and capacity on biosafety is becoming ever more crucial. In light of this urgent need, the Conference was held to build biosafety capacity at both scientific and policy/regulatory levels with a view to improving risk assessment, risk management and policy and regulation related to these technologies, especially in developing countries where resources and capacities are often low.

This report comprises the organizers' summary of the proceedings of the Conference as well as abstracts of the presentations delivered. It examines the key issues and main recommendations put forward, within the context of the need to shape scientific research and innovation on modern biotechnologies to prevent or minimize any adverse impacts and to advance the societal interest.

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‘Lessons’ from the 2008 crisis or self-serving falsehoods?

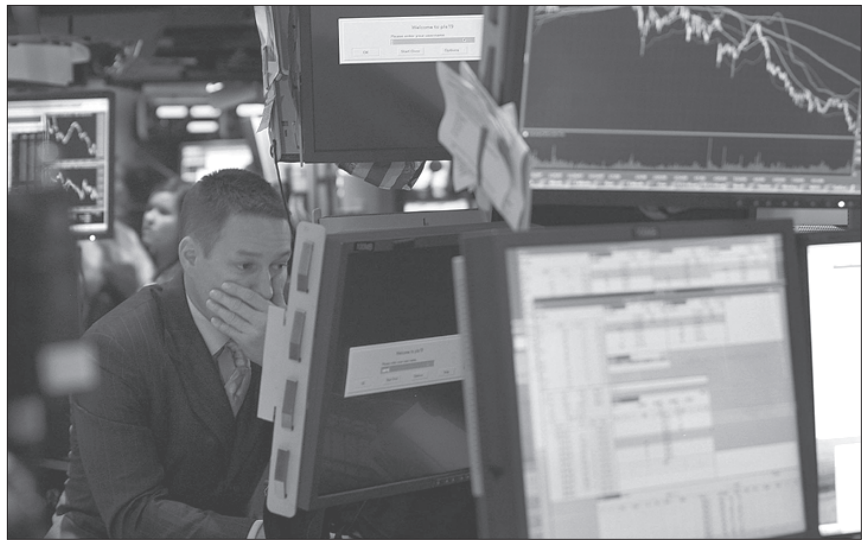
In the following article, *Robert E Prasch* refutes some of the myths about the 2008 crisis perpetuated by Wall Street, the US Treasury and the White House.

FIVE long years have passed since the demise of the once-venerable firm of Lehman Brothers. To mark the occasion, Wall Street, the United States Treasury Department, the White House, and their several political proxies and spokespersons have taken to the mass media to instruct the public in the ‘lessons’ to be drawn from the financial crisis of 2007-09. Regrettably, we are witnessing the propagation of several self-serving falsehoods in the hope that the public can be induced to embrace them now that the immediacy of the events in question is in the past. Some of the lessons are so flagrantly false that they demand immediate correction.

(1) No one saw it coming

Of all the falsehoods being circulated, this one is in many ways the most egregious and damaging. It systematically denies the attribution of credit and thereby voice (and political power) to those who did in fact see ‘it’ coming, even as it provides blanket exoneration to those whose ignorance – or more likely cowardice – combined with self-interest prevented them from perceiving what was happening in the financial sector.

Those making this latter claim can more correctly observe that ‘no one in our close-knit circle of elites saw it coming.’ Stated in this form, the statement is suggestive. Why, we might ask, was their circle exclusively made up of individuals who did not, would not or could not see the crisis coming? Why is it, in a nation with the diversity and talent of the United States, that all of the senior managers of our largest financial firms, and those charged with regulating them, were exclusively made up of individuals sharing the same perspective – a perspective that, I might add, was and



A trader on the floor of the New York Stock Exchange on 15 September 2008, the day of the Lehman Brothers collapse. Many had seen the financial crisis coming but were pressured to remain silent.

remains so singularly and disastrously dysfunctional for the economy upon which the rest of us depend?

These are compelling questions because, as a matter of fact, many highly-informed people did ‘see it coming’. Indeed, by 2007 the American landscape was littered with risk managers, senior analysts, and even a few economists who did ‘see it coming’ and who had the temerity to speak up about it. We also know that these several persons were invariably pressured to remain silent. Refusing to do so, they found themselves marginalised and their careers stalled. Not a few of them were dismissed from their positions for speaking up.

Remarkably, five years after the failure of Lehman, not a single one of the many persons with an accurate assessment of what was going on has been elevated to a position of responsibility in the administration of a president who repeatedly promised the American people that he would bring about ‘change’. By contrast, the

persons in authority who not only failed, but failed catastrophically, in their appointed roles have been retained or promoted by this administration. Am I the only one who thinks that this is a perverse outcome worthy of mention?

(2) The crisis was almost exclusively about liquidity

Wall Street, Treasury, the White House, and the Congressional leadership of both major political parties (who came together to support the infamous bailout legislation that created TARP) desperately want you to believe that in the fall of 2008 America’s largest and most prominent financial firms were illiquid as opposed to insolvent (for the record, insolvent financial firms have made this claim since the beginning of time).

From the beginning, the story peddled by Wall Street, Treasury, and the White House is that a momentary, irrational, and essentially groundless ‘panic’ had gripped financial markets, causing a passing, albeit catastrophic,

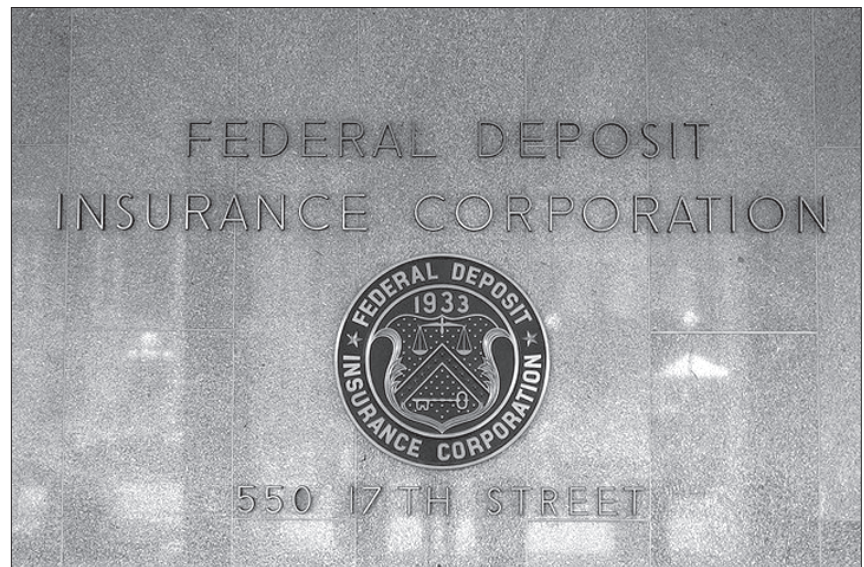
decline in the price of otherwise good and worthy assets. As a consequence, those assets could no longer serve as collateral for the short-term lending that had become the lifeblood of Wall Street financing. This perspective, one that remains unquestioned across Manhattan and Northwest Washington, was enshrined in the name given to the bailout legislation – the Troubled Asset Relief Program. Notice, these assets were described as ‘troubled’, not ‘failed’, not ‘garbage’, not ‘riddled with fraud and misrepresentation’. No, they were merely ‘troubled’.

To affirm their contention that the problem was one of liquidity rather than insolvency, Wall Street, Treasury, and the White House have never passed on any opportunity to tell us that taxpayers actually ‘made money’ on the bailout. This claim, as with so much else that they have told us, is a whopping falsehood. To maintain this illusion requires a great deal of ‘creative accounting’, as my co-author and I demonstrated in our re-estimation of the true costs of the AIG bailout (James Tilson and Robert E Prasch, ‘It was not a free lunch: The true cost of the AIG bailout’, New Economic Perspectives, neweconomicperspectives.org/2013/01/it-was-not-a-free-lunch-the-true-cost-of-the-aig-bailout.html).

(3) TARP was the only ‘responsible’ choice in 2008

Besides being self-serving, this falsehood is rendered even more audacious when Congress’ vote for TARP is described as a ‘difficult choice’ that required ‘courage’. Apparently we are to believe that voting for a federal programme that lends money at below-market rates to major campaign supporters with effectively no accountability is ‘courageous’. Amazing.

Understanding the indefensibility of the programme, our economic and political elites have made a substantially and touchingly bipartisan effort to get the public to believe that ‘TARP was the only choice’. This initiative is now doubly important as the ostentatious and open-handed bailout of Wall Street makes a less-than-appetis-



The US Federal Deposit Insurance Corporation has extensive experience in resolving failed banks, but the large and politically connected banks that were rendered insolvent in the 2008 crisis were not subjected to FDIC takeover.

ing contrast with the now undeniable absence of economic recovery experienced by the overwhelming majority of Americans (according to the latest figures from the Census Bureau, the annual income of the median household remains more than 8% below where it was in 2007). But no matter what is said, the public was, and remains, correct in its belief that good options other than the bailout existed.

In reality, by the mid-2000s several decades of ideologically driven deregulation, de-supervision, and willy-nilly mergers that transformed large Too Big To Fail (TBTF) financial firms into even larger TBTF financial firms had come to be exacerbated by systemic opacity and historically high degrees of leverage, much of which was supported by short-term borrowing. Any adult looking at this system would have been alarmed, but by that time few adults were present. Ultimately, the entire house of cards was dependent upon real estate values rising at 12-15% a year when, at best, American household incomes were rising at 2-3% a year. Everyone, except perhaps Wall Street executives, knows that mortgages are ultimately paid out of household incomes. Since the system had come to depend upon property values and the ensuing mortgage debt rising substantially faster

than household incomes, it was certain to fail. What no one could know was the exact date when failure would occur. But that it would fail was a certainty.

When the system did implode, there was some good news – the United States has extensive experience with resolving failed banks. Since the 1980s, the Federal Deposit Insurance Corporation (FDIC) has taken over literally hundreds of them (and it has taken over almost 500 more since the crisis began). However, in the fall of 2008 there was one difference, but it turned out to be crucial – some of the banks that were being rendered insolvent in the crisis were exceptionally large and they were even more connected politically.

But what a difference! The correct choice in 2008, which was well understood at the time, was to stay with tried-and-true strategies. The FDIC could and should have taken over the most insolvent banks independently of their size or political connections.

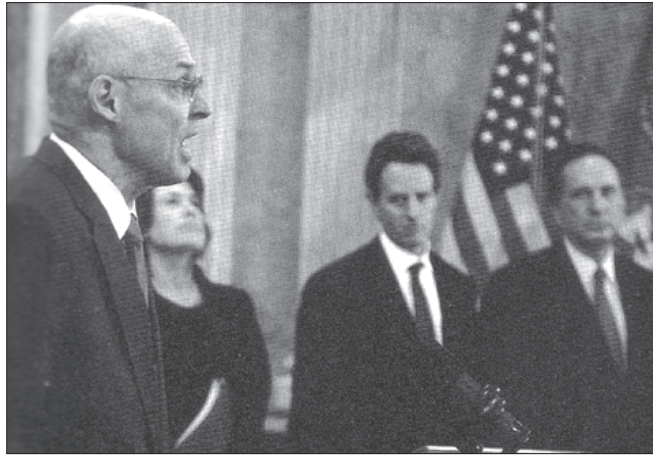
Now, at this point some history will be useful. When Continental Illinois Bank failed in 1984 (at the time it was the nation’s seventh largest bank), it was recognised that it was simply Too Big To Fail. As a matter of fact, that was the first time that TBTF was used to describe any finan-

cial institution. What, exactly, does it mean? It means that the firm in question is deemed to be so central to the system by which payments are made, and contracted financial commitments are cleared, that the disruption caused by its failure would in all likelihood jeopardise the health and even existence of many otherwise safe and sound banks and even non-bank business enterprises.

However, the difference between the 1980s and today is that no one said, 'Hey, I have a solution to TBTF. Let's just give these demonstrably failed firms and their failed executives oodles of unbelievably cheap money with essentially no strings attached so that they can continue to pursue their failed and/or fraudulent business plans while showering favoured insiders with undeserved but astonishingly lavish bonuses.' No, that was not how people thought about the TBTF problem as recently as the 1980s.

Understanding the centrality of Continental Illinois Bank to the financial system of the United States, the FDIC did not immediately shut it down when they took it over. Instead, shareholders were zeroed out, senior management was sacked, and the bank continued to operate with a team made up of FDIC employees supplemented by a number of outside consultants (many of them retired bankers).

Also, while the systemically critical functions of TBTF firms continue to function under both approaches, the 'old school' 1980s-style FDIC approach had several distinct advantages over the bipartisan policy devised in the fall of 2008 and maintained in the spring of 2009 by Hank Paulson, Timothy Geithner, Ben Bernanke, and Lawrence Summers. First, with the FDIC in full control and the bank's failed managers on the sidewalk, the bank's lobbyists and publicists could be immediately fired. This meant that



Then US Treasury Secretary Henry Paulson announcing the TARP scheme in October 2008. Despite claims that TARP was the only responsible choice, good options other than a bailout for Wall Street existed.

there would be little interference with the work that had to be done going forward (had we followed this blueprint in 2008, financial reregulation would have been greatly facilitated). Second, with the FDIC in full ownership of the firm, the Federal Bureau of Investigation (FBI) had unfettered access to all of the firm's files so that a full and complete forensic audit could be conducted without obstruction or even prior authorisation from a judge. Third, the riskiest and most insolvent (or fraudulent) segments of the firm could be closed without delay. Fourth, the FDIC could wind up the affairs of the firm and sell off its several businesses piecemeal at good prices. (It took about seven years to fully resolve Continental Illinois.)

Now, it is true that in the case of non-bank financial firms the takeover legalities would have been a little more tricky, but in the end they could have been taken over by the Federal Reserve through its Section 13 (3) authority which, by the fall of 2008, had become something akin to a magician's wand that enabled the Fed to do almost anything it wished. This, probably, would have resulted in the Fed effectively buying these firms for a pittance moments before they filed for bankruptcy (let us recall that the Fed took over AIG in something like this manner only a few days after Lehman failed). Creditors would have been delighted and shareholders would have had few good alternatives.

Yes, the Fed would have been responsible for the liabilities of these firms, but as the government was going to be on the hook for these debts one way or the other, why not claim some authority to go along with the responsibility?

Never again?

I could go on, as many other falsehoods about the fateful autumn of 2008 are being trotted about today, although they

do not seem to be getting much traction with the public. An example is the often-heard assertion that the Dodd-Frank Act ended TBTF and that Americans will never again be asked to bail out Wall Street. To my knowledge, the only people who say they believe it are on the payroll of Wall Street, the Treasury, or the White House. Moreover, the low interest rates that America's largest banks pay to get buyers to purchase their bonds suggest that sophisticated players believe that the guarantee remains very much in place.

Unfortunately, the pretense that TBTF is no longer operative is more than just an amusing vanity held by our political classes and their sponsors among our nation's largest financial firms. This is a pretense that can and does have pernicious consequences. The guarantee means, in effect, that the executives of America's TBTF banks are overpaid civil servants who have the authority to create financial obligations fully backed by the United States government. But the pretense that there is no guarantee means that they can do this without any oversight. I don't know about you, but given what we have seen of the judgment and ethics of these individuals, I am less than comfortable with this arrangement. ♦

Robert E Prasch is Professor of Economics at Middlebury College in the US. This article is reproduced from the New Economic Perspectives website (neweconomicperspectives.org).

The EU's failure to effect real reforms

Although the 2008 financial crisis prompted the euro crisis, the European Union has failed to carry out the necessary financial reforms to avert another crisis.

Kenneth Haar and Anne van Schaik

FIFTEENTH September 2013 marked the fifth anniversary of the most spectacular bankruptcy of the financial crisis: the collapse of Wall Street investment bank Lehman Brothers.

Back then, European leaders, including European Commission President Jose Manuel Barroso, made bold promises to reform financial regulation in the European Union so that it could never happen again.

But five years on, Europe is as vulnerable as it was on the eve of Lehman.

The financial crisis prompted the euro crisis and devastated European economies. Unemployment has ballooned to a record level of nearly 26 million – a staggering 10.7% of the labour force. Youth unemployment is even higher.

Meanwhile, even as average people feel the pinch of austerity, multi-billion-dollar bailouts have gone to the very banks which caused it all.

Having paid such a high price, people have every right to demand that politicians take effective action. But five years of 'reform' have not fixed the problems laid bare by the crash.

Let us take four examples.

First, European banks are still lending far above safe levels.

Shortly before its bankruptcy, Lehman Brothers had borrowed the equivalent of 31 times its own capital. Experts say this was a leading cause of its demise.

But today, banks such as Deutsche Bank and Barclays borrow even more than Lehman did before it fell and no European rules stand in

their way.

Second, requirements for how much capital banks need to hold to make them more resilient to market downturns have been raised.

But, crucially, the requirements are still lower than those used by Lehman Brothers in its time.

Some might say Lehman only reached those levels due to creative accounting practices. But little has been done to close the giant loopholes in EU and international banking regulation to prevent such creative accounting.

Third, derivatives trading continues to grow.

Derivatives are among the most widely traded and most opaque financial products. They have a track record of driving up global food prices and making more people go to bed hungry each night. But EU proposals on how to regulate them contain gaps that enable food speculation to go on.

Finally, ratings agencies remain open to manipulation.

In the first phase of the crisis, agencies warmly recommended junk products to investors for far longer than they should have. One reason is that 'issuers' (the people who sold the junk) actually paid the agencies in order to get triple-A ratings. The 'issuer pays model' remains untouched.

Looking back, it really is quite amazing to see how easily the financial lobby has kept control of policy.

Their main tactic is scaremongering: claiming that strong regulation would damage competitiveness and cost jobs. It is painfully ironic, given how many jobs their own failures have cost.

To get their message across, financial lobbyists do not need to bang



Banks such as Deutsche Bank (pic) are borrowing even more today than Lehman Brothers did before it collapsed, and no European rules stand in their way.

on doors. The doors, for them, are permanently open, as they were in terms of privileged access to decision-makers on recent new rules on banking and derivatives.

A large part of the EU elite is blinded by the ideology of the single market.

The financial crisis has given us hundreds of pages of new legislation and little in terms of change.

We need to reset the debate and set a course for reforms that will make a real difference. If we want to avoid another Lehman moment, and all that followed, we need to take much more ambitious steps.

To start with, Europe needs to break up banks which are 'too big to fail' and it needs a financial transaction tax. It needs to shrink speculative trading in derivatives and to clamp down on tax dodging.

In order to restore public trust and to change banking culture, Europe should also punish CEOs and corporations who act in bad faith. Too often, it seems, there are also criminals who are 'too big to catch'. ♦

Kenneth Haar is a researcher at Corporate Europe Observatory, a Brussels-based NGO. Anne van Schaik is a campaigner at Friends of the Earth Europe, also a Brussels-based NGO. This article is reproduced from EUobserver.com.

Why the US and Europe have not managed their economic crises properly

Although more than five years have elapsed since the eruption of the global financial crisis, the world economy has yet to fully recover from it. *Yilmaz Akyüz* argues in this article that the crisis has proved to be so protracted because of the excessive reliance by Western policy makers on monetary policy rather than macroeconomic policy measures in support of aggregate demand, growth and employment.

MORE than five years since the outbreak of the global financial crisis, the world economy has shown little signs of stabilising and moving towards strong and sustained expansion. Global growth started faltering after the bounce-back in 2010-11 and there is increased agreement that in the coming years it will remain far below the exceptional rates achieved before the onset of the crisis. Because of policy shortcomings in removing the debt overhang and providing strong fiscal stimulus to make up for private sector retrenchment, the crisis in the US and Europe has been taking too long to be resolved. On the other hand, developments in the past two years have shown that developing countries (DCs) are not decoupled from conditions in advanced economies (AEs) and it is a fallacy to expect major emerging economies such as China, India and Brazil to replace AEs and act as a locomotive to the world economy.

