

THIRD WORLD

RESURGENCE

ISSUE No. 254

KDN PP6738/01/2 (026876)

www.twinsingapore.org.sg



Financialisation of commodity markets

Developing countries face
price volatility and
economic uncertainty

ISSN 0128-357X



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Editor's Note

COMMODITIES (food, agricultural and industrial raw materials) have long been the economic mainstay of many Third World countries, especially the least developed countries (LDCs). Viewed as the very epitome of 'underdevelopment', this reliance on commodities was the condition from which these countries, after independence, sought to free themselves, with varying degrees of success, by embarking on the road to industrialisation and promoting value-added processing of agricultural products.

Two main problems have bedevilled these commodity-producing countries: low prices and price volatility. The first problem defined the economic relationship between the rich and poor countries and was encapsulated in the term 'unequal exchange'. The underpricing of their primary exports and the over-pricing of their imports of industrial goods was a major grouse of the poor countries and was seen as a reflection of the unequal economic and political power between these two groups of countries.

The other, related problem of price instability was no less serious as it wreaked havoc on the economic plans of producer countries to lift themselves out of poverty. For food-producing countries dependent on the vagaries of the weather, this was a double jeopardy. The vulnerability of these countries to the price gyrations generated by distant markets over which they had no control only served to condemn them to continued poverty and underdevelopment.

While there were some (unfortunately, abortive) attempts to address the issue of commodity price volatility in the immediate postwar era, the problems of commodity-producing countries were only brought to the fore in the 1970s when the Non-Aligned Movement emerged as a major force in world affairs. The climax of these efforts was the convening in 1974 of a special session of the United Nations General Assembly to 'study for the first time the problem of raw materials and development' and declare the establishment of 'a New International Economic Order'. However, attempts 'to evolve a just and equitable relationship between the prices of raw materials, primary commodities ... exported by developing countries and the prices of ... manufactures and semi-manufactured goods and capital equipment imported by them' were, from the beginning, thwarted by the rich countries. By the 1980s, with the growing hegemony of economic neoliberalism, proposals to regulate and stabilise the prices of commodities were seen as an unwarranted interference in the operations of the free market. Economic orthodoxy decreed that commodity prices should be left alone to be determined by the market forces of supply and demand.

But while the claim of commodity prices being wholly determined by market demand and supply has long been challenged, recent developments in the financial and commodity markets have only served to reinforce

how specious such claims can be. For example, between June 2007 and mid-2008, there was a massive commodity price surge, particularly of food prices. When the prices finally slumped in June 2008, it was taken for granted that there was no prospect of a renewed surge for some time to come, since the world economy was now in the throes of a downturn with the onset of the Great Recession. But while this prognosis proved correct until early 2009, from March onwards developments in commodity markets confounded all rational expectations. Even though all evidence clearly indicated world demand had barely picked up, there was a renewed surge in commodity prices. How was one to explain this?

The truth is, over the past decade, financial speculators have come to dominate the commodity markets. Their influx into these markets was greatly facilitated by the deregulation of commodity markets in the US in the late 1990s and early 2000s. With the bursting of the housing bubble in 2006 that triggered the global financial crisis, these speculators increasingly turned to the commodity markets as an alternative to financial markets. The result has been an enormous growth in financial speculation, especially on food prices.

The casino-like quality of these markets has only served to intensify the price gyrations which have been the source of such misery for commodity-producing countries. The periodic price surges have not really brought any dividends to the real producers in the Third World as they are wholly the product of feverish financial activity which benefits only the speculators. For poor food-importing countries, such surges are an unwelcome increase in their food import bill.

In the interests of the developing countries, there is clearly an urgent need to regulate these markets to curb such speculation. Such regulation is also necessary to safeguard a global economic recovery and put the world economy on the path of sustainable development. Unfortunately, while some civil society groups have been actively campaigning for such reforms, nothing substantial has emerged thus far from global policymakers beyond rhetoric.

In our cover story for this issue, we highlight the serious impact of financial speculation on commodity prices. While the concern is that the financialisation of commodity markets is resulting in price volatility of commodities in general (and thus impacting adversely on producer developing countries), our special focus is on the spike in food commodity prices in view of their impact on world hunger. In addition to articles which summarise the findings of recent research on the mechanism and impact of such speculation, we also report on recent moves and action to regulate such speculation.

— The Editors

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Third World
RESURGENCE

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No 254 Oct 11 ISSN 0128-357X



The commodity derivatives markets, which were originally developed to help producers manage price risk, have become dominated by speculators as a result of increasing financialisation. Picture shows a corn derivatives trader at the Chicago Board of Trade.

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THIRD WORLD RESURGENCE is published by the Third World Network, an international network of groups and individuals involved in efforts to bring about a greater articulation of the needs and rights of peoples in the Third World; a fair distribution of world resources; and forms of development which are ecologically sustainable and fulfil human needs.

THIRD WORLD RESURGENCE is published monthly by Third World Network, 131 Jalan Macalister, 10400 Penang, Malaysia. Tel: 60-4-2266728 Fax: 60-4-2264505. Email: twnet@po.jaring.my
Printed by Jutaprint, No. 2, Solok Sungai Pinang 3, 11600 Penang, Malaysia.
Cover Design: Lim Jee Yuan
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Reduce inequalities to boost health, WHO says

A world health conference has concluded that economic status, education, access to clean water and sanitation, nutrition and the environment determine the level of health of persons, communities or countries.

Fabiola Ortiz

THE World Conference on Social Determinants of Health, held 19-21 October in Rio de Janeiro, Brazil, defined 15 commitments that should be undertaken by governments, international organisations, the private sector and civil society.

The final document, the Rio Political Declaration on Social Determinants of Health (Rio Declaration), calls for better governance for health and development, with transparent decision-making and social participation. Governments are urged to develop policies and measure progress towards defined goals.

Close to 30% of the world population lacks access to medicines, and illness and death could be prevented in some 30 million people a year, four million of whom live in Africa.

The goal is to reduce inequalities, taking on board challenges like climate change, food security, the health of women and children, non-communicable diseases, HIV/AIDS and other serious ailments.

But the declaration is not binding. 'A great platform of dialogue and successful practices is being created. The conference is a continuation of what began in 2005 and is still ongoing,' Paulo Buss, the coordinator of the international relations centre of the Oswaldo Cruz Foundation (FIOCRUZ) and one of the organisers of the World Health Organisation (WHO) conference, told Inter Press Service (IPS).

The idea is to carry out another evaluation of actions taken, and the extent to which countries have fulfilled their national plans, by 2015.

In 2005, WHO established the



The World Conference on Social Determinants of Health (*pic*) held in Rio de Janeiro in October called for better governance for health and development.

Commission on Social Determinants of Health which produced a key report in 2008.

The document recommended improving daily living conditions; tackling the inequitable distribution of power, money and resources; and measuring and understanding the problem and assessing the impact of action.

The Rio Declaration incorporates elements of a political nature which governments should adopt as their own, by establishing integrated action plans in the state sector, said Buss, a paediatrician who specialises in public health.

Outcomes

More than 50 health ministers, researchers, scientists and representatives of social organisations from 120 countries met at the conference in Rio

de Janeiro to share their experiences of best practices and to set a global agenda. It was said to be the largest conference organised by WHO outside of Geneva. What did it achieve?

One of the main outcomes is a recommendation that the next session of the United Nations General Assembly convene a high-level meeting to adopt a common platform.

'It's an interesting proposal, and so is the idea of an international treaty on social determinants of health, like the one on tobacco,' former Brazilian health minister José Gomes Temporão, the head of the South American Institute of Government in Health (ISAGS) of the Union of South American Nations (UNASUR), told IPS.

The WHO Framework Convention on Tobacco Control requires countries to take specific steps on tobacco advertising and taxes, as well



A protest in London against plans to reform the UK National Health Service (NHS). The economic crisis is pushing rich countries to dismantle universal healthcare systems.

as education and restrictions on smoking to reduce tobacco use.

At a meeting of UNASUR countries, ministers suggested including a specific point about the global financial crisis in the Rio Declaration.

'In order to prevent this crisis from threatening social protection and

health promotion systems, we raised the issue of universal healthcare systems, which were not included in the original document, as well as the question of strengthening democracy and freedom of expression,' said Temporão.

While South Africa is trying to adopt universal health insurance, similar to several schemes in use in South America, the economic crisis is pushing rich countries to dismantle such systems, such as the UK government's much-resisted reform of the National Health Service, or Spain's drastic cuts in health spending.

ISAGS, based in Rio de Janeiro, was created in 2010 with the aim of helping countries structure their health services, and providing an interactive forum for the 12 South American member countries.

The South American ministers are also discussing a proposal to restructure WHO,

in order to create a world forum where non-governmental organisations can also take part.

We need 'more transparency and greater participation, so that WHO can respond more quickly and flexibly to the needs and demands of member countries', Temporão concluded.

Common responsibility

Brazilian Foreign Minister Antonio Patriota said at the closing ceremony that

'equity in health is our common responsibility. Health care is not a superfluous benefit, but an essential foundation for sustainable development.'

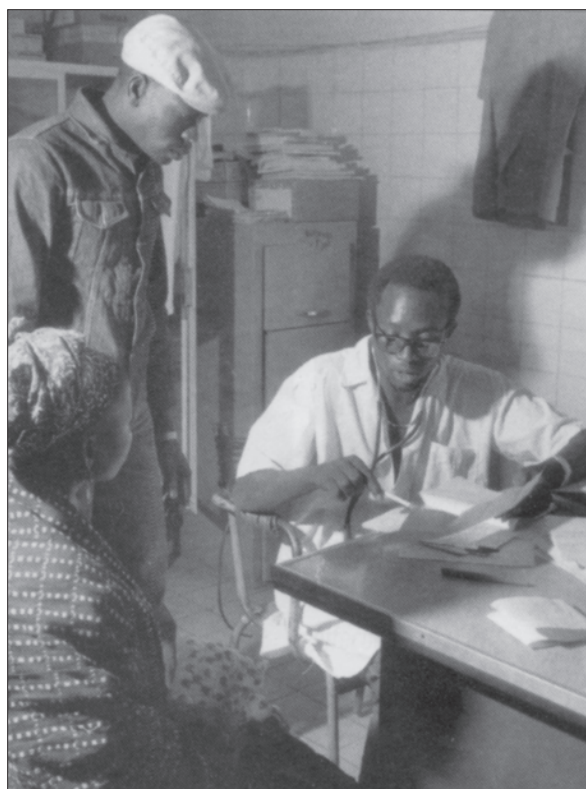
The conference 'is also a step on the way towards Rio+20', the United Nations Conference on Sustainable Development, to be held in June 2012 in Rio de Janeiro, he said.

Jurema Werneck, the coordinator of Criola, a Brazilian NGO, and a representative of civil society at the conference, said she hopes governments will recognise the need to overcome inequality and injustice.

'The solution for overcoming the social determinants that produce inequity, injustice and lack of access must come through the participation of the different social actors. A consensus is necessary, but it is not simple to achieve,' said Werneck.

Criola is a black women's organisation that has worked with 5,000 women a year since 1992, providing them with training and education and helping them to exert influence on the formulation of public policies.

In Werneck's view, the Rio Declaration is a step in the right direction, but it is not enough. 'We wanted binding targets, but now we are struggling for a commitment to be established, at least,' she said. — IPS



'Health care is not a superfluous benefit, but an essential foundation for sustainable development.'

China's shadow banking system poses grave risks

Zhang Monan throws light on a little-known aspect of the Chinese economy. While the recent rapid growth of unofficial financial agencies ('shadow banking system') is a challenge to its economic stability, China's financial regulators (see box) appear to be confident that they can contain the threat.

THE recent disastrous debt crisis that hit Wenzhou city, Zhejiang province (see box), revealed a problem that is deeply rooted in China's financial market and which challenges its stability. Shadow banking, being outside state supervision, challenges the stability of China's financial market, because its inverted-pyramid financial structure could collapse at any time if there is a problem with its supporting funds.

Shadow banking has existed for a long time, but it has grown rapidly since the beginning of this year when the state tightened control of financial supply. As the tightening did not change demand, space was left for underground financing to expand. According to Japan-based Nomura Securities, the size of China's shadow financing could amount to 8.5 trillion yuan (\$1.33 trillion). Liu Jigang, a researcher from ANZ bank, estimates it could even be as high as 10 trillion yuan. These estimates may not be accurate, but they nonetheless highlight the problem of shadow banking in China.

Shadow banking originated in the United States, with practitioners indefinitely expanding their credit loans by putting loans into the financial market. But it took a different form in China, where practitioners usually get loans from unofficial financial agencies like private lenders or underground banks. Both are unofficial and unsupervised.

Today shadow banking is already deeply intertwined with the US financial system, and it is now one of the main causes of risks. Credit default swaps (CDS) are a typical example; by changing the form of raising funds for mortgages they lowered the costs



Guards keeping watch over the premises of a company in Wenzhou city whose CEO was suspected of fleeing China to evade debt owed to informal lenders. A spate of such cases in Wenzhou has highlighted the depth of the problem of shadow banking in China.

for house buyers, but introduced more bubbles into the US realty market.

In 1997, the CDS market totalled \$180 billion, but it had soared to \$6.2 trillion within nine years, accumulating enormous risks in the process, exemplified by the over-trading of CDS. Finally in 2008, with a fall in realty prices, the financial crisis was kindled and swept like wildfire through the US and the whole world.

Despite different practices, China's shadow banking is nonetheless also potentially dangerous and destructive. For the past 30 years, China has generally maintained a typical indirect bank-led financing system, which owes 80 to 90% of funds to banks in the form of loans. Within this relatively stable system, the central bank can estimate the supply of broad money (M2) and decide the size of each year's new loans from the GDP

growth rate, so as to control the amount of money loaned.

But the situation has changed with deeper financialisation of the economy. Various emerging financial tools, such as agencies that raise funds through securities and insurance, have increasingly taken a larger share of the banks' role in the financial market.

Non-bank loans were only 8.7% of the total yuan loans in 2002, but had grown to 79.7% in 2010. This growth in finance means the loan size is no longer an index of money supply-demand relations.

As shadow banking is not controlled by the state, many banks turn their loans into financial products through trust companies, which invest them in sectors with high returns but also with high risk.

The high returns attract more economic participants and even state-

Chinese regulators step in to control shadow banking risks

Chee Yoke Heong

IN a move to stem concerns about the negative effects from excessive lending in the informal sector, China's banking regulator assured that the government has put in place controls over the potential risks and is addressing the lending squeeze that led to the growth of informal financing.

The risks associated with this growing recourse to the shadow banking system were thrown into stark relief recently in the city of Wenzhou in southeastern Zhejiang province. According to a 12 October report by the official Xinhua news agency, over 80 Wenzhou businessmen had disappeared, committed suicide or declared bankruptcy in order to avoid repaying debts to informal lenders.

According to Liu Mingkang, the former Chairman of the China Banking Regulatory Commission (CBRC), regulators are aware that in the past two years, the overall liquidity in the Chinese economy has tightened and this has resulted in an imbalance between supply and demand that induced diversion into so-called 'innovative' shadow banking activities.

The CBRC has continuously paid attention to this, said Liu in a transcript of a speech made in October and posted on the organisation's website, adding that such moves have shown effects.

Among the measures taken are direct monitoring and supervision, the elimination of incentives for engaging in shadow banking activities that involved stemming the root causes, and greater transparency in the activities of the banking sector.

Steps are also made to ensure



A factory in China producing electrical appliances. There is now a recognition that assistance needs to be extended to Chinese enterprises suffering a credit squeeze that has driven many businesses to the shadow banking system.

that risks are 'isolated' through a combination of 'mitigation and blocking', by requiring that financial institutions and informal lending institutions establish a strict 'firewall' to prevent risk transfer. There has been concern about the direct impact on the formal banking sector and the economy from the risk posed by the informal lending market.

Liu said that the CBRC is determined to crack down on high-interest-rate loans, illegal fundraising, and financial fraud activities, among others, and to strictly prevent the informal financing market from becoming a hotbed for illegal activities such as fraud, money laundering, foreign exchange speculation and so forth.

There also seems to be recognition that direct assistance needs to be extended to small enterprises and the agriculture community which, according to reports, have been suffering from a credit squeeze that has driven many businesses to the shadow banking system to obtain loans. Liu said strong support will be given to small and micro en-

terprises and the agriculture, rural and peasant sector as well as to help them to counter inflation. These moves include encouraging financial institutions to promote and strengthen financial services for small enterprises through means such as establishing specialised agencies to meet their needs.

According to Liu, as of the end of June 2011, small enterprises' loan balance is almost 1 billion yuan, accounting for 29% of the total loan balance of all enterprises. Meanwhile, loans by the banking industry to the agriculture-related sector stood at 13.40 trillion yuan, accounting for 24.5% of total loans of the financial institutions.

Premier Wen Jiabao has also pledged more support for small companies.

According to media reports, Liu also cited the debts of local government financing vehicles and real-estate developers as concerns, but he downplayed their risks, saying the latest stress test results show that China's banking industry is in general control of real-estate risk while local governments were in a strong financial position and would be able to service their commitments.

Banks' overall bad debt ratio on real-estate lending is lower than 2% and recent stress tests show that they can withstand a 40% decline in property prices, Bloomberg news agency reported Liu as saying. Property lending accounted for 19.8% of total outstanding loans at the end of August 2011. ♦

Chee Yoke Heong is a researcher with the Third World Network.

owned enterprises (SOEs) have joined the game. According to the *Financial Times*, several jumbo SOEs have financial platforms, while 90% of all loan-lending enterprises are SOEs.

The shadow banking system now has an estimated annual fund flow of 2 trillion yuan, or 5% of China's GDP. If it continues to grow without con-

trol and supervision, China's financing market will become increasingly unstable in the near future, with possibly serious economic and social effects.

To limit the growth of shadow banking, China needs to properly deal with its relations with the official financing system. The urgent mission

today is to keep a free flow of social funds within the official financing system, and to implement stricter supervision upon shadow banking, so as to solve the problem without causing grave shocks to the economy. ♦

Zhang Monan is an economic researcher with China's State Information Centre. This article is reproduced from China Daily (24 October 2011).

ILO says world heading for a new and deeper jobs recession, warns of more social unrest

In a grim analysis issued on the eve of the November G20 leaders' summit, the International Labour Organisation (ILO) says in a report that the world economy is on the verge of a new and deeper jobs recession that will further delay the global economic recovery and may ignite more social unrest in scores of countries.

Raymond Torres, Director of the ILO International Institute for Labour Studies which issued the report, explains the implications.

The economic slowdown may entail a double-dip in employment ...

THE next few months will be crucial for avoiding a dramatic downturn in employment and a further significant aggravation of social unrest. The world economy, which had started to recover from the global crisis, has entered a new phase of economic weakening. Economic growth in major advanced economies has come to a halt and some countries have re-entered recession, notably in Europe. Growth has also slowed down in large emerging and developing countries.

Based on past experience, it will take around six months for the ongoing economic weakening to impact labour markets. Indeed, in the immediate aftermath of the global crisis it was possible to delay or attenuate job losses to a certain extent, but this time the slowdown may have a much quicker and stronger impact on employment. After the collapse of Lehman Brothers in 2008, many viable enterprises expected a temporary slowdown in activity and so were inclined to retain workers. Now, three years into the crisis, the business environment has become more uncertain and the economic outlook continues to deteriorate. Job retention may therefore be less widespread.