Even though the US economy was at the origin of the crisis, it has fared much better than other AEs – the eurozone (EZ), Japan and the UK – since the outbreak of the crisis. First, the 2009 recession was less severe in the US than in the latter economies. Second, the US economy has enjoyed continued, albeit moderate, recovery at an average annual rate of 2%, registering positive growth in every quarter but one since the end of the recession in mid-2009. However, the output gap (that is, the difference between



An anti-austerity protest in Spain. Supported by dubious theories and shaky empirical evidence, fiscal austerity has gone unabated in Europe and the US, dragging down growth.

what the economy could and does produce) has diminished only a little. At the end of 2012, it was around \$800 billion, with the cumulative loss since 2008 reaching some \$3 trillion. Although the unemployment rate has declined from its peak of 10% in Oc-

tober 2009 to 7.4% in mid-2013, part of the decline is due to the exclusion of discouraged workers as the labour force participation rate dropped since the beginning of the crisis. Indeed, total non-farm employment is still 2.5 million less than what it was at the

Real GDP Growth in Selected Advanced Economies (per cent change)						
	2008	2009	2010	2011	2012	2013
United States	-0.3	-3.1	2.4	1.8	2.3	1.9
Eurozone	0.4	-4.4	2.0	1.4	-0.6	-0.3
Germany	0.8	-5.1	4.0	3.1	0.9	0.6
Japan	-1.0	-5.5	4.7	-0.6	2.0	1.6
United Kingdom	-1.0	-4.0	1.8	0.9	-0.2	0.7

Source: IMF, *World Economic Outlook*, April 2013

beginning of 2008.

Most other major AEs have contracted again since 2009. Following a severe recession in 2009 the EZ as a whole managed positive growth in the subsequent two years despite continued output and employment losses in the periphery, thanks to strong recovery in Germany driven primarily by exports. However, as the impact of the crisis spread in the region through trade linkages, the core and Germany in particular could not maintain momentum. In the first quarter of 2013 the region had its sixth consecutive quarter of negative growth. Nine of the 17 EZ countries were in recession, with France as a notable addition to the list. The International Monetary Fund (IMF) (*World Economic Outlook*, July 2013) projects recession for 2013 for the region as a whole. Unemployment has reached 12% for the total labour force and 24% for the youth. In Spain and Greece, at some 25%, the unemployment rate is higher than the levels seen during the Great Depression of the 1930s; for the youth it is well over 50%.

No doubt the EZ continues to be the Achilles' heel of the global economy and the immediate threat to stability and growth in DCs. Although financial stress in the region has eased considerably, continued contraction and adjustment fatigue in the periphery could bring it back and even lead to a total break-up. However, it is difficult to predict not only the evolution of the EZ in the near future, but also the impact of a break-up, since past economic and financial linkages would provide little guide for estimating the consequences of such an unprecedented event. Still, even without a total break-up, an intensification of financial stress could have serious repercussions for DCs, as suggested by various downside scenarios simulated by the IMF (2012), the UN WESP (2013) and the OECD (2012).

Japan could not sustain positive growth after recovering from the 2009 recession and went into a second dip in 2011. In the last quarter of 2012 it experienced its seventh quarterly contraction since the collapse of Lehman Brothers. Its income now is below the



Excessive reliance on monetary policy in the US has seen unconventional measures being used, including long-term central bank lending to banks and purchases of asset-backed securities. Picture shows the US central bank, the Federal Reserve.

pre-crisis level. Again, from 2009 until the end of 2012, the UK had negative growth rates in nine out of 20 quarters and has lost 3.7 million jobs. 2013 growth is expected to be less than 1%, but still the best among the EU's big five – Germany, France, the UK, Italy and Spain.

Why is the crisis taking too long to resolve?

In his remarks on the state of the world economy, the IMF's chief economist, Olivier Blanchard, is reported to have said that 'It's not yet a lost decade... But it will surely take at least a decade from the beginning of the crisis for the world economy to get back to decent shape' (Reuters, 2012). Presumably, this remark must reflect a judgment not only on the nature and depth of the crisis, but also on the effectiveness of public interventions to resolve it.

There can be little doubt that recoveries from recessions brought about by financial crises are weak and protracted because it takes time to repair balance sheets – to remove debt overhang and unwind excessive and unviable investments generated during the bubbles that culminate in such crises. Recoveries from such crises also tend to be jobless and yield little investment. This was the case in US

recoveries during the early 1990s and particularly the early 2000s from recessions brought about by the bursting of credit and asset bubbles – that is, savings and loans and dot-com bubbles, respectively. In the current recovery, the pre-crisis income in the US had been restored by the second quarter of 2011, but employment was lower by some 6.5 million. Sluggish job and investment growth is also a common feature of recoveries of DCs from financial crises (Akyüz, 2006).

However, the pace of recovery also depends on government intervention and management of the crisis. In this respect, there are two major shortcomings in the policy response in both the US and Europe. First, governments have been unwilling to remove the debt overhang through timely, orderly and comprehensive debt restructuring and cleaning-up of bad loans. Instead they have resorted to extensive creditor bailouts and, in the case of the EZ, to ad hoc, politically motivated and disorderly mechanisms to involve private creditors in debt resolution, subject to highly pro-cyclical policy conditionality. Comparing with interventions in earlier crises in emerging economies of Latin America and Asia, an IMF Staff Discussion Note argued that in the current crisis 'the diagnosis and repair of financial institutions and overall assetestruc-

turing are much less advanced than they should be at this stage and that moral hazard has increased. Consequently, vulnerabilities in the global financial system remain considerable and continue to threaten the sustainability of the recovery' (Claessens et al., 2011; italics in original).

Second, there have been serious shortcomings in macroeconomic policy measures in support of aggregate demand, growth and employment. The failure to intervene directly to remove the debt overhang in a timely and orderly manner has meant slow deleveraging and protracted retrenchment in private spending. As a result, monetary policy has become largely ineffective in expanding credit and lifting private spending even though policy interest rates were cut down drastically and central bank balance sheets expanded rapidly through quantitative easing (QE). Fiscal policy has gained added importance, but both the US and Europe have shifted to austerity after an initial reflation because of growing hostility towards public spending, deficits and debt. In the EZ, the core has also joined in the austerity imposed on the crisis-hit periphery.

The case for fiscal austerity is premised on two propositions. First, budget deficits add more to public debt than to GDP so that they would raise the debt-to-GDP ratio. Second, high ratios of public debt to GDP are detrimental to growth. It is thus believed that fiscal austerity would not undermine growth and could even stimulate it by lowering the ratio of public debt to GDP – hence the so-called 'expansionary austerity'.

The first proposition implies that fiscal multipliers are small. In the mainstream economic theory, this is often attributed to two different mechanisms. First, there is the crowding-out hypothesis – that is, higher public spending leads to lower private spending. The main reason is that increased public spending financed by borrowing would raise interest rates, thereby reducing private investment and other interest-sensitive private expenditures. However, this need not

happen if monetary policy is accommodating or when the economy is in the so-called liquidity trap and there is considerable slack. Indeed, despite rising budget deficits and debt, US long-term rates have remained at exceptionally low levels after 2009.

The second mechanism derives from a highly controversial theorem based on neoclassical rational behaviour – that is, as government spending and debt increase, the private sector would start spending less and saving more in order to provide for future tax increases needed to meet debt servicing. In the same vein, tax cuts financed by borrowing would be saved by rational individuals in anticipation of future taxes. The assumption of such rationality is untenable. It is highly unlikely that when income is falling and living conditions are deteriorating, households would save a greater proportion of their income as public sector deficits and debt increase.

In the early years of the crisis, the fiscal policy advice of the IMF in Article IV consultations was premised on extremely low multipliers and was invariably pro-cyclical. Because of the underestimation of fiscal multipliers, IMF growth projections turned to be more optimistic than growth outcomes in several European countries such as Greece undergoing fiscal consolidation with IMF agreements (Weisbrot and Jorgensen, 2013). However, as a result of mounting evidence on fiscal drag, the IMF has finally admitted that fiscal multipliers are much greater than was previously believed and that they are state-dependent, particularly large under recessions, with the implication that fiscal austerity could in fact raise the debt ratio by depressing income (IMF *World Economic Outlook*, October 2012; Blanchard and Leigh, 2013).

The second proposition that high debt ratios could deter growth has found support in the finding of an empirical study by Reinhart and Rogoff (2010) that economic growth slows sharply when the ratio of government debt to GDP exceeds 90%, as has been the case in the US and most EZ countries hit by the crisis.

However, it is generally agreed that such an association says effectively nothing about causality – slow growth could cause high debt rather than high debt leading to slow growth. More importantly, subsequent research by Herndon et al. (2013) has found that several critical findings advanced in the Reinhart and Rogoff (2010) study are wrong and the corrected evidence shows that a 90% debt ratio is associated with a much higher rate of growth than was found by these authors.

Excessive reliance on monetary policy

Supported by such dubious theories and shaky empirical evidence, fiscal austerity has gone unabated in both the US and Europe, dragging growth. The reluctance to use public spending to expand aggregate demand has meant excessive reliance on monetary policy, particularly as fiscal austerity has become self-defeating by lowering growth. Not only have interest rates been kept at exceptionally low levels for an extended period, but unconventional means have been used, including long-term central bank lending to banks and purchases of asset-backed securities in order to expand liquidity and lower long-term interest rates.

Rapid expansion of liquidity and historically low interest rates, notably in the US, has led to a non-negligible build-up of financial fragility and vulnerability by triggering a search for yield and excessive risk-taking, both in the US and globally, very much in the same way as during the subprime bubble. Inflows into high-yielding assets in emerging economies have placed strong pressures on their exchange rates, leading to unsustainable current account deficits in some. Exceptionally low interest rates have also encouraged corporate borrowing in reserve currencies, which has risen by 50% over the past five years, resulting in increased exposure to interest rate and exchange rate risks (IMF, 2013; Oprita, 2013).

There are also signs of excessive risk-taking in the US in various forms

including 'reaching for yield', increased corporate leverage and maturity transformation – developments that seem to be causing concern at the Federal Reserve, with Bernanke (2013) warning that these may delink asset prices from fundamentals and lead to mispricing (see also IMF, 2013 and Yellen, 2013). Equity markets have already reached historical highs and may undergo a sharp correction if real economic growth lags. Furthermore, credit as well as asset bubbles could start to form and reach dangerous levels if the exit from exceptional monetary policy is delayed, as under the subprime boom (Roubini, 2013).

There is considerable uncertainty regarding the implications of an extended period of ultra-easy money for future financial stability, since these are largely uncharted waters (White, 2012). It may not be possible to engineer an orderly exit so as to combine financial stability with strong and sustained growth in AEs as well as emerging economies. Although the Fed and the IMF appear to be taking note of the longer-term risks to stability and growth, they may not be able to identify them correctly or act in a timely and effective manner better than they did during the subprime build-up.

Severe future vulnerabilities

While central banks in the US and the EU have provided ample liquidity to banks and financial markets and purchased government debt in secondary markets in order to lower interest rates and payments on public debt, they have not been willing to abandon the obsession against direct financing of budget deficits and permanent monetisation of government debt. However, as recognised by several mainstream analysts, under present circumstances these need be no riskier for monetary and financial stability than the ultra-easy monetary policy. For instance, former chairman of the UK Financial Services Authority, Lord Turner, has argued that the attempt to escape from the deleveraging trap by excessive monetary accommodation could lead to severe future vulnerabilities, and the idea that overt

money finance of fiscal deficits is inherently any more inflationary than the other policy levers used to stimulate demand is without any technical foundation. He concludes that the main challenge is how to 'design institutional constraints and rules that would guard against the misuse of this powerful medicine' (Turner, 2013: p. 24; see also Wolf, 2013).

However, none of the governments in the AEs in crisis have been willing to go in that direction even though some central banks including the Bank of England are reported to have given consideration to such a solution (*Financial Times*, 2012). ♦

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Quantitative easing: Impact on emerging and developing economies

Shyam Saran, a former Indian Foreign Secretary, warns that the financial policy of 'quantitative easing' (QE) adopted by the world's most powerful economies – the United States, the European Union, the United Kingdom and Japan, otherwise known as the G4 – is having adverse effects in the developing world due to resulting expansionary and distortionary capital outflows.

THE global economy is awash with successive waves of liquidity generated over the past few years by the four most advanced economies, viz., the United States, the European Union, Japan and the United Kingdom, known as the G4. This liquidity has taken the form of 'quantitative easing' (QE).

When zero rates of interest have failed to stimulate their economies, these countries have resorted to large-scale purchases of assets, such as corporate bonds or mortgage-backed securities, by their central banks to pump more money into the banking system.

The aim is to extend credit to business and industry and encourage consumption.

In the immediate aftermath of the global financial and economic crisis in 2008, when there was a danger of financial collapse, both advanced as well as emerging economies adopted stimulus packages to revive demand, maintain trade flows and avoid large-scale unemployment. During the crisis phase of 2008-09, QE played an important role in crisis management, helping advanced and emerging economies alike.

However, while emerging economies have weathered the crisis and seen a revival of growth, the G4 continue to experience economic stagnation, depressed markets and large-scale unemployment.



The European Central Bank building in Frankfurt. Under its quantitative easing policy, the ECB has pumped 489 billion euros of liquidity into the eurozone since the global financial crisis.

Their response has been to persist with even larger doses of QE as a means of propping up demand, encouraging banks to expand and boosting stock valuations.

Before the crisis, the US held \$700 to \$800 billion of Treasury notes. The current level is \$2.054 trillion. In the latest round, QE-3, the US Federal Reserve is committed to the purchase of \$40 billion of mortgage-backed securities per month as long as unemployment remains above

6.5%.

The European Central Bank (ECB) has pumped 489 billion euros of liquidity into the eurozone since the crisis, while in the United Kingdom QE has reached the level of 375 billion pounds.

Most recently, the Bank of Japan has decided to pump \$1.4 trillion in the next two years into its economy, aiming at a 2% inflation rate by doubling the money supply.

The assets of the G4 central banks have expanded from a figure of 11-12% of their gross domestic product (GDP) to the current unprecedented level of 23%. These assets were \$3.5 trillion in 2007 before the crisis. They are now \$9 trillion and rising. This is the scale of liquidity expansion we are dealing with.

Capital surge

Since interest rates in the G4 remain at zero and their economies remain stagnant, it is inevitable that there will be significant capital outflows to emerging and other developing economies, in quest of higher risk-adjusted returns.

According to one estimate, about 40% of the increase in the US monetary base in the QE-1 phase leaked out in the form of increased gross capital outflows, while in the QE-2 phase, the figure may have been about



Indian stock traders at work. Recent volatility in the Indian stock market highlights the erratic nature of portfolio capital flows, which put emerging economies at greater risk.

one-third.

This massive and continuing surge of capital outflows to emerging and other developing economies is having a major impact. Corporations which have a sound credit rating are taking on more debt and increasing their foreign exchange exposure, attracted by low borrowing costs. Their vulnerability to future interest rate changes in the developed world and exchange rate volatility will increase.

Such inflows put upward pressure on exchange rates, stimulate credit expansion, and cause inflationary pressures, which pose a major challenge to policy-makers in the developing world.

Most of the capital inflows are in the nature of portfolio investments, which are prone to sudden and volatile movement and put emerging economies at greater risk. The volatility one has witnessed in the Indian stock market is a case in point. In general, we may conclude that the overall impact of these capital flows is expansionary and distortionary.

Global impact

There has been considerable criticism of the G4's unconventional monetary policies from the emerging economies, including the BRICS (Brazil, Russia, India, China and

South Africa).

The magnitude of QE has had unintended consequences beyond the borders of the G4, especially because their currencies are not only fully convertible but, together, constitute the pillars of the global financial system.

The US dollar is the world's leading reserve currency, and the euro, the British pound and the Japanese yen together with the dollar constitute the basket of currencies the International Monetary Fund (IMF) uses to value its Special Drawing Rights. Thus, the nature of the G4 currencies and their significant role in the global financial market ensures that QE undertaken by the G4 has a global impact on economies across our globalised and interconnected world.

It is necessary, therefore, for the G4 to act with great responsibility and to work together with the emerging economies to minimise the adverse effects of their QE policies. It would be particularly important to forge a consensus on how to handle the potential financial turmoil and disruption that may afflict developing economies once the QE is sought to be retired and interest rates once again become positive in the G4. A sudden and large-scale reversal of capital flows is a likely scenario that would need to be anticipated and managed.

The Asian financial crisis of 1997-98 was, in part, triggered by an earlier version of QE pursued by Japan in the aftermath of the bursting of its property and asset bubble in the early 1990s. Then, too, the large inflow of low-cost yen loans led to asset price bubbles, inflationary pressures and currency instability in the Asian economies. They paid a heavy price in the bargain.

A larger, more pervasive crisis may await the emerging and developing economies unless there is a much more coordinated and careful handling of the risks that are already building up. The G20 major economies grouping should have this issue at the top of its agenda. — IPS ♦

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The Asian financial crisis of 1997-98 (pic) was in part triggered by an earlier version of quantitative easing pursued by Japan.

Financial debacles in emerging markets: Why the surprise?

Emerging economies such as India and Indonesia which have experienced the destabilising effects of the US policy of quantitative easing should not ignore the fact that this whole problem has arisen only because of their flawed approach to economic strategy, says *Jayati Ghosh*.

FOR a while now, the BRICS seem to have lost their sheen. Global investors and financial media that could not say enough good things about them and their huge potential appear to have decided that the party is over for now and they should move on to find action somewhere else. The relatively guarded statements about the possible tightening of US quantitative easing policies have been the trigger for this, but the outlook had already turned darker because of decelerating exports in all of the BRICS – Brazil, Russia, India, China and South Africa – in the past year.

India is the latest casualty among emerging economies, with its currency sliding more than 20% over half a year against the US dollar before recovering just a tiny bit on the appointment of a new governor of the central bank. While some have argued that the damage has been contained for now, that is far from the truth. In fact, the Indian economy may well be on the verge of a full-blown currency crisis.

In this febrile situation, it is open season for rumours and pessimistic predictions, which then become self-fulfilling. So even if there is a slight market rally, investors quickly work themselves into even more gloom. Each hurriedly announced policy measure (raising duties on gold imports, some controls on capital outflows, liberalising rules for capital inflows and so on) has had the opposite of the desired effect. Everything the government does seems to be too little, too late – or even counterproductive.

These are all classic features of the panic phase of a financial market cycle. This doesn't mean that a crash



Shopping for gold jewelry. Gold imports, which account for nearly a fifth of India's total import bill, are a major contributor to the country's burgeoning trade deficit.

is inevitable, but clearly it is possible. But the real surprise in all this is that investors and Indian policy makers are surprised. For some reason, they apparently did not foresee this turn of events, even though the story of every financial crisis of the past and many in the very recent past should have caused some nostrils to twitch at least a year or two ago.

The Indian economy has been in trouble for quite a while already, and only wilful blindness could have led to ignorance on this. Output growth has been decelerating for several years now, and private investment has fallen for 10 consecutive quarters. Industrial production declined over the last year. But consumer price inflation is still in double digits, providing all the essential elements of stagflation (rising prices with slowing income growth).

At the moment the external sector is the weakest link. Exports are limping along but imports have ballooned (including all kinds of non-essential imports like gold), so both trade and current account deficits are

at historically high levels. They are largely financed by volatile short-term capital. This has already started leaving the country: since June more than \$12 billion has been withdrawn by portfolio investors alone.

This situation is the result of internal and external imbalances that have been building up for years. The Indian economic boom was based on a debt-driven consumption and investment spree that mainly relied on short-term capital inflows. This generated asset booms in areas like construction and real estate, rather than in traded goods. And it created a sense of financial euphoria that led to massive over-extension of credit to both companies and households, to further compound the problem. Sadly, this boom was also 'wasted' in that it did not lead to significant improvements in the lives of the majority, as public expenditure on basic infrastructure, as well as nutrition, health, sanitation and education did not rise adequately.

We should know by now that such a debt-driven bubble is an unsustainable process that must end in

tears, but those who pointed this out were derided as killjoys with no understanding of India's potential.

Something similar is occurring in a number of other Asian economies that are also feeling the pain at present, like Indonesia, while Brazil in the other part of the world shows some similar features. The current Indian problems may be extreme, but they reflect what should now be a familiar process in all major regions of the world.

The typical story, which was elaborated half a century ago by Charles Kindleberger, goes something like this: A country is 'discovered' by international investors and therefore receives substantial capital inflows. These contribute to a domestic boom, and also push up the real exchange rate. This reduces the incentives for exporters and producers of import substitutes, so investors look for avenues in the non-tradable sectors, like construction and real estate. So the boom is marked by rising asset values, of real estate and of stocks. The counterpart of all this is a rising current account deficit, which no one pays much attention to as long as the money keeps flowing in and the economy keeps growing.

But all bubbles must eventually burst. All it takes is some change in perception for the entire process to unravel, and then it can unravel very quickly. The trigger can be a change in global conditions, or a sharp slowdown in domestic income growth, or political instability, or even economic problems in a neighbouring country. In India, Mr Bernanke of the US Federal Reserve is being blamed for bringing this on, but it could easily have been some other factor. Once the 'revulsion' in markets sets in, the very features that were celebrated during the boom are excoriated by both investors and the public, as examples of crony capitalism, inefficiency and such like. The resulting financial crisis hits those who did not really benefit so much from the boom, by affecting employment and workers' incomes.

This is what has just started to happen in India, and is also likely to

happen in several other emerging markets. But essentially the same process has already unfolded many times before in different parts of the world: Latin America in the 1980s, Mexico in 1994-95, South-East Asia in 1997-98, Russia in 1999-2000, Argentina in 2001-02, the US in 2008, Ireland and Greece in 2009 and so on.

Wrong-headed response

So it should have been quite obvious to the Indian government and to external observers that this was an outcome only to be expected. Instead, surprise and even shock among policy makers seem to be the order of the day. The panic-stricken government has been throwing what it can at the problem – to little avail, since each hurriedly announced measure seems to be followed by further capital outflow and further depreciation of the rupee. But given the loss of policy imagination that comes after two decades of manifestly open market policies, that is perhaps not so surprising.

There are at least four problems with the nature of the central government's economic responses to the current crisis. The first is the tendency in official circles to blame most of the problem on external forces, rather than on the internal mess of the large imbalances within the economy and the lack of sustainability of private sector expansion in particular. Government representatives regularly appear before the public to blame everything on Mr Bernanke of the US Federal Reserve for threatening to raise US interest rates, or on the global economic slowdown for causing our exports to decelerate. But the truth is that the recent boom was a bubble waiting to burst – the external forces have influenced the timing rather than the unfolding of the process.

The second problem is the inability to recognise what should be obvious: that a crisis associated with hot money flows cannot be resolved by begging for further hot money flows. It should have been evident that running large and growing current account deficits financed with essentially short-term capital flows could

never be a sustained strategy, and essentially characterised a temporary bubble that is now bursting. Instead of dealing with the source of the problem, the government is desperately trying to stem the crisis by somehow attracting the same capital back in by offering yet more concessions.

But such concessions can never be enough to compensate for expected capital losses, if expectations of the value of the rupee and other domestic assets like stocks are on the downswing. The Prime Minister Dr Manmohan Singh actually went as far as to declare the government's subservience to global capital: 'It is absolutely not on the table to put any limits on the ability of FIIs [foreign institutional investors] who have put money into India to take it out whenever they want. In fact we are taking measures to make it more attractive for them to invest more.'

This in turn leads to the third problem, which is that the proposed remedies actually make for an even bigger problem in the near future. The current approach looks too much like what it is: a series of nervous and jerky responses that try to apply quick-fix bandages without being part of a cohesive medium-term economic strategy. So various different measures are tried out: rules for foreign direct investment are further liberalised; new bond issues are launched for non-resident Indian investors; public sector undertakings are encouraged (even pushed) to engage in more external commercial borrowing, even when this may turn out to be very costly for the country later; there is a bit of half-hearted intervention in the foreign exchange market by the central bank; gold import duties are raised slightly (though they are still far too low). None of this adds up to a clear plan that is likely to instil confidence – not just in the rupee, but in the wisdom of those at the helm of affairs, and therefore the economic future of the country.

The fourth, and possibly most significant, problem stems from the refusal to look seriously at the necessary counterpart of the capital inflows that were so celebrated during the

boom years: the current account deficit. The true source of India's current balance-of-payments concerns is the burgeoning trade deficit, which has now turned so large that the current account deficit also could not be kept in check even with the largest inflows of workers' remittances in the world. And the critical matter with respect to the trade deficit is not simply the slowing down of exports, but the fact that imports have continued to increase even as the Indian economy slowed down.

Tackling the import influx

This makes it quite evident what the crisis resolution must necessarily entail: systematic steps to reduce the import bill. Indeed, this is not only a temporary emergency measure, since it has implications for the pattern of output and employment growth in the economy as a whole. But how exactly is this to be done?

One obvious offender is gold imports, which currently account for nearly one-fifth of the total import bill, second only to oil imports (around one-third). Clearly, these levels of gold imports are unjustifiable and must be curbed. But given the inelastic nature of gold demand in India generally and particularly now in a time of economic uncertainty when gold is still seen as a safe asset relative to volatile financial assets, small hikes in import duties are unlikely to do the trick. Much larger increases are called for, combined with much more stringent measures to clamp down on gold smuggling.

But this constitutes only part of the problem. There has been a huge increase not just in other 'non-essential' imports, but in imports that have dramatically attacked the productive capacities of the country and wiped out lots of employment. Since 1991 and over the past decade in particular, the nature of economic expansion in India has systematically eroded the capacities and competitiveness of huge swathes of producers in agriculture and manufacturing.

Small and medium producers coping with terrible infrastructure,

erratic provision of basic utilities, next to no access to affordable institutional credit and constantly rising prices of fuel (the basic intermediate good that enters into all costs) have been forced to compete with global production. In many cases they have been unable to do so, to the point that many have been decimated and others survive only by the skin of their teeth. Informal enterprises (which still account for the bulk of national output) have been the worst hit by the rising tide of imports, which has adversely affected both employment and livelihoods.

As a result, many commodities that were previously produced in India have simply disappeared from markets in the country, to be replaced with imports coming not just from China but many other parts of the world. Of course it is well known that toys, decorations and similar things increasingly come from China, and electronic goods from various parts of Asia. The shopping malls sell garments made in Guatemala and Morocco even though similar garments are made in India; builders use marble from Italy rather than the stuff sold by small processors in Rajasthan and elsewhere; imports have replaced domestic production in the urban markets for many fairly standard goods that are very much part of mass consumption like pens, soaps, household goods and so on.

Of course all of this translates into employment losses. But it has possibly even more deadly implications for the future. The loss of some productive capacity does not just affect the producers involved in it: it means a social loss of knowledge, production capability and synergies that are absolutely necessary to build up manufacturing prowess. And surely by now it should have been understood that building up such manufacturing capability is essential, that India cannot simply leapfrog over to the next stage of service-led growth without first doing the hard work of industrialisation? The mindless pattern of import liberalisation has occurred without ensuring that Indian manufacturing producers have at least something like

a level playing field in terms of access to infrastructure, credit and the like. Not surprisingly, they have suffered losses in terms of productive potential that may take years to reverse.

Similarly, the country is importing agricultural goods that it really need not do. This is certainly so for cereals and cereal products, where the imports indicate the poor management of the food economy in a sector in which the country should have a competitive advantage. In addition, the continuing import of pulses and oilseeds is a sad comment on the failure of agricultural strategy that has not addressed issues of viability of such production despite decades of government-sponsored 'Missions'.

Obviously much more public investment in basics like infrastructure and access to credit is required to move forward. But in the intervening period, some protection from imports is clearly necessary. India's current tariff levels for most commodities are well below the tariff bindings declared at the World Trade Organisation, and in any case the government could probably take advantage of the WTO balance-of-payments exceptions in the current situation. But the noodle bowl of free trade agreements that India has signed with ASEAN and other trading partners creates other constraints to import protection that need to be examined carefully.

What all this suggests is that, while the external sector is currently the weak link that has brought on the current crisis, it is precisely that – a link in a chain of economic policy that needs major reworking. Resolution of the crisis will not come from temporary measures to paper over the cracks and then hoping to proceed with business as usual. Current account balancing must be an essential focus – and if it can happen with the added advantage of reviving some domestic production, surely that is so much the better. But unfortunately this is unlikely to happen as long as the current approach to economic strategy in India remains the dominant one. ♦

Jayati Ghosh is an economics professor at Jawaharlal Nehru University in New Delhi.

Why is the Indian rupee depreciating?

India is one of the emerging markets whose currencies have been affected by the US monetary policy, specifically the US Federal Reserve's policy of quantitative easing. In the following analysis of this problem, *Kavaljit Singh* also highlights the role of the non-delivery forward (NDF) market, one of the offshore markets which have emerged in a liberalised global financial order.

THE Indian rupee touched a lifetime low of 68.85 against the US dollar on 28 August 2013. The rupee plunged by 3.7% on the day in its biggest single-day percentage fall in more than two decades. Since January 2013, the rupee has lost more than 20% of its value, the biggest loser among the Asian currencies.

There is no denying that India is not the only emerging market experiencing a rapid decline in its currency's value. Several emerging market currencies are also experiencing sharp depreciation over the prospect of imminent tapering of the US Federal Reserve's quantitative easing (QE) programme. The South African rand and the Brazilian real touched four-year lows against the US dollar in June 2013. Except for the Chinese yuan and Bangladeshi taka, most Asian currencies have witnessed sharp depreciation since the beginning of 2013. Nevertheless, the Indian rupee has fared much worse than other emerging market currencies because of India's twin deficits – current account and fiscal deficits. Foreign investors are particularly concerned over India's bloated current account deficit (CAD), which surged to a record high of \$88.2 billion (4.8% of GDP) in 2012-13. Despite a modest recovery in the rupee's value between 4 and 12 September, the investors remain wary of India's excessive dependence on volatile 'hot money' flows to finance its current account deficit.

Over the past several months, India's exports have considerably slowed down due to weak demand from traditional markets such as the



A tourist in Kolkata checking the Indian rupee's exchange rate. The rupee has fared much worse than other emerging market currencies because of India's twin current account and fiscal deficits.

US and Europe. High imports of gold and crude oil have pushed the country's trade and current account deficits wider. Gold and silver imports were nearly \$33 billion during January-May 2013.

From capital glut to capital flight

There is ample reason for concern that capital outflows from India and other emerging markets will rapidly accelerate if the Federal Reserve decides to curtail its bond-buying programme. This move would lead to higher interest rates in the US and investors may dump risky emerging market assets in favour of safe havens.

Since the beginning of the QE programme, much of the money has leaked into emerging markets offering higher yields and better growth prospects. The emerging markets

have been the biggest beneficiaries of the Fed's loose monetary policy, which has pumped extra liquidity since the global financial crisis of 2008. According to the IMF, emerging markets received nearly \$4 trillion in capital flows from 2009 to early this year.

The investors borrowed cheap short-term money in the US and invested in higher-yielding assets in India, Indonesia, South Africa and other emerging markets. This resulted in more money flowing into debt, equity and commodity markets in these countries. In India, many companies resorted to heavy borrowings overseas. The massive capital inflows also enabled India to comfortably finance its trade and current account deficits rather than addressing the structural aspects of the CAD.

However, this money will quickly leave India and other emerging mar-

kets when the tapering of the QE programme begins. Already, emerging markets are witnessing a huge outflow of dollars as investors have started pulling money out of bond and equity markets. Foreign investors pulled out a record Rs.620 billion (\$10 billion) from the Indian debt and equity markets during June-July 2013. If the Federal Reserve decides to taper the QE programme, the liquidity withdrawal would continue to put pressure on the rupee over the next 12 to 18 months.

Other developments

There are a host of other factors which have added to the bearish sentiments on the rupee. Economic growth in India in the first quarter of the fiscal year (April-June 2013) slipped to 4.4% due to a contraction in manufacturing and mining. A sharp rise in domestic food prices has also put grinding pressure on the rupee.

Apart from economic factors, the rupee remains vulnerable to rising global oil prices and geopolitical tensions in the Middle East and North Africa. As the threat of US-led war against Syria rises, oil prices are expected to rise, which will further make it difficult for the Indian government to reduce the CAD since India imports over 80% of its oil.

The rise of the offshore NDF market

Amidst all these developments, the critical role played by the offshore non-delivery forward (NDF) market in determining the value of the rupee should not be overlooked. The rupee NDF market has mushroomed in key global financial centres with the liberalisation of trade and capital flows since the 1990s.

NDFs are over-the-counter (OTC) derivative instruments for trading in non-convertible currencies such as the rupee and the Korean won. The contracts are called 'non-deliverable' since no delivery of the underlying currency takes place on maturity. The counterparties settle the contracts on maturity by paying the difference be-

tween the spot rate [decided by the Reserve Bank of India (RBI)] and NDF rate, usually in US dollars.

Since NDFs are OTC derivatives, the actual size of the market is not known but various surveys suggest that the trading volumes in the NDF markets are larger than in the onshore markets. According to a study by the Bank for International Settlements (BIS), the daily turnover in the offshore rupee NDF market was \$10.8 billion in 2010, nearly 52% of the total turnover (\$20.8 billion) in foreign exchange forwards and forex swaps.

The NDF market for the rupee is mainly concentrated in Singapore, Hong Kong, Dubai, London and New York. In recent years, London has become a key centre for trading in the rupee NDFs. According to FXJSC Semi-Annual FX Turnover Surveys, the average daily trading in rupee NDFs in London increased from \$1.5 billion in 2008 to \$5.2 billion in 2012, a jump of 250%.

As the NDF market is an offshore market, the Indian authorities have no powers to enforce regulations on it. Domestic banks and companies are not allowed to transact in the NDF market. The main participants in the rupee NDF market consist of commercial and investment banks, hedge funds, currency speculators, international subsidiaries of Indian companies and big diamond merchants.

Although the NDF market is primarily meant to provide a platform to companies to hedge their foreign exchange risk and related exposures, the dominant players in this market are the speculators (who bet on the move-

ment of the rupee) and arbitrageurs (who exploit the price differentials between offshore and onshore markets).

The growing influence of the NDF market

Being a 24x7 market, the offshore NDF market exerts considerable pressure on onshore currency markets, particularly when the market sentiment is fragile on the rupee. Before Indian markets open for trading, the NDF markets in Hong Kong and Singapore set the price movement of the rupee. A bearish or bullish trend in the NDF market sets the tone for trading in the domestic rupee market.

An empirical study by an RBI staff member found that there are volatility spillovers from the NDF market to spot and forward markets in India. The study also found that the magnitude of volatility spillover from NDF to spot and forward markets has become higher after currency futures were introduced in India in 2008. This is probably due to large arbitrage taking place between futures and NDF markets, says the study.

In its latest Annual Report (2012-13), the RBI has acknowledged that there is a long-term relationship between the spot and NDF markets for the rupee. 'During the period of depreciation, shocks originating in the NDF market may carry more information, which gets reflected in onshore segments of the market through mean and volatility spillovers,' states the report.

Rampant manipulation in Singapore's NDF market

Singapore is the offshore hub for trading in the NDFs of key Asian currencies. In the wake of the Libor rate-fixing scandal, the Monetary Authority of Singapore (MAS) initiated a review of the process for setting rates for NDFs in September 2012. The investigations carried out by MAS found that traders from 20 banks communicated with each other through email and electronic messaging to influence the NDF rate-setting process run by the Association of Banks in Singapore. Some of the prominent banks found guilty in the rate rigging were UBS, ING, Royal Bank of Scotland, BNP Paribas, Barclays and Deutsche Bank. Based on its investigations, MAS took penal actions against banks for professional misconduct and unethical behaviour. Nearly 50 traders were suspended and guilty banks were asked to set aside additional statutory reserves (in the range of S\$100-1,200 million) with MAS at zero interest for a period of one year.

Foreign banks playing the arbitrage game

Since foreign banks and institutional investors are present in both onshore and offshore markets, they profit from huge arbitrage opportunities using the prevailing negative sentiments in the market. Such entities buy dollar-rupee forwards in the onshore market and sell forwards in the offshore NDF market. According to India Forex Advisors (a foreign exchange consulting and treasury management firm), a large demand for forward dollar pushes up the forward rate and thereby influences the spot exchange rate in India. As witnessed during July-August 2013, the increased speculative trading in the NDF market exacerbated volatility in both the spot and forward markets in India.

Primarily six foreign banks (namely Citibank, HSBC, Deutsche Bank, UBS, JP Morgan and Standard Chartered) are the key players arbitraging between the rupee NDF market and domestic markets. Besides, a few international subsidiaries of big Indian corporations and some diamond merchants are also engaged in arbitrage practice.

The way forward

To rein in rampant speculation and manipulative activities in the offshore NDF market, the RBI should initiate consultations with regulatory authorities in other jurisdictions, particularly Singapore. If India and Singapore can sign a Comprehensive Economic Cooperation Agreement on a range of issues including trade in goods, services, investments, intellectual property and dispute settlement, the RBI could also pursue a Memorandum of Understanding with the Monetary Authority of Singapore seeking regular information exchange and ensuring higher regulatory standards for banks and speculators active in the rupee NDF market in Singapore. ♦

Kavaljit Singh works with Madhyam, a non-profit organisation based in New Delhi devoted to research and public education on economic and developmental issues. The above is an edited extract from a Madhyam Briefing Paper (No. 11, September 2013) published by Madhyam in cooperation with SOMO (The Netherlands). The full text is available at www.madhyam.org.in.

The Management of Capital Flows in Asia

By Yilmaz Akyüz

THE 1997 Asian financial crisis brought home to the region's economies the importance of managing capital flows in order to avert financial shocks. This book looks into whether and how this lesson was taken on board by policy makers in Asia, and, accordingly, how capital account regimes in the region evolved in the post-crisis period.

The early years of the new millennium saw a strong surge of capital flows into Asian emerging markets amid conditions of ample global liquidity. In response to the influx of funds, these countries generally chose to keep their capital accounts open to inflows, dealing with the attendant impacts by liberalizing resident outflows and accumulating foreign exchange reserves. While this approach enabled them to avoid unsustainable currency appreciations and external deficits, it did not prevent the emergence of asset, credit and investment bubbles and domestic market vulnerability to external financial shocks – as the events following the 2007 subprime crisis would prove.

This book – a compilation of papers written in 2008 for the first phase of a Third World



ISBN: 978-967-5412-50-9 240pp
16.5 cm x 24 cm Year: 2011

Network research project on financial policies in Asia – examines the above developments in relation to the region in general and to four major Asian developing economies: China, India, Malaysia and Thailand.

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Credit rating reform overlooks developing world

Concerns are rising that in any reforms on the role of the credit rating agencies the specific concerns of the developing countries will be ignored.

THE concerns of developing countries about credit rating agencies (CRAs) risk going unheard as regulatory bodies around the world tackle questions raised after the 2008 financial crisis.

The Financial Stability Board (FSB) and the Basel III global accords, formed in the wake of the crisis, have each called on governments to reduce their regulatory reliance on ratings.

At the recent G20 conference in St Petersburg, world leaders called for similar limitations.

During the market collapse, ratings often proved inaccurate and are perceived by many as negatively contributing to the cascading series of events of the past five years.

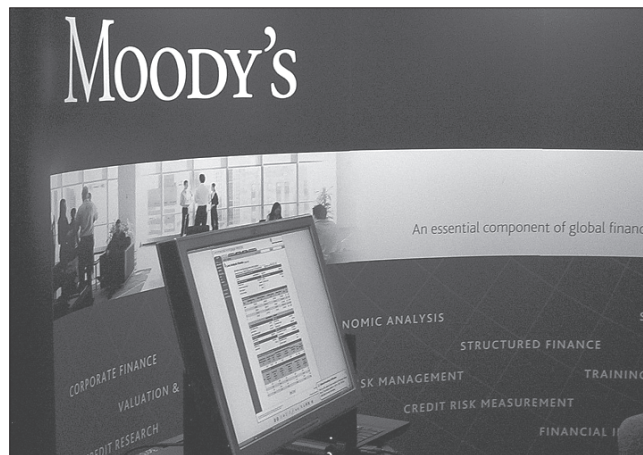
But while wealthier countries are quick to recognise a need for re-defining their use in markets like mortgage-backed securities, the 'issues and concerns of many emerging and developing countries preceded the crisis period', according to Merli Baroudi, director and chief credit officer of finance and credit risk at the World Bank, speaking before a UN General Assembly forum on CRAs.

Concerns are mounting that once more, the specific condition of poorer countries will be ignored.