Moreover, government job- and income-support programmes, which proved so successful in cushioning job losses and supporting job reten-

tion practices in firms at the start of the global crisis, may be scaled down as part of the fiscal austerity measures adopted in a growing number of countries. Lastly, and more fundamentally, while in 2008-2009 there was an attempt to coordinate policies, especially among the Group of 20 (G20) major economies, there is evidence that countries are now acting in isolation. This is leading to more restrictive policies driven by competitiveness considerations, and job retention measures could fall victim to it.

The latest indicators suggest that the employment slowdown has already started to materialise. This is the case in nearly two-thirds of advanced economies and half of the emerging and developing economies for which recent data are available. Meanwhile, young people continue to enter the labour market. As a result, approximately 80 million net new jobs will be needed over the next two years to restore pre-crisis employment rates (27 million in advanced economies and the remainder in emerging and developing countries). However, in light of the recent economic slowdown, the world economy is likely to create only about half of those much-needed jobs. And it is estimated that employment in advanced economies will not return to its pre-crisis levels until 2016, i.e., one year later than projected in the International Labour Organisation (ILO)'s *World of Work Report 2010*.

... exacerbating inequalities and social discontent ...

As the recovery derails, social discontent is now becoming more widespread, according to a study carried out for the purposes of the *World of Work Report 2011* (henceforth the Report). In 40% of the 119 countries for which estimates could be performed, the risk of social unrest has increased significantly since 2010. Similarly, 58% of countries show an increase in the percentage of people who report a worsening of standards of living. And confidence in the ability of national governments to address the situation has weakened in half the countries.

The Report shows that the trends in social discontent are associated with both the employment developments and perceptions that the burden of the crisis is shared unevenly. Social discontent has increased in advanced economies, the Middle East and North Africa and, albeit to a much lesser extent, Asia. By contrast, it may have stabilised in Sub-Saharan Africa, and it has receded in Latin America.

... and further delaying economic recovery.

The worsening employment and social outlook, in turn, is affecting economic growth. In advanced economies, household consumption – a key engine of growth – is subdued as workers become more pessimistic

about their employment and wage prospects. Indicators for the United States and several European countries suggest that workers expect stagnating or even falling wages. The uncertain demand outlook, combined with continued weaknesses in the financial system of advanced economies, is depressing investment in all countries, including in emerging and developing economies which rely primarily on exports for growth and job creation.

In short, there is a vicious cycle of a weaker economy affecting jobs and society, in turn depressing real investment and consumption, thus the economy and so on.

This vicious circle can be broken by making markets work for jobs – not the other way around

Recent trends reflect the fact that not enough attention has been paid to jobs as a key driver of recovery. Countries have increasingly focused on appeasing financial markets. In particular, in advanced economies, the debate has often centred on fiscal austerity and how to help banks – without necessarily reforming the bank practices that led to the crisis, or providing a vision for how the real economy will recover. In some cases, this has been accompanied by measures that have been perceived as a threat to social protection and workers' rights. This will not boost growth and jobs.

Meanwhile, regulation of the financial system – the epicentre of the global crisis – remains inadequate. In advanced economies, the financial sector does not perform its normal intermediary role of providing credit to the real economy. And emerging economies have been affected by the massive inflows of volatile capital.

In practice, this means that employment is regarded as second order vis-à-vis financial goals. Strikingly, while most countries now have fiscal consolidation plans, only one major advanced economy – the United States – has announced a national jobs plan. Elsewhere, employment policy

is often examined with a fiscal lens.

It is urgent to shift gears. The window of opportunity for leveraging job creation and income generation is closing, as labour market exclusion is beginning to take hold and social discontent grows.

This requires, first, ensuring a closer connection between wages and productivity, starting with surplus countries ...

It is time to reconsider 'wage moderation' policies. Over the past two decades, the majority of countries have witnessed a decline in the share of income accruing to labour – meaning that real incomes of wage earners and self-employed workers have, on average, grown less than would have been justified by productivity gains. Nor has wage moderation translated into higher real investment: between 2000 and 2009 more than 83% of countries experienced an increase in the share of profits in GDP, but those profits were used increasingly to pay dividends rather than invest. And there is no clear evidence that wage moderation has boosted employment.

In fact, wage moderation has contributed to exacerbating global imbalances which, along with financial system inefficiencies, have led to the crisis and its perpetuation. In advanced economies, stagnant wages created fertile ground for debt-led spending growth – which is clearly unsustainable. In some emerging and developing economies, wage moderation was an integral part of growth strategies based on exports to advanced economies – and this strategy too is unsustainable.

By ensuring a closer connection between wages and productivity, the global shortfall in demand would be addressed. In addition, such a balanced approach would help ease the pressures on budget-constrained governments to stimulate the economy. In many countries, profitability levels are such that allowing wages to grow in line with productivity would also support investment.

Obviously, the proposed policy

would need to be adapted to country circumstances and can only be achieved through social dialogue, well-designed minimum wage instruments and collective bargaining, and renewed efforts to promote core labour standards. With this in mind, surplus economies like China, Germany, Japan and the Russian Federation have a strong competitive position, and therefore more space for such a policy than other countries. More balanced income developments in surplus countries would be in the interest of those countries while also supporting recovery in deficit countries, particularly those in the euro-area which cannot rely on currency devaluation in order to recover lost competitiveness.

... second, supporting real investment notably through financial reform...

There will be no job recovery until credit to viable small firms is restored. In the EU, the net percentage of banks reporting a tightening of lending standards has remained positive throughout 2011, and when firms in the EU were asked about the most pressing problem they faced between September 2010 and February 2011, one-fifth of small firms reported lack of adequate access to finance. Targeted support could take the form of credit guarantees, the deployment of mediators to review credit requests denied to small firms and providing liquidity directly to banks to finance operations of small enterprises. Such schemes already exist in countries like Brazil and Germany.

In developing countries, there is significant scope for increasing investment in rural and agricultural areas. This requires targeted public investment, but also curbing financial speculation on food commodities in order to reduce the volatility of food prices. Food prices were twice as volatile during the period 2006-2010 than during the preceding five years. As a result, any increase in agricultural income is perceived by producers – especially small ones – as temporary. Producers thus lack the stable

horizon needed to invest the agricultural-income gains, perpetuating food shortages and wasting decent work opportunities.

... third, maintaining and in some cases strengthening pro-employment programmes funded from a broader tax base ...

No country can develop with ever-rising public debts and deficits. However, efforts to reduce public debt and deficits have disproportionately and counterproductively focused on labour market and social programmes. Indeed, cuts in these areas need to be carefully assessed in terms of both direct and indirect effects. For instance, cutting income-support programmes may in the short run lead to cost savings, but this can also lead to poverty and lower consumption, with long-lasting effects on growth potential and individual well-being.

A pro-employment approach that centres on cost-effective measures will be instrumental in avoiding a further deterioration in employment. Carefully designed pro-employment programmes support demand while promoting a faster return to pre-crisis labour market conditions. Early support in crisis times pays off through reduced risk of labour market exclusion, as well as productivity gains. The positive employment effects due to more vibrant labour market matching compensate for any negative effects resulting from private sector crowding out. Increasing active labour market spending by only half a per cent of GDP would increase employment by between 0.2% and 1.2% in the medium term, depending on the country. Though these estimates provide broad orders of magnitude only, they underline that, if well-designed, spending on pro-employment programmes is consistent with fiscal objectives in the medium term.

Moreover, pro-employment programmes are not expensive to the public purse. If need be, new resources can be found to support much-needed spending. In this regard, the Report notes that there is scope for broaden-

ing tax bases, notably on property and certain financial transactions. Such measures would enhance economic efficiency and help share the burden of adjustment more equitably, thereby also contributing to appease social tensions. The heterogeneous nature of the recovery makes it necessary, however, to apply the approach in the light of country-specific circumstances.

... and putting jobs back on top of the global agenda.

The responsibility for making markets work for jobs rests primarily with national governments. They have at their disposal a rich panoply of measures inspired by the ILO Global Jobs Pact – ranging from job-friendly social protection programmes, to well-designed minimum wages and employment regulations and productive social dialogue – which can be quickly mobilised in combination with job-friendly macroeconomic and financial settings. It is especially im-

portant to move quickly on this front in the euro-area, where the signs of economic weakening are strongest.

There is also a critical role for international policy coordination. This task has become more difficult given the different cyclical positions of countries. However, the Report's findings suggest that a job recession in one region will, sooner or later, affect economic and social prospects in the other regions. Conversely, the interconnectedness of economies means that, if countries act in a coordinated way, any favourable effects on employment will be amplified. In this regard, the G20 has a special leadership role to play in keeping employment, along with fiscal and financial issues, high on the global policy agenda. Here too, time is of the essence. ♦

Raymond Torres is Director of the ILO's International Institute for Labour Studies (IILS) in Geneva. The above first appeared as the Editorial in the World of Work Report 2011: Making Markets Work for Jobs, which is published by the IILS.

The grim facts

THE following are some of the main findings of the ILO's *World of Work Report 2011*:

- Approximately 80 million net new jobs will be needed over the next two years to re-attain pre-crisis employment rates (27 million in advanced economies and the remainder in emerging and developing countries).
- Out of 118 countries with available data, 69 countries show an increase in the percentage of people reporting a worsening of living standards in 2010 compared to 2006.
- Respondents in half of 99 countries surveyed say they do not have confidence in their national governments.
- In 2010, more than 50% of people in developed countries reported being dissatisfied with the availability of decent jobs (in countries such as Greece, Italy, Portugal, Slovenia, and Spain, more than 70% of survey respondents reported

dissatisfaction).

- The share of profit in GDP increased in 83% of the countries analysed between 2000 and 2009. Productive investment, however, stagnated globally during the same period.

• In advanced countries, the growth in corporate profits among non-financial firms was translated into a substantial increase in dividend payouts (from 29% of profits in 2000 to 36% in 2009) and financial investment (from 81.2% of GDP in 1995 to 132.2% in 2007). The crisis reversed slightly these trends, which resumed in 2010.

• Food price volatility doubled during the period 2006-2010 relative to the preceding five years, affecting decent work prospects in developing countries. Financial investors benefit more from price volatility than food producers, especially small ones. – ILO press release ♦

Latest victims of financialisation – food and commodities

Food- and commodity-producing countries in the Third World have long faced the problem of price volatility arising from many sources. Speculators operating from financial and commodity markets are now adding to their woes. *Michael Lim Mah-Hui* explains.

It is apropos to recall the words of the great economic historian Karl Polanyi. In his book *The Great Transformation*, he wrote that in the transformation from feudalism to capitalism, everything becomes commoditised for the sake of profit – trees become timber, men/women become labour, and land becomes real estate. Today we can add to this list – food becomes a financial commodity.

The term ‘financialisation’ has gained increasing prominence and usage over the last few years. Basically it refers to the process and result of the domination of finance over the real economy. The financial industry includes banks and non-banking financial institutions such as insurance and mortgage companies, pension funds, investment banks, hedge funds, private equity funds, stock and bond markets, commodity and other types of exchanges etc. In the United States, the financial industry has grown to become the largest sector in the economy, accounting for slightly over 20% of its GDP in 2007, twice as large as the next sector, trade at 12%, followed by manufacturing at 11%. The financial industry accounted for 30% of total corporate profit in the same year. Wall Street employees earn on the average \$435,000 per year – 10 times the salary of an average worker in the private sector.

The financial industry itself has undergone significant transformation. It used to be that banking was the major portion of the financial industry. But this is no longer the case in the advanced economies of the United States and the United Kingdom. The non-banking financial institutions that are not regulated, or what is sometimes termed the shadow banking system, have come to overshadow the banking institutions, though the links



Finance has now come to dominate operations in commodity markets. For example, 61% of the wheat market is accounted for by financial speculators.

between the two are very tight. In fact, it is the activities in the shadow banking system and its links to the banking system that brought about the Great Financial Crisis of 2007.

The primary functions of banking and finance should be to serve the activities of production, trade and investment. However, today, instead of finance being the servant of the real economy, it has become its master. The tail is wagging the dog. Financial transactions are undertaken largely for speculative purposes and bear little relationship to real economic activities. And the volume and speed of financial transactions are so overwhelming they have come to destabilise the real economy. Take, for example, the foreign exchange markets, whose daily volume of transactions (spot, forwards and derivatives) totals \$5 trillion, or \$1,250 trillion per year (based on 250 working days). Compare this amount to the volume of world trade that totalled only \$13 trillion for the year 2007. Even if we add other real economic activities like direct investment flows and tourism, we will not reach a fraction of the \$1,250 trillion. Foreign exchange rates are determined more by finan-

cial flows such as carry trades rather than trade flows. These free capital flows have undermined the effectiveness of national monetary policies.

The financialisation of commodity markets and the effects of speculation in these markets are the subject of two important reports published earlier this year: *Price Formation in Financialised Commodity Markets: The Role of Information* by the United Nations Conference on Trade and Development (UNCTAD), and *Broken Markets: How Financial Market Regulation Can Help Prevent Another Global Food Crisis* by the World Development Movement (WDM) (see following article). Much of what follows is based on these reports.

Financialisation of the commodity markets

Agricultural commodities are naturally exposed to the vagaries of weather and natural calamities. Hence since time immemorial, farmers have sought to shield themselves from price fluctuations by entering into forward contracts with investors, hedgers and speculators who are willing

to take contrary positions. These futures markets allowed producers to transfer their risks to market participants who are willing to take on price risks.

However, over the past 10 years, a great transformation has occurred in the commodity markets; finance has now come to dominate operations in these markets. One example is the wheat market. In the mid-1990s financial speculators accounted for 12% of the market, with the rest held by commercial hedgers; in 2011, financial speculators held 61% of the wheat market and commercial hedgers 39%.

After the equities bubble collapsed in 2000, financial investors intensified the diversification of their investment portfolio. Studies were done to show that commodity markets were less volatile than the stock and bond markets and were a good hedge against inflation. Around the same time in 2001, the Commodity Futures Modernisation Act in the US exempted derivatives from oversight under state gaming laws, and also excluded certain swaps from being considered as 'security' under the Securities and Exchange Commission rules. By ruling that credit derivatives were neither a security nor a gaming activity, the Act opened the floodgate to derivatives business that rose five times – from \$100 trillion to \$516 trillion between 2002 and 2007.

Deregulation of commodity markets has allowed an explosive growth of financial speculation in these markets. This can be seen in Figures 1 and 2 that show the outstanding futures and options contracts on commodity exchanges, and over-the-counter (OTC) commodity derivatives respectively. There was a dramatic increase in these financial transactions in both markets between 2001 and 2008. However with the great financial crisis, there was a sharp drop in the OTC derivatives transactions, while there was a slight decline in the futures and options contracts on commodity exchanges in 2007/08 followed by a dramatic increase in 2009 and 2010.

The decline in the relative importance of OTC commodity derivatives

probably reflects a change in the relative position of financial players in these markets. There are two major types of financial players in these markets – commodity index funds and active commodity fund traders.

Commodity index funds are attractive to investors like pension funds because they allow investors to gain exposure to a wide range of commodities without direct trading in the market. These funds normally take a 'long only' position, i.e., they buy to hold, and roll over their positions upon maturity, taking the view that prices will rise over the long term. They are normally passive investors. The index investors will usually enter into a swap transaction with a bank or financial institution that will in turn hedge its position through futures contracts on a commodity exchange or in the OTC market.

The other category of financial players is the traders who actively buy and sell futures contracts in commodity markets. These are banks, hedge funds and private investors who choose active trading in commodity markets and significantly contribute to increasing price volatility. At the extreme are the big financial institutions that use computerised high-frequency trading to take advantage of price changes. They are criticised for creating extreme volatility in the markets. The chairman of the World Sugar Committee wrote that: 'Computer-based traders do not even contribute to the traditional function of the speculator in allowing producers and consumers to transfer price risk, since they do not take price risk home. Instead, it would appear that the computer-based traders are parasitic.'

Passive index investments that accounted for 65-85% of total commodity investments prior to the financial crisis have fallen to about 45% since 2008. A recent survey by Barclays Capital conducted in December 2010 revealed that only 7% of commodity investors plan to use index funds compared with 43% that preferred active management that includes the use of exchange traded products and exchange traded funds backed by futures contracts.

Impact of financialisation of commodity markets

Distortion of market prices

The recent volatility in prices of many agricultural and other commodities cannot be explained by the fundamental forces of demand and supply alone. Speculation plays a crucial role in this extreme volatility. For example, according to data from the US Department of Agriculture, there is no shortage of wheat and maize, yet the prices of these commodities have spiked in recent years. In the oil market, it was estimated that around 20% of the movement in price is due to positions taken by financial speculators. In the cocoa market, the attempt last year by a major player to corner the market by taking a huge position sent the price of cocoa skyrocketing, only to be followed by an equally major correction.

Studies have also demonstrated a close correlation between commodity prices and the positions taken by financial investors who pursue an active trading strategy. While over the long term, prices reflect fundamental forces of demand and supply, over the short term, price movements have more to do with the momentum of speculation than with fundamentals.

Market efficiency theory assumes investors make rational decisions based on full information and act independently of each other. However, the lack of transparency and reliable data, and the inherent uncertainty in commodity markets tend to push investors to follow the herd rather than to make independent decisions on the basis of information. This is especially true when commodity goods markets have become commodity financial markets. In the goods market, demand is driven primarily by consumption and prices are determined by forces of demand and supply; when price rises, demand falls and supply increases, and vice versa. In financial markets, demand is undertaken for investment rather than for consumption purposes. In other words, when price rises, demand also rises in anticipation of further rise and investors profit the most by following the crowd for

some time and then divesting and taking profit just before the rest of the crowd does. Investors have to be nimble, to be able to dip in and out of markets quickly. Hence, in the short term, prices are determined by speculation rather than the fundamental forces of demand and supply.

This tendency for prices to deviate from fundamentals generates wrong market signals and gives rise to price distortions. Consequently genuine market players such as producers, consumers and genuine hedgers are faced with a greater degree of uncertainty and this makes hedging more expensive and crowds out the genuine market hedgers. Hence it makes the transfer of price risks from producers and consumers to others who are willing to assume the price risks more difficult.

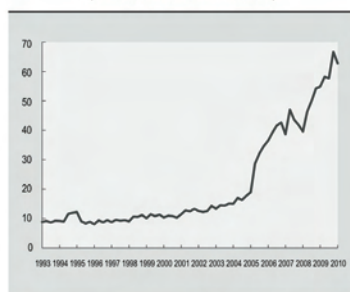
Aggravating price inflation

Commodity index funds have been criticised for exerting structural upward pressures in commodity futures markets due to the large and long positions they take. The volume of index funds in agricultural commodities increased 26 times from \$3 billion in 2003 to \$80 billion in 2011, accounting for 60% of overall financial holdings in agricultural futures markets (WDM, 2011). The total value of assets under management by financial investors in commodities rose from about \$80 billion to \$410 billion between 2005 and 2011 (UNCTAD, 2011: Figure 6).

Futures markets affect spot prices in the physical commodity markets through various ways. On the one hand, traders in physical markets use futures prices as benchmarks for bidding in the spot physical markets. On the other hand, food producers are also influenced by futures prices. If they expect prices to rise as indicated in the futures markets, they may adjust supply accordingly and further push up prices. Futures prices are also used as a basis for pricing in the spot market by adding or subtracting an agreed margin or 'basis' to the spot prices. In short, financial speculation in the futures markets exerts a strong influence on the price of commodities in the spot markets.

Figure 1

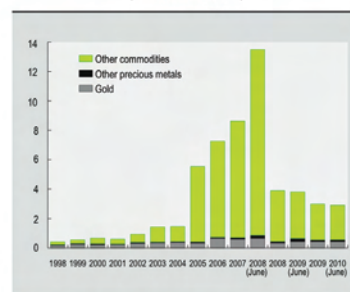
FUTURES AND OPTIONS CONTRACTS
OUTSTANDING ON COMMODITY EXCHANGES,
DECEMBER 1993–DECEMBER 2010
(Number of contracts, millions)



Source: Bank for International Settlements (BIS), Quarterly Review, March 2011, table 23B.

Figure 2

NOTIONAL AMOUNT OF OUTSTANDING
OVER-THE-COUNTER COMMODITY DERIVATIVES,
DECEMBER 1998–JUNE 2010
(Trillions of dollars)



Source: BIS, Quarterly Review, March 2011, table 22A.

Commodity speculation complicates monetary policies

Just as free capital flows and carry trades undermine national monetary policies, commodity speculation likewise complicates monetary policies. After the dramatic fall in 2008 and 2009, commodity prices rebounded with equal vigour in 2010, way ahead of any recovery in the real economy. The rise in commodity prices generates inflationary pressure on the real economy and could force monetary authorities to tighten monetary policy prematurely, as in the hiking of interest rates in China and India in early 2010. This will in turn abort a recovery in the real economy. As the UNCTAD report concluded:

'The fact that monetary policy reacts to price pressure stemming from rising commodity prices, rather than to bottlenecks in industrial production, points to a worrisome aspect of the impact of financialisation that has so far been underestimated, namely its capacity to inflict damage on the real economy as a result of sending the wrong signals for macroeconomic management.'

Conclusion

Prices of agricultural and other physical commodities have not only risen steadily but, more importantly, have been highly volatile in recent decades. Forces of the underlying physical demand and supply of commodities alone are not able to explain this worrisome trend. Increasingly, financial transactions and speculation that have little to do with the physical

demand and supply of commodities are determining the price movements in these markets. Studies have shown that prices are correlated with positions taken by financial speculators. The financialisation of commodity markets distorts market prices, makes genuine hedging more expensive and difficult, crowds out genuine commercial market participants, complicates monetary policies, and contributes to rising food prices that can either push more people into poverty and/or slow down the rate of poverty reduction in the poorer countries.

Given the negative impact financial speculation in commodity markets has on the real economy, it is necessary to step up the regulation of commodity markets. Proposals for enhanced regulation include: better information on various aspects of commodity markets particularly with respect to inventory positions; increased transparency of positions taken by market players; establishment of individual position limits for any individual player, and aggregate position limits for any category of market players; tighter regulation of over-the-counter transactions and pushing more of such OTC transactions into publicly regulated exchanges; increasing margin requirements for financial speculators; and introduction of a financial transaction tax on all commodity derivative transactions. ♦

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Taming financial speculation, stabilising food prices

The enormous influx of financial speculation into agricultural commodity derivative markets has effectively broken them. Strong regulation is urgently needed to restore these markets to their normal functioning and to help prevent repeated global food crises.

FOOD is a fundamental human right and essential to our survival. Yet many are unaware of the powerful position that financial markets have come to hold in the global food system. Alongside markets for trading food (physical markets), financial markets for futures and other derivatives play a central role in setting the prices of the world's food.

Futures markets were originally developed to help those involved in producing food to manage their risk. Food producers and other commercial participants involved in the supply chain are inherently exposed to the risk of fluctuating prices. A producer growing a crop, such as wheat or maize, has to invest in production through buying seeds or other inputs such as fertiliser. However, this investment is at risk as the price of the crop may fall while it is being grown.

Futures markets allow food producers and other commercial participants to transfer their price risk to someone else more willing to take on that risk. This could be another commercial hedger, or a financial speculator who hopes to profit from changing prices over the life of the futures contract.

Futures markets were developed for the benefit of those involved in the production of food, yet they have now changed almost beyond recognition. Over the past 10 years, financial markets for agricultural commodities have become dominated by speculators who simply use them as another form of investment. As a result, they are no longer able to fulfil their intended functions.

Moreover, most of the world's food producers, the majority of whom are small farmers in developing coun-



The Chicago Board of Trade (*pic*) is one of the major commodity futures exchanges. In recent years, financial speculation has exploded in scale across agricultural futures markets.

tries who lack access to credit, do not have access to nor rely on commodity futures markets to manage risk. Many alternatives to market-based risk management exist which would be better suited to the needs of most of the world's farmers.

Wider structural changes are needed to ensure the global food system can meet the needs of a growing population and the needs of those who produce the world's food. A food system that is not shaped by unjust trade rules and a handful of powerful corporations, but instead supports ecologically sustainable small-scale food producers, is vital to achieving this goal.

Regulating agricultural commodity markets alone will not tackle the many challenges of global food production. But in the wake of the financial crisis, there is a unique opportu-

nity to introduce financial market regulation, taking the first steps to improving the global food system for the benefit of food producers and consumers.

The enormous influx of financial speculation into agricultural commodity derivative markets has effectively broken them. Strong regulation is urgently needed to restore these markets to their normal functioning and to help to prevent repeated global food crises.

The case for urgent action to tackle the damaging impacts of financial speculation could not be clearer. According to the UN Food and Agriculture Organisation (FAO), food prices have recently exceeded those seen during the last food crisis in 2007-08, rising by 39% in the year to July 2011. In the last six months of 2010 alone, 44 million people were

pushed into extreme poverty by rising food prices, equivalent to almost two in every three people in the UK.

A financial takeover: How speculation has taken hold

In order for futures markets to function effectively, a degree of financial speculation is needed. Financial speculation can provide liquidity to the market and can also play an important role in transferring price risk away from food producers. However, the extent to which it is beneficial to the market is hotly debated. In recent years, speculation has exploded in scale across agricultural commodity markets. Rather than just providing liquidity to help markets' core functions of hedging and price discovery, financial speculation has come to dominate them.

Financial domination

Deregulation of commodity markets in the US in the late 1990s and early 2000s has allowed an enormous growth in financial speculation in these markets, allowing purely financial actors a much greater role in the markets and facilitating the development of new financial products that allow investors to treat commodities as another asset class, like equity (shares). Investment banks offering access to commodity markets also pitched them as an ideal addition to a portfolio of investments. They promoted research which showed that commodity market returns were less volatile than equities or bonds and provide a good hedge against inflation.

Over the course of the last decade agricultural commodity markets have become dominated by financial speculators, overwhelming the normal functioning of these markets. Historically, when commodity markets functioned effectively, providing sufficient liquidity for commercial hedgers and allowing effective price discovery, commercial hedgers dominated the markets, with only a tiny percentage held by financial speculators. This has now reversed, with financial speculators holding the ma-

jority of the market.

Looking at the largest wheat futures market in the US, in the mid-1990s financial speculators held just 12% of the market, with the rest held by commercial hedgers. In 2011, 61% of the market is held by purely financial speculators and commercial hedgers only make up 39% of the market.

This dominance of financial speculators is also reflected in the size of the market held by financial institutions. In the last five years alone the total assets of financial speculators in agricultural commodity markets have nearly doubled from \$65 billion in 2006 to \$126 billion in March 2011. This money is purely speculative, with none of it being invested in agricultural production, yet it is over 20 times more than the total amount of aid money given globally for agriculture.

'Massive passives'

One of the key innovations that facilitated the enormous growth of financial speculation has been the use of commodity index funds, first pioneered by Goldman Sachs in 1991. Commodity index funds work to transfer commodity contracts into an asset that can be bought by other financial institutions such as pension funds. These funds are 'long only', which means they only take positions speculating that prices will rise and 'roll' their positions, replacing contracts each month to maintain the same position in the market. These funds are also completely passive; their trading does not respond to price changes in the market or changes on the ground, but is instead influenced by the amount of money investors hold in the fund. The purpose of index funds was to accumulate an 'everlasting, ever-growing long position, unremittingly regenerated'. Index funds also speculate across a basket of commodities; the most popular funds include oil, gas, metals and agricultural commodities.

Commodity index funds were highly attractive to a range of investors, notably pension funds, because they allowed investors to gain exposure to a wide range of commodities

markets without having to engage in costly and risky direct trading in the market. This led to an enormous growth in index funds holdings in agricultural commodity markets, increasing 26-fold from around \$3 billion in 2003 to \$80 billion in 2011, with index funds now making up over 60% of overall financial holdings in agricultural futures markets.

This combination of enormous size and their passive trading strategy led Bart Chilton, a commissioner on the Commodity Futures Trading Commission (CFTC), the US commodity regulator, to describe them as 'massive passives'.

Active speculators

While passive investment has remained popular amongst investors, a survey in December 2010 found that 43% were planning to choose active management to engage in commodity markets in 2011. These active strategies can include the use of other investment vehicles, such as exchange traded products (ETPs), which are traded on stock markets and track either one or a set of commodities. These can allow much smaller investors much easier access to commodity markets, while others are designed to better suit the needs of large-scale investors such as pension funds.

As well as there being a vast array of financial products for investors, some speculators such as investment banks and hedge funds trade directly in the markets themselves. These active speculators approach the market in a radically different way from investors using index funds to gain long-term exposure to commodity markets, seeking to profit from short-term price changes in the market. Price-based technical analysis is often used to inform trading decisions, where past price movements are analysed to provide information for likely future price trends. This is the 'traditional' approach to speculation, seeking to buy into rising markets and then aiming to sell out before the market falls.

One strategy increasingly used by active speculators is computerised high-frequency trading, often based



Speculation on food prices has led to price inflation and increased price volatility and caused massive harm to the people most at risk of hunger and poverty.

on analysis of previous price trends, and trading in the market for very short periods of time. High-frequency algorithmic trading can add significant volatility to markets by buying or selling into price movements. The dangers of this form of trading are most clearly seen in the ‘flash crashes’ that took place in the international sugar market in late 2010 and the cocoa market in early 2011. Falling prices triggered the computerised models to automatically sell, fuelling a downward trend that led to prices falling 11% for sugar and 12.5% for cocoa in a single day.

While high-frequency trading has been hugely profitable for commodity exchanges, which profit from the increased trading volume, it has been heavily criticised for providing little if any benefit to commercial hedgers. High-frequency traders only enter the market for short periods of time and will often close out any positions at the end of every trading day. As a result, they do not provide the long-term hedging partner needed for commercial hedgers to transfer price risk.

The huge growth in high-frequency trading has led to outcry from commercial traders in the market. Earlier this year the chairman of the World Sugar Committee, the industry body that represents the major sugar traders, wrote to the US sugar exchange: ‘Computer-based traders

do not even contribute to the traditional function of the speculator in allowing producers and consumers to transfer price risk, since they do not take price risk home. Instead, it would appear that the computer-based traders are parasitic.’

Over the past 10 years there has been a radical change in the make-up of agricultural derivative markets. Whereas previously markets were predominantly made up of commercial buyers and sellers involved in the production of food, these markets are increasingly dominated by index funds, traders using investment products like ETPs and high-frequency algorithmic-driven speculation.

‘Dark markets’: Over-the-counter trading

At present only futures and some options trading takes place on exchanges; the rest of the derivatives market, such as swaps, is traded through unregulated bilateral deals known as ‘over-the-counter’ (OTC) trading. As OTC trading takes place bilaterally and without effective regulatory oversight, prices are not reported publicly, little data is available on the size of the market and there are no requirements for trade reporting, as would happen on a regulated exchange. This has led OTC trading to be referred to as the ‘dark markets’ due to the lack of market transparency.

This lack of transparency and regulation is thought by many to have been at the heart of the 2008 credit crisis and the G20 group of major economies has now resolved to bring more transparency to these markets. The value of outstanding OTC derivatives for all commodities (not just agricultural commodities) stands at nearly \$3 trillion, nearly one-and-a-half times the UK’s GDP.

One of the major advantages of trading OTC is the comparatively low margin requirements for any contract, compared to trading on a regulated futures exchange. Margins are a sum of money that is paid to the exchange for all futures contracts to cover the risk the trader has taken on through this contract. As OTC trading does not go through a central exchange, margin requirements are often very low, reducing the costs to both the parties but taking away the vital risk management function served by margin payments. The other significant feature of OTC trading that has made it attractive to financial and commercial traders is the opportunity to produce highly customised swaps. While all futures contracts are standardised, swaps can be highly complex and exotic, tailored to meet the specifications of individual companies.

Rather than benefiting the overall market, OTC trading also allows a tiny group of financial institutions dealing in large volumes of swaps, such as investment banks like Goldman Sachs, to maintain and exploit information asymmetries at the expense of their clients; as the swaps dealers are central to the market, they have access to information unavailable to all of their clients. As OTC trading does not require publicly quoted prices for contracts, there is also no guarantee that swaps dealers are offering fair and equal pricing between their clients.

The subprime crisis clearly showed the dangers of unregulated trading in OTC derivatives, yet the risks of this trading in dark markets still exist for agricultural commodities, with potentially even greater risks.

Broken markets: The effects of excessive speculation

The increase in financial speculation in commodity markets over the last 10 years is clear; however, the effects that this has had are hotly debated. Proponents of efficient market theory have argued that speculation is inherently stabilising. By buying when prices are low and selling when prices are high, speculators are believed to help smooth volatility in the market. In practice this has not been the case. Increasing financial speculation has in fact:

- Distorted prices away from expectations of supply and demand.
- Increased price volatility.
- Caused the prices of unrelated commodities to move together.
- Increased costs for traditional hedgers, forcing them out of the market.

The effect of the increasing presence of financial speculators in agricultural derivative markets has been to undermine their basic functions of risk hedging and supporting price discovery. These markets are now barely fit for purpose both for those who rely on these markets directly and in terms of their devastating impact on food prices around the world.

Supply and demand?

In theory, trading in futures markets should be motivated by information and expectations of the supply and demand of the underlying commodity, ensuring that the price reflects the best available market information. However, financial speculators are much less likely to trade based on information regarding supply and demand but are motivated by a desire to diversify a range of investments. Commodities are simply seen as an investment alternative to 'traditional' investment asset classes such as equities (shares), bonds (debt) or property.

One clear example of the impact of financial speculators trading on information unrelated to supply and demand was seen in the cocoa futures market following the release of US employment data in 2010. The release

of this data should theoretically have little or no impact on cocoa prices, as there is no causal link between US employment and world chocolate consumption. However, the cocoa futures price dropped nearly 1% in under five minutes after this data was released. If traders based their trading purely on supply and demand information, there would be little or no change in prices. But the spillover from other financial markets and the impact on investor sentiment led to a sharp drop in cocoa prices.

By using commodity markets as another asset class, financial speculators distort the price of agricultural commodities. Instead of prices being determined simply by information about the supply and demand of an agricultural commodity, they are now strongly influenced by their value to financial speculators for a whole range of other motivations. When combined with the dominance of financial speculators in the market, this undermines the ability of futures markets to provide effective, informed price signals for the physical market.

How index funds cause price inflation

While the increasing presence of financial speculators as a whole has moved prices away from expectations of supply and demand, index funds have been singled out by many commentators for their particularly damaging effects, driving price inflation in commodity markets.

Due to index funds' size and long-only positions, they place a structural upward pressure on prices in futures markets, with huge amounts of money speculating on rising prices. The enormous scale of this buying on one side of the market then forces prices upwards; as the prominent financier George Soros describes it, 'institutional investors are piling in on one side of the market and they have sufficient weight to unbalance it.'

Commentators sceptical of the role of commodity index funds in the recent dramatic increase in prices have argued that index funds could not exert an upward pressure since there is an unlimited supply of futures

on an exchange. Due to the limitless supply of futures contracts, they argue, the additional money buying into the long side of the market does not represent new demand; therefore prices would only change in response to new market information, not the trading of index investors.

This view, however, grossly oversimplifies trading on commodity exchanges. In order for a transaction to take place, traders on both the long and short side of the contract must reach a price they both agree on. If there is huge demand on one side of the market, traders will demand that they are paid a premium to enter a contract on the other side, inflating the price. This dynamic of buyers moving the market price up is well recognised; as noted by Goldman Sachs to the US Senate, 'Buyers need to enter the market, drive the market price to a place where it attracts sellers. That is the natural balancing act that goes on day in and day out.'

Oil, metals and food: Price movements of unrelated commodities

Commodity index funds not only work to push up commodity futures prices, they also cause the prices of previously unrelated commodities, such as oil, metals and food, to move together. As financial investors generally lack commodity-specific knowledge, they buy investment products which include a range of commodities. This could be motivated primarily by a desire to gain access to a specific class of commodities, such as energy and metals which make up the bulk of most commodity indices, but by doing so they also drive money into agricultural commodity markets. This then causes the rises and falls of the larger markets, such as oil and metals, to drive price changes across a whole range of commodities including food.

Empirical research into price trends across a range of commodities found that the prices of non-energy commodities, such as agricultural commodities, became increasingly correlated with oil during the mid-2000s, in parallel with the huge

growth in financial speculation in commodity index funds. At the end of the 1990s there was almost no correlation between food and oil prices, but by 2008 this correlation had become extremely high.

Herding upwards

The increased presence of financial speculators in commodity derivative markets has also facilitated greater herding behaviour amongst traders. Herding is when traders act following the actions of a larger group rather than acting independently and rationally based on the information available to them. Herding behaviour is most common in situations of uncertainty, a key feature of commodity markets due to the lack of standardised and reliable data on commodity supply and demand. While data is available from a range of sources such as FAO and the US Department of Agriculture, these sources are often criticised as being unreliable and provide an incomplete picture of global food production. Furthermore much information, such as stocks held by private companies, is only available to a minority of traders, leading to greater uncertainty amongst other traders in the market.

Herding behaviours can come in many forms and can be both rational and irrational. One example of irrational herding common in commodity markets is that led by investor beliefs or market sentiment, independent of individual fundamentals, as a major determinant of asset market prices. In commodity markets this is particularly seen in a widely held assumption that in the medium to long term commodity prices will continue to rise.

The impact of the beliefs and sentiment of traders can also be clearly seen in the sharp rise in commodity prices following the financial crisis of 2008. It is widely believed, and has been seen following previous crises, that during a recovery commodity prices rise in parallel with economic growth as demand for physical commodities increases. However, following the 2008 economic crash, com-

modity prices rose much earlier in the economic cycle, significantly ahead of increasing physical demand. Rather than being driven by rising demand, market participants' belief that commodity prices would rise as a result of the recovery drove prices up, completely unrelated to supply or demand.

Another form of irrational herding as a result of greater participation of financial speculators has been that of trading based on price-based technical analysis, or 'trend chasing', by active speculators. They are often termed momentum traders as they buy into the momentum of pre-existing upward or downward price trends within the market. These traders add significantly to the volatility in commodity futures markets, increasing the likelihood of markets overshooting both when prices rise and fall.