Necessary debt

Countries, advanced and developing, rely on debt financing through the bond market to foster growth. Sovereign credit ratings are used by investors to predict the like-

Samuel Oakford



Moody's is one of the three firms that dominate the credit ratings business.

lihood that a country will default on its obligation to pay them an agreed-upon yield. The higher the perceived risk, the higher the yield.

Ratings are composed of publicly available economic data coupled with subjective opinions on a country's political situation. There is a near-consensus that ratings in some form are necessary for developing countries to attract international capital.

Questions remain, however, about the dependence on the three dominant CRAs – Fitch, Moody's and Standard & Poor's – all of which profit handsomely from the process.

A problem in the wiring

For years, global and national regulations, as well as internal firm policies, dictated that many investors could only hold sovereign bonds and other assets that were deemed 'investment-grade' by the CRAs.

'When downgrades occur, especially near the investment-grade threshold, forced sales are often trig-

gered,' John Kiff, senior financial expert at the International Monetary Fund (IMF), told Inter Press Service (IPS).

This can send assets 'off a cliff' and yield premiums, the difference between yields a bond pays and the yield of a stable asset such as US Treasuries, soaring, he said. This makes borrowing more expensive for countries.

The problem, according to Kiff, is 'the way that ratings are hard-wired into the financial system. For example, they are baked into regulations, and they mechanistically drive investment and collateral eligibility standards'.

Due to international capital standards inscribed in previous versions of the Basel accords, the lower a bond is rated, the less a bank can leverage it and hence the likelier they are to unload positions in the event of a downgrade.

Under proposed regulation, investors would be better protected and markets kept from the wild, rating-induced fluctuations of the past, but what of the sovereign issuers themselves?

Sovereign risks

According to the World Bank, 56 developing countries remain un-rated by any of the big three CRAs. The list includes nations like Haiti, Cote d'Ivoire, Mali and Syria, all of which are unable to access international capital markets. This can increase reliance on donors to fill gaps.

In some cases, the cost of acquiring a rating – which developed coun-

tries do not have to pay – is simply too high.

For many, at fault is the ‘issuer pay’ model which could theoretically allow issuers to shop around for the best rating and which was abused by firms securitising mortgages during the crisis.

In the developing world, however, the problem can be the opposite. For a poor country, an unsolicited rating is unwanted at best and extortionist at worst.

But the CRA model is unlikely to change and is a ‘necessary evil’ for developing countries looking to access capital markets, Aldo Caliari, director of the Rethinking Bretton Woods Project at the Centre of Concern, told IPS.

The lack of fundamental change in the rating process leaves the developing world in limbo. But the choice is not always clear for countries. ‘Being rated is not necessarily benign,’ says Caliari.

The standards imposed by CRAs can favour austerity and punish countries that increase social spending, without regard to growth. That ratings are meant to predict a very narrow occurrence, sovereign defaults, is part of the problem, according to Caliari. Many incorrectly assume that ratings reflect the overall health of an economy.

‘The fact that you have a balanced budget doesn’t necessarily mean you have a well-run economy,’ he noted.

Developing realities

Poorer countries often find CRA methodologies ‘advanced country-centric’, said Baroudi. They may question ‘the application of some of the metrics used by the major agencies’ and find it ‘difficult to get their own point of view across’.

To make matters worse, investors considering emerging markets find that ‘the information available may not be that great and they may quite heavily rely on the ratings’.

Even if a country isn’t issuing debt itself, a rating often acts as a benchmark for bonds issued by firms in the country. This bias incentivises



One of the credit rating agencies’ most damning failures occurred during the Mexican economic crisis of 1994 (*pic*), when they did not issue ratings downgrades until the crisis was well underway.

developing countries to adhere strictly to rules dictated by CRAs, says Caliari.

Steps taken to achieve a certain rating can have a ‘counterproductive effect’ on the long-term prospects of the economy. The same is not true for wealthier countries which enjoy positive subjective analysis of their political climates but which often carry some of the highest debt loads. The paradox frustrates many leaders in developing countries.

Lessons learnt

Emerging markets began to be rated by CRAs in the 1980s and 90s, a period that overlapped with the rise of market-based antidotes to the economic ills of the developing world. The mutually influential mix was not always fortuitous for borrowers.

In Latin America during the 1990s, when many countries in the region adopted the free-market principles pushed by the ‘Washington Consensus’, growth rates slowed to half of what they were in the 1960s and 70s, a period when Latin American economies were actively managed and considered by many in the developed world to be profligate.

Before the 2008 financial crisis, CRAs’ most damning failures occurred during the Mexican economic crisis of 1994 and the East Asian financial crisis of 1997-98. In both cases, CRAs didn’t issue downgrades until the crises were well underway. In fact, their lagging ratings worsened

the situation when they caused forced selling of assets and currency.

Despite evidence of their damaging effect from economists like Nobel Prize winner Joseph Stiglitz, ‘consensus’ policies are still considered positive steps towards achieving higher ratings.

For developing countries facing the gauntlet of a rating process, history serves as a reminder that their voices are not always the loudest in decision rooms.

‘If there is a difference of views, country authorities may find it difficult to get their own point of view across,’ says Baroudi. ‘What do a country’s authorities do when they genuinely do not understand or believe the rating?’

A problem in the math

‘Ratings are slow and sticky,’ says David A Lesmond, professor of finance at Tulane University in the US.

Sovereign ratings often lag the indicators they are formulated from and react ‘more slowly relative to the market’, Lesmond told IPS.

In a joint study with colleague John Hund, ‘The Role of Credit Rating Agencies in the International Financial System’, Lesmond found that market indicators such as liquidity do a better job of predicting defaults than the ratings themselves.

Upgrades and downgrades, when they come, can potentiate the direction the market has taken, leading to bubbles or ‘cliff effects’. – IPS ♦

‘Irrational exuberance’ has reached new heights, warns BIS

The former chief economist of the Bank for International Settlements (BIS) has warned that the current unsustainable level of global debt coupled with the emergence of asset bubbles in emerging economies could prove to be a combustible mix. BIS, regarded as the world’s central bank, has in its latest quarterly review also sounded a red alert over the ‘exuberance’ – reminiscent of the situation just before the 2008 financial crisis – of investors for riskier assets and loans.

THE former chief economist of the Swiss-based Bank for International Settlements (BIS – commonly referred to as the international central bank) has warned that the level of global credit has reached or surpassed that before the collapse of Lehman Brothers. It is generally agreed that it was the bankruptcy of the Wall Street investment bank that proved to be the trigger for the 2008 financial crisis.

In an interview with the UK’s *Daily Telegraph*, William White, who now heads the OECD’s Economic Development and Review Committee, characterised the present situation as eerily reminiscent of the bloated global credit markets in 2007 which metamorphosed the following year into the worst financial crisis since the 1930s Great Depression.

‘This looks to me like 2007 all over again, but even worse,’ he said and went on to elaborate: ‘All the previous imbalances are still there. Total public and private debt levels are 30% higher as a share of GDP in the advanced economies than they were then, and we have added a whole new problem with bubbles in emerging markets that are ending in a boom-bust cycle.’

Quantitative easing

The problem of ‘bubbles in emerging markets’ referred to is largely a consequence of the policy move known as quantitative easing (QE), under which some \$85 billion is pumped by the Federal Reserve (the

T Rajamoorthy



The headquarters of the Bank for International Settlements in Basel, Switzerland. According to BIS, since around mid-2012, investors in the financial markets have exhibited an attraction for riskier assets and loans.

US central bank) every month into the US economy. The avowed aim of this move, which has been in operation in one form or another since 2008, has been to stimulate the US economy by making cheap money available to business. However, speculators who borrow such monies at low interest rates (almost zero) have no interest in genuine business investments but have been using them for short-term gains within the US and abroad.

The result is that the US stock markets have registered record highs

even as the real economy has been struggling with recovery. More importantly, borrowers have been using these monies to speculate in developing-country assets and currencies, inflating them artificially. The risk of asset bubbles is therefore very real.

The problem facing the Fed is not only when to start ‘tapering’ – i.e., reduce the amount of money pumped every month with a view to halting the process altogether – but how to do it. The mere announcement by the Fed in May this year that it would start tapering the amounts pumped in as the US employment situation improved was enough to cause a financial stampede. Fearful that the era of cheap monies was over, speculators began pulling out their monies from the developing countries, causing the value of many of their currencies to drop and engendering turmoil in world financial markets.

In a desperate attempt to calm the whole situation, the Fed, along with the European Central Bank and the Bank of England, announced in July that monetary policy would be continued unchanged until the economy was on solid footing. While this may have ended the turmoil in the financial markets in the West, the damage to the developing countries which had been the main victims did not really abate. As the *BIS Quarterly Review* of September 2013 explains:

‘The market-led tightening of financial conditions generated serious tremors in emerging market economies, which had been in a soft spot.

The outlook for these economies was deteriorating, as imbalances inherited from a period of rapid credit and GDP growth were unwinding. The imported tightening thus amplified pressures on local markets and brought to the fore the vulnerability of countries dependent on fickle foreign capital. In the face of additional strong headwinds from escalating geopolitical tensions, the downward pressure on currency and equity values persisted in a number of emerging economies even after the sell-off had abated in advanced economies.'

The same *Review* highlights another disturbing and ominous development in the financial markets. Since around mid-2012, investors have exhibited an attraction for riskier assets and loans. These include 'securities carrying a credit risk premium, which reduces duration, all else the same'. As for riskier lending, a 'concrete manifestation was the growing popularity of "leveraged" loans, which are extended to low-rated, highly leveraged borrowers paying spreads above a certain threshold ... The share of these loans in total new signings reached 45% by mid-2013, 30 percentage points above the trough during the crisis and 10 percentage points above the pre-crisis peak.'

Most disturbing of all is the *Review's* observation that the financial turmoil which broke out in May upon the Fed's announcement failed to dampen this lust for high-yield riskier securities. On the contrary, 'This extended the squeeze of credit spreads and fuelled strong issuance of bonds and loans in the riskier part of the spectrum, a phenomenon reminiscent of the exuberance prior to the [2008] global financial crisis.'

The *Telegraph* reports White as saying that 'the five years since Lehman have largely been wasted, leaving a global system that is even more unbalanced, and may be running out of lifelines'.

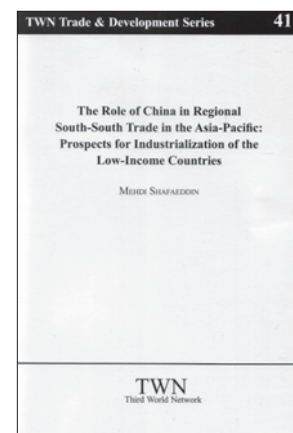
Few would disagree with this bleak assessment. ♦

T Rajamoorthy, a member of the Malaysian Bar, is Editor of Third World Resurgence.

The Role of China in Regional South-South Trade in the Asia-Pacific: Prospects for Industrialization of the Low-Income Countries

By Mehdi Shafaeddin

Based on his proposed alternative theoretical framework for South-South trade as a vehicle for industrialization and development and refuting the "decoupling" thesis – that is, that East Asian countries are decoupled from the business cycle in developed countries – the author analyzes the merits and shortcomings of China's regional trade with its partners. Moreover, considering the growing weight of China in the global production network and international trade, he proposes policies for the industrialization and development of the partner countries in the context of strengthening China's role as a growth "pole". He suggests, inter alia, the need for industrial collaboration among the low-income countries of the region – which benefit less than others from the dynamics of the Chinese economy as a "hub" – complemented by adjustment assistance by China and the newly industrializing economies (NIEs). He also proposes technological cooperation among China's trading partners which are currently involved in production sharing in a limited number of electrical and electronic products for export to third markets in developed



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countries. Such cooperation would be aimed at upgrading their industrial structure and reducing their vulnerability to changes in the economic strategy of China and to the business cycle in the developed countries.

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Sustained global economic recovery still elusive – UNCTAD

A report released by the UN Conference on Trade and Development (UNCTAD) in September confirms that the global economy has still not returned to the growth rates it enjoyed before the onset of the 2008 financial crisis. *Kanaga Raja* highlights the report's findings.

'THE global economy is still struggling to return to a strong and sustained growth path' and world output growth is forecast to decelerate further from 2.2% in 2012 to 2.1% in 2013, the United Nations Conference on Trade and Development (UNCTAD) has said.

In its flagship *Trade and Development Report 2013*, released on 12 September, UNCTAD said that developed countries will continue to lag behind the world average, with a likely 1% increase in gross domestic product (GDP), due to a slight deceleration in the United States and a continuing recession in the euro area.

Developing and transition economies should grow by about 4.7% and 2.7% respectively, it added. 'Even though these growth rates are significantly higher than those of developed countries, they remain well below their pre-crisis levels. Furthermore, they confirm the pace of deceleration that started in 2012.'

At a 12 September media briefing, Mukhisa Kituyi, the new Secretary-General of UNCTAD, who replaced Supachai Panitchpakdi on 1 September, said that for about five years, as the crisis in the world economy has refused to go away, UNCTAD has been very consistent in its argument that the traditional paradigms – the traditional assumptions – about getting out of the financial crisis do not appear to be part of the solution.

New thinking and new approaches are needed urgently at the global and national levels in areas of economies to be emphasised but importantly in looking afresh at unfettered deregulation in particular in financial markets and how it impacts



'[The] more prominent role of financial markets carries the risk of greater economic instability, because these markets are intrinsically prone to boom-and-bust processes, especially if they are loosely regulated.'

on national policy, planning and projection, he added.

Analysing recent trends in the global economy, the UNCTAD report said that economic activity in many developed countries and a number of emerging market economies is still suffering from the impacts of the financial and economic crisis that started in 2008 and the persistence of domestic and international imbalances that led to it. However, continuing weak growth in several countries may also be partly due to their current macroeconomic policy stance.

Among developed economies, growth in the European Union is expected to shrink for the second consecutive year, with a particularly severe economic contraction in the euro area. Private demand remains subdued, especially in the eurozone periphery countries (Greece, Ireland, Italy, Portugal and Spain), due to high unemployment, wage compression, low consumer confidence and the still-incomplete process of balance

sheet consolidation.

Given the ongoing process of deleveraging, expansionary monetary policies have failed to increase the supply of credit for productive activities. In this context, continued fiscal tightening makes a return to a higher growth trajectory highly unlikely, as it adds a deflationary impulse to already-weak private demand.

The report said that while foreign trade (mainly through the reduction of imports) contributed to growth in the euro area, this was more than offset by the negative effect of contracting domestic demand, which even the surplus countries have been reluctant to stimulate. This perpetuates disequilibrium within the eurozone and reduces the scope for an export-led recovery of other countries in the zone.

'Hence, despite the fact that the tensions in the financial markets of the euro area have receded following intervention by the European Central Bank (ECB), prospects for a resumption of growth of consumption and

investment in these countries remain grim.'

Japan is bucking the current austerity trend of other developed economies by providing a strong fiscal stimulus in conjunction with monetary policy expansion with the aim of reviving economic growth and curbing deflationary trends. An increase of government spending on infrastructure and social services, including healthcare and education, has been announced, to be accompanied by efforts to boost demand and structural policies oriented towards innovation and investment.

To complement these efforts, UNCTAD noted, in April 2013, the Bank of Japan announced that it will increase its purchase of government bonds and other assets by 50 trillion yen per year (equivalent to 10% of Japan's GDP) in order to achieve an inflation target of 2%. Overall, these measures could help maintain Japan's GDP growth at close to 2% in 2013.

The United States is expected to grow at 1.7%, compared with 2.2% in 2012, due to a new configuration of factors. Partly owing to significant progress made in the consolidation of its banking sector, private domestic demand has begun to recover. The pace of job creation in the private sector has enabled a gradual fall in the unemployment rate.

'On the other hand, cuts in federal government spending, enacted in March 2013, and budget constraints faced by several State and municipal governments are a strong drag on economic growth. Since the net outcome of these opposing tendencies is unclear, there is also considerable uncertainty about whether the expansionary monetary policy stance will be maintained.'

Main growth drivers

By contrast, said UNCTAD, developing countries continue to be the main drivers of growth, contributing to about two-thirds of global growth in 2013. In many of them, growth has been driven more by domestic demand than by exports, as external demand, particularly from developed econo-

mies, has remained weak.

UNCTAD forecast developing countries to grow at the rate of 4.5-5% in 2013, similar to 2012.

'This would result from two distinctive patterns. On the one hand, growth in some large developing economies, such as Argentina, Brazil, India and Turkey, which was subdued in 2012, is forecast to accelerate. On the other hand, several other developing economies seem unlikely to be able to maintain their previous year's growth rates. Their expected growth deceleration partly reflects the accumulated effect of continuing sluggishness in developed economies and lower prices for primary commodity exports, but also the decreasing policy stimuli which were relatively weak anyhow.'

The combination of these factors may also affect China's growth rate, which is expected to slow down moderately from 7.8% in 2012 to about 7.6% in 2013. Even though this would be only a mild deceleration, it is likely to disappoint many of China's trading partners.

Among the developing regions, East, South and South-East Asia are expected to experience the highest growth rates in 2013, of 6.1%, 4.3% and 4.7%, respectively. In most of these countries, growth is being driven essentially by domestic demand.

In China, the contribution of net exports to GDP growth was negligible, while fixed investment and private consumption, as a result of faster wage growth, continued to drive output expansion. Encouraged by various incomes policy measures, domestic private demand is also supporting output growth in a number of other countries in the region, such as India, Indonesia, the Philippines and Thailand.

Economic growth in West Asia slowed down dramatically, from 7.1% in 2011 to 3.2% in 2012, a level that is expected to be maintained in 2013. Weaker external demand, especially from Europe, affected the entire region, but most prominently Turkey, which saw its growth rate fall sharply from around 9% in 2010 and 2011 to

2.2% in 2012, but it is expected to accelerate towards 3.3% in 2013.

Growth in Africa is expected to slow down in 2013, owing to weaker performance in North Africa, where political instability in some countries has been mirrored in recent years by strong fluctuations in growth. In sub-Saharan Africa (excluding South Africa), GDP growth is expected to remain stable in 2013, at above 5%. The main growth drivers include high earnings from exports of primary commodities and energy as well as tourism, and relatively strong growth of public and private investment in some countries.

Growth is set to remain relatively stable in Latin America and the Caribbean, at around 3%, on average, as a slowdown in some countries, including Mexico, is likely to be offset by faster growth in Argentina and Brazil.

In 2012 and the first months of 2013, regional growth has been driven mostly by domestic demand based on moderate but consistent increases in public and private consumption and investment. Governments generally turned to more supportive fiscal and monetary policies in a context of low fiscal deficits and low inflation for the region as a whole.

According to the report, domestic demand will continue to support growth in 2013 based on rising real wages and employment, as well as an expansion of bank credit. In addition, a recovery of agriculture and investment should contribute to better economic performance in Argentina and Brazil after weak growth in 2012.

On the other hand, owing to sluggish international demand and lower export prices of oil and mining products (although they remain at historically high levels), a slowdown is expected in the Bolivarian Republic of Venezuela, Chile, Ecuador, Mexico and Peru.

There has been a downward trend in the economic performance of the transition economies since 2012. The impact of the continuing crisis in much of Western Europe caused the economies of South-Eastern Europe to fall into recession in 2012, and they

will barely remain afloat in 2013. The members of the Commonwealth of Independent States (CIS) maintained a growth rate of over 3% in 2012 based on sustained domestic demand, but this is expected to slow down slightly in 2013.

The report noted that the continuing expansion of developing economies as a group (in particular the largest economy among them, China) has led to their gaining increasing weight in the world economy, which suggests the possible emergence of a new pattern of global growth. While developed countries remain the main export markets for developing countries as a group, the share of the latter's contribution to growth in the world economy has risen from 28% in the 1990s to about 40% in the period 2003-07, and close to 75% since 2008.

'However, more recently, growth in these economies has decelerated. They may continue to grow at a relatively fast pace if they are able to strengthen domestic demand and if they can rely more on each other for the expansion of aggregate demand through greater South-South trade. However, even if they achieve more rapid growth by adopting such a strategy, and increase their imports from developed countries, this will not be sufficient to lift developed countries out of their growth slump.'

UNCTAD also pointed out that international trade in goods has not returned to the rapid growth rate of the years preceding the crisis. On the contrary, it decelerated further in 2012. And while the outlook for world trade remains uncertain, the first signs in 2013 do not point to an expansion. After a sharp fall in 2008-09 and a quick recovery in 2010, the volume of trade in goods grew by only 5.3% in 2011 and by 1.7% in 2012. This slower rate of expansion occurred in developed, developing and transition economies alike. 'Sluggish economic activity in developed countries, particularly in Europe, accounted for most of this very significant slowdown.'

Overall, said UNCTAD, 'this general downward trend in interna-

tional trade highlights the vulnerabilities developing countries continue to face at a time of lacklustre growth in developed countries. It is also indicative of a probably less favourable external trade environment over the next few years, which points to the need for a gradual shift from the reliance on external sources of growth towards a greater emphasis on domestic sources.'

Policy differences

According to UNCTAD, the analysis has revealed that neither the developed economies nor the developing and transition economies have been able to return to the rapid growth pace they experienced before the onset of the latest crisis.

Since the factors that underpinned the pre-crisis economic expansion were unsustainable, endogenous adjustment mechanisms or automatic stabilisers are not likely to restore them. Moreover, relying on such a strategy will not succeed in returning economies to their previous growth pattern, nor is it desirable.

Many proponents of structural reforms believe their main goals should be to improve competitiveness and restore the strength and confidence of financial markets. These goals are supposed to be achieved by short-term measures such as the compression of labour costs and fiscal austerity.

'However, so far, this approach has delivered disappointing results. Other proposals include radical measures, such as more flexible labour markets, lower social security coverage and a smaller economic role for the State. However, none of these proposed reforms are likely to solve the structural problems, and may even aggravate them, because they appear to be based on a flawed diagnosis,' asserted UNCTAD.

The discrepancies between developed and developing countries with regard to employment generation reflect their different growth performances, it said.

In developed countries, the strategy of creating jobs by reducing (or

allowing a reduction of) real wages has not delivered the expected results in the presence of slow, or in some cases negative, output growth. Such wage policies have an adverse impact on aggregate demand, which makes private firms less willing to invest and to hire new workers. Reducing the price of labour does not lead to the expected outcome of equilibrating demand and supply on the labour market, because lowering the price of labour (the real wage) reduces not only the costs of producing goods and services, but also the demand for those goods and services.

'Attempts to overcome employment problems by lowering wages and introducing greater flexibility to the labour market are bound to fail because they ignore this macroeconomic interdependence of demand and supply that causes the labour market to function differently from a typical goods market,' the report stressed.

In the current policy debate, there is broad agreement about the goals but not about how best to achieve them, and sometimes the means appear to be confused with ends. Restoring growth and employment levels, reducing public debt ratios, repairing banking systems and re-establishing credit flows are generally shared objectives.

However, disagreement on priorities, on the appropriate policy tools, as well as on the timing and sequencing, leads to quite different, and sometimes opposite, policy recommendations. For instance, the dominant view in most developed countries and in several international organisations, at least since 2010, has been that fiscal consolidation is a prerequisite for sustained growth because it will bolster the confidence of financial markets and prevent sovereign defaults.

Those opposed to this shift towards fiscal austerity see fiscal consolidation as a long-term goal which would be achieved through sustained growth, and not as a precondition for growth. In this view, premature fiscal tightening will not only be very costly in economic and social terms; it will

also be counterproductive, because, with slower growth, fiscal revenues will be lower, and the public-debt-to-GDP ratio is unlikely to decline or may even rise further.

‘Despite growing evidence that fiscal austerity hampers GDP growth, many governments are unwilling to change this strategy as they believe they do not have enough policy space for reversing their fiscal policy stance; instead, they are relying on monetary policy for supporting growth and employment.’

However, said UNCTAD, there is little scope for monetary policy to further reduce interest rates in developed economies, as these are already extremely low. In addition, so far, unconventional monetary policies (i.e., quantitative monetary expansion) have failed to revive credit to the private sector. Banks and other financial institutions that have access to liquidity will not automatically increase their supply of credit commensurately, as they may still have to consolidate their balance sheets.

Moreover, even if they did expand their credit supply, many private firms would be unlikely to borrow more as long as they have to consolidate their own balance sheets without any prospect of expanding production when they face stagnant, or even falling, demand. This is why using monetary policy for pulling an economy out of a depression triggered by a financial crisis may be like ‘pushing into a string’.

On the other hand, said UNCTAD, central bank interventions (or announcements of their intentions) have proved remarkably effective in lowering risk premiums on sovereign debt. Thus, monetary and fiscal policies may be used for different purposes for tackling the crisis. Fiscal policy, given its strong potential impact on aggregate demand, could be used to support growth and employment instead of trying to restore the confidence of financial markets through fiscal austerity. Meanwhile, central banks could enlarge their role as lenders of last resort to generate that confidence and maintain interest rates at low levels. Moreover, these central bank actions to support credit and growth are more likely to succeed if

they are accompanied by an expansionary fiscal policy.

Structural vulnerabilities

According to the report, since the late 1970s and early 1980s, policies based on supply-side economics, neoliberalism and finance-led globalisation have involved a redefinition of the role of the state in the economy and its regulatory tasks; an extraordinary expansion of the role of finance at the national and international levels; an opening up of economies, including a reduction of trade tariffs; and a general increase in inequality of income distribution.

The resulting new roles of the public, private and external sectors, the expansion of finance and the increasing income concentration altered the structure and dynamics of global demand in a way that heightened vulnerabilities, eventually leading to the crisis.

‘In other words, the present crisis was not the unfortunate result of some misguided financial decisions; rather, it was the culmination of a number of structural problems that have been building up over the past three decades, which created the conditions for greater economic instability.’

In order to achieve sustained global growth and development, there has to be consistent growth of household income, the largest component of which is labour income obtained from the production of goods and services. However, over the past three decades, labour income in the world economy has been growing at a slower pace than the growth of world output, with some diverging trends over the past decade.

‘The observed declining trends in the share of labour income – or wage share – have often been justified as being necessary in order to reduce costs and induce investment. However, wage income constitutes a large proportion of total income (about two-thirds in developed countries), and is therefore the most important source of demand for goods and services. Thus, sizeable reductions of such income relative to productivity gains will have tangible negative effects on the rate of household consumption.

And, to the extent that productive investment is driven by expectations of expanding demand, second-round effects of lower consumption on investment would seem unavoidable.’

In addition to these negative effects on long-term growth, greater income inequality also contributed to the financial crisis. The links between expanding finance and rising inequality operated in two ways. The larger size and role played by the financial sector led to a greater concentration of income in the hands of rentiers (both equity holders and interest earners) and a few high-wage earners, especially in the financial sector.

Concomitantly, greater inequality led to rising demand for credit, both from households whose current income was insufficient to cover their consumption and housing needs and from firms that distributed a disproportionate share of their profits to their shareholders. This led to a financial bubble that eventually burst, leaving many households, firms and banks in financial distress.

The UNCTAD report emphasised that another long-running trend since the early 1980s has been the diminishing economic role of the state in many countries by way of privatisation, deregulation and lower public expenditure. This served to increase economic fragility in different ways.

Another factor contributing to those crises since the 1980s has been widespread financial liberalisation, which is another major aspect of the reduced economic role of the state. Financial deregulation, coupled with the extraordinary expansion of financial assets, allowed macroeconomic policies limited room for manoeuvre, and their effects came to be increasingly swayed by reactions on financial markets.

Moreover, as the access of governments to central bank financing was limited, the financial sector gained greater influence over policymakers. This interaction between developments in the financial sector, together with the weakening of government and central bank influence on the economy, generates a particular problem when a recession does not result from cycles in the real sector of the economy, but instead from over-indebtedness of the private

sector as a whole.

The value of global financial assets grew from \$14 trillion in 1980 to \$56 trillion in 1990 and \$206 trillion in 2007; and in current GDP terms it tripled, from 120% of GDP in 1980 to 365% in 2007. This expansion was accompanied (and encouraged) by extensive deregulation of national financial markets and the progressive liberalisation of international capital movements. As a result, cross-border capital flows jumped from \$500 billion in 1980 to a peak of \$12 trillion in 2007.

Between 1980 and 1995, the stock of foreign-owned financial assets represented around 25% of global financial assets. This share increased to 28% in 2000, 38% in 2005 and almost 50% in 2007-10, when foreign-owned assets exceeded \$100 trillion, or 150% of world output.

'This more prominent role of financial markets carries the risk of greater economic instability, because these markets are intrinsically prone to boom-and-bust processes, especially if they are loosely regulated,' cautioned UNCTAD.

The extraordinary expansion of the financial sector over the years has also been accompanied by changes in its patterns of operation, which contributed to an increase in financial fragility. These included a high level of financial leveraging, an increasing reliance on short-term borrowing for bank funding, the extension of a poorly capitalised and unregulated shadow financial system, perverse incentives that encouraged excessive risk-taking by financial traders, a reliance on flawed pricing models and the 'lend and distribute' behaviour that weakened the role of banks in discriminating between good and bad borrowers.

The pro-cyclical bias of bank credit was exacerbated by value-at-risk models and the Basel rules on bank capital, which allowed banks to expand credit during booms, when risks seemed low and the price of collaterals rose, and obliged them to cut lending during downturns. The vulnerability of the financial system also increased as a result of its growing concentration and loss of diversity. Much of its operations today are handled by 'too-big-to-fail' institu-

tions which tend to take on far greater risks than would be taken by smaller institutions.

'It is possible that some of the characteristics of the credit boom in developed countries are being replicated in developing countries, with some variations. Asset appreciations and private spending that exceeds income are often supported by capital inflows, usually channelled through domestic financial institutions. In such cases, currency mismatches between debt and revenue tend to generate or reinforce the credit boom-and-bust cycle.'

Through these different channels, the growing size and role of the financial sector, together with its present structure and modes of functioning, have become a major source of economic instability and misallocation of resources in many countries. It has also facilitated the rise of international imbalances, another key structural problem.

Global imbalances

UNCTAD explained that increasing current account imbalances and the expansion of international finance are closely intertwined. In the immediate postwar era, there are unlikely to have been any countries that had large external deficits for extended periods of time. But such deficits have become more and more common in the era of financialisation that started in the 1980s and deepened from the 1990s onwards.

By the end of the 1990s, a tendency towards rising global imbalances re-emerged, owing largely to current account deficits in a few developed countries where credit-driven expansion became prevalent. This tendency was reinforced by the adoption of export-led strategies by developed-country exporters of manufactures, such as Japan and a few North European countries, followed by Germany.

'Export-led growth strategies, to the extent that they have frequently led to trade surpluses, are only sustainable if other countries maintain trade deficits over a long period. In short, the success of such strategies in some countries relies on external deficits in other countries, and the willingness and capacity of the defi-

cit countries to pile up external debt.'

But since the crisis, developed countries with deficits seem to be less willing and able to play the role of global consumer of last resort due to their ever-increasing indebtedness. Despite this, policymakers in some countries are trying to respond to weaker domestic demand by gaining export market shares through improved international competitiveness. This is particularly the case with those crisis-hit countries that were running large current account deficits before the crisis and have undertaken recessionary adjustment programmes.

The most common measure adopted, at least in the short run, has been internal devaluation, particularly through wage compression. However, this simultaneous action by several trade partners contributes to a global compression of income and reinforces a race to the bottom. This not only has negative effects on global aggregate demand, since a country's lower wage bill constitutes a demand constraint that affects other countries as well, but it also undermines their efforts to gain competitiveness.

UNCTAD argued that a global mechanism to help rebalance external demand will not be effective if it places the entire or most of the burden of adjustment on deficit countries. Such an asymmetric adjustment is deflationary, since debtor countries are forced to cut spending while there is no obligation on the part of creditor countries to increase spending, which leads to a shortfall of demand at the global level.

'It would be preferable, from an economic and social point of view, if surplus countries assumed a greater role in the rebalancing process by expanding their domestic demand. Ideally, an asymmetric expansionary approach would be the most effective way to restart global output growth on a sustainable basis. In such an approach, the adjustment burden would be taken on primarily by the surplus countries by way of stronger wage increases and fiscal expansion,' it concluded. ♦

Kanaga Raja is Editor of the South-North Development Monitor (SUNS), from which this article is reproduced (No. 7654, 16 September 2013). SUNS is published by the Third World Network.

The US has no credibility dealing with chemical weapons

US policy regarding chemical weapons has been so inconsistent and politicised that the country is in no position to lead the movement to eliminate such weapons, says *Stephen Zunes*.

THE Syrian regime's alleged use of chemical weapons against civilian areas on 21 August constitutes a breach of the Geneva Protocol of 1925, one of the world's most important disarmament treaties, which banned the use of chemical weapons.

In 1993, the international community came together to ratify the Chemical Weapons Convention (CWC), a binding international treaty that would also prohibit the development, production, acquisition, stockpiling, retention, and transfer or use of chemical weapons. Syria is one of only eight of the world's 193 countries not party to the convention.

However, US policy regarding chemical weapons has been so inconsistent and politicised that the United States is in no position to take leadership in any military response to any use of such weaponry by Syria.

The controversy over Syria's chemical weapons stockpiles is not new. Both the Bush administration and the US Congress, in the 2003 Syria Accountability Act, raised the issue of Syria's chemical weapons stockpiles, specifically Syria's refusal to ratify the Chemical Weapons Convention. The failure of Syria to end its chemical weapons programme was deemed sufficient grounds by a large bipartisan majority of Congress to impose strict sanctions on that country. Syria rejected such calls for unilateral disarmament on the grounds that it was not the only country in the region that had failed to sign the CWC – nor was it the first country in the region to develop chemical weapons, nor did it have the largest chemical weapons arsenal in the region.



Aftermath of the March 1988 chemical weapons attack by the Saddam Hussein regime on the Iraqi city of Halabja, where up to 5,000 Kurdish civilians were killed. The attack was downplayed by the US, which continued sending aid to Iraq.

Indeed, neither of the world's two largest recipients of US military aid – Israel and Egypt – is a party to the convention either. Never has Congress or any administration of either party called on Israel or Egypt to disarm their chemical weapons arsenals, much less threatened sanctions for their failure to do so. US policy, therefore, appears to be that while it is legitimate for its allies Israel and Egypt to refuse to ratify this important arms control convention, Syria needed to be singled out for punishment for its refusal.

The first country in the Middle East to obtain and use chemical weapons was Egypt, which used phosgene and mustard gas in the mid-1960s during its intervention in Yemen's civil war. There is no indication Egypt has ever destroyed any of its chemical agents or weapons. The US-backed Mubarak regime continued its chemical weapons research and development programme until its ouster in a popular uprising two years ago, and the programme is believed to have continued subsequently.

Israel is widely believed to have

produced and stockpiled an extensive range of chemical weapons and is engaged in ongoing research and development of additional chemical weaponry. (Israel is also believed to maintain a sophisticated biological weapons programme, which is widely thought to include anthrax and more advanced weaponised agents and other toxins, as well as a sizable nuclear weapons arsenal with sophisticated delivery systems.) For more than 45 years, the Syrians have witnessed successive US administrations provide massive

amounts of armaments to a neighbouring country with a vastly superior military capability which has invaded, occupied, and colonised Syria's Golan province in the southwest. In 2007, the United States successfully pressured Israel to reject peace overtures from the Syrian government in which the Syrians offered to recognise Israel and agree to strict security guarantees in return for a complete Israeli withdrawal from occupied Syrian territory.

The US position that Syria must unilaterally give up its chemical weapons and missiles while allowing a powerful and hostile neighbour to maintain and expand its sizable arsenal of nuclear, chemical and biological weapons is simply unreasonable. No country, whether autocratic or democratic, could be expected to accept such conditions.

This is part of a longstanding pattern of hostility by the United States toward international efforts to eliminate chemical weapons through universal disarmament agreements.

One of the most effective instruments for international arms control

in recent years has been the Organisation for the Prohibition of Chemical Weapons (OPCW), which enforces the Chemical Weapons Convention by inspecting laboratories, factories and arsenals and oversees the destruction of chemical weapons. The organisation's most successful director-general, first elected in 1997, was the Brazilian diplomat José Bustani, praised by the *Guardian* newspaper as a 'workaholic' who has 'done more in the past five years to promote world peace than anyone'. Under his strong leadership, the number of signatories of the treaty grew from 87 to 145 nations, the fastest growth rate of any international organisation in recent decades, and – during this same period – his inspectors oversaw the destruction of two million chemical weapons and two-thirds of the world's chemical weapons facilities. Bustani was re-elected unanimously in May 2000 for a five-year term and was complimented by US Secretary of State Colin Powell for his 'very impressive' work.

However, by 2002, the United States began raising objections to Bustani's insistence that the OPCW inspect US chemical weapons facilities with the same vigour it does other signatories. More critically, the United States was concerned about Bustani's efforts to get Iraq to sign the convention and open their facilities to surprise inspections as is done with other signatories. If Iraq did so, and the OPCW failed to locate evidence of chemical weapons that Washington claimed Saddam Hussein's regime possessed, it would severely weaken American claims that Iraq was developing chemical weapons.

US efforts to remove Bustani by forcing a recall by the Brazilian government failed, as did a US-sponsored vote of no confidence at the United Nations in March. That April, the United States began putting enormous pressure on some of the UN's weaker countries to support its campaign to oust Bustani and threatened to withhold the United States' financial contribution to the OPCW, which constituted more than 20% of its entire

budget. Figuring it was better to get rid of its leader than risk the viability of the whole organisation, a majority of nations, brought together in an unprecedented special session called by the United States, voted to remove Bustani.

The case of Iraq

The first country to allegedly use chemical weapons in the Middle East was Great Britain in 1920, as part of its efforts to put down a rebellion by Iraqi tribesmen when British forces seized the country following the collapse of the Ottoman Empire. Winston Churchill, who then held the position of Britain's Secretary of State for War and Air, was reported to have said, 'I do not understand this squeamishness about the use of gas. I am strongly in favour of using poisonous gas against uncivilised tribes.'

It was the Iraqi regime of Saddam Hussein, during the Iran-Iraq War in the 1980s, that used chemical weapons on a scale far greater than any country had dared since the weapons were banned nearly 90 years ago. The Iraqis inflicted close to 100,000 casualties among Iranian soldiers using banned chemical agents, resulting in 20,000 deaths and tens of thousands of long-term injuries.

They were unable to do this alone, however. Despite ongoing Iraqi support for Abu Nidal and other terrorist groups during the 1980s, the Reagan administration removed Iraq from the US State Department's list of state sponsors of terrorism to provide the regime with thiodiglycol, a key component in the manufacture of mustard gas, and other chemical precursors for their weapons programme.

Walter Lang, a senior official with the US Defense Intelligence Agency (DIA), noted how 'the use of gas on the battlefield by the Iraqis was not a matter of deep strategic concern' to President Reagan and other administration officials because they 'were desperate to make sure that Iraq did not lose'. Lang noted that the DIA believed Iraq's use of chemical warfare was 'seen as inevitable in the Iraqi struggle for survival'. In fact,

recently released CIA documents show that DIA personnel were dispatched to Baghdad during the war to provide Saddam Hussein's regime with US satellite data on the location of Iranian troop concentrations in the full knowledge that the Iraqis were using chemical weapons against them.

Even the Iraqi regime's use of chemical weapons against civilians was not seen as particularly problematic. The March 1988 massacre in the northern Iraqi city of Halabja, where Saddam's forces murdered up to 5,000 Kurdish civilians with chemical weapons, was downplayed by the Reagan administration, with some officials even falsely claiming that Iran was actually responsible. The United States continued sending aid to Iraq even after the regime's use of poison gas was confirmed.

When a 1988 Senate Foreign Relations committee staff report brought to light Saddam's policy of widespread extermination in Iraqi Kurdistan, Senator Claiborne Pell introduced the Prevention of Genocide Act to put pressure on the Iraqi regime, but the first Bush administration successfully moved to have the measure killed. This came despite evidence emerging from UN reports in 1986 and 1987, prior to the Halabja tragedy, documenting Iraq's use of chemical weapons against Kurdish civilians – allegations that were confirmed both by investigations from the CIA and from US embassy staff who had visited Iraqi Kurdish refugees in Turkey. However, not only was the United States not particularly concerned about Iraq's use of chemical weapons, the Reagan administration continued supporting the Iraqi government's procurement effort of materials necessary for their development.