Many of these traders also use similar forms of statistical analysis to inform their trading strategies. This can risk creating a self-fulfilling cycle whereby traders collectively generate and then follow price trends entirely separate from anything dictated by information about supply and demand fundamentals.

Not all herding behaviours are irrational. In a market where information is limited and uncertain, and traders know that other market participants may have access to private information they do not have access to, traders can believe that they can gain this information through assessing the trading movements of others. If one trader sees a trend towards betting on higher prices, they may believe that other traders have access to information they do not have access to and so will seek to follow their trading activities, believing them to be based on information about underlying supply and demand. While such actions can be seen to be entirely rational when information is limited, these forms of herding can again become self-fulfilling, distorting prices away from the fundamentals of supply and demand.

An additional complexity to such herding behaviour is created by the significant presence of index funds

and other passive speculators in commodity markets. As they take a passive approach and speculate across a range of commodities, index traders make decisions irrespective of prevailing conditions in the underlying commodity markets, instead led by other external motivations. Their presence makes it difficult for other traders to judge whether price changes are occurring due to the position changes of index funds or as a response to new information about market fundamentals. This can then lead to traders believing they are rationally following the actions of more informed traders, when they are actually replicating the movements of index funds whose trading decisions are wholly unrelated to supply and demand.

Collectively these forms of herding lead to increased price volatility as traders buy into upward trends and sell out of downward price trends, exacerbating the volatility that already existed in the market. As many of these forms of herding are individually and collectively self-reinforcing, they can also lead to long-term and persistent price deviations away from prices that would be determined by supply and demand. Given the current context, where commodity prices are expected to rise following the financial crisis, and a widespread sentiment that food prices will rise due to long-term population pressures, these price deviations serve to inflate prices. In other words, increasing financial speculation fuels and sustains price bubbles within commodity derivative markets.

Persistence of bubbles

According to efficient market theory, bubbles can only persist for a very short period of time, if at all. Any traders who trade against prices driven by the fundamentals will be punished when traders who trade 'correctly' seek to correct prices back to prices informed by supply and demand. According to this theory, any traders that take positions that are not driven by information about fundamentals will

not profit and therefore be driven out of the market. Through this analysis of commodity markets, financial speculators could only move prices away from the levels indicated by supply and demand in the very short term, but there could be no lasting price bubble in commodity prices.

While over a long enough period of time it is possible that commodity prices may return to the anchor of fundamentals, commodity markets are highly unlikely to quickly correct back to fundamental levels. This is due to well-recognised limitations on the availability of reliable data about supply and demand fundamentals, significant information asymmetries, very limited elasticity of supply and demand, and an overwhelming number of financial speculators not trading based on supply and demand.

For the market to correct, it requires other, informed participants to trade against the financial speculators whose trading does not reflect supply and demand. However, these informed traders face potential losses if prices move still higher under the influence of herding financial speculators, so their short selling may not bring prices back down. Due to this inherent risk it is often not logical for informed traders to attempt to restore prices to a level dictated by the fundamentals. In a market where index funds, hedge funds and investment banks hold such a large influence, exerting a sustained influence on prices, it also may not be possible for informed traders to trade against them. Once financial speculators who do not trade based on supply and demand hold such a strong influence in the market, it no longer makes sense for any trader to swim against the tide by vainly clinging onto market fundamentals.

The end result of this is that bubble prices can be sustained in commodity markets for at least the medium term, if not over the longer term. Taking the example of currency markets, where the fundamentals are clear price differentials, currency speculation can be seen to move exchange rates away from the fundamentals for extended periods of time, in some

cases for three to five years. Given that information on fundamentals is much less clear in commodity markets, there is little reason to believe that food price bubbles could not persist for as long, if not longer. The 2007-08 food price spike lasted less than two years yet had a devastating impact on people throughout the global South.

How futures markets change the price of food

Financial speculation has overwhelmed agricultural derivative markets. It has inflated prices, increased price volatility and created bubbles completely unrelated to supply and demand. However, the fact that this speculation takes place in the financial rather than physical markets has led some to question the extent to which this activity can have an impact on the physical price.

The US economist Paul Krugman argued that ‘a futures contract is a bet about the future price. It has no, zero, nada direct effect on the spot (physical) price’. Others, including research papers for the Organisation for Economic Cooperation and Development (OECD) and the UK government, have all argued that financial speculators could only affect the physical price if they took physical delivery and held these supplies off the market, thereby changing the supply of the commodity.

This view is based on the economic theory that the pricing of commodities is led only by the supply-and-demand relationship of the physical commodity. If this theory were correct, recent changes in food prices would be driven by clear and corresponding changes in the fundamentals of supply and demand. However, this is not the case. Taking data from the US Department of Agriculture on global supply and demand for wheat and maize, there is no significant shortfall of supply or excessive demand associated with the sharp price spikes seen in these markets in recent years.

Rather than prices being affected only by changes in supply and de-

mand of the physical commodity, futures markets are at the heart of changing commodity prices. They provide price information and signals, acting as a benchmark for the physical markets. Futures markets affect the price of food in the physical commodity markets through:

- Influencing the expectations of buyers and sellers in the physical market.
- The incorporation of futures prices directly into contracts for food.
- Traders taking advantage of differences between prices in futures and physical markets.

It is important to recognise that financial investors do also trade in the physical market. Separate from speculation in derivative markets, financial traders are increasingly involved in physical commodities. This was seen in the cocoa market in 2010 when the hedge fund Armajaro attempted to ‘corner’ the physical market by trying to buy up huge amounts of the world’s supply, forcing up prices. There is also a growing trend to financial investment in physically-backed exchange traded products, where physical commodities are essentially hoarded by financial speculators seeking to profit from rising prices in the physical market, though these remain a smaller market than for futures-backed ETPs.

While these kinds of interventions in the physical market can force up prices, betting in the financial market can translate directly into changing food prices without financial speculators touching a grain of wheat.

Great expectations

The role of futures markets in providing price signals to the physical market is well recognised by regulators in both the US and the UK. As noted above, this is due to the fact that futures markets are generally more liquid and transparent than the physical markets, and are believed to be better able to react to emerging market information and reflect this through changing prices.

In practice, prices in the futures markets provide information and help set the expectations of traders in the physical markets. Put simply, traders

in the physical markets use the futures market as a benchmark on which to bid in physical auctions. If futures market prices are high and rising, this then changes the expectations of both buyers and sellers in the physical markets, pushing up the price of physical commodities. If food producers, informed by prices in the futures markets, believe that they will be able to gain a higher price in the future, they will be likely to withhold their supply, anticipating a higher price in the future. This withdrawal of supply then pushes up the price.

Some critics, such as those noted above, have argued that if price transmission occurred in this way then there would be a significant growth in inventories as commodities are held off the market by producers anticipating higher prices. Such an argument assumes that futures prices only affect the expectations of food producers and not of food buyers. As food buyers also look to the futures market to inform their expectations, they may also be willing to pay a higher price now to avoid paying a higher price in future. As food producers are then able to sell their food at a higher price now (as both buyer and seller have agreed at a higher price), commodities are not held off the market, but the price of the commodity has risen. If the impact on expectations is greater on buyers than on sellers, it would clearly be possible for the physical commodity price to rise in response to changes in the futures markets, while at the same time inventories are falling.

The short-run price elasticity of supply and demand for agricultural commodities is also very low; in other words, supply and demand do not respond quickly to changing prices. People need to eat and will be willing to give up other expenditure in order to maintain their levels of consumption. Production of food takes months or years, so producers cannot react quickly in response to rising or falling prices. Therefore only very significant and long-lasting price changes could be expected to change supply and demand sufficiently to produce a noticeable change in actual inventories.

Physical commodity contracts

In addition to informing the expectations of participants in the physical markets, futures prices are often used as the basis of pricing physical market contracts. Long-term contracts and many forward contracts are often based on the futures price plus or minus an agreed 'basis' for other factors such as location of delivery or quality of the physical product. As noted by the UN special rapporteur on the right to food: 'The grain futures prices quoted by the Chicago Mercantile Exchange tend to be incorporated directly into grain trade contracts the world over.' This type of 'basis' forward contract is reflected in publications from multiple agricultural product associations describing physical delivery contracts.

With the futures price directly incorporated into physical commodity contracts, the price discovery process takes place entirely through the futures market, completely separate from the supply and demand of the commodity. Through their incorporation into physical market contracts, increases in futures prices as a result of financial speculation directly increase the cost of food.

Arbitrage

Arbitrage is the process through which traders can take advantage of an asset being quoted simultaneously at different prices in two different markets. In theory, there should be no significant difference in value between a futures contract for a tonne of wheat for delivery today and an actual tonne of wheat. Therefore traders (arbitrageurs) who are willing and able to take physical delivery, such as the large commodity firms and some hedge funds, can seek to profit from differing prices between futures near their delivery date and the price of the physical commodity. This process of arbitrage then works to close the difference in price between the two markets.

If futures prices are higher than physical prices, traders seeking to buy physical commodities who hold futures near to their delivery date will close out their positions in the futures

market and seek to take ownership of physical commodities, rather than continuing to hold more expensive futures contracts through to delivery. This increase in demand in the physical market pushes up prices.

Taken together, the processes of informing traders' price expectations, direct inclusion in physical commodity contracts and arbitrage provide strong mechanisms for price changes in futures markets to translate directly through into changing prices in the physical market.

Fixing broken markets

Excessive speculation on food prices is having a devastating impact in the global South, increasing hunger, malnutrition and poverty. Effective financial market regulation can ensure that these markets work both for those who use these markets for the hedging of commercial risk and to the benefit of food consumers throughout the world.

The US has already passed legislation including provisions to tackle excessive speculation in financial commodity markets. The G20 and the European Union (EU) are now looking at what new measures are needed to effectively regulate markets outside of the US. In order for all of these reforms to be effective in combating excessive speculation, regulators need to ensure market transparency by moving commodity derivative trading onto well-regulated exchanges and to place strict limits on the overall amount of the market that can be held by financial institutions.

Reforms that fall short of these measures are highly unlikely to tackle the dominance of financial speculators within these markets or the enormous inflation in basic food commodity prices they have caused.

Transparency: Exchange trading and position reporting

The first step in ensuring commodity derivative markets work effectively is ensuring proper market transparency. Commodity derivative trading in Europe currently takes

place either on exchanges, such as the NYSE Liffe in London and Paris, where there is little transparency in the positions of different categories of traders, or off exchanges altogether through OTC deals. This lack of transparency inhibits effective market oversight and regulation, prevents fair access to markets and fair pricing, and is associated with greater bid-offer spreads (the difference between the price someone is willing to buy something for, and the price they are willing to sell it for).

Introducing proper market transparency through exchange trading and effective position reporting will allow regulators to address excessive speculation. It will also allow the public to effectively assess the impact financial speculation is having in financial commodity markets and to ensure these markets work effectively for the food buyers and producers who rely on them.

Exchange trading

All standardised and sufficiently liquid commodity derivatives should be moved out of OTC trading and onto well-regulated exchanges, in the same way other financial assets such as equities are traded on the stock market. The aim of such regulation should be to ensure that the vast majority of, if not all, commodity derivative transactions which currently take place via the 'dark' OTC markets are moved onto public exchanges.

Regulators need to work with commercial and financial participants to standardise OTC derivatives so as to ensure that greater liquidity can be achieved in a smaller number of standardised derivatives. The Committee of European Securities Regulators proposed this approach in their advice to the European Commission on financial market reform, calling for 'ambitious targets to be set for an increased and high level of standardisation', with clear powers for regulators to intervene if these targets are not met. Without efforts to ensure standardisation of key derivatives that are currently traded OTC, there is the risk of a huge increase in the use of intentionally complex bespoke OTC

derivatives intended to have insufficient liquidity to be exchange-traded.

Once a greater standardisation of derivative contracts has been established, the responsibility must lie with market participants to prove to regulators that any remaining OTC contracts exist for the hedging of genuine commercial risk which cannot be achieved through standardised exchange-traded contracts. Without effective work to preemptively close loopholes and ensure standardisation, there is significant risk that OTC trading could continue to make up a large part of financial commodity markets. If this were to continue, it would benefit a handful of financial institutions at the expense of other market participants and the effective functioning of derivative exchanges.

Position reporting

To ensure effective market oversight by regulators, and to allow meaningful analysis, all market participants should be required to provide position reporting information to regulators across all contract types, including OTC markets. Position data should be provided frequently and regularly, preferably daily, by exchanges to regulators. Data should be aggregated and made available to the public by category of trader (e.g., commercial, financial), type of company (e.g., hedge fund, investment bank) and also by investment vehicle (e.g., index fund). This aggregated data must also be provided to the public frequently and on a regular basis. Such position reporting is vital for regulators, analysts and the public to clearly assess the impact of different categories of traders, such as financial speculators, on commodity prices.

Position reporting from commodity exchanges takes place in the US through the CFTC, providing public data on the overall positions of different categories of traders, yet no such reporting currently takes place for European commodity markets.

Controlling speculation: Position limits

Improving transparency alone is not enough to tackle excessive finan-

cial speculation. Regulators also need the power to limit the amount of market share financial speculators can hold, reducing their influence on food prices.

Individual position limits cap the amount of the market that can be held by an individual trader. These position limits can be used to prevent market manipulation where one participant corners the market by holding the majority of the market for the underlying commodity and squeezing up prices. Such limits can be useful in preventing large financial firms from having too great an influence on the market through holding excessive positions and can tackle 'commercial speculators' – large multinationals which use commodity markets for speculation as well as hedging.

The limitation of *individual* position limits is that while they can help prevent individual traders having too large an influence on the market, they do not tackle the influence of a category of traders, such as financial speculators, on the market. To address this, *aggregate* position limits are needed. Aggregate position limits cap the amount of any market that can be held by any category or group of traders in total, ensuring there is not an excessive concentration of such a group. Position limits require active analysis, oversight and intervention by regulators. If a category of traders reach their aggregate position limit, regulators would intervene to require the largest market participants within that category to reduce their positions until that category fell below the aggregate limit.

Any such limits should be permanently established throughout the lifetime of the derivative contract and ensure a sustainable balance of commercial and non-commercial participants, while allowing sufficient liquidity. Given the lack of transparency in UK and EU markets in terms of composition, liquidity and trading volumes, it is very difficult to independently assess the exact levels at which they should be set. However, data from the US markets in the 1990s suggests that commodity markets worked effectively for commercial

participants, without a lack of liquidity and with relatively stable prices, with as little as 25% of the market being held by financial speculators. In setting aggregate position limits, regulators should use this historical data, together with ongoing market analysis, as the reference point for setting limits.

Enforcement of position limits should be absolute and market participants should be strictly prevented from exceeding them, without exception. The limits must work across contract types – establishing them only in futures markets without addressing OTC trading would be likely to simply see a huge shift in trading off regulated exchanges and onto dark, unregulated markets.

Effective permanent position limits which strictly control the amount of the market that can be held by financial speculators, such as index funds or investment banks, can prevent them having dominance over the price discovery functions of these markets. It is only through regulatory intervention to ensure a sustainable balance of commercial and financial participants that these markets can be brought back to delivering their intended purposes of allowing commercial participants to hedge risk and of price discovery for the physical markets. Without effective regulation to limit the impact financial speculators can have within the futures market, it is likely that prices will become increasingly disconnected from supply and demand fundamentals, become more volatile and continue the dramatic upward trend seen in recent years.

Additional measures

In addition to introducing exchange trading and position limits, a range of other measures can be considered which may also help to reduce the damaging impacts of financial speculation:

- *Margins:* Increasing margin requirements for financial speculators both increases trading costs and increases firms' own financial risk in each transaction. Combined, the increased costs and risk could help re-

duce excessive speculation.

- *Financial transactions tax (FTT):* An FTT on all commodity derivative transactions, set at a high enough level, could increase costs for high-frequency traders and short-term speculators who increase volatility and herding in the market.

- *Regulatory capacity:* At present specific regulatory expertise and capacity on commodity markets is lacking in the UK and throughout the EU. Dedicated expertise and increased capacity for commodity market regulators is required to ensure any rules proposed are enforced effectively.

Conclusion

Excessive financial speculation in any market can cause harm, as the subprime mortgage crisis and the ensuing credit crunch demonstrated. Now it is all too apparent in food commodity markets.

The enormous growth in financial speculation in agricultural commodity markets has overwhelmed these markets, making them unable to fulfil their intended purpose of managing risk and supporting price discovery based on supply and demand. Speculation on food prices has led to price inflation, increased price volatility and, most importantly, has caused massive harm to the people most at risk of hunger and poverty. Around one billion people currently go hungry and millions more are at risk of hunger, malnutrition and poverty if prices rise further.

Effective regulation of financial commodity markets is urgently needed, to prevent excessive speculation leading to further hunger and poverty and to make markets work for the commercial traders who rely on them. In the light of the devastating impact of speculation, commodity derivatives cannot be left unregulated, as if they were just another asset class for financial investors.

Far from stabilising commodity markets, the high volume of financial speculation has had the effect of a devastating flood. The level of specu-

lation is far beyond that needed to provide liquidity to commercial hedgers, and is now undermining the effective working of these markets. Reducing the amount of the market that can be held by purely financial speculators is vital to make these markets work.

Financial market regulation is feasible and can be implemented without damaging the functioning of the markets for the commercial traders who rely on them. While the challenges of the global food system will not be solved by curbing speculation alone, such regulation would have a significant impact on ensuring fairer and more stable food prices.

The financial services industry, which has capitalised on agricultural commodity markets at the expense of commercial traders and the world's consumers, is lobbying hard to prevent regulation. With banks like Goldman Sachs making over \$1 billion and Barclays making as much as \$550 million from speculation on food in one year alone, it appears their motivation to oppose reform is driven more by financial self-interest than a concern for the effective functioning of these markets.

Those who oppose clear and strict regulations to tackle excessive speculation, including the UK government, risk condemning millions of people to a future of hunger and poverty. In the US, at the G20 and through the European Commission's review of the Markets in Financial Instruments Directive (MiFID), there is a unique opportunity to put in place the regulation that is so urgently needed. Regulation of agricultural derivative markets would end the dominance of financial speculators, and make these markets work for the benefit of food producers and consumers throughout the world. Regulators must take this opportunity to act for the benefit of all. ♦

The above is extracted from the World Development Movement report Broken Markets: How Financial Market Regulation Can Help Prevent Another Global Food Crisis (September 2011) written by Murray Worthy. The full report with references is available on the World Development Movement's website www.wdm.org.uk.

Shifting havens for capital

The monetary policies adopted by the developed countries – which have resulted in a world awash with liquidity – provide fertile ground for the turn to the speculative acquisition of commodity stocks.

CP Chandrasekhar

THE US is by no means the world's most competitive or strongest economy, though the dollar remains its reserve currency. This intuitively contradictory feature in contemporary capitalism was seen as likely to sap the dollar's strength, even if there was no clear alternative to it as a reserve currency. The threat to the dollar intensified with the onset of the 2008 crisis and the US Federal Reserve's response to that crisis in the form of an injection of huge volumes of cheap liquidity into the system. With the system awash with dollars, the currency was expected to slide. The evidence too pointed to a medium-term decline of the relative value of the dollar. Countries like China with substantial exposure to dollar-denominated assets were wary of suffering large losses because of the depreciation of the dollar.

What has come as a surprise, however, is the recent sudden rise of the dollar with a parallel fall in the value of a whole host of assets varying from equity to metals and gold which had emerged as the preferred safe havens for investors.

Copper, zinc, steel, silver, platinum and gold, all of which were preferred investment targets for wealth holders and speculators, are suddenly being shunned. Silver fell by 34% in value in three days, which was its sharpest fall in 30 years, and copper fell by more than 13%. Gold recently registered its sharpest four-day fall since 1983. There seems to be nothing of substance that is worth holding, even if it is durable. The dollar is the current safe haven, though it may not remain so.

This has occurred in the current atmosphere of fear of sovereign defaults, banking crises and a return to recession. In the midst of that uncertainty, the dollar, which was expected

to weaken because of economic circumstances in the United States and was indeed drifting downwards, is suddenly gaining in strength. A host of alternative assets – oil, gold and metals among them – which were targets of a bull run previously are all of a sudden being dumped in favour of the dollar.

The turn to the dollar was particularly sharp after the Federal Reserve announced the launch of its 'Operation Twist' in late September this year, which involved selling shorter-term Treasury holdings, and buying long-term debt and mortgage-backed securities to the tune of \$400 billion. This

move is seen to have sent out two signals. The first is that the Fed was attempting to flatten the yield curve by reducing yields on long-term bonds, with the hope that it would revive housing demand and spur investment. The second was that it was moving away from its earlier practice of quantitative easing, which floods the system with dollar liabilities. These implicit objectives were ostensibly seen

as a commitment to act against the slowdown in US growth without undermining the dollar's value, encouraging a shift to the currency.

This in itself cannot fully explain the fall in the prices of alternative assets, especially gold. What is perhaps happening is that the uncertainty and downturn in equity markets is forcing some investors to sell alternative assets in order to cover losses or meet margin calls. The resulting price decline is possibly forcing those who in herd-like fashion moved into gold, metals and other commodities to book

profits or cut losses and exit from these assets. But with nowhere else to go, the shift was to cash. And what form of cash is there to hold other than the dollar, with the euro and the yen in crisis.

In the process developing countries that have been the targets of financial investors and those dependent on commodity exports have become particularly vulnerable. Their financial and commodity markets are destabilised. And their currencies, which were appreciating earlier, have experienced sharp declines. The ultimate source of such volatility is the fact that the world is awash with li-

quidity as a result of the monetary policies adopted in developed countries. The search for investment opportunities to lodge the capital released by those policies has led not just to the proliferation of 'innovative' financial instruments in the developed world, but also to cross-border financial flows to developing-country markets, to the speculative acquisition

tion of commodity stocks, and to investments in a whole range of new asset classes that can serve as stores of value.

The diversification of investment portfolios that this proliferation of assets permits was expected to ensure stability. What the world got instead is an increase in volatility. ♦



Gold and other mineral commodities have become investment targets for wealth holders and speculators.

CP Chandrasekhar is a Professor at the Centre for Economic Studies and Planning at Jawaharlal Nehru University in New Delhi. This article is reproduced from the Triple Crisis blog (triplecrisis.com/shifting-havens-for-capital, 29 September 2011).

High, volatile food prices exacerbate world hunger, says new report

A new report has warned that an enduring period of high and volatile food prices can have serious economic, social and political impacts.

Amanda Wilson

A NEW report on global hunger pinpoints factors at the heart of spikes in food prices it says are exacerbating the unfolding food crisis in the Horn of Africa.

Released ahead of World Food Day on 16 October, the report calls for action to control price volatility in the global food market and protect the world's poorest from the scourge of famine.

The *Global Hunger Index (GHI)*, released on 11 October by the International Food Policy Research Institute (IFPRI), Welthungerhilfe and Concern Worldwide, points to climate change, growing demand for biofuels, and increasing commodities futures trading in global food markets as the causes of price increases in food, which it says were also at the root of the food crisis of 2007-2008.

Price volatility refers to the relative rate at which the price for a commodity changes over time, according to the *GHI*. The report points to an enduring period of high and increasingly volatile prices for food, which it says has economic, social and political impacts.

The *GHI* report places countries on an index of hunger based on three indicators: the proportion of undernourished people, the proportion of children under five who are underweight, and the child mortality rate.

According to the report, 26 countries face hunger crises. Burundi, Eritrea, Chad and the Democratic Republic of Congo, which had a GHI score that increased 63% due to ongoing conflict, top the index with the most extreme levels.

Another major food security re-



A woman cradling her malnourished child at a hospital in Mogadishu, Somalia. The food crisis in the Horn of Africa region is being worsened by food price volatility caused, among others, by increased commodity futures trading.

port released by the United Nations in October, *The State of Food Insecurity in the World 2011*, also highlights data showing that volatile food prices are increasing hunger in the world's poorest countries and forecasts that high prices will continue into 2012.

'Somalia, Ethiopia, Djibouti, Eritrea, and Kenya are severely suffering from a number of factors that contribute to food insecurity,' said Wolfgang Jamann, secretary-general of Welthungerhilfe, during an 11 October press conference.

'This is just one side of the coin - the other side of the coin is the so-called "silent hunger" of over one billion people in the world who are suffering from acute or chronic hunger.'

Increasing food commodities futures trading, when investors bet on

future prices for food commodities, in maize, soybeans, and wheat, has increased prices for those foods, according to the *GHI*. The report points out that money invested in food commodities futures trading went from \$13 billion to \$260 billion between 2003 and 2008.

Maximo Torero, director of the Markets, Trade, and Institutions Division at IFPRI and co-author of the *GHI* report, said speculation in the food commodities market is excessive. 'In the case of wheat, you have people trading for three times the production of wheat,' Torero told Inter Press Service (IPS).

He said the problem arises when investors enter and exit the market for short-term profit without ever making a real transaction. According to Torero, only 2% of transactions are ever realised in the food futures market. The situation is one that needs more regulatory measures, he said.

Increasing and excessive food commodities speculation coincides with an ongoing boom in biofuels. As the *GHI* report points out, the United States and European Union are subsidising biofuel production as an alternative to crude oil.

This is encouraging farmers to shift their production to biofuel crops, such as maize, that never make it to the dinner table. Global biofuel subsidies reached \$20 billion in 2009, according to the *GHI*.

Torero said that when more food crops go to biofuel production in the United States, it affects the amount of crops that can be exported to other countries. This has an impact because the United States accounts for about 50% of all global corn exports.

As the *GHI* points out, an increasing link between the energy market,

which is highly volatile, and the food market is also making prices more volatile.

Furthermore, extreme weather events such as droughts and floods, which may increase due to even very small changes in the global climate, have the potential to decimate crop yields, further raising food prices. The poor are hard-hit by food price spikes and volatility, especially in low-income countries where families spend a majority of their income on food, the report stresses.

The *GHI* presents several policy recommendations to address food price volatility and increases by 'revising biofuel policies, regulating financial activity on food markets, and adapting to and mitigating climate change'. It also urges countries to improve social services and invest in 'sustainable, small-scale agriculture'.

Other voices are calling for a dramatic re-examination of global food supply chains to make them shorter and more geared toward local needs.

Olivier De Schutter, the United Nations Special Rapporteur on the Right to Food, has advocated for sustainable, small-scale agriculture under the banner of 'agroecology'.

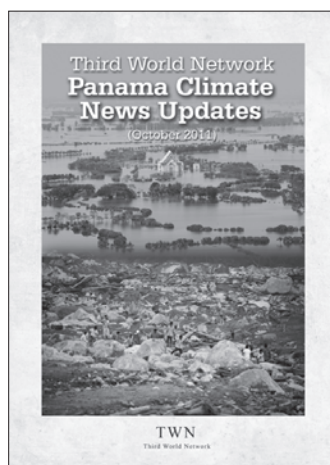
'International trade only concerns 9 to 10% of the food that is produced globally, yet it has had decisive influence on the way decisions are made on the way infrastructure develops and on how farmers are being supported,' De Schutter told IPS earlier this year. 'Governments have generally supported export-led agriculture, supported global supply chains, and under-invested in local and regional markets.'

He said he encouraged governments to reinvest in agriculture that feeds local populations. Instead, he said small farmers around the world were being ignored by public policies, migrating to cities, and eventually ending up in poverty and eating heavily-subsidised, cheap, imported food.

De Schutter told IPS, 'It's a vicious cycle in which small farmers are further impoverished because they can't compete – that's why we have one billion hungry.' – *IPS* ♦

Additional reporting by Kanya D'Almeida.

Panama Climate News Updates (October 2011)



ISBN: 978-967-5412-61-5 64 pp

This is a collection of 18 News Updates prepared by the Third World Network for and during the recent United Nations Climate Change Talks – the third part of the 14th session of the Ad Hoc Working Group on Long-term Cooperative Action under the UN Framework Convention on Climate Change (UNFCCC AWG-LCA 14), and the third part of the 16th session of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP 16) – in Panama City, Panama from 1 to 7 October 2011.

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Economists tell the G20: Regulate speculation on food prices

Over 450 prominent economists, representing institutions in over 40 countries, called on the G20 finance ministers, when they met in Paris in October, to take urgent action to rein in financial speculation in commodity markets, which they say is driving up food prices and fuelling hunger. Regrettably, the G20 failed to approve any significant measures towards this end, either at the Paris meeting or at its Cannes Summit in November. The following is the text of the economists' open letter.

Dear G20 Finance Ministers,

WE write to you ahead of the October meeting of the G20 Finance Ministers to urge you to commit with your counterparts to take effective action to curb excessive speculation on food commodities. Excessive financial speculation is contributing to increasing volatility and record high food prices, exacerbating global hunger and poverty.

While there are many pressures on food prices, fundamental changes in supply and demand cannot fully account for the dramatic price fluctuations that have occurred in recent years.

In June, a report for the G20 by international organisations including the IMF and the OECD noted that 'too much speculation can cause frequent and erratic price changes' in futures markets. Evidence suggests that financial speculators are less likely to make trading decisions based on information regarding supply and demand and are more prone to herding behaviours than commercial traders. Excessive speculation undermines the price discovery function of futures markets, driving real prices away from levels determined by supply and demand.

The High Level Panel of Experts on food security for the Committee on World Food Security at the FAO [UN Food and Agriculture Organisation] reported in July that 'tighter regulation of speculation is necessary.' The panel suggested that 'Increasing transparency, by requiring



The G20 finance ministers and central bankers who met in Paris in October (*pic*) failed to heed a call by over 450 prominent economists for effective action to curb speculation on food commodities.

exchange trading and clearing of most agricultural commodity contracts, and setting lower limits for non-commercial actors could be the first set of measures taken by the countries that house major commodity exchanges.'

Position limits

Increasing market transparency is vital, but will not go far enough to tackle excessive financial speculation. We therefore urge you to support the establishment of position limits to cap the proportion of agricultural commodity derivatives markets that can be held by financial speculators. Limits could be set at a level that would maintain sufficient liquidity in the markets while preventing an excessive concentration of purely financial actors. The US has already passed leg-

islation including provisions to introduce such limits and the G20 should act to prevent regulatory arbitrage between exchanges.

Position limits would be more effective in tackling excessive speculation than position management powers, which rely on the use of judgement by exchanges and provide little assurance that powers will be exercised effectively. Clear limits would provide regulatory certainty, promoting stable and sustainable derivatives markets to the benefit of food producers, consumers and broader economic stability.

With around 1 billion people enduring chronic hunger worldwide, action is urgently needed to curb excessive speculation and its effects on global food prices. ♦

World Bank deaf on food speculation, vocal on financial instruments

The World Bank, true to its core deregulation agenda, consistently denies the role of financial speculation in driving price volatility in food markets, say its critics.

AS agricultural markets continue to experience increasing volatility and record food prices intensify global hunger and poverty, the World Bank's approach to the crisis, which emphasises the use of commodity markets and corporate agriculture, is found wanting by those who demand food sovereignty and food security.

In May 2011 the International Financial Corporation (IFC), the Bank's private sector arm, launched its new Agriculture Price Risk Management product (APRM) in conjunction with American investment bank JP Morgan. The launch of the programme coincides with the appointment of Robert Kopech, who spent 19 years working at JP Morgan, as the Bank's new Group Chief Risk Officer. The programme was developed in relative secrecy. The project proposal was posted on the IFC's website in April without a name, and even two months after board approval the summary of proposed investment still did not include the name of the programme or JP Morgan.

According to an unreleased fact sheet, the APRM 'targets emerging market agriculture producers and intermediaries that don't have access to hedging instruments. By working with – among others – intermediaries such as cooperatives, the product will also improve access of smaller producers who might not be able to have access to price hedging products by themselves.' The Bank claims that the APRM will help boost access to credit for producers, reduce the impact of price volatility, and create greater access to affordable food through cost stability.

Indian economist Jayati Ghosh



World Bank headquarters in Washington. The Bank's approach to tackling the food crisis emphasises the use of commodity markets and corporate agriculture.

questions these claims: 'It is increasingly evident that price volatility in major commodity markets is strongly associated with financial activity in these markets, including of the major global banks. In this context, the APRM proposal is truly bizarre, amounting to public money being used to subsidise financial players that already have huge conflicts of interest in a sector characterised by massive information asymmetries. Farmers and consumers in the developing world need support in the form of minimum support prices for producers and stable prices for consumers, which can be delivered through public procurement and distribution systems. This is where the World Bank should be putting its money, not in getting poor people more involved in a complex web of financial products that they cannot control.'

In June agricultural ministers

from the G20 group of major economies met to discuss ways to tame global food price volatility, but reached only a minimal agreement on transparency. Sophia Murphy of the US-based Institute for Agriculture and Trade Policy noted that 'on some of the major agricultural issues, including biofuels, stocks and trade rules that support food security, the G20 Ministerial can only be judged a failure'. Notably, any binding decision on how to address the role of increased speculation in commodity markets and its impact on price volatility was pushed back to the G20 finance ministers' meeting in September.

A policy report for the ministers, coordinated by the UN's Food and Agriculture Organisation and the Organisation for Economic Cooperation and Development (OECD), with contributions from the Bank and the International Monetary Fund (IMF), did

accept that ‘financial markets probably acted to amplify short term price swings and could have contributed to the formation of price bubbles’. It underlined that debate still continues on the extent of this influence. While remaining broadly equivocal on speculation, the report does maintain that ‘it is clear however that well functioning derivatives markets for agricultural commodities could play a significant role in reducing or smoothing price fluctuations’.

The report includes an entire section on the potential of producers using hedging instruments to insulate themselves from price volatility. The similarity in tone and policy prescription to the IFC’s rationale for the APRM indicates that the Bank had a hand in the authorship of this section. A ‘menu’ of policy approaches for G20 ministers to consider includes: ‘intermediation of financial commodity hedges by multilateral development banks and international financial institutions; and risk-sharing the underlying credit exposure in order to expand the reach of these tools, as is planned through the IFC’s proposed Global Agricultural Price Risk Management Product’.

A paper by the head of the French development agency, which was submitted for consideration by G20 agriculture ministers, is also ambivalent on the role of commodity speculation, while advocating multilateral development bank-led hedging instruments. The report argues that ‘spikes in volatility have been recurrent throughout history, and volatility of domestic food prices has been a constant concern, and it is as necessary to devote some attention to managing volatility as it is to trying to prevent it’. It recommends that ‘the government, the G20 and donors facilitate access to microeconomic and macroeconomic hedging instruments and catalyse private sector dynamism’. Again the APRM is specifically mentioned, before the report advocates that the ‘G20 could support the initiative led by the World Bank to develop risk management instruments’.

Brewster Kneen and Cathleen



Critics say the World Bank should not get developing-country small farmers more involved in a complex web of financial products they cannot control.

Kneen, members of global network the International Planning Committee on Food Sovereignty, warn of the dangers of such an approach. ‘The farmer’s crop becomes an anonymous financial unit at the base of a wide-open trading pyramid, most of which will be speculative – the source of volatility. Volatility is the basis for the irrational wealth accumulation of well-fed speculators who are literally capitalising on the fear and actuality of starvation for millions of people. For all but the very largest corporately allied industrial farmers, entry into the futures market is a step into a world controlled by finance capital and dependency on corporate entities whose interests are not those of the subsistence or even small and medium-sized farmers, or even of the public.’

A recent article by Carlos Oya, of the University of London, explores the Bank’s approach to the global food crisis. Reviewing the Bank’s research, advocacy and policy on agriculture from the 1960s onwards, he finds that despite many contradictions and tensions between different outputs, there ‘emerges a consistent pro-liberalisation message’, despite ‘decades of neoliberal experiments in developing countries, contradictory global tendencies and the latest global food crisis’. He finds that the Bank tends to

characterise the food crisis as a ‘one-off episode’ underpinned by a set of ‘real economy’-based production and demand conditions, including the expansion of biofuel production and energy price increases.

In doing so Oya argues that the Bank consistently denies the role of ‘financial speculation in driving price volatility in food markets’. Oya finds that ‘the Bank has used its assessments of the global food crisis to enhance the marketing of what were some of its preferred products prior to the onset of the crisis, including “innovative” private insurance mechanisms to deal with price ... risks [and] the promotion of rural financial markets to smooth risks faced by farmers’. Therefore, ‘the World Bank demonstrates respect for its core deregulation agenda, while acknowledging the significance of market risk and volatility’. This means that ‘palliative and market-friendly preventative measures to deal with risk and vulnerability are likely to assume more prominent roles in the Bank’s and other donors’ work as a result of the crisis’.

*This article is reproduced from the website of the
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Weak position limits cannot tackle speculation in commodities

The US Commodity Futures Trading Commission, responsible for regulating commodity speculation, has voted to introduce position limits – rules on how much of the market one particular trader can control at any one time.

However, the 25% rule is based on the amount of physical commodities in the market, not on the amount of speculation. This means that the market will be partly reduced, although not enough to completely reduce the massive price volatility seen in recent years.

AFTER months of delay, the US commodity regulator – the Commodity Futures Trading Commission (CFTC) – finally approved new rules to limit traders' positions on 28 physical commodity futures (and swaps) contracts.

On 18 October 2011, the CFTC's decision was arrived at through a 3-2 vote along party lines, with the commission's three Democrats forming the majority against the two Republicans. The new restrictions (called position limits) on the number of contracts traders can hold are an important component of the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010) to regulate commodities trading. But their detailed workout plan and actual implementation by the CFTC got delayed largely due to strong opposition from Wall Street.

New rules

The position limits would be imposed on 19 agricultural contracts (such as CBOT Corn and ICE Futures US Cocoa), four energy contracts (such as Hub Natural Gas and NYMEX NYH Gasoline Blendstock), and five metals contracts (such as COMEX Copper and NYMEX Platinum).

As per the information made available by the CFTC, the new position limits would be implemented over a period of time in two phases. The position limits on nine agricul-

Kavaljit Singh



The US Commodity Futures Trading Commission's new position limits for commodity markets may not be effective if they come with too many exemptions and an open-ended time framework.

tural commodity contracts (including CBOT Corn and CBOT Wheat) will come into effect 60 days after the CFTC passes a separate rule which would legally define the term 'swap'. For the rest of the contracts, the limits will come into force once the one year of interest data is collected and analysed by the CFTC. One wonders why the CFTC has announced such a vague, open-ended time framework despite the fact that the US Congress has given the agency an explicit directive to impose position limits.