Given US culpability in the deaths of tens of thousands of people by Iraqi chemical weapons less than 25 years ago, calls by the administration and Congressional leaders for the United States to go to war with Syria in response to that regime's apparent use of chemical weapons that killed several hundred people lead even many of Syrian dictator Bashar



The US succeeded in ousting Brazilian diplomat José Bustani (pic) from the leadership of the Organisation for the Prohibition of Chemical Weapons in 2002. During Bustani's tenure, OPCW inspectors had overseen the destruction of two-thirds of the world's chemical weapons facilities.

Assad's fiercest opponents to question US motivations.

This is not the only reason US credibility on the issue of chemical weapons is questionable, however.

After denying and covering up Iraq's use of chemical weapons in the late 1980s, the US government – first under President Bill Clinton and then under President George W Bush – began insisting that Iraq's alleged chemical weapons stockpile was a dire threat, even though the country had completely destroyed its stockpile by 1993 and completely dismantled its chemical weapons programme.

Secretary of State John Kerry, who has been leading the administration's efforts to convince Congress to go to war, insists that 'Chemical weapons were used by the [Syria] regime. We know this'. However, as a senator in the fall of 2002, he falsely claimed that 'Iraq has chemical and biological weapons... and [their weapons programmes] are larger and more advanced than they were before the Gulf War'. Even more absurdly, Kerry insisted that 'Iraq has some lethal and incapacitating agents and is capable of quickly producing and weaponising a variety of such agents ... for delivery on a range of vehicles such as bombs, missiles, aerial

sprayers and covert operatives which could bring them to the United States homeland'. House Democratic leader Nancy Pelosi, who is leading the pro-war effort in that chamber, insists that Syria's use of chemical weapons is 'undeniable'. On NBC's *Meet the Press* in November 2002, however, she falsely claimed that Iraq 'certainly' had chemical weapons and that there was 'no question about that'. Vice President Joe Biden, who claims that there is 'no doubt' the Syrian government was responsible for the chemical weapons attack, also falsely claimed in 2002 that Iraq possessed chemical weapons.

Even though they may be telling the truth this time, this record of deceit makes it difficult to trust US government officials when it comes to accusations regarding hostile Arab governments and chemical weapons. As a result, the United States should be the last country to lead a global crusade against chemical weapons in the Middle East.

It should also be noted that many of today's most outspoken congressional advocates for US military intervention in Syria in response to the Damascus regime's alleged use of chemical weapons were among the most strident advocates in 2002-03 for invading Iraq. Representative Eliot Engel, whom the Democrats have chosen to be their ranking member on the House Foreign Affairs Committee and who has emerged as a vocal proponent of US air strikes against Syria, was among the right-wing minority of House Democrats who voted to authorise the invasion of Iraq on the grounds that the country possessed 'weapons of mass destruction'. When no such weapons were found, Engel came up with the bizarre allegation that 'it would not surprise me if those weapons of mass destruction that we cannot find in Iraq wound up and are today in Syria'.

UN resolutions

Unlike the case of Saddam Hussein's Iraq, there are no UN Security Council resolutions specifically demanding that Syria unilaterally disarm its chemical weapons or dismantle its chemical weapons programme.

Syria is believed to have developed its chemical weapons programme only after Israel first developed its chemical, biological and nuclear programmes, all of which still exist today and by which Syrians still feel threatened.

However, UN Security Council Resolution 687, the resolution passed at the end of the 1991 Gulf War demanding the destruction of Iraq's chemical weapons arsenal, also called on member states 'to work towards the establishment in the Middle East of a zone free of such weapons'.

Syria has joined virtually all other Arab states in calling for such a 'weapons of mass destruction-free zone' for the entire Middle East. In December 2003, Syria introduced a UN Security Council resolution reiterating this clause from 12 years earlier, but the resolution was tabled as a result of a threatened US veto. As I wrote at the time, in reference to the Syria Accountability Act, 'By imposing strict sanctions on Syria for failing to disarm unilaterally, the administration and Congress have roundly rejected the concept of a WMD-free zone or any kind of regional arms control regime. Instead, the United States government is asserting that it has the authority to say which country can have what kind of weapons systems, thereby enforcing a kind of WMD apartheid, which will more likely encourage, rather than discourage, the proliferation of such dangerous weapons.'

A case can be made, then, that had the United States pursued a policy that addressed the proliferation of non-conventional weapons through region-wide disarmament rather than trying to single out Syria, the Syrian regime would have rid itself of its chemical weapons some years earlier, along with Israel and Egypt, and the government's apparent use of such ordnance and the resulting rush to war would have never happened. ♦

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The Israel lobby sets out to defeat Obama on Iran

Moves by the US towards a détente with Iran are bound to fail because of the power and influence of the Israel lobby, says *MJ Rosenberg*.

THE two presidents have spoken: Barack Obama and Hassan Rouhani. And they are on the same page. By that I mean not that they agree about the issues dividing the two countries but that they are both ready to move forward, to test each other and see if agreement is possible.

As tentative as this is, it is also huge – as anyone who has paid even a little attention over the past 34 years knows.

However, I do not see this process leading anywhere because the Israeli government of Prime Minister Benjamin Netanyahu and its lobby, the American Israel Public Affairs Committee (AIPAC), are both determined to end the process and have the ability to do it.

They intend to use the United States Congress to pass resolutions that will cause Rouhani to walk away by making clear that Congress will accept nothing short of an Iranian surrender on nuclear issues. Although President Obama wants to negotiate with Iran about ensuring that Iran's nuclear programme not be used to produce weapons, the lobby, which writes the laws imposing sanctions on Iran, insists that Iran give up its nuclear programme entirely.

AIPAC listed its demands in a statement in the week of 16 September. The bottom line is this: Congress must not consider lifting economic sanctions until the Iranians stop uranium enrichment, stop work on installing new centrifuges, allow international inspection of nuclear sites, and move out of the country its stockpile of highly enriched uranium. In contrast to the administration, which recognises that Iran (like every other country) has the right to nuclear power for peaceful purposes, AIPAC



The Israel lobby in the US, spearheaded by the American Israel Public Affairs Committee (AIPAC), has been pushing war with Iran for a decade. Picture shows the venue of an AIPAC conference.

says that Iran has no such right. (Israel, of course, has a large stockpile of nuclear weapons but, hey, that's different.)

Not only that, if Iran does not agree to total nuclear surrender, 'The United States must support Israel's right to act against Iran if it feels compelled – in its own legitimate self-defence – to act.'

In other words: the only way for Iran to avoid a military attack is by totally dismantling all its nuclear facilities and potential (to address the 'potential', Israel has repeatedly assassinated Iranian nuclear scientists on Iranian soil). This contrasts with the US view that each step toward compliance by Iran would result in the lifting of some sanctions.

AIPAC is already preparing legislation that will send a clear message to Rouhani: don't bother reaching out to the West because you will achieve nothing.

Senator Lindsey Graham, who with Robert Menendez is AIPAC's top lieutenant in the US Senate, says that 'if nothing changes in Iran, come September or October', he will introduce a bill 'to authorise the use of military

force to prevent Iran from developing a nuclear bomb'. He says that the 'only way to convince Iran to halt their nuclear programme is to make it clear that we will take it out'.

Senators Menendez, Chuck Schumer, John McCain and Graham also sent letters to President Obama urging 'full compliance' by Iran before the United States offers anything. In short, led by AIPAC, the senators want 'unconditional surrender' by Iran to avoid attack. This is diplomacy? It sounds more like

the way the Germans and later the Russians addressed Czechoslovakia.

But why would anyone think the Senate will pass AIPAC's war bills? The answer is simply that the midterm elections are coming up and that means Members of Congress need campaign cash. And AIPAC helps provide it.

Remember what AIPAC's former No. 2 guy Steve Rosen (later indicted under the Espionage Act) told *New Yorker* writer Jeff Goldberg in 2005. Goldberg asked Rosen just how powerful AIPAC is. Goldberg described Rosen's response:

'A half smile appeared on his face, and he pushed a napkin across the table. "You see this napkin?" he said. "In twenty-four hours, we could have the signatures of seventy senators on this napkin."'

Obama better be prepared. AIPAC has been pushing war with Iran for a decade. Its bills to achieve it won't be written on napkins. ♦

MJ Rosenberg is Special Correspondent for The Washington Spectator. Previously he served as a Senior Foreign Policy Fellow with Media Matters Action Network. This article is reproduced from his website mjayrosenberg.com.

Kissinger and Chile: The declassified record

September marked the 40th anniversary of the overthrow of the democratically elected President of Chile, Salvador Allende, by a US-backed coup. We publish below an article on the US role (specifically, the part played by US Secretary of State, Henry Kissinger) based on the latest revelations from declassified documents, as well as the defiant last speech the late president made before his demise.

HENRY Kissinger urged US President Richard Nixon to overthrow the democratically elected government of President Salvador Allende in Chile because his “model” effect can be insidious’, according to documents posted by the National Security Archive on 11 September – 40 years to the day since the coup against Allende. The posted records spotlight Kissinger’s role as the principal policy architect of US efforts to oust the Chilean leader and assist in the consolidation of the Augusto Pinochet dictatorship in Chile.

The documents, which include transcripts of Kissinger’s ‘telcons’ – telephone conversations – that were never shown to the special US Senate committee chaired by Senator Frank Church in the mid-1970s, provide key details about the arguments, decisions and operations Kissinger made and supervised during his tenure as national security adviser and secretary of state.

‘These documents provide the verdict of history on Kissinger’s singular contribution to the denouement of democracy and rise of dictatorship in Chile,’ said Peter Kornbluh, who directs the Chile Documentation Project at the National Security Archive. ‘They are the evidence of his accountability for the events of 40 years ago.’

The Washington-based National Security Archive is an independent non-governmental research institute which provides access to declassified US government documents.

The documents posted by the Archive on 11 September include a Kissinger ‘telcon’ with Nixon that



Chilean troops firing on the presidential palace during the 11 September 1973 coup against the government of Salvador Allende. Declassified documents spotlight Henry Kissinger’s role as the principal policy architect of US efforts to oust the Chilean leader.

records their first conversation after the coup. During the conversation Kissinger tells Nixon that the US had ‘helped’ the coup. ‘[Word omitted] created the conditions as best as possible.’ When Nixon complained about the ‘liberal crap’ in the media about Allende’s overthrow, Kissinger advised him: ‘In the Eisenhower period, we would be heroes.’

That ‘telcon’ is published for the first time in the newly revised edition of Kornbluh’s book, *The Pinochet File: A Declassified Dossier on Atrocity and Accountability* (The New Press, 2013), which has been re-released for the 40th anniversary of the coup. Several of the other documents posted on 11 September appeared for

the first time in the original edition, which the *Los Angeles Times* listed as a ‘Best Book’ of 2003.

Among the key revelations in the documents:

- On 12 September 1970, eight days after Allende’s election, Kissinger initiated discussion on the telephone with CIA director Richard Helms about a preemptive coup in Chile. ‘We will not let Chile go down the drain,’ Kissinger declared. ‘I am with you,’ Helms responded. Their conversation took place three days before President Nixon, in a 15-minute meeting that included Kissinger, ordered the CIA to ‘make the economy scream’, and named Kissinger as the supervisor of the cov-

ert efforts to keep Allende from being inaugurated. Since the Kissinger-Helms 'telcon' was not known to the Church Committee, the Senate report on US intervention in Chile and subsequent histories date the initiation of US efforts to sponsor regime change in Chile to the 15 September 1970 meeting.

- Kissinger ignored a recommendation from his top deputy on the National Security Council, Viron Vaky, who strongly advised against covert action to undermine Allende. On 14 September 1970, Vaky wrote a memo to Kissinger arguing that coup

plotting would lead to 'widespread violence and even insurrection'. He also argued that such a policy was immoral: 'What we propose is patently a violation of our own principles and policy tenets... If these principles have any meaning, we normally depart from them only to meet the gravest threat to us, e.g. to our survival. Is Allende a mortal threat to the US? It is hard to argue this.'

- After US covert operations, which led to the assassination of the commander-in-chief of the Chilean armed forces General Rene Schneider, failed to stop Allende's inaugu-

ration on 4 November 1970, Kissinger lobbied President Nixon to reject the State Department's recommendation that the US seek a *modus vivendi* with Allende. In an eight-page secret briefing paper that provided Kissinger's clearest rationale for regime change in Chile, he emphasised to Nixon that 'the election of Allende as president of Chile poses for us one of the most serious challenges ever faced in this hemisphere' and 'your decision as to what to do about it may be the most historic and difficult foreign affairs decision you will make this year'. It was not only a billion dollars of US

Salvador Allende's last words

The following is the text of President *Salvador Allende's* final speech to the nation, which was broadcast by Radio Magallanes and delivered on 11 September 1973, in the midst of the coup against his administration.

My friends,

Surely this will be the last opportunity for me to address you. The Air Force has bombed the towers of Radio Portales and Radio Corporación.

My words do not have bitterness but disappointment. May they be a moral punishment for those who have betrayed their oath: soldiers of Chile, titular commanders in chief, Admiral Merino, who has designated himself Commander of the Navy, and Mr. Mendoza, the despicable general who only yesterday pledged his fidelity and loyalty to the Government, and who also has appointed himself Chief of the Carabineros [national police].

Given these facts, the only thing left for me is to say to workers: I am not going to resign!

Placed in a historic transition, I will pay for loyalty to the people with my life. And I say to them that I am certain that the seed which we have planted in the good conscience of thousands and thousands of Chileans will not be shrivelled forever.

They have strength and will be able to dominate us, but social processes can be arrested neither by crime nor force. History is ours, and people make history.

Workers of my country: I want to thank you for the loyalty that you always had, the confidence that you deposited in a man who was only an interpreter of great yearnings for justice, who gave his word that he would respect the Constitution and the law and did just that. At this definitive moment, the last moment when I can address you, I wish you to take advantage of the lesson: foreign capital, imperialism, together with the reaction, created the climate in which the Armed Forces broke their tradition, the tradition taught by General Schneider and reaffirmed by Commander Araya, victims of the same social sector which will today be in their homes hoping, with foreign assistance, to retake power to continue defending their profits and their privileges.

I address, above all, the modest woman of our land, the campesina who believed in us, the worker who laboured more, the mother who knew our concern for children. I address professionals of Chile, patriotic professionals, those who days ago continued working against the sedition sponsored by professional associations, class-based associations that also defended the advantages which a capitalist society grants to a few.

I address the youth, those who

sang and gave us their joy and their spirit of struggle. I address the man of Chile, the worker, the farmer, the intellectual, those who will be persecuted, because in our country fascism has been already present for many hours – in terrorist attacks, blowing up the bridges, cutting the railroad tracks, destroying the oil and gas pipelines, in the face of the silence of those who had the obligation to protect them. They were committed. History will judge them.

Surely Radio Magallanes will be silenced, and the calm metal instrument of my voice will no longer reach you. It does not matter. You will continue hearing it. I will always be next to you. At least my memory will be that of a man of dignity who was loyal to [*inaudible*] the workers.

The people must defend themselves, but they must not sacrifice themselves. The people must not let themselves be destroyed or riddled with bullets, but they cannot be humiliated either.

Workers of my country, I have faith in Chile and its destiny. Other men will overcome this dark and bitter moment when treason seeks to prevail. Go forward knowing that, sooner rather than later, the great avenues will open again where free men will walk to build a better society.

Long live Chile! Long live the people! Long live the workers!

These are my last words, and I am certain that my sacrifice will not be in vain, I am certain that, at the very least, it will be a moral lesson that will punish felony, cowardice, and treason. ♦



Henry Kissinger (left) meeting Chilean dictator Augusto Pinochet (centre). Kissinger told Pinochet in 1976: 'In the United States... we are sympathetic with what you are trying to do here [in Chile].'

investments that were at stake, Kissinger reported, but what he called 'the insidious model effect' of Allende's democratic election. There was no way for the US to deny Allende's legitimacy, Kissinger noted, and if he succeeded in peacefully re-allocating resources in Chile in a socialist direction, other countries might follow suit. 'The example of a successful elected Marxist government in Chile would surely have an impact on – and even precedent value for – other parts of the world, especially in Italy; the imitative spread of similar phenomena elsewhere would in turn significantly affect the world balance and our own position in it.'

The next day Nixon made it clear to the entire National Security Council that the policy would be to bring Allende down. 'Our main concern,' he stated, 'is the prospect that he can consolidate himself and the picture projected to the world will be his success.'

• In the days following the coup, Kissinger ignored the concerns of his top State Department aides about the massive repression by the new military regime. He sent secret instructions to his ambassador to convey to Pinochet 'our strongest desires to co-operate closely and establish firm basis for cordial and most constructive



Chilean President Salvador Allende. Henry Kissinger had warned about 'the insidious model effect' of Allende's democratic election.

relationship'. When his assistant secretary of state for inter-American affairs asked him what to tell Congress about the reports of hundreds of people being killed in the days following the coup, he issued these instructions: 'I think we should understand our policy – that however unpleasant they act, this government is better for us than Allende was.' The United States assisted the Pinochet regime in con-

solidating, through economic and military aid, diplomatic support and CIA assistance in creating Chile's infamous secret police agency, DINA.

• At the height of Pinochet's repression in 1975, Secretary of State Kissinger met with the Chilean Foreign Minister, Admiral Patricio Carvajal. Instead of taking the opportunity to press the military regime to improve its human rights record, Kissinger opened the meeting by disparaging his own staff for putting the issue of human rights on the agenda. 'I read the briefing paper for this meeting and it was nothing but Human Rights,' he told Carvajal. 'The State Department is made up of people who have a vocation for the ministry. Because there are not enough churches for them, they went into the Department of State.'

• As Secretary Kissinger prepared to meet Pinochet in Santiago in June 1976, his top deputy for Latin America, William D Rogers, advised him to make human rights central to US-Chilean relations and to press the dictator to 'improve human rights practices'. Instead, a declassified transcript of their conversation reveals, Kissinger told Pinochet that his regime was a victim of leftist propaganda on human rights. 'In the United States, as you know, we are sympathetic with what you are trying to do here,' Kissinger told Pinochet. 'We want to help, not undermine you. You did a great service to the West in overthrowing Allende.'

At a special 'Tribute to Justice' on 9 September 2013 in New York, Kornbluh received the Charles Horman Truth Foundation Award for the National Security Archive's work in obtaining the declassification of thousands of formerly secret documents on Chile after Pinochet's arrest in London in October 1998. Other awardees included Spanish judge Baltazar Garzon, who had Pinochet detained in London; and Chilean judge Juan Guzman, who prosecuted him after he returned to Chile in 2000. ♦

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Still worrying about the bomb

The continuing crisis in the Korean peninsula underscores the need for a nuclear glasnost, says *Gar Smith*.

NOT since the Cuban missile crisis has the world heard the sort of nuclear bombast that has been flying recently between Washington and Pyongyang.

It began on 12 December 2012, when North Korea successfully launched a satellite into orbit. The United States then urged the UN Security Council to clamp new sanctions on the country, arguing that the satellite launch was a 'covert ballistic missile test'. The UN sanctions, imposed on 22 January, prompted North Korea to announce a 'high-level nuclear test'. Two weeks later, the US and South Korea began a massive 'war game' along the North Korean border. In response, President Kim Jong-un threatened to attack US bases in Japan, South Korea, Guam, and Hawaii. The UN announced new sanctions, further infuriating Kim, who vowed 'all-out war'.

The US followed with a second massive military exercise – this time dispatching nuclear-capable B-52 and B-2 bombers to drop 'dummy' bombs on an island in the Yellow Sea. Defence Secretary Chuck Hagel insisted the US was ready for 'any eventuality'.

What part of 'mutually assured destruction' do we still fail to understand?

Let us now turn to Daniel Ellsberg, the Washington insider who leaked the Pentagon Papers in 1971. Forty-two years later, Ellsberg is still spilling secrets.

In February, Ellsberg addressed the 25th anniversary celebration of the Western States Legal Foundation in Oakland, California. He brought the audience to a state of shocked silence as he shared a chilling memory.

Ellsberg told the audience that in 1961, while serving on the Kennedy administration's nuclear war-planning team, he grew concerned about the



An aerial view of the Los Alamos National Laboratory, where US nuclear weapons research is undertaken. 'Nearly 20,000 nuclear weapons, over 95% of them in the arsenals of the United States and Russia, continue to pose an intolerable threat to cities and people everywhere.'