The position limits have been divided into two types: spot-month and non-spot-month. The spot-month po-

sition limits will be 25% of deliverable supply of commodities. However, this limit would be applied separately for physically-delivered contracts and cash-settled contracts. For non-spot-month, the position limits will be set at 10% of the open interest for the first 25,000 contracts and 2.5% thereafter. Agricultural contracts will be adjusted twice a year whereas energy and metals contracts will be adjusted on an annual basis.

Surprisingly, special exemptions have been provided under the new rules for 'hedging' operations, thereby allowing the so-called 'bona fide hedgers' to exceed the position limits. The CFTC has also given exemptions for positions that are established in 'good faith' prior to the effective date of the initial limits. It is not clarified who should be qualified for these exemptions.

Besides, the CFTC has exempted NYMEX HH Natural Gas contracts (the delivery point for the natural gas futures contract traded on the New York Mercantile Exchange) from these limits. Cash-settled position and aggregate limits will be set at five times the limits for the physical-delivery HH Natural Gas contracts.

Effectiveness

The stated policy objective behind the imposition of position limits is to curb excessive speculation and market concentration in the US commodity markets. According to Gary

Gensler, chairman of the CFTC, the new limits have been introduced to ensure that 'markets do not become too concentrated'.

Will the new rules be effective in curbing reckless speculation and market concentration? It is too early to predict the potential impact (positive or negative) of these curbs on the US commodity markets. But a narrow scope coupled with exemptions and an open-ended time framework may not yield positive results.

In the present time, no single policy tool alone could fix excessive speculation in the US commodity markets. If implemented correctly along with other regulatory measures and continuously monitored, the position limits could serve as a first step towards orderly functioning of commodity derivatives markets.

To a large extent, the effectiveness of position limits would also be dependent on the quality of the CFTC's market surveillance programme. The proposed budget cuts to the CFTC could seriously undermine its ability to effectively supervise these rules.

Resistance

In the coming days, the implementation of position limits would be strongly resisted by Wall Street and conservative think-tanks. The opponents of position limits could challenge these rules on superfluous technical or legal grounds. As pointed out by Felix Shipkevich, an expert on CFTC rules, 'the opponents may use another strategy that has worked against Dodd-Frank. The Chamber of Commerce was able to strike down one Dodd-Frank rule written by the SEC [Securities and Exchange Commission] by arguing that the agency inadequately assessed the rule's cost-benefit ratio.'

Since the US presidential and congressional elections are to be held next year, this issue would remain a major bone of contention between Democrats and Republicans. ♦

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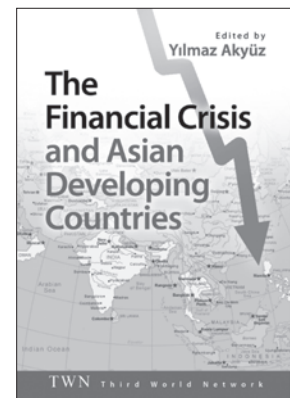
The Financial Crisis and Asian Developing Countries

Edited by *Yilmaz Akyüz*

The world was plunged into the most severe economic and financial crisis of post-war times in 2008-09, and even the most dynamic growth region, Asia, was not spared from its effects. This book examines how the developing economies of Asia were hit by the turmoil, the measures they took in response and the policy lessons to be drawn from this experience.

From its epicentre in the major advanced economies, the shockwaves of the crisis were transmitted to Asia via trade and finance. To deal with these damaging effects, most of the regional economies adopted expansionary fiscal and monetary policies, which have largely proved effective in stabilizing conditions and promoting recovery.

Whether this recovery will be sustainable, however, will depend on how the developing countries of Asia address the structural fragilities the crisis has exposed in their economies. As this book makes clear, the region's economies should seek to rebalance domestic and external sources of growth, as well as pursue strategic rather than full-blown integration with global financial markets.



ISBN: 978-967-5412-52-3 352pp
16.5 cm x 24 cm Year: 2011

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Understanding Tunisia's elections results

Tunisia, which was the vanguard of the Arab Spring, distinguished itself once more by being the first Arab country to hold free and fair elections after its revolution.

Esam Al-Amin analyses the results.

IN early 1994 a small Islamic think-tank affiliated with the University of South Florida (USF) planned an academic forum to host Rachid Ghannouchi, the leader of the main opposition party in Tunisia, Ennahdha. The objective of this annual event was to give Western academics and intellectuals a rare opportunity to engage an Islamically-oriented intellectual or political leader at a time when the political discourse was dominated by Samuel Huntington's much-hyped 'clash of civilisations' thesis. Shortly after the public announcement of the event, pro-Israeli groups and advocates led by Martin Kramer, Daniel Pipes, Steven Emerson, the head of the local B'nai B'rith, and a small-time journalist for the local right-wing newspaper began a coordinated campaign to discredit the event and scare the university.

According to Arthur Lowrie, a former State Department official who was an adjunct professor at USF at the time, the American Israel Public Affairs Committee (AIPAC) and other pro-Israel groups exerted enormous pressure on the State Department to rescind its visa to Ghannouchi two weeks after it was issued in London. Consequently the university had to cancel the event, despite strong protests by more than two dozen scholars and academics. As a result, a valuable encounter between Western intellectuals and opinion makers on the one hand, and a major figure in the Islamic world on the other, was obstructed because of a foreign agenda of a small but powerful interest group. This episode foreshadowed the anti-intellectual movement in subsequent years that sought to limit the ability of Islamic groups and figures to contribute to the national dialogue, espe-



A voter casting her ballot in Tunisia's 23 October elections. The election outcome reflected Tunisians' desire for moderate Islamists and secularists to work together for democratic governance and a just socio-economic system.

cially after 9/11.

Since that day in 1994, Ghannouchi has never been issued a visa to enter the United States, although he had been to the country several times in the late 1980s and early 1990s. At the time, he was living in the United Kingdom after being granted political asylum and cleared by the British authorities of any links to violence. He had also won a defamation lawsuit in the UK against detractors and regime loyalists who accused him of fomenting violence and strife inside Tunisia.

Landmark elections

Seventeen years later, Ghannouchi's Islamically-oriented Ennahdha movement has won the elections in Tunisia with a commanding 42% of the vote. In effect, it received three times as many seats as the next highest-placed party. These elections were largely praised by all

relevant parties and international observers as democratic, free, fair, and transparent.

But these free and fair elections could not have taken place without the popular revolution that erupted last 17 December in Sidi Bouzid following decades of repression and rampant corruption. It quickly spread throughout the country, ultimately culminating on 14 January when the long-time dictator Zine al-Abdine Ben Ali and his family fled to Saudi Arabia.

Since Tunisia's independence from France in 1956, the country has been ruled by a one-party system that imposed its autocratic version of strict secularism. But when Ben Ali took power in a bloodless coup in 1987, he treated the country to a brief period of political openness until the security apparatus cracked down on all political opposition, particularly Ennahdha and other pro-democracy and human rights groups.

So who were the major contend-

ers in these elections? What was the main platform of each party? How did each one fare in the end? What do the results mean for Tunisia? And what happens next?

Winners and losers

On 23 October, Tunisians went to the polls for the first time since their revolution to elect a Constituent National Assembly (CNA) consisting of 217 seats, including 18 representing more than one million expatriates living abroad, out of 11 million Tunisians. The main role of the CNA is to write a new constitution for Tunisia that embodies the democratic aspirations of the popular revolution.

There were about 91 party lists as well as independents distributed over 27 geographical districts around the country and six districts abroad, mainly in Europe. According to the Tunisian Independent Elections Commission, the voter turnout exceeded all estimates, as nearly 90% of all registered voters participated, with some waiting as long as four hours to cast their votes. Amidst the dozens of lists, there were actually four major contenders. But a win of 9% of the votes by a newly formed party with questionable leadership, was a major surprise to all political observers in Tunisia. Here is a list of the elections' major winners and losers.

1) Ennahdha Party was the successor to the Tunisian Islamic Trend Movement that was once affiliated with the Muslim Brotherhood in the 1960s and has been led by Ghannouchi, 70, since the mid-1970s. In 1989 it changed its name to Ennahdha or Renaissance Party and declared its commitment to democracy and pluralism. The movement considers itself a moderate Islamic party concerned with the preservation of Tunisia's identity as an Arab and Islamic nation. For much of the past decade it has called for a political model similar to the Justice and Development Party (AKP) of Prime Minister Recep Tayeb Erdogan in Turkey. More recently, it has advocated the accommodation of liberal and secular-humanist values with Islamic prin-



Supporters of Ennahdha celebrate the party's polls victory in Tunis. Ennahdha won the elections with a commanding 42% of the vote.

ciples, especially in social and economic spheres. It also favours a parliamentary system of government.

After almost gaining a fifth of the vote in the 1989 elections, the movement was banned by Ben Ali, who cracked down on its institutions, imprisoning around 30,000 of its members over the span of two decades. As the main opposition group in the past three decades, Ennahdha was well organised and known throughout the country. Its leaders were respected and admired not only in urban centres but also in rural areas. Consequently, in this election it won overwhelmingly in all districts but one, gaining 90 seats, including half the seats abroad.

2) Congress for the Republic (CFR). Established in 2001, it has been led by Moncef Marzouki, 66, a charismatic physician and human rights advocate. The CFR is considered a leftist party that emphasises Arab nationalism and identity as well as mainly secular values. Moreover, it calls for public accommodation of moderate Islamic principles and groups. It also advocates for a presidential system with strong parliamentary powers. Marzouki is well known for his fierce advocacy of human rights, democracy and transparency. The CFR came in second in voting, receiving 30 seats across the country.

3) Block (Takattol) for Labour and Liberties. Established in 1994 by

progressive and leftist activists and professionals, Takattol rejected dictatorship and advocated for socialist and nationalist policies. Its leader is Mustafa Bin Jaafar, 71, who was named Health Minister in the cabinet appointed shortly after the revolution. Although very secular in its policies, it recognises the importance of Islam in society and has a moderate and accommodationist view on the inclusion of political Islam in public life. It gained 21 seats in the elections.

4) The Progressive Democratic Party (PDP). Established in 1998, the PDP was considered the main opposition party challenging the corrupt ruling party during the reign of Ben Ali. It advocated strict secular principles and was regarded as the main ideological nemesis of Ennahdha. Its historical leader was Ahmad Nejib Chabbi, 67, a well-known attorney, and leftist politician. Since 2006 it has been led by Maya Jribi, 51, a biologist, human rights activist, and a feminist with enormous political skills. During the campaign PDP leaders challenged Ennahdha and pledged to come first. However, it was crushed in the elections, receiving only 17 seats. After the elections it conceded defeat and congratulated Ennahdha, but vowed not to join any governing coalition and to remain in the opposition.

5) Popular List (Al-Aridha Chabiyya). The electoral performance

of this list was a complete surprise to all observers. This list, which has only existed for a few months, was led by Al-Hashmi Al-Hamdi, the owner of a satellite television channel based in London and a former Ennahdha member who broke with the group in the mid-1990s. Since then he has openly attacked Ennahdha and worked closely with Ben Ali's regime. His group gained 19 seats in the elections.

Many political observers charge that this party was financed and supported by the remnants of the old regime and Ben Ali's banned Constitutional Party. After announcing the results, the Elections Commission invalidated the seats of the Popular List in six districts, charging the party with elections violations, including bribery.

The remaining seats were distributed among 20 other parties including tribal, liberal, communist, and other far-left parties. But most significantly the main loser was the coalition of 11 rigidly anti-Islamic secular parties and former communists under the Democratic Modernist Pole (DMP). Throughout the country the DMP could not garner more than five seats.

Unambiguous message

The huge win by Ennahdha, followed by the CFR, represents a total break from the parties and political movements of the corrupt and repressive era of Ben Ali. The collective will of the Tunisian people as embodied by the results of this election was to empower the main groups that associated strongly with moderate Islamic principles and Arab-Islamic identity.

By choosing moderate political groups that were not corrupt or part of the old archaic political structure, the Tunisian people sent an unambiguous message that they want moderate Islamists and secularists to work together in establishing democratic governance and building a just socio-economic system, while preserving hard-won freedoms and liberties, as well as respecting human rights and the Arab-Islamic identity of Tunisia.

Upon winning the elections in convincing fashion, Ennahdha gave



Ennahdha leader Rachid Ghannouchi. Ennahdha considers itself a moderate Islamic party concerned with the preservation of Tunisia's identity as an Arab and Islamic nation.

assurances that it will not impose Islamic social and moral edicts on society, but rather intends to preserve the legal rights given to women with regard to personal status law. It also announced that it would not ban alcohol or bathing suits as its opponents had charged. The day after announcing the elections results Ghannouchi himself met with the leaders of Tunisia's stock market to assure them of his party's strong support for vigorous economic growth, especially in the tourism sector. His party's platform calls for a robust annual economic growth of 8%.

Ennahdha announced that its Secretary General Hamadi Jebali, 62, a former journalist and engineer by training, would be its candidate for prime minister. He pledged to form a national unity government within a month that will include as many of the elected parties as possible. At a minimum, the three major winners with a commanding majority of 141 seats have pledged to work together for the future of Tunisia. Furthermore, in a spirit of reconciliation Jebali announced that Ennahdha's candidate for interim president would be either Marzouki of the CFR or Bin Jaafar of Takattol.

But the major challenges facing the next government are three-fold. Ennahdha should form not just a unity government, but an effective government that will be able to deliver to the man and woman in the street physi-

cal and economic security as well as public services at a moment of tremendous political turmoil and social change. Luckily for the new government the economic challenge was softened in the week after the elections when Qatar – as a state that has been at the forefront of supporting the Arab Spring – pledged an immediate economic assistance package of \$500 million.

Simultaneously, the elected Assembly must write the new constitution for Tunisia's second republic within one year. Although the will of the Tunisian people was determined in this election as favouring a moderate Islamic movement and other moderate secular parties, translating this into a constitution that will yield a national consensus is a major undertaking.

But perhaps the major immediate challenge facing the new government will be the reaction of the foreign powers, especially in the West, that for decades have been warning against the days when 'Islamists' will be empowered.

The memory of the siege and boycott of Hamas following its victory in the Palestinian elections in 2006 is still very vivid. So far, the US administration and its European allies have had a wait-and-see attitude, despite the noise coming from neo-conservative, Zionist, and right-wing circles. In a span of two weeks, Israeli leaders Bibi Netanyahu, Ehud Barak, Shimon Peres, and Tzipi Livni were warning the West against the upcoming 'radical Islamic groups' taking charge throughout the Middle East and threatening Israel and Western interests.

The same old Islamophobic voices that raised false alarms echoing Israeli-hyped fears some 20 years ago and poisoned the atmosphere between the West and moderate Islamic groups, are at it again. The real question now is: Have Western political leaders learned anything during this time or are we about to initiate a predictable sequel to the clash of civilisations? ♦

Esam Al-Amin can be reached at alamin1919@gmail.com. This article is reproduced from the CounterPunch website (www.counterpunch.org).

Afghanistan: Ten years of tragedy and misguided policy

Writing on the occasion of the 10th anniversary of the US invasion, *Ramzy Baroud* says the invasion and destruction of Afghanistan was a morally repugnant and self-contradictory response to terrorism.

ON 1 July 2002, US planes bombed an Afghan wedding in the small village of Deh Rawud.

Located to the north of Kandahar, the village seemed fortified by the region's many mountains. For a few hours its people thought they were safe from a war they had never invited. They celebrated and, as customs go, fired intermittently into the air.

However, the joyous occasion turned into an orgy of blood that will define the collective memory of Deh Rawud for generations. It was reported that the US air force used a B-52 bomber and an AC-130 gunship in a battle against imagined terrorists. According to Afghan authorities, 40 people were killed and 100 wounded. Of course the US military refused to apologise.

The bombing of Deh Rawud was a microcosm of the war – and equally lethal occupation – that followed.

While al-Qaida was not an imagined enemy, the invasion and destruction of Afghanistan was a morally repugnant and self-contradictory response to terrorism.

The war remains repulsive 10 years after the US began attacking the poorest country on earth. This latest crime against humanity in Afghanistan is a continuation of a trend that has spanned decades.

Unfortunate Afghanistan was designated a pawn in a great game between powerful contenders vying for strategic control and easy access to natural resources. Throughout history Afghanistan has been brutalised simply because of its geographical location.

The people of Afghanistan should not expect an apology for the war either. 'The US invaded Afghanistan to crush an al-Qaida base of operations



US soldiers in Afghanistan. 'The war [in Afghanistan] remains repulsive 10 years after the US began attacking the poorest country on earth.'

whose leader Osama bin Laden oversaw the September 11 terror attacks – and to make sure Afghanistan would not be a haven for Islamic terrorists to plot against the West,' wrote Carmen Gentile and Jim Michaels in *USA Today*. Such justification has permeated mainstream media like a mantra.

Malalai Joya, a former Afghan MP and human rights activist, dared to challenge this dubious rationale.

In a video message recorded on the 10th anniversary of the war and occupation of Afghanistan she said: 'Ten years ago the US and Nato invaded my country under the fake banners of women's rights, human rights, and democracy. But after a decade Afghanistan still remains the most uncivil, most corrupt, and most war-torn country in the world. The consequences of the so-called war on terror have only been more bloodshed, crimes, barbarism, human rights and women's rights violations, which have doubled the miseries and sor-

rows of our people.'

Army commanders and neo-conservative think-tanks are frantically

**After a decade
Afghanistan still
remains the most
uncivil, most corrupt,
and most war-torn
country in the world.**

trying to find reasons for celebration. Neither has been able to accept moral responsibility for the crimes committed in Afghanistan under their command.

Marine General John Allen for example still sees 'real gains, particularly in the south', as a result of counterinsurgency efforts which he supposedly mastered in Iraq. 'Insurgencies are effective when they have ac-

cess to the population,' he said. 'When they are excluded from the population, then insurgencies have a very hard time.'

A strange assessment, considering the fact that the Taliban are not alien bodies from outer space and, worse, seem to still be effectively controlling the country.

When the Paris-based research group the International Council on Security and Development (ICOS) claimed that the Taliban controlled 72% of Afghanistan, Nato commanders dismissed the allegation as simply untrue.

'The Taliban are now dictating terms in Afghanistan, both politically and militarily,' said ICOS director of policy Paul Burton. 'There is a real danger the Taliban will simply overrun Afghanistan.'

Concurrently there are those who argue that this was in the past, and since then US President Barack Obama has approved a surge of more than 30,000 troops with the very aim of pushing the Taliban back. Such a



A 6-year-old Afghan girl recovers in a hospital in Herat after being wounded in a coalition airstrike. 'The result of the surge of troops of Obama's administration is more massacres, more crimes, violence, destruction, pain and tragedy.'

move would allow state-building efforts to commence, thus preparing Afghanistan for the withdrawal of foreign troops in December 2014.

Such claims are backed by the latest Department of Defence biannual report to the US Congress on Afghanistan. The surge has produced 'tangible security progress', claimed the report, and the 'coalition's efforts have wrested major safe havens from the insurgents' control, disrupted their leadership networks and removed many of the weapons caches and tactical supplies they left behind at the end of the previous fighting season'.

But reality on the ground tells a different story. According to Al-Jazeera, the Taliban are in control of the vast majority of the country's provinces.

Their near-complete control of the east and south and constant encroachment elsewhere are only cemented by the regular news of their highly coordinated targeting of Afghan officials and foreign forces, even in the heart of Kabul.

The Taliban's

behaviour hardly suggests that it's a militant movement on the retreat but rather a shadow government in waiting. In fact 'shadow governors' is the term being used to refer to Taliban officials administering much of the country.

'Recent events strongly suggest that the US and its Nato allies are losing the war in Afghanistan to the Taliban. Top collaborator officials are knocked off at the drop of a Taliban turban,' wrote US professor

James Petras.

As for the claim that Afghans are better off as a result of the US military invasion, the numbers tell a different story. Sadly, few kept count of Afghan casualties in the first five years of the war.

According to modest UN estimates, 11,221 civilians have been killed since 2006, 1,462 of them in the first six months of this year.

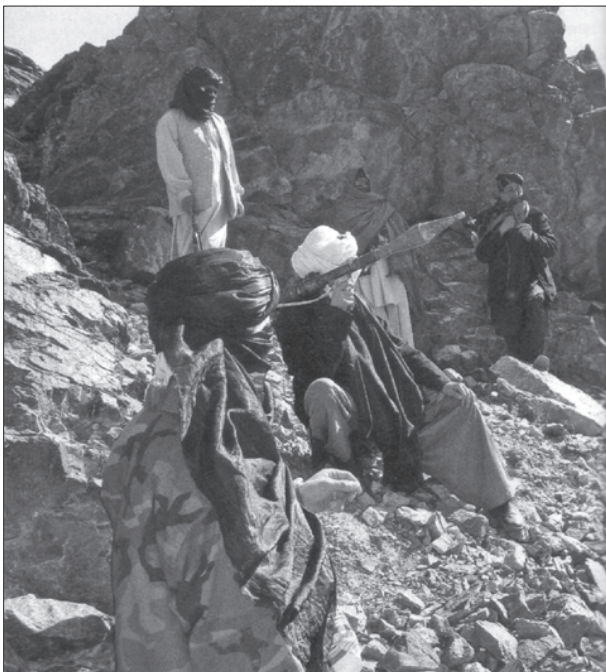
Three photographs were published by the German news organisation Der Spiegel last March. They were of US soldiers – known as the Kill Team – posing with mutilated Afghan civilians from Kandahar last year. They were horrifying to say the least, and scarcely have the impression of any kind of tangible progress.

'It was during Obama's administration that civilian death tolls increased by 24%,' said Malalai Joya. 'And the result of the surge of troops of Obama's administration is more massacres, more crimes, violence, destruction, pain, and tragedy.'

And yet, there is no apology. It is almost as though the sons and daughters of Afghanistan are mere numbers, dispensable and extraneous.

Ten years after the war on Afghanistan we stand in solidarity with the war's victims – with Malalai Joya and her ever-proud people. ♦

Ramzy Baroud is editor of PalestineChronicle.com, from which this article is reproduced. His latest book, My Father Was a Freedom Fighter: Gaza's Untold Story (Pluto Press), is available on Amazon.com.



Taliban fighters in Ghazni province, Afghanistan. 'Recent events strongly suggest that the US and its Nato allies are losing the war in Afghanistan to the Taliban.'

Afghanistan's energy war

The US is pursuing a little-noticed energy agenda in Afghanistan which will not only deny much-needed economic benefits to its people but may well undermine its security and independence.

**Shukria Dellawar and
Antonia Juhasz**

Suspect intentions

VIOLENCE escalated daily in Afghanistan with the approach of the 10-year anniversary of the US invasion on 7 October. At the same time, a little-noted energy agenda is moving rapidly forward that may not only deny Afghans the much-needed economic benefits their energy resources could provide, but also exacerbate insecurity and instability, ensuring a prolonged US and foreign military presence. It is an agenda remarkably similar to one well underway in Iraq.

Eight years of war in Iraq succeeded in transforming the country's oil industry from a nationalised model, largely closed to American oil companies, into an all-but-privatised industry open to foreign oil companies. ExxonMobil and BP, among other companies, are today producing oil in Iraq for the first time in over 30 years under some of the most corporate-friendly terms in the world. However, opposition from Kurdish leaders, Iraqi unions, civil society organisations, and some parliamentarians – who worry that the terms would grant undue benefit to foreign companies, to the detriment of Iraq's economic stability and security – has kept the Iraq Oil and Gas Law, written to lock in this access, from passage.

But while the effort to transform Iraq's oil sector has played out on a fairly public international stage, no such attention has been focused on Afghanistan. Compared to Iraq, Afghanistan's populace remains poorly educated, its civil society and public sector workforce underdeveloped, and its government not only weak and challenged by corruption, but also lacking in both energy sector expertise and infrastructure. Under such circumstances, a radical redesign of the nation's energy development model cannot take place in a manner that ensures fairness, equity, sustainability, or safety.

Afghanistan's known hydrocarbons are primarily located in the north. Its approximately 1.6 billion barrels of crude oil and 15.7 billion cubic feet of natural gas are minor in comparison to the resources of its neighbours (Iraq's oil reserves are estimated at 115 billion barrels), but are comparable to those in nations such as Chad and Equatorial Guinea – and may be considerably larger, as there has been no significant exploration in decades.

Unknown to most Afghans, in January 2009 the government implemented a new Hydrocarbon Law that transforms its oil and natural gas sectors from fully state-owned to all but fully privatised. In April 2011, the Afghanistan Ministry of Mines launched the first of what it expects to be 'several tenders for Afghanistan's oil and gas resources over the next few years'.

As in Iraq, the contracts include production-sharing agreements. These agreements are the oil industry's preferred model, but are roundly rejected by all the top oil-producing countries in the Middle East because they grant extremely long-term contracts (45 years or more, including the exploration phase, under Afghanistan's law) and greater control, ownership, and profits to the companies than other models. They are used for only approximately 12% of the world's oil. The Afghanistan contracts, moreover, would not require foreign companies to invest earnings in the Afghan economy, partner with Afghan companies, or share new technologies.

The Kabul-based nonprofit watchdog, Integrity Watch Afghanistan, found the Ministry of Mines severely lacking in the capacity to implement sound oversight, including to

protect impacted communities and the environment, and found that this, 'combined with reported endemic corruption in Afghanistan', means that the Afghan government will not be able to ensure the good management of these resources.

The Norwegian government recently concluded an analysis of Afghanistan's hydrocarbons, finding that 'most Afghans express a high level of suspicion about the motives and intentions of neighbouring countries and, increasingly, also of the international community'. Further, '[M]any Afghans point out the risk of a lack of political willingness to ensure that such benefits [from hydrocarbon development] will have a fair distribution.'

Pipeline politics

Afghanistan is not only an energy producer, it is also a potential 'energy conveyer'. And negotiations for the creation of a Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline are progressing at a rapid rate. In September, Afghanistan Minister of Mines Wahidullah Shahrani reported, 'The implementation of the TAPI project will begin in 2012 and will be completed in 2014.'

The pipeline would carry natural gas from Turkmenistan through Afghanistan and Pakistan to India. It has been an objective of United States and Western energy companies (and their governments) that have invested in the land-locked but energy-rich countries of the Caspian region since the mid-1990s, when companies including California-based Unocal began negotiating with the Taliban. Sanctions imposed on Afghanistan in 1998 made it impossible for US companies to do business there, so negotiations stalled until 2001, when sanctions were lifted.

The Bush administration made completion of the TAPI a core part of

its Afghanistan war strategy. As then-US Assistant Secretary of State Richard Boucher said in 2007: 'One of our goals is to stabilise Afghanistan, so it can become a conduit and a hub between South and Central Asia so that energy can flow to the south.'

This March, US Assistant Secretary of State Robert Blake, Jr. reiterated the importance of the TAPI before a Congressional committee, and in July Secretary of State Hillary Clinton urged completion of the TAPI while in India.

In April, upon the Afghanistan Parliament's approval of a TAPI gas pricing agreement, parliamentarian Mohammad Anwar Akbari said that 'we will have support of a US company' for its construction. In the past year, Minister of Mines Shahrani has been pushing the benefits of both the pipeline and natural resource development in Afghanistan to private companies in London and New York.

The price for entry

The primary obstacle to construction of the pipeline and to foreign oil companies actively seeking oil production contracts is, and always has been, security. In response, Minister Shahrani announced plans for a 7,000-person Afghan 'pipeline security force'. Yet across Afghanistan there is enormous scepticism about the present capacity of the Afghan National Army and Police, who are considered no match for the Taliban or local warlords.

Yet, if the pipeline is constructed and US companies begin producing in Afghanistan, its importance to the West will only intensify, as will the desire to keep Afghanistan 'open for business'. If Afghanistan does not have the internal capacity to provide this 'openness' itself, the United States and other foreign governments may feel forced to do so on its behalf – utilising their own troops.

The focus on Afghanistan's entry into the 'Great Game' of energy politics must not be only on generating profits or for the interests of external actors, but also on the long-term stability, independence, and strength of Afghanistan. Otherwise, the price for entry may be far higher than Afghans – and Americans wish to pay. ♦

Antonia Juhasz is an oil industry analyst and author of The Tyranny of Oil: The World's Most Powerful Industry – and What We Must Do to Stop It. She is an Associate Fellow with the Washington, DC-based Institute for Policy Studies and a National Advisory Committee member of Iraq Veterans Against the War.

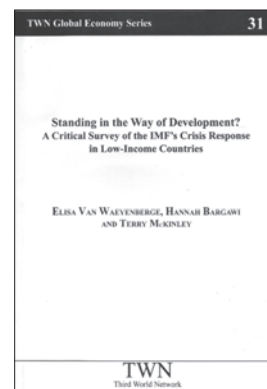
Shukria Dellawar, an Afghan American, is an independent researcher and Afghanistan security specialist. Both women were in Afghanistan in August as part of a fact-finding mission. This article is reproduced from the Foreign Policy in Focus website (www.fpf.org) under a Creative Commons licence.

Standing in the Way of Development? A Critical Survey of the IMF's Crisis Response in Low-income Countries

By Elisa Van Waeyenberge, Hannah Bargawi and Terry McKinley

The International Monetary Fund (IMF), which has been criticised for the rigid economic policy conditionalities attached to its lending programmes, says it now provides borrower states greater flexibility to adopt expansionary policies. *Standing in the Way of Development?* assesses this claim in the context of the IMF's central role in dealing with the effects of the global financial crisis in low-income countries (LICs).

This paper evaluates the general macroeconomic policy scheme promoted by the Fund and closely examines the nature of its engagement during the crisis in a representative sample of 13 LICs. The authors find that, despite some relaxation of policy restraints, the IMF essentially remains wedded to its longstanding prioritisation of price stability and low fiscal deficits over other macroeconomic goals.



Global Economy series no. 31
ISBN: 978-967-5412-60-8 96pp

Such a policy stance, it is argued, could undermine not only LICs' prospects for a quick recovery from the crisis but also their longer-term development outlook. In light of this, this paper outlines the broad contours of an alternative macroeconomic policy framework geared towards supporting long-run equitable growth and poverty reduction.

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Bolivia's controversial highway cancelled, but deeper conflicts remain

Although President Evo Morales has finally bowed to pressure from indigenous people to cancel a controversial road which would have cut through their homeland in Amazonian Bolivia, some festering problems regarding the direction of the country's development have still to be addressed.

IN a stunning political reversal, Bolivian President Evo Morales signed a new law in October prohibiting construction of the highway previously championed by his government through the TIPNIS national park and indigenous territory. The event marked a historic victory for lowland indigenous groups who marched 360 miles from Beni to La Paz to protest the road, and brought the highway dispute to an official conclusion. But the fractures in Morales' political base and the divisions among Bolivia's social movements triggered (or exacerbated) by the TIPNIS conflict will be more difficult to resolve.

In addition to permanently cancelling the TIPNIS highway, the law prohibits illegal settlements by non-resident groups inside the park and protects the indigenous territory as an 'untouchable' zone. Only two months ago, Morales insisted that the highway was essential to promote regional integration and would be built 'like it or not'.

In just 48 hours, Morales also directly resolved 16 other demands raised by the marchers, including a pledge to compensate and remediate environmental damage caused by extractive activities in the Aguaragüe National Park in Tarija. During the march, the protesters were perceived as demanding a halt to all hydrocarbons extraction in the park, which

Emily Achtenberg

loomed large, evoking memories of the widely repudiated police repression of the march last September.



Bolivian President Evo Morales at a press conference called a day after the arrival in La Paz of marchers protesting a planned highway that would pass through indigenous territory. Morales has since scrapped the project.

Political pressure

While Morales characterised his reversal as an example of enlightened '*gobernar obedeciendo*' (governing by obeying the people) – similar to his retraction of last winter's unpopular gasoline price hike – critics see the President as being forced by political pressure to promulgate a law he does not genuinely support. Indeed, Morales used the occasion of the signing ceremony to remind indigenous marchers that 200 *campesino*,

civic, business, and indigenous organisations in Beni and Cochabamba are in favour of the TIPNIS road. He urged the marchers to assume responsibility for explaining the new law to these sectors, and to shield him from blame for changing his mind.

The TIPNIS conflict has taken a high political toll on the MAS government leadership. In addition to the disappointing judicial election results, the government has lost two important cabinet ministers and at least three vice-ministers or high-level directors who either resigned under protest or were fired. The cabinet's credibility has been effectively undermined: by its own count, the government sent a total of 11 ministers and 17 high-level commissions to negotiate with the

generates 90% of Bolivia's gas exports – a stance that infuriated Morales, and provided a major impetus for the Yucumo blockade against the marchers by pro-government *campesino* (peasant) 'colonists'.

Morales' surprise 21 October announcement cancelling the road came just two days after the indigenous march arrived in La Paz to a tumultuous welcome, and less than a week after 43% of Bolivian voters invalidated their ballots in a popular judicial election widely viewed as a referendum on the MAS (Movement Towards Socialism) government. With indigenous protesters camped out in front of the government palace, the potential for violent confrontation



The lowlands indigenous groups had set off on their protest march against the TIPNIS highway in August.

protesters during the march, but they were unable to deliver results. Both the marchers and social sectors supporting the TIPNIS road accuse the ministers of obstructing a resolution to the conflict.

Morales himself suffered a major decline in approval ratings to 37%, following the police intervention in September (in a largely urban poll, which likely understated his traditional rural support). The political impact of his reversal on the TIPNIS road remains to be seen, but there are many factors to consider.

On the one hand, the road cancellation represents an acknowledgement by Morales that the lowlands indigenous groups, despite constituting only a fraction of Bolivia's population, have disproportionate moral and political force through their effective ability to mobilise and cannot be readily dismissed. As Chief of Staff Carlos Romero recently put it, 'We can't conceive of the Plurinational State we are building without the lowlands indigenous people. The people who marched are the expression of our cultural diversity.'

But lowlands indigenous leaders who were repeatedly attacked by Morales during the march (and beaten by police) remain sceptical, and are keeping their critical distance from the government. 'We'll continue giving them headaches until 2015 if they

don't recognise our rights,' says Adolfo Chávez of CIDOB, the lowlands indigenous federation that co-sponsored the march.

On the other hand, Morales' reversal on the TIPNIS road has provoked outrage among *campesino*, *cocalero* (coca farmer), and colonist groups that have been the traditional bastions of MAS support. These sectors, who view the road as critical for transportation of their products and expansion of commercial opportunities, now feel betrayed by Morales – even though the government has promised to identify an alternative route to connect the two road segments on either side of the TIPNIS park that are already under construction. The groups have conducted vigils and are mobilising to plan next steps.

Deeper dispute

The TIPNIS conflict has effectively ruptured the 'Unity Pact', an alliance of Bolivia's five major social movements (*campesinos*, colonists, peasant women, and highland and lowland indigenous federations) that historically has been the main force behind the Morales government and Bolivia's 'process of change'. In addition to CIDOB, the highland indigenous organisation CONAMAQ supported the TIPNIS marchers in the

road dispute, while the other groups supported the government.

Underlying this conflict is a deeper dispute about the direction of development in Bolivia. Should it continue to rely on extractive activity and infrastructure expansion, to maximise economic growth and revenues for desperately needed social programmes, or emphasise slower growth alternatives that protect the environment and indigenous rights?

How much land should be redistributed to indigenous communities as territorial holdings, and how much allocated to small agricultural producers seeking new frontiers?

The Unity Pact's *campesino*- and indigenous-identified members have long held contrasting views on these issues, along with different cosmovisions, lifestyles, and forms of social and political organisation. But these differences were submerged for a time through a common identification of all sectors (more or less) with the MAS government and Evo Morales. The TIPNIS conflict, pitting highland *campesinos* and colonists against lowlands indigenous sectors, and symbolised most graphically by the Yucumo blockade, brought these divisions to the fore and exacerbated them in dramatic fashion.

How these social forces will reconfigure in the coming months and years, and what their relationship will be to Morales and the MAS government, depends a great deal on the government's ability to articulate a new development agenda for Bolivia that addresses these conflicting concerns. In his 12 October speech to MAS loyalists mobilised for the judicial elections, Morales called for a convocation in December to begin this task. Judging from the current volatile state of political affairs, it can't happen a moment too soon. ♦

Emily Achtenberg is an urban planner and a former Research Associate with the North American Congress on Latin America (NACLA) with a focus on Latin American social movements and progressive governments, especially Bolivia. She has published recently in NACLA News, Upside Down World, Bolivia Rising and Progressive Planning magazine. This article is reproduced from her Rebel Currents blog on the NACLA website (nacla.org/blog/rebel-currents).

Argentine navy captain 'Angel Face' Astiz sentenced to life imprisonment

During the 1960s and 1970s, military dictatorships backed by the US surged over Latin America. Although these regimes committed unspeakable atrocities against their people (a 'dirty war' which received covert US support), those responsible could not be brought to justice with the return of civilian rule because of amnesty laws. In recent years, many Latin American governments (reports below relate to Argentina and Uruguay) have moved to lift such immunity and bring the culprits to book.

TWO notorious former Argentine navy officers Alfredo Astiz and 'Tigre' Acosta were sentenced to life in prison on 26 October after being found guilty of kidnapping, torture and the forced disappearances of many detainees in the former Navy School of Mechanics (ESMA) during the last dictatorship (1976-1983).

As the sentence was read in the courtroom the crowd waiting outside celebrated and cheered, which almost caused it to be suspended.

Astiz, who was also known as the baby-faced 'angel of death', acted under the false identity of Gustavo Niño, infiltrated the activities of the Mothers of the Plaza de Mayo human rights group in 1977 and 'marked' his victims, who were later tortured at ESMA and thrown alive into the sea from helicopters.

Among them were the founder of the Mothers of the Plaza de Mayo Azucena Villaflor and two French nuns Leónie Duquet and Alice Domon.

Other oppressors such as Antonio Pernías, Oscar Montes and Raúl Scheller were also sentenced to life in prison.

On the day of the sentencing, a long line of people was seen outside the Buenos Aires courtroom, as many of them wanted to hear the reading live. Relatives of the accused were



Alfredo Astiz at his trial in Buenos Aires. The former navy officer was sentenced to life imprisonment for human rights abuses committed during the 1976-83 dictatorship.

seen standing in line next to family members of those who had disappeared.