Pentagon's war strategy, which included a pre-emptive nuclear strike against Russia. Ellsberg had a question: 'How many would die?'

The answer came back stamped 'Top Secret. Classified. For the President's Eyes Only.' Because Ellsberg asked the question, Kennedy handed him the paper. Standing in the Oval Office, Ellsberg read the report.

'It concluded that 600 million would be killed. The equivalent of 10 World War Twos – in the course of a single day,' Ellsberg said.

Ellsberg recalled Dr Edward Teller's response to the potential carnage from an all-out nuclear war. So what, Teller shrugged, it would kill 'only one-quarter of the world's population'.

'I heard him say it,' Ellsberg told the stunned audience.

'By 1961, the US had built a Doomsday Bomb that would have extinguished most life on Earth,' Ellsberg recalled. For their part, the Russians had created an automatic missile retaliation system that could respond to a US strike even if the Soviet high command were destroyed. The system was called Mertvaya Ruka – Dead Hand. These weapons and war plans 'remain unchallenged and unchanged', Ellsberg charged.

President Obama's Nuclear Posture Review foresees cutting Ameri-

ca's current nuclear arsenal by 33% by 2017. That may sound like progress, but it would merely cut the US' nuclear missiles from 1,550 to 1,000 – a reduction Ellsberg called 'totally meaningless'. The remaining 1,000 missiles, after all, would remain on hair-trigger alert.

The President's Fiscal Year 2012 budget request calls for spending \$213 billion over 10 years to maintain and 'modernise' nuclear bombs and missiles. As the US Conference of Mayors recently observed, in a reso-

lution calling for the elimination of nuclear weapons, 'more than two decades after the end of the Cold War, nearly 20,000 nuclear weapons, over 95% of them in the arsenals of the United States and Russia, continue to pose an intolerable threat to cities and people everywhere'.

'The Doomsday Machines are still here,' Ellsberg warned. 'We are travelling on the Titanic – travelling very fast, in the dark, surrounded by icebergs.' But the Titanic provides an important lesson, he added. 'There were other ships sailing in those waters that day,' Ellsberg explained, and those other ships survived. Why? Because they stopped sailing east when night fell and turned south. The Titanic continued to plough towards its destruction because the captain was under orders to aim for a transatlantic speed record.

'We need Congress to hold hearings on these weapons!' Ellsberg concluded. 'We need a nuclear glasnost.'

And we need more than Washington's call for a 'nuclear-free Korean Peninsula'. We need a nuclear-free Asia, a nuclear-free Middle East, and a nuclear-free planet. ♦

Gar Smith is editor emeritus of Earth Island Journal, from which this article is reproduced (Summer 2013). He is the author of Nuclear Roulette: The Truth about the Most Dangerous Energy Source on Earth (Chelsea Green).

No accident: Why have 19,142 died at Europe's frontiers?

The recent migrant deaths off the coast of Lampedusa in Italy are a gruesome consequence of European Union border and immigration control policies that follow the logic of security and restrictionism over human rights and international maritime law, says *Nina Perkowski*.

THIRD October 2013 will go down as one of the deadliest days at the European external borders in decades. Three hundred and sixty-three people are now thought to have died in one single, tragic incident early that Thursday morning. And while the continual, everyday deaths of migrants and refugees in the Mediterranean are met by silence, the magnitude of this 'bloodbath' spurred the Italian and international media to report on it widely.

It was around 3.30am on Thursday morning when a boat with 518 people, most of them from Somalia and Eritrea, got into distress about 550 metres off the Lampedusa coastline. The motor had broken down, and water started flowing into the ship. Survivors say that their mobile phones had been taken away from them for the journey to avoid detection, so they used their ship's horn and also signalled SOS optically.

Three fishing boats passed in their vicinity and did not help, nor did they notify the coastguard.

At around 6.20am, somebody on the boat lit a blanket to attract attention. The fire spread and panic broke out. When people moved to one side of the ship, it capsized and sank. Alerted by screams of people in the water, a boat of local fishermen came to their help and rescued 47 people. The fishermen assert that they informed the coastguard by 6.40am, and that it then took 45 minutes for them to arrive at the scene – despite its vicinity to the harbour. This delay is not the only accusation made against the coastguard. According to local newspapers, legal charges have been filed against them for failure to assist people in danger. Two boats of the



Survivors of the 3 October tragedy off the coast of Lampedusa being ferried ashore. The catastrophe was the latest in a series of incidents that have left 19,142 dead over the last 24 years.

Guardia di Finanza near by did not join the rescue effort. In addition, some of the fishermen report having been hindered in rescuing more people. While the coastguard denies these accusations, it would not have been the first time that help to migrant boats in distress came too late.

Disgrace

The 3 October catastrophe is the latest in a series of incidents that have left 19,142 people dead over the last 24 years, 13 of whom died only three days earlier close to a Sicilian beach. The 19,142 toll includes only reported and documented deaths. Many others, having died and disappeared at sea, will never be part of these statistics. Giusi Nicolini, mayor of Lampedusa, made it explicit: we are witnessing war-like levels of death at Europe's frontiers. In Pope Francis' words, 'this is a disgrace'. It is a disgrace for a

political union that proclaims itself as a defender of human rights in the world. And that, at the same time, invests millions of euros in restrictionist policies and practices that leave migrants and refugees little choice other than relying on smuggling networks, undertaking life-threatening journeys, and entering the European Union 'illegally'.

Nicolini drew attention to the fact that three fishing boats had seen and ignored the boat in distress on 3 October, 'because our country brought fishermen who saved human lives to court, charging them with aiding and abetting illegal immigration'. The cases of the Cap Anamur crew and the Tunisian fishermen come to mind, when those who had saved migrants in distress at sea faced lengthy court trials. Lampedusa fishermen admitted that they were often hesitant to save migrants, with one of them asserting that 'this immigration law is killing

people’.

In 2011 and 2012, it became painfully visible what happens when indifference and fear of prosecution replace international maritime law, which prescribes assistance to boats in distress. In different instances, two migrant boats drifted for about two weeks on the Mediterranean Sea. In 2011, 63 people died due to a ‘catalogue of failures’ in responding to their distress calls. In 2012, only one of 55 passengers survived a two-week drift on what is one of the best-monitored and yet deadliest seas in the world.

Keeping out the ‘unwanted’

The 3 October incident was – despite its exceptional and saddening magnitude – not an isolated case. It was not an ‘accident’ nor a ‘tragedy’ that could not have been foreseen or prevented. Instead, it is a gruesome consequence of EU border and immigration control policies that follow logics of security and restrictionism. Keeping those who are ‘unwanted’ out seems to have been, for the last 10–20 years, an objective for which EU member states are willing to incur extreme costs. Hundreds of millions of euros have been invested in external border controls, and thousands of people have died as a result of this strategy. With legal immigration channels being unavailable for those who need them most – the poor, the marginalised, the persecuted – and steadily increasing controls at and beyond Europe’s borders, it can come as no surprise that those determined to attempt the crossing resort to ever more dangerous routes.

And yet, reactions to the 3 October deaths suggest that there is little willingness to rethink these policies.

Calls by Italian, German, and EU politicians for even better surveillance at sea, even harsher actions against ‘smugglers’, even more funding for the EU border control agency Frontex, and even closer cooperation with neighbouring countries, primarily Libya, are deeply worrying. It is more than cynical to demand the intensification of those policies that created

the conditions leading to the events of 3 October, proposing this as a ‘solution’ to migrant deaths at sea. And while policymakers in Italy and beyond hurried to blame ‘ruthless smugglers’ for luring migrants on unseaworthy boats and exploiting them, they remained silent on why it is that the smuggling business is booming, and why relying on such networks is the only hope for many who try to make it to Europe.

Over the last decade, we have had ample opportunity to see and realise that restrictionist policies do not succeed in persuading people to stay where they are, as long as their reasons for attempting to reach Europe are pressing enough. Already today, risks to life and health are huge for those who undertake the journey. And those who are lucky enough to survive the perilous crossing are likely to find themselves in detention for prolonged periods of time and face extreme hardships in some EU member states – including inhumane detention conditions, or life on the streets without state support – with many being under constant threat of deportation.

While Italy and Europe mourn 363 deaths, the 155 survivors of 3 October will be charged with ‘illegal immigration’, it was already announced. According to Italian law, this is an offence punishable with a €5,000 fine. The survivors were brought to the Lampedusa reception centre, which – having a capacity of 250 places – now hosts more than 1,000 people. Despite such laws and conditions, the number of boat arrivals in Italy has not decreased over the last decade. However strongly some politicians keep perpetuating the myth that harsh treatment and strict controls deter migrants, it is simply not true.

And where closer cooperation with third countries and greater surveillance do decrease the number of arrivals – by physically hindering individuals from leaving third countries, or pushing them back – these people do not simply disappear, nor does their need or desire to migrate. The infamous cooperation between the Gaddafi regime in Libya on the one hand, and particularly Italy but also

Malta and the EU on the other hand, did result in fewer irregular arrivals at European shores. At the same time, migrants stopped by or returned to Libya were detained in inhumane conditions, often facing torture or even death. And only this summer, Amnesty International made public that conditions for migrants in Libya remain intolerable: indefinite detention, torture and inhumane treatment continue also under the new regime.

Closer cooperation with Libya and other neighbouring states, as called for by politicians in recent days, would not put an end to death and suffering. It would merely remove them further from European territories, further from the eyes of European citizens, where there will be even less transparency and even fewer possibilities for NGOs, activists, and political actors to monitor policies and practices.

On 4 October, Italy declared a national day of mourning, remembering the victims of the previous day with a minute of silence. High-ranking national politicians and EU Commission President Jose Manuel Barroso have flown to Lampedusa to express their grief. Among Lampedusa citizens, consternation, grief and mourning mix with anger. Too long have they witnessed the deadly consequences of Italian and European policies, and too often have they hoped for real change. Anger and indignation have also been drivers of the many political struggles by migrants or non-citizens in Germany, Austria, the Netherlands, and other countries in the EU and beyond. With perseverance and determination they have been protesting against unjust laws and regulations over the last months and years. As we mourn those who died or disappeared at sea when attempting to reach the European Union, let us join hands in a common struggle for a more just and humane immigration system. ♦

Nina Perkowski is completing a PhD in Politics at the University of Edinburgh, focusing on EU external border controls. She has volunteered with migrants and asylum seekers in Germany and Italy, and spent three months monitoring migrants’ rights for borderline-europe in Sicily in 2012. This article is reproduced from the openDemocracy50.50 website (www.opendemocracy.net/5050).

Guatemala's indigenous communities fight for access to the airwaves

As part of their effort to strengthen and conserve their culture and traditions, Guatemala's indigenous peoples have been waging a struggle for the right to operate their own community radio stations. *Jessie Cherofsky* recounts the battle at the Inter-American Commission on Human Rights.

'FOR over 600 years, they've denied us our voice. Today, we will vindicate our claims. Today, we bring a tiny grain of sand to this process,' Alma Temaj said on 15 March in the lobby of the Inter-American Commission on Human Rights (IACHR) of the Organisation of American States in Washington, DC. It was an hour before the hearing on the Situation of the Right to Freedom of Expression of the Indigenous Peoples in Guatemala, in which Temaj and four other representatives of Guatemala's community radio movement would have the opportunity to address, as Temaj put it, the 'monoculturalism, discrimination, and racism' inherent in the Guatemalan state's restriction of Indigenous communities' access to radio frequencies.

As César Gomez, a Poqomam Maya Cultural Survival staff member, defined it in his testimony at the hearing, 'Community radio is radio that belongs to a community organisation, uses the Indigenous language in its programming, is non-profit, and invites the participation of all sectors of the community, even government institutions.' Temaj, a Mam Maya leader in the Mujb'ab' Lyol (Meeting of Expressions) radio association in Guatemala, characterised community radio as 'an invaluable tool that contributes to the effort to strengthen and conserve our languages, culture, traditions, and worldview'. Community radio provides a platform for the diverse perspectives present within a community. In many rural communities, high levels of illiteracy limit access to print media; many Indigenous



Two Indigenous Tz'utujil youth running a children's programme for a Guatemalan community radio station. Community radio is an ideal medium to address the distinct needs of small Indigenous communities.

people speak only their native language, so mainstream radio broadcasting is inaccessible to them. Community radio is an ideal medium to address the distinct needs of small Indigenous communities. Indigenous Peoples are not only entitled to their own media as per the United Nations Declaration on the Rights of Indigenous Peoples; they are also guaranteed 'special measures' to access those rights in the Inter-American Convention and International Labour Organisation (ILO) Convention 169.

Despite these guarantees and by Guatemala's own 1996 Peace Accords and constitution, the Guatemalan telecommunications law does not allow licences for community radio. Stations obtain licences at public auctions, a mechanism that is inherently prohibitive for the budgets of small, non-profit stations whose operation depends, in many cases, entirely upon volunteers.

In October 2011, the community

radio movement brought its case to the Guatemalan Constitutional Court, exhorting Congress to establish a mechanism by which Indigenous community radio stations could gain licences. The government failed to do so, and the movement's only recourse was to appeal to the intergovernmental body charged with overseeing human rights throughout the Americas, the IACHR, in September 2012.

On 15 March 2013, the representatives of the community radio movement – Temaj; Gomez; Salvador Quiacain, a Tz'utujil member of the Tz'utujil Comprehensive Development Association; Marcelino Nicolás Moscut, a Poqomam Maya member of the Community Radio Association of Guatemala; Leopoldo Zeissig of the Social and Labor Investigations Collective; and Cultural Survival's Mark Camp – sat on one side of a table. Facing them across the room were representatives of the Guatemalan government. Three members

of the IACHR sat at a third table to hear the presentation.

The Indigenous delegation spoke first: after Temaj's introduction, Gomez asserted that the telecommunications law had led to a consolidation of frequencies among 'a small group of companies that monopolise communication and exclude Indigenous Peoples from...being able to broadcast within their own cultural, social, economic, spiritual contexts ...because of a clear economic, political, and legal disadvantage'. He cited the situation of community radio in the towns of Palín and Aguacatán, which were so desperate for access to frequencies that they had to mortgage all of their property and ended up with a debt that took 10 years to pay off.

Gomez argued that because the Guatemalan government had never defined community radio, it could conflate non-profit Indigenous community radio stations with other non-licensed stations whose broadcasts cause interference, but whose missions could just as easily be for-profit or not community-related. He explained how in 2012 the Guatemalan Congress amended the law to enable current licence holders to extend their licences for 20 additional years and ratified legislation to penalise unlicensed radio operation with six to 10 years in prison. He attributed these actions to a 'lack of political will' to legalise Indigenous community radio.

Gomez's testimony was followed by an outline of the legal history of the issue and a reading of the delegation's requests:

- that the IACHR urge Guatemala to stop persecuting community radios and close the office of the Attorney General for Radio, whose sole mission is to prosecute unlicensed community radio operators.
- that the IACHR urge Guatemala to modify its legislation to accommodate the stipulations of the American Convention on Human Rights and establish a mechanism that permits Indigenous Peoples' direct access to radio frequencies.
- that the IACHR Rapporteurs on Freedom of Expression and on Hu-



Representatives of Guatemala's community radio movement at the 15 March hearing at the Inter-American Commission on Human Rights on freedom of expression of the Indigenous peoples in Guatemala.

man Rights make an official visit to Guatemala and release a report on the situation of community radio.

- that the State of Guatemala, after this hearing, not retaliate against the petitioners or the managers of community radio stations.

In response, Gerson Lorensana, legal adviser to the Guatemalan Presidential Commission for the Coordination of Human Rights, did not explicitly address community radio or the Indigenous delegation's requests. He used the term 'illegal radios' and spoke of Guatemala's concern that unlicensed broadcasts interfere with licensed broadcasts, claiming that the conflict is not between Indigenous Peoples' right to freedom of expression and radio frequency allocation, but rather a problem of illegal use of radio frequencies.

'Impossible conditions'

Catalina Botero, IACHR Rapporteur on Freedom of Expression, mounted a vociferous opposition to Lorensana's conflation of the concepts of illegal and community radio and his effort to redirect the discussion. 'There's a trap here,' she said. '[The State] has not bothered to understand what exactly community radios are, so it conflates them with illegal radios. The State sees a community radio as any radio without a licence. So, as the State does not define community radio, it does not regulate it.'

Botero went on to attack the State's defence that the 'requirements

for Indigenous Peoples [to obtain access] are the same as for any other person or entity'. '[The State] requires [Indigenous Peoples] to compete in impossible conditions,' she argued. 'You certainly understand that an Indigenous community can't compete with a for-profit company in an auction for licence to broadcast.' Botero claimed, 'The right to equality does not mean treating everyone the same. It means treating those who are in equivalent situations equally, and those who are in inequivalent situations, differently.'

The commissioners' favourable reaction to the community radio movement's claims and requests is heartening. Yet the Commission's official response to the hearing, along with its pending reaction to the petition that Cultural Survival co-authored and submitted to the IACHR, will not be binding on the State of Guatemala. Gaining the support of the international body is an important and powerful step in an effort to build international pressure on the Guatemalan government to act. Ultimately, it is only the Guatemalan Congress that can pass legislation to make it possible for Indigenous Peoples to operate community radio stations. ♦

Jessie Cherofsky is an intern at Cultural Survival, a US-based indigenous rights organisation, and accompanied the Guatemalan community radio delegation to the Inter-American Commission hearings. This article is reproduced from Cultural Survival Quarterly (June 2013), which is published by Cultural Survival (www.cs.org).

Despite progress, Laotian women labour under grave inadequacies

Despite doubling its health expenditure, Laos still faces unacceptably high maternal and child mortality rates. And the reproductive health problems of young people are also another pressing concern.

HEALTH experts are reviewing a years-long effort to reverse a deadly trend for mothers and newborns in Laos, which has the highest death rate in Southeast Asia for both groups. Offering free maternal and child health care since 2011 and doubling health expenditures in the past decade have helped, but more is needed to reduce preventable deaths, say experts.

‘Free service delivery addresses the supply side of services, but there is less emphasis ... to ensure that people access services and seek care in hospitals and clinics,’ Rizvina de Alwis, the UN Population Fund’s (UNFPA) deputy representative to Laos, told IRIN news service.

Only 38% of women give birth with someone known as a ‘skilled birth attendant’. The maternal mortality ratio is 357 out of 100,000 live births, down from 405 in 2005 but still one of the highest in the Western Pacific region. For every 1,000 live births, 76 babies die within their first 28 days of life.

Changing reproductive care-seeking behaviour, especially for isolated communities, has been difficult: Nearly 90 different languages are used among some 50 officially recognised ethnic groups, complicating communication between health workers and patients. Cash for out-of-pocket hospital payments and reproductive health awareness and services are lacking, especially in rural mountainous areas where most of the population lives.

Tractors, families to the rescue

Nearly 67% of the population lives in remote areas, where inadequate rural roads and poor transport



While the maternal mortality ratio in Laos has declined, it remains the highest in Southeast Asia.

Martin Abbiati/IRIN

tation deter hospital births.

‘Women might have to wade through water or walk for days in order to give birth in a hospital,’ said Siriphone Sally Salkuku, UNFPA Laos’ coordinator for sexual and reproductive health. ‘We are trying to encourage villages to keep standby vehicles, such as tractors, to bring women to the health centres.’

But one in five people nationwide has no access to roads, according to the Ministry of Health’s 2012 Health Service Delivery Profile (HSDP).

Out-of-pocket payments compound the problem.

Since the government issued a free mother and child health care decree in 2011, women have been able to deliver babies at no cost, but ‘consumable medical commodities’ such as painkillers are not covered, according to the World Health Organisation

(WHO), which noted that over 60% of all health expenditures per person are still out-of-pocket.

Most patients do not have enough to cover even minimal payments, said Salkuku, and many must sell land or animals before seeking care. The national average monthly wage in 2012 was \$116, and this was generally less in rural areas.

‘[It] is a big financial burden for farmers,’ said Eunyong Ko, a WHO medical officer based in Vientiane.

Laos ranks 159 out of 161 countries evaluated in 2011 for density and reach of healthcare workers, according to Save the Children. There is a ‘critical shortage’ of health worker personnel, according to the Health Ministry’s 2012 HSDP.

In 2010, the government resumed midwifery education after a 20-year hiatus. But while more than 5,000



Laos offers free maternal and child health care, but more is needed to reduce preventable deaths among both groups.

midwives have undergone the two-year midwifery course and 175 schools have gained equipment to train midwives, only 41.5% of births were attended by a skilled birth attendant in 2012, according to the HSDP.

Some 170 midwifery students are expected to graduate in 2013.

Meanwhile health staffing shortages still require patients' families to provide food and care, which means lost income if they miss work, according to UNFPA and doctors at the Vientiane-based Mother and Child Hospital.

Traditional medicine

A strong custom of traditional medicine frequently leads communities to consult traditional healers before they consider a state health centre, which is often seen as a last resort.

'Birth is a natural process, so there is a tendency to pay less attention to associated risks,' said de Alwis with UNFPA.

'Women often only go to the hospital if they have complications,' said Vong, a Hmong villager who goes by one name, from Ban Houythaio Village in the northern province of Luang Prabang.

'Home births are more comfort-

able for women,' Vong added.

Traditional medicine – including herbs, massage and acupuncture – is supported by the government. The national drug regulatory authority has registered 184 traditional medicines; 18 are included in the country's list of more than 320 medicines designated by the Food and Drug Department of the Health Ministry as necessary to combat infectious disease.

'This ... reflects the recognition that traditional medicine has a role in addressing the problem of access to, and cost of, modern medicines,' reported the HSDP, which noted each village has at least one healer.

But when a woman is faced with delivery complications, 'the delay in decision-making [on where to seek care] may mean it is too late for the mother to go to the hospital, or lead to problems during transfer', said Salkuku.

Youths and STIs

There is also a need to provide youths with sexual and reproductive health services, including access to family planning and treatment for sexually transmitted infections (STIs), say advocates.

'Sexual and reproductive ill-health are among the most important contributors to the burden of diseases

among young people, such as HIV infection, other sexually transmitted infections, unsafe abortion and unintended pregnancy,' said WHO's Ko.

Laos' adolescent fertility rate is high, with 11% of women aged 15-19 giving birth annually; the youngest mothers face heightened risks of potentially fatal complications, such as eclampsia, pre-eclampsia and postpartum haemorrhage.

STIs disproportionately affect youths nationwide.

The UNFPA-supported Vientiane Youth Centre for Health Development (VYCHD) is Laos' sole public health clinic offering reproductive health services to those aged 15 to 29.

'Traditional culture inhibits talking about sexual and reproductive health for young, unmarried people,' said the centre's director Dalyvan, who also goes by one name. 'Our services ... allow youths to remain anonymous so they feel more comfortable coming to us when they have a problem.'

While the rate of STIs, including HIV, remains low – at 0.2% – nationwide, young women under the age of 30, particularly those who migrate from rural areas to Vientiane seeking work, are at high risk of infection, according to UNFPA.

Comprehensive knowledge of HIV prevention is lagging, with only two in 10 women and three in 10 men understanding how HIV is transmitted, according to a 2012 UN and governmental survey.

While no legal barriers exist to youths accessing birth control and other reproductive health services, 'the attitude of service providers can be judgmental and function as a deterrent', said Salkuku, who explained how unmarried people may be turned away from public health staff or discouraged from accessing sexual and reproductive health services.

'Maternal health is only one aspect of reproductive health,' concluded de Alwis. '[We] have broadened the discourse to include the reproductive health of young people.' – *IRIN humanitarian news and analysis service* ◆

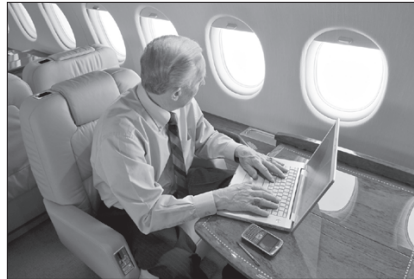
A vacancy has occurred

With the vacancy created by the political demise of the working class, the role assigned to them as the liberators of humankind has now been taken over by the rich, says *Jeremy Seabrook*.

WHEN the myth of the liberating destiny of the workers of the world finally crumbled, it was only a question of time before a new myth would arise. And what could that be, in an age when wealth is paramount, if not a fable about the rich? And indeed, they have plundered the trampled shrines of socialism and seized the role of the saviours of humanity.

The blending of social and spiritual redemption is not a new phenomenon. In some versions of scripture, the meek were to have inherited the earth. The association of Christ with the poor continued to make wealth more dangerous than poverty well into the Middle Ages, for love of riches imperilled the immortal soul. If the majority were fated to toil for their subsistence, wealth offered temptations from which the poor were exempt. This did not, of course, inhibit a church which 'clothed its walls in gold and left its sons naked', as St Bernard lamented in the 12th century; spiritual power readily yielded to its overbearing temporal rival. But evicting the poor from their closeness to God proved a long and painful process.

The fall of the poor finally occurred only with the establishment of industrial society. When people were coerced into squalid urban settlements to service the needs of manufacturing, a new form of humanity took shape, the industrial worker; a being whose temper was as alien to the old country psyche as it was to both the landed elite and to the factory-owners. The wild, unknown character of these people struck fear into the heart of privilege. The working class was the offspring of dogmas of wealth-creationism; impoverished and oppressed, it would later be called upon to fulfil the prophecies of Marx; by which time, history, it seemed, was once more on the side of the down-



The 'hyperactive movements [of the rich] across continents, their hectic schedules... their dedication to the opening up of markets made of them new frontiersmen, worthy descendants of the buccaneers and adventurers who had won an empire'.

trodden.

Myths, by their nature, should remain in the realm of poetry, or at least, of theory. The practice of earthly redemption proved as destructive as its other-worldly counterpart; and the fate of the great experiment that was the Soviet Union is known. But for a long time, the democratic Left took a borrowed lustre from this tale; it seemed the working class was here to stay, and upon its willingness to co-operate with (if not fulfil) the mission entrusted to it, the social democratic dream was constructed, and is far from having completely faded.

The working class in Britain proved as transient as any other social formation. It rose, reached its zenith and then dissolved. As long as the making of daily necessities remained within a national division of labour, social and economic coherence persisted: the workers were indispensable to its maintenance. A strong labour movement depended upon conserving this situation; but conservation is alien to capital, the nature of which is mobile and opportunistic. The proletariat perished in its birthplace, the derelict workshop of the world.

As soon as the working class was

absorbed into a global market, its redemptive power, already tarnished, wasted away. It was overrun and vanquished by the golden hordes of the rich who, apocalyptic warriors of wealth, invaded the spaces where mill, mine and manufactory had been. No time was lost as they assumed the heroic mantle of those they had displaced.

The rich, no longer idle, plutocrats or possessors of lucre described as filthy, set about demonstrating their power. Their hyperactive movements across continents, their hectic schedules, by which they immolated themselves with ruined digestive tracts, heart attacks and high blood pressure, the urgency of promoting this or that must-have product, their dedication to the opening up of markets made of them new frontiersmen, worthy descendants of the buccaneers and adventurers who had won an empire. Breakfast in London, lunch in Dubai and dinner in Delhi – they rush by private jet from boardroom to marketing strategy meeting, from acquisition talks to the deployment of fortunes in esoteric financial instruments; workaholics, in whose capable, unsoiled hands the fate of nations rests.

They have proved their high calling, and by their fruits we know them, the marvels they perform, the mysterious alchemy that has enclosed the human commons, as it once enclosed its material counterpart, pastures, forests and heathland. Under their tutelage, the market has become cosmos, an ever-expanding universe which pushes everything beyond its reach into invisibility.

The wealth-creators have spun their own myth of salvation. All we want and desire, as individuals and as society, can be realised only through them, for they alone possess the occult powers required for the generation of wealth. And to augment their

strength, they throw down golden ladders for the talented and the sharp-elbowed, the ingenious and ambitious, to join them. These now include icons of heroic consumption, stars and celebrities of sport, music, entertainment and television; and together they have taken up the relay of redemption from a faltering proletariat. Despite cutthroat competition for the position of saviours – indigenous peoples, the wretched of the earth, slum-dwellers, women, gays, anti-globalisers and students – the vacancy has been filled.

Even the banking crisis did not affect the status of those set apart by their wealth. However distrusted, the magicians of money are still revered; the myth of their redemptive capacity is now a far more plausible narrative than the discredited epic of labour. The rich are the true agents of deliverance, and a fallen working class is only a memory, a faint grimace on the face of History.

The hostile takeover bid by the wealthy for the role formerly attributed to the oppressed has been a great success. Theirs is a spiritual as well as material supremacy, although they have no need of theory or textual prophecy. They inhabit a supraterrrestrial topography which hovers above national, regional, religious, linguistic entities; cultural wars rage, leaving them scatheless. If, as Arundhati Roy has suggested, the rich have seceded from society, this is only in order to govern it more effectively from the empyrean they occupy above the clouds.

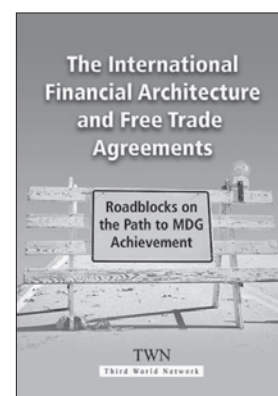
It may be, however, that the rich have also assumed – unwittingly this time – another function assigned by Marx to the now-fallen workers. In the debauch of wealth of the contemporary world, as the treasures of the earth are gouged and the planet simmers in the choking fog of universal industrialism, it may be that the rich, in the frenzy to use up resources that were to have sustained posterity, will turn out to be also the gravediggers of capitalism. ♦

Jeremy Seabrook's book Pauperland: Poverty and the Poor in Britain is published by Hurst (October 2013).

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Giap: The general who defeated the US in Vietnam

Vo Nguyen Giap, the legendary Vietnamese general who led his country to victory against French and US imperialism, died in October at the ripe age of 102. *Chris Ray*, who worked in Vietnam during the 1970s, looks back at his life and achievements.

'I WANT to light a stick of incense to farewell my commander,' said war veteran Chu Van Hoan, one of thousands of mourners of all ages, many in tears, who queued for hours to pay their last respects at an altar inside the Hanoi home of General Vo Nguyen Giap, who died on the evening of 4 October. 'Brother Van has left us,' lamented another old soldier using Giap's wartime alias, in an online posting typical of the flood of sorrowful tributes that swept Vietnamese Internet sites following news of his death.

There will be two days of national mourning for Giap, who died in a military hospital in Hanoi a month after his 102nd birthday. He will be buried in his native village in the central province of Quang Binh. His long-expected death – he had been hospitalised since 2009 – marks the passing of the founding generation of Vietnamese communist leaders and confidants of Ho Chi Minh.

Celebrated at home and abroad as a master military strategist, Giap played a key role in formulating a body of military thought centred on the use of a weaker force to defeat a stronger one through a combination of guerilla and regular warfare. He formed the Vietnam People's Army in 1944 with just 34 recruits and even fewer modern weapons. Within two years he commanded tens of thousands of poorly equipped yet determined fighters ready to resist France's attempt to reclaim its Indochina empire. Victorious after the eight-year war against the French, Giap remained at the centre of the subsequent 16-year campaign to expel the Americans and reunify the country.

Giap gained his reputation as a great military leader despite his civil-



General Vo Nguyen Giap (1911-2013).

ian background. A teacher and journalist, he seems not to have shouldered a weapon until well into his 30s. However, victory in Vietnam would require more than feats of arms, Giap and his comrades believed. They were convinced the military outcome would rest on a political and social struggle to transform a feudal economy and society: that empowering the peasantry and overcoming illiteracy must go hand in hand with fighting the French.

Giap was born on 25 August 1911 in a small village in central Vietnam, a dirt-poor region that produced many of the early communist leaders. His parents may have chosen the name 'Giap', meaning 'armour', as a talisman; disease had taken their first three children in infancy. Giap's upbringing was relatively comfortable thanks to his family's small land holding. His mother was illiterate but his teacher-father introduced him to the Confucian classics and encouraged him to study.

Giap's early life was a snapshot of the anti-colonial ferment that swept

Vietnam from the 1930s. Fluent in French he read Marx, Lenin and a nationalist tract by one Nguyen Ai Quoc, a pseudonym of Ho Chi Minh. The writings of Clausewitz and Napoleon on war also provided inspiration.

Giap was expelled from school for organising a student strike but still managed to gain a degree at the University of Hanoi. He briefly achieved his ambition to become a teacher – an esteemed profession in the Confucian social structure – but writing for radical publications earned him 13 months in jail and ended that career. Though his surname 'Vo' translates as 'martial', Giap later adopted the *nom de guerre* of 'Van' (literature), reflecting a yearning for his missed civilian vocation.

When Giap got out of prison he married a fellow communist, Nguyen Thi Quang Thai. Only a few months later, on the eve of World War 2 the party leadership ordered him to southern China to link up with the exiled Ho Chi Minh. Giap and Quang Thai never saw one another again. She was arrested by French secret police and died under torture in Hanoi's Hoa Lo prison (later nicknamed the Hanoi Hilton by US POWs). Their daughter survived and became a leading doctor. The French also executed Giap's sister-in-law and killed his grandfather by dragging him behind a car.

Giap spent the war years building a resistance base in the mountains and caves of North Vietnam – the launch pad for a nationwide armed revolt. He went on to mastermind the epic 1954 siege and destruction of the French garrison in the valley of Dien Bien Phu. Giap's peasant army dragged heavy artillery over mountains to surprise and trap French

troops. It took 12,000 prisoners, toppled France's empire in Indochina and inspired anti-colonial movements around the world.

With an independent state in North Vietnam the revolution now had a secure base for the struggle to reunite the country after a century of foreign control and territorial division. President Ho Chi Minh appointed Giap as Defence Minister – a post he held for a quarter-century – and chose him as the public face of the party's 1956 apology for the 'excesses' of land reform – including mass executions of landlords and other 'class enemies' – though others were directly responsible for the campaign.

Giap's public appearances in the wake of a backlash over land reform were seen as a move by Ho Chi Minh to direct the spotlight on his protégé preparatory to making him party general secretary, in place of the disgraced Truong Chinh. However, the top post eventually passed to a third figure, Le Duan (who may have owed his life to Giap's wife Quang Thai. Fluent in French, she is said to have interceded with prison authorities and saved Duan from imminent execution).

As Defence Minister, Giap was nominally in charge of the 1968 Tet offensive, another battle of global significance. The extent of his control over that campaign remains in dispute, however. Tet '68 seems to have been a project of the party's southern leadership and it is doubtful whether Giap fully supported it. After fierce internal debate it was adopted by Hanoi but main force troops from the north were withheld from most of the fighting.

The spectacular simultaneous attack on more than 100 cities and towns throughout South Vietnam failed in narrow military terms – most captured territory was soon abandoned – but succeeded in its aim of turning US public opinion against the war in an election year. Television coverage of Marines battling guerillas in the grounds of the American embassy in Saigon exposed the spurious claims of US commanders that they were winning the war and broke the US will to fight.

Giap initiated and oversaw construction and operation of the 'Ho Chi Minh Trail' which proved crucial to

the struggle for the south. This 3,000 km network of roads, tracks, fuel pipelines, depots and hospitals was cut through jungle and over mountains. It survived as an unbroken link between northern bases and southern battlefields, via Laos and Cambodia, despite 15 years of incessant bombing.

Official Vietnamese accounts of the war traditionally downplay the roles of individuals – Ho Chi Minh's excepted. This is in keeping with the party's customary emphasis on group responsibility (portraits of living leaders are exceedingly rare). While Giap was being lauded as a military genius in the West, the party leadership sought to minimise his contribution to the liberation of the south. This went beyond the need to reinforce a collective ethos.

Having lost his patron with the death of Ho Chi Minh in 1969, Giap fell victim to an internal struggle over power and ideology. Despite his many talents other leaders had superior 'class credentials'. Giap had read politics at a French-run university while most of his elite comrades were getting their political education through long stints in French prisons. That this could count against a man who endured years of hardship in the cause while the enemy put to death his closest relatives, speaks volumes about the ferocity of the struggle all were engaged in.

Soon after the liberation of the south, army commander Van Tien Dung, Giap's deputy at Dien Bien Phu, was given main credit for the 1975 offensive which expelled the Americans. Dung replaced Giap as Defence Minister in 1980 and Giap lost his Political Bureau position soon after, leaving him with the junior job of deputy premier responsible for science and, for a time, family planning. Some low-level party cadres in Hanoi, where I then lived, could not disguise their disappointment and embarrassment at Giap's humiliation.

Giap apparently argued against a prolonged Vietnamese military presence in Cambodia following Vietnam's overthrow of the Chinese-backed Khmer Rouge in January 1979. He is believed to have proposed an early withdrawal rather than the 10-year occupation which sapped the

already-weakened Vietnamese economy.

In his final years Giap lent his stature as a national hero untainted by scandal to the emerging environmental movement. In 2007 a Hanoi newspaper published the general's open letter urging the leadership to preserve the old National Assembly building (they went ahead and demolished it). In 2009 Giap called on party leaders to reverse their approval of a proposed bauxite mine in Vietnam's central highlands. The Political Bureau had sanctioned the project without consulting the increasingly assertive National Assembly. Giap's letter objected to the Chinese-invested project on environmental and social grounds and reflected broad public opposition to the scheme.

It is most unlikely he was exploited as an unwitting figurehead for these causes. Foreign dignitaries who called at Giap's colonial villa in Hoang Dieu Street – near his former command post and underground bunker in the old citadel of Hanoi – found the then 97-year-old physically frail but still mentally sharp. Drawing on his credentials as an early champion of the environment, Giap's letter reminded the party leadership he had overseen a study into bauxite mining in the central highlands in the early 1980s. Experts including Soviet scientists had advised Giap against it because of the 'risk of serious ecological damage'.

Despite his criticism of the authorities, recent official publications have acknowledged Giap's position in the pantheon of the revolution, calling him one of history's great generals. He was a key figure in 2005 ceremonies to celebrate the 30th anniversary of the liberation of Saigon, his 100th birthday saw the publication of several books hailing his contributions and a state-funded biopic is in production. Soon Vietnamese streets and parks will carry his name, joining those of other dead commanders who resisted a series of invaders stretching back to antiquity. ♦

Chris Ray is a Sydney-based Asia analyst and journalist. He worked for the Vietnam News Agency in Hanoi from 1976-78. This article is reproduced from the CounterPunch website (www.counterpunch.org).

Poet, theatre director, songwriter and political activist, the Chilean folksinger *Victor Jara* (1932-1973) was the voice of his country's dispossessed. One of the founders of a new genre of Latin American song, he was arrested, tortured and murdered by the Chilean security forces during the coup that deposed the country's democratically elected president Salvador Allende in September of 1973 (see page 50). The poem below was written during his brief captivity in the Estadio Chile (Chile Stadium, now renamed the Estadio Víctor Jara) before his death.

Estadio Chile

Victor Jara

There are five thousand of us here
in this small part of the city.
We are five thousand.
I wonder how many we are in all
in the cities and in the whole country?
Here alone
are ten thousand hands which plant seeds
and make the factories run.

How much humanity
exposed to hunger, cold, panic, pain,
moral pressure, terror and insanity?
Six of us were lost
as if into starry space.

One dead, another beaten as I could never
have believed
a human being could be beaten.
The other four wanted to end their terror –
one jumping into nothingness,
another beating his head against a wall,
but all with the fixed stare of death.
What horror the face of fascism creates!
They carry out their plans with knife-like
precision.
Nothing matters to them.
To them, blood equals medals,
slaughter is an act of heroism.
Oh God, is this the world that you created,
for this your seven days of wonder and work?
Within these four walls only a number exists
which does not progress,

which slowly will wish more and more for
death.

But suddenly my conscience awakes
and I see that this tide has no heartbeat,
only the pulse of machines
and the military showing their midwives' faces
full of sweetness.

Let Mexico, Cuba and the world
cry out against this atrocity!
We are ten thousand hands
which can produce nothing.
How many of us in the whole country?
The blood of our President, our *compañero*,
will strike with more strength than bombs and
machine guns!
So will our fist strike again!

How hard it is to sing
when I must sing of horror.
Horror which I am living,
horror which I am dying.
To see myself among so much
and so many moments of infinity
in which silence and screams
are the end of my song.
What I see, I have never seen
What I have felt and what I feel
will give birth to the moment...

Translated by Joan Jara