Earlier, in the morning, three of the accused were given the chance to provide the court with their last statements before the reading.

Captain Astiz was also involved in the Falklands conflict in 1982 and signed the surrender of the South Georgia garrison to the advancing British Task Force that finally recovered the Islands in June. He was flown as a prisoner to the UK, but later returned before France requested his extradition on the case of the killing of the two nuns.

The Argentine media has always pointed out that in spite of his defence arguments that as a naval officer he was 'trained to kill', he surrendered in South Georgia 'without firing a single shot'.

Astiz was born in November 1951 in Mar del Plata and following the 1976 coup was commissioned to ESMA in the north of Buenos Aires city where the main clandestine jail of the de facto government operated.

He belonged to Task Force 332 and was responsible for innumerable kidnappings of victims who ended up at ESMA, many of them to never return. Argentine human rights organisations estimate 5,000 people were detained at ESMA but

only 100 survived to tell what went on in those dungeons.

In 1986/87 Astiz was benefited with a general amnesty bill but in 1990 a French court sentenced him to life in absentia for the killing of the two nuns, Domon and Duquet. Seven years later the Spanish judge Baltasar Garzon ordered his arrest and extradition together with 44 other Argentine officers charged with genocide.

In 1998 he was given a dishonourable discharge from the Navy, to which he was said to be so proud to belong. He was interviewed several times and admitted admiring the Argentine-Cuban guerrilla Che Guevara but was not at all repentant of having fought the 'anti-Argentine Marxist terrorists'.

But 2003 marked the beginning of the end when the Argentine Congress annulled the amnesty bill, and torture and human rights abuse cases

involving military officers, including Astiz, were reopened.

In early 2004 Astiz was sent to a military jail and two years later investigations into his involvement in the shooting and disappearance of the

Swedish teenager Dagmar Hagelin were reopened. In 2007 an Italian court also condemned him to life imprisonment in absentia and he was transferred to a common jail to await the ESMA trial. – *MercoPress* ♦

Uruguay passes bill eliminating amnesty for crimes against humanity

THE Uruguayan Congress on 27 October passed a law that eliminates the effects of the 1986 Amnesty Law (also known as Expiry Law), which protected police and military personnel from being prosecuted for human rights violations, and repeals a statute of limitations that would have prevented victims from filing criminal complaints as of 1 November.

‘With the approval of this new law, Uruguay’s Congress has taken an historical step forward in the fight against impunity for past crimes,’ said Guadalupe Marengo, Deputy Director of the Americas Programme at Amnesty International.

The 1986 Ley de Caducidad de la Pretensión Punitiva del Estado (Amnesty Law or Expiry Law) was passed after Uruguay returned to democratic rule, giving the President the final say over which cases of human rights violations could be investigated.

The measure shielded police and military personnel from prosecution for torture, killings, enforced disappearances and other serious human rights violations committed during an 11-year period of authoritarian rule up to 1985.

The bill was a match to the amnesty law which benefited all the urban guerrillas in jail or on the loose for blood crimes committed from 1964 onwards, basically taking arms and appealing to violence to bring down democratically elected governments.

This as such has been repeatedly confessed publicly in Uruguay and overseas by the current President Jose Mujica, a former urban guerrilla leader who spent over a decade in jail and in the 2009 presidential polls was

elected as the candidate of the left-leaning catch-all coalition, Broad Front, which includes political organisations of former guerrilla groups.

‘We were not terrorists, we were an armed political party wanting to overthrow the government,’ Mujica has confessed.

Military rule

The military took over in Uruguay in June 1973 following the collapse of the political system dwarfed by a weak political coalition, rebellious unions and urban guerrillas who concentrated their firepower on military officers to force the reaction of the armed forces: ‘the worst, the best’ was the motto of the Latin American guerrillas in the 1960s and 1970s, who believed they could then organise uprisings against dictatorships.

In 1973 as the Uruguayan ruling coalition rapidly eroded several political groups, leaders from the left-wing parties and respected left-wing publications hailed the military when they showed a nationalist vein promising to end corruption and a quick return to democracy, insinuating that the 1971 presidential elections had been rigged.

Speculating that fresh elections would be called, many political groups supported the coup with their silence and inactivity. However the following day the military were after the alleged ‘left-wing’ supporters; they were to stay in office until 1984.

In a few months the military rapidly eliminated the remnants of the urban guerrilla movement called Tupamaros and caught most leaders of the communist and other radical organisations, whom they considered

enemies of the ‘fatherland’. Most of them were tortured, jailed and in some cases made to disappear.

In the early 1980s when the tide was turning for military regimes in South America, representatives from Uruguayan political parties began negotiations with the Army for a return to democracy. Following two years of negotiations an understanding was reached which included a matching amnesty for guerrillas and supporters and military and police officers allegedly involved in human rights abuses.

The participants in the negotiations included representatives from the left-leaning Broad Front coalition currently in office, and as agreed the first bill to be approved by the new Congress (March 1985) was an amnesty for all urban guerrillas and supporters, even those involved in blood crimes.

However there was resistance to extending the same benefits to the military and police forces and it was only reached after much negotiations in 1986, with the name of Ley de Caducidad de la Pretensión Punitiva del Estado.

The 1986 Amnesty Law was ratified in two referendums in 1989 and 2009. An attempt to annul its effects was narrowly defeated in Congress in May 2011.

That month the Uruguayan Supreme Court concluded that two former military officials could not be charged with enforced disappearances because the crime was not incorporated into domestic law until 2006 and there could be no retroactive application. They were instead convicted of ‘aggravated murder’, an ordinary criminal offence.

Treating human rights violations committed during the military government as ordinary criminal offences rather than crimes against humanity meant that the cases were subject to a statute of limitations, which would have expired on 1 November. The new law removes this limitation.

The bill passed both houses of Congress with minimal vote difference, with the support of the ruling coalition. – *MercoPress* ♦

Women reject normalisation of gender violence

Human rights abuses and violence against women are widespread in Mexico, perpetrated by all actors in society, including the military and police.

NINETY per cent of the non-governmental organisations in Mexico are founded and run by women, says journalist and women's rights activist Lydia Cacho Ribeiro, even as crimes against women remain cloaked in impunity.

Cacho was recently in New York, where she was awarded the Civil Courage award from the Train Foundation, and also spoke at a special event hosted by Columbia University.

When Felipe Calderón became president in 2006, he deployed the Mexican military in a federal offensive against drug cartels and criminal groups, resulting in a virtual war in which more than 40,000 people have died. In 2010 alone, the death toll exceeded 15,000, according to Reporters Without Borders.

Human rights abuses and violence against women are widespread in Mexico, perpetrated by all actors in society, including the military and police.

Nine out of 10 women in Mexico who suffer human rights violations do not report it to the authorities, and 'those who (do) report them are generally met with suspicion, apathy and disrespect', according to Human Rights Watch's latest country report.

'The normalisation of gender violence is increasing incredibly,' Cacho said.

Even though some legal measures have been put in place to prevent and punish gender-based violence, the implementation has been very limited

Melanie Haider



Mexican journalist and women's rights activist Lydia Cacho Ribeiro has actively campaigned against gender violence and sex trafficking.

and impunity remains the norm for murder or other crimes against women, according to human rights groups.

However, Cacho stressed that there is a growing feminist movement in Mexico to empower women and to discuss gender violence, including that perpetrated by the military.

'The problem right now in Mexico, regarding this discussion, is that the Mexican government is so obsessed with the media, with the main media that is pretty much linked with war discourse, that everything has to do with the war against drugs. And they won't talk about human rights (even) if we want to take back the conversation about gender violence,' she said.

The issue is especially difficult since many of the same people responsible for public safety are also

responsible for human rights violations.

Cacho said the military is involved in abuses such as human trafficking, and police occasionally attack women's shelters, either because they have a personal connection to a woman in the shelter or because they want to protect the traffickers.

Ten years ago, she founded such a shelter for women and their children who are fleeing various kinds of gender violence, called the Women's Assistance Centre (Centro Integral de Atención a la Mujer) in Cancún. It started mainly as a refuge for victims of domestic violence, but it soon became clear that most of the women had

been involved in trafficking, especially forced prostitution.

The centre now has high security, with a barbed wire fence and cameras everywhere to keep the women safe.

Cacho recounted how the shelter was attacked by police who came to retrieve the wife of a policeman, whom she had helped to flee an abusive situation. The police didn't get inside, and the attack was caught on film, but when Cacho sought accountability and showed the tape to the district attorney, she said he told her 'that there isn't much we can do, (and) the best thing you can do is just to close down'.

Perseverance in the face of death threats

In the last decade, 80 journalists have been killed in Mexico, accord-

ing to Reporters Without Borders, and many journalists and human rights defenders have been forced to flee the country or censor themselves.

Cacho chose to do neither. She has investigated gender violence and sex trafficking and published numerous stories and books on the subject. Her 2005 book *The Demons of Eden* exposed an international child pornography and sex trafficking ring in Cancún which involved senators and politicians.

She was thrown in jail and tortured for publishing that book. When she finally came out and started talking, the government tried to label her a terrorist, but without success. She travelled for six years to investigate the world of international sex trafficking of women, resulting in her latest book *The Slaves of Power* in

2010.

Together with non-governmental organisations and a grassroots activist network, Cacho started a prevention campaign called '*No estoy en venta*' – 'I am not for sale' – against sex trafficking that includes a video to give young people tools they need to protect themselves. The video explains anti-trafficking laws, the tactics traffickers use to lure their victims, and other aspects of the issue.

'It is getting away from discourse of fear and moral panic and all this (crap) and going back to the discourse of "you have the power of the information, use it for your own good and how to protect yourself and other kids in school",' she stressed.

But her fight has not come without a price. Cacho told Inter Press Service (IPS) that she has a lengthy checklist of safety strategies she must ad-

here to in her daily life because of the threats she receives, such as using a different name to make hotel reservations when she travels and constantly switching phone cards.

'I guess right now in Mexico my biggest challenge is to stay alive,' she said.

'I guess right now in Mexico my biggest challenge is to stay alive.'

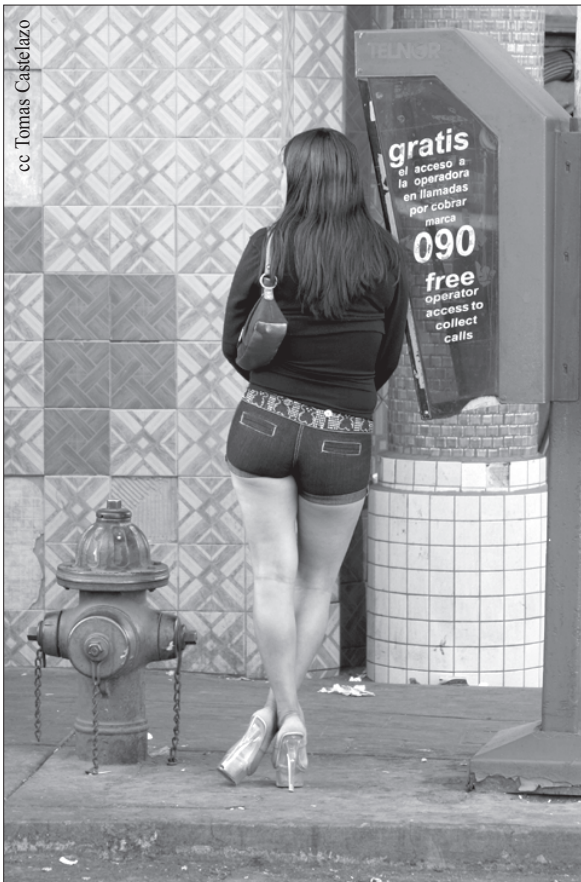
She could have given in to fear and stopped doing what she does, after being tortured and having survived a murder attempt in her car while she was driving with friends and her husband, but she chose another path.

'I guess one day I just understood that, one of the things they do, like the mobsters, the government officials... is to put a lot of pressure for me to live in such a state of fear,' she said.

'So one day I said, what the hell, they won't be able to do it. The last of my liberties is my freedom. If they take away my job, and the way I am as a citizen and as an activist, they would be taking my freedom away, and I won't let them.' – IPS ◆



The Women's Assistance Centre in Cancun (*pic*) was set up by Lydia Cacho Ribeiro as a shelter for women fleeing various kinds of gender violence.



A prostitute in Tijuana, Mexico. Many women victims of trafficking in Mexico are forced into prostitution.

A lot of people? Yes. Apocalypse? No.

There are now 7 billion people in the world. Though resource challenges remain, a child born today has a better chance of survival than decades ago, when food production per person was far inferior.

David Lam

THE United Nations has identified 31 October as the day world population hits 7 billion. Many find the Halloween date appropriate given the frightening prospect of this demographic milestone. As if 7 billion weren't scary enough, the UN projects 10 billion people by 2083, the addition of roughly three more Indias.

But the parents of the 7-billionth person should not be afraid for their child's future. In spite of the daunting challenges facing the world, including global warming, rising food prices and a billion people in poverty, the 7-billionth child will almost surely have a better life than the 3-billionth or 6-billionth child.

How will the world cope with this many people? Consider what the world looked like in 1960, when the population hit 3 billion. Falling infant and child mortality caused population growth rates to surpass 2% per year

in the 1960s, probably for the first time in history. At 2% growth, the world would double in 35 years, and that is roughly what happened — world population grew to 6 billion in 1999. World population will not come close to doubling again in 39 years. Indeed, it may never double again. Fertility has fallen rapidly, with many developing countries at or near the replacement fertility rate of 2.1. The world's population growth rate has been falling since its peak in the 1960s, and we may never get much above the 10.1 billion people projected for 2100.

So we've just been through the fastest population growth the world will ever see. It's a good time to look back and see how the world survived it.

There were gloomy predictions in the 1960s about the consequences of rapid population growth, the most famous appearing in Paul Ehrlich's 1968 book, *The Population Bomb*. He wrote that 'the battle to feed humanity is already lost, in the sense that we will not be able to prevent large-scale

famines in the next decade.'

Happily, Ehrlich was wrong. World food production grew faster than population during the last 50 years. Food production per person in 2009 was 41% higher than in 1961.

No country generated more fear about overpopulation than India. But food production there has grown faster than population since the Green Revolution of the late 1960s. Food production per person in India today is 37% higher than in 1961, although there are 2.6 times more people.

Although there are still serious problems with food distribution and malnutrition, we have done remarkably well at feeding the extra 4 billion people added since 1960. This should make us optimistic about feeding the 3 billion more to be added in the next 70 years.

Increased food supply is one reason that children around the world today are the healthiest ever born. An Indian baby born in 2011 has almost double the probability of surviving the first year of life as a baby born in 1960.



Danica Camacho resting in her mother's arms moments after she was delivered at a hospital in Manila. Danica was one of the 31 October newborns chosen by the UN to symbolically mark the arrival of the 7-billionth person on the planet.



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The 7-billionth child will also be better educated than a child born in 1960. Big increases in education in the developing world are one of the most impressive accomplishments of the last 50 years, especially given the unprecedented growth of school-age populations. Only about one-third of Indian girls born in 1960 completed primary school, compared with about three-fourths of those born in 1990. For an Indian girl born in 2011 the rate will be even higher.

The probability that a child will grow up in poverty has been going down. For developing countries as a whole, the percentage living below the World Bank's \$1.25-per-day poverty line fell from 50% in 1981 to 25% in 2005. India's poverty rate fell from 60% in 1981 to 42% in 2005 and can be expected to keep falling.

Not all countries have done as well as India. But even in sub-Saharan Africa, the region with the poorest economic performance, poverty rates have fallen, education has in-



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creased and food production per person has been rising (albeit slowly) since the 1980s.

None of this is meant to deny the enormous challenges we face. We survived the population bomb through hard work and creativity, and we will need more of it to continue to feed the world and reduce poverty. But the

remarkable experience of the last 50 years teaches us that we should not be afraid to celebrate the birth of the 7-billionth child. ♦

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Seven billion and counting

IS the population bomb ticking again? The world has crossed the milestone of 7 billion people, and there is renewed debate on the impact of a growing number of humans on the planet's finite resources. Neo-Malthusian arguments, centred mostly on environmental concerns, are pitted against the optimistic view that economic development will safely stabilise birth rates. The population question is complex and there is no panacea for the travails of hundreds of millions of deprived citizens who need food, shelter, safe water, and energy. It is distressing that more than 800 million people live in slums and a similar number, mostly women, are not literate. In the popular imagination, growing populations can only have a negative outcome, depleting scarce resources faster – more so in an era of economic uncertainty. The dilemma therefore is whether to enlarge the pie or reduce the number of hands

competing for a share. Empirical evidence supports the humane answer, which is simply to have more development. Crucially, this demands sharing the fruits of economic growth with the less privileged through access to education, health care, and welfare, besides redistribution of wealth. Particularly significant is the role played by education and empowerment of women.

Developing countries with higher population growth rates are often viewed as the source of an emerging environmental crisis. That perspective is narrow and flawed, given the patterns of resource consumption. As India's Nobel laureate Amartya Sen observed in a 1994 essay titled 'Population: Delusion and Reality' (*New York Review of Books*), 'one additional American typically has a larger negative impact on the ozone layer, global warmth, and other elements of the earth's environment than dozens of Indians and Zimbabweans put to-

gether.' That was true even before the world had 6 billion people, and the pattern remains unchanged, although a small minority of profligate emerging-economy consumers now have a comparable ecological footprint. What reinforces fears of overpopulation the most is the visibly desperate living condition of large numbers of the poor. It is this that governments must address as top priority. They also need to prepare for a difficult future in which greater life expectancy coupled with falling birth rates would produce an 'inverted pyramid' – an enlarging geriatric population and shrinking numbers of young men and women. Equally important is preserving the natural environment, which has thus far enabled increasing levels of food production. Only a rising quality of life can lead to voluntary stabilisation of the world's population, which is projected by the United Nations to touch 9.3 billion by 2050. ♦

The above first appeared as an editorial in the Indian daily The Hindu (1 November 2011).

Nicolas Guillen (1902-1989), the poet laureate of Cuba, was also a journalist, political activist and writer. Though best known in his early years as a representative of 'Black Poetry', his subsequent repertoire transcended such categorisation.

Ballad

Nicolas Guillen

Come, dove, oh dove, come
tell me the tale of your woe.

I've seen two men passing
with guns and with flags;
the one rode a pinto,
the other a black mare.
For remote lands they left
their houses and wives,
with hate as their escort,
bearing death in their hands.
I asked 'Where are you going?'
and both spoke at once:
'Dove, we go riding,
go riding to war,'
so they say, then
on eight hooves they fly,
dressed in dust and in sun,
with guns and with flags,
one rides a pinto
the other a black mare.

Come, dove, oh dove, come
tell me the tale of your woe.

I've seen widows passing
like no two I've seen;
they are like two statues
formed of one single tear.
'Where are you going,
my ladies?' I asked.
'We go for our husbands,
oh dove,' they replied.
'Of their going and coming
bitter tidings we have;
they are laid out and dead now,
both dead on the grass,
maggots feast on their stomachs,
buzzards perch on their heads,
their silent guns fireless
and their flags without air;
the pinto horse panicked,
the black mare she fled.'

Come, dove, oh dove, come
tell me the tale of your woe.

Translated by Robert Marquez