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Looking back 20 years on

Lessons from the Asian financial crisis

1997

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Editor's Note

JULY marks the 20th anniversary of a financial crisis which devastated the fast-growing 'tiger' economies of Southeast and Northeast Asia.

The Asian financial crisis began somewhat unobtrusively in Thailand when the country's currency came under attack in the financial markets. In response, the Thai authorities decided on 2 July 1997 to effectively devalue the baht. It was this decision that proved to be the trigger for the chain reaction that followed as the crisis spread to the financial markets of Malaysia, Singapore, Indonesia, Hong Kong and South Korea.

The real scale of the crisis soon became apparent as its impacts moved from the financial sector to the real economy. As businesses slumped, unemployment soared and economies contracted, a debate ensued as to what had caused the crisis. The Western media blamed it all on 'cronyism', claiming that the crisis had exposed the inability of the entrenched economic elites which had dominated these economies through their networks of political influence to respond to the new world of mobile capital which globalisation had unleashed. Surprisingly, the International Monetary Fund (IMF), which had hitherto touted the tiger economies as models for other developing countries, joined in the chorus.

The IMF had been working to usher in the new world of mobile capital since the 1970s with its 'structural adjustment' programmes imposed on financially strapped developing countries as conditionalities for its loans. The essence of these reforms was the deregulation and liberalisation of the economy, including the financial sector. As the process of globalisation intensified after the collapse of the Berlin Wall in 1989, the IMF redoubled its efforts to push for financial liberalisation globally. The culmination of this crusade was a 1997 IMF proposal at its Hong Kong meeting to amend its articles of agreement to, in effect, make it mandatory for all its 182 member states to open up their capital accounts.

In fact, it was the very success of the IMF crusade on financial liberalisation that made the Asian tiger economies vulnerable to speculative attacks. Before the outbreak of the crisis, most of these countries had restrictions on currency and speculative short-term capital movements but succumbed to the specious IMF claim that capital account liberalisation attracts more financial resources for development. In short, while undoubtedly there were a number of causes for the outbreak of the Asian crisis, it was the fatal decision of these countries to undertake financial liberalisation that was the primary cause.

While the IMF's policy advice helped to precipitate the crisis, the measures it recommended to countries like Thailand, Indonesia and South Korea which subsequently turned to it for funds only made the crisis worse. Its fiscal austerity measures, when applied to economies which were contracting, only served to deepen the crisis. Many businesses and banks which could have been saved by an infusion of liquidity were needlessly sacrificed on the altar of the free-market principles which the Fund considered inviolable.

And yet despite the failure of its policies, the IMF was not prepared to countenance the move by Malaysia to resort to what it considered to be unorthodox measures such as capital controls to curb the speculators and stem the crisis.

In the end, it was only when the crisis impacted Wall Street and threatened to overwhelm the global financial system that there was some modicum of sobriety in addressing the problem of financial crisis.

It is instructive to note that the contagion from Asia was transmitted first to Latin America and then to Wall Street via Russia. Such transmission was only possible thanks to the important role the IMF had played in reshaping the Russian economy in the post-Soviet era. The strategy of 'shock therapy' which the IMF, with economist Jeffrey Sachs as its principal adviser, had employed involved the total dismantling of existing economic institutions and controls (including capital controls). This had left Russia vulnerable to the shockwaves from Asia.

As a result, when in 1998 the ruble came under attack and, after heavy losses, Russia devalued its currency and defaulted on its debt, this set off tremors in the Americas. Latin America, where the IMF had long worked to persuade governments to open up their capital accounts, had experienced a wave of destabilising short-term capital inflows and Brazil, Chile, Argentina and Uruguay endured devaluation, default, currency crises and deflation.

Wall Street too was severely jolted and one serious casualty was a highly exclusive but highly overleveraged hedge fund, Long-Term Capital Management (LTCM). While its prestige rested on the fact that two of its partners were Nobel Prize winners in economics, their skills in derivatives trading could not stop the fund from sinking as its losses mounted with the worsening market turmoil. With a staggering $100 billion in debt and an exposure of more than $1 trillion with respect to its derivatives trade, its collapse could have triggered off a financial catastrophe. Fearing such a peril, the US Federal Reserve stepped in to organise a bailout involving Wall Street's 14 leading banks.

After all the pontificating to Asia about 'cronyism', the fact is this bailout itself was the very embodiment of cronyism. But this was not to be the last instance of US cronyism, as a decade later, a much larger bailout involving trillions in public funds would be organised to save Wall Street after another financial crisis.

Our cover story looks back at the Asian financial crisis and considers the lessons to be learnt. Regrettably, it appears that some of the lessons drawn soon after the crisis ended have now been forgotten. Hence the need for a revisit to both relearn and unlearn.

– The Editors

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The Asian financial crisis, whose devastating effects were felt in several major regional economies and beyond, broke out 20 years ago in July 1997, when the Thai currency was devalued after coming under attack from speculators. 6

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100 companies responsible for over 70% of global greenhouse gas emissions

The decision of the US, the world's second largest carbon emitter, to withdraw from the 2015 Paris climate treaty has engendered a sense of despair as to whether the problem of climate change can really be tackled. However, a recent report which reveals a highly concentrated picture of carbon emissions – with just 100 fossil fuel producers being responsible for more than 70% of industrial emissions – offers hope that the attainment of this goal is still within the realm of the possible.

Chee Yoke Heong

Fossil fuels are the largest source of human-induced greenhouse gas emissions in the world.

A HUNDRED fossil fuel producers account for 71% of global industrial greenhouse gas emissions from 1988-2015 and more than half (52%) of all greenhouse gases (GHGs) emitted since the start of the industrial revolution in 1751.

And just 25 corporate and state producers are responsible for over half of global industrial emissions since 1988, the year in which human-induced climate change was officially recognised through the establishment of the Intergovernmental Panel on Climate Change (IPCC).

These groundbreaking figures, which show a highly concentrated picture of emissions, are revealed in the Carbon Majors Report 2017 released in July, which traces the GHG emissions contribution of companies worldwide.

Fossil fuels are the largest source of human-induced GHG emissions in the world. The fossil fuel industry and its products accounted for 91% of global industrial GHGs in 2015, and about 70% of all human-induced GHG emissions, according to the report.

The highest-emitting companies that are public investor-owned include ExxonMobil, Shell, BP, Chevron, Peabody, Total and BHP Billiton, while major state-owned companies include Saudi Aramco, Gazprom, National Iranian Oil, Coal India, Pemex and CNPC (PetroChina).

Of the emissions from the top 100 producers since 1988, almost a third (32%) come from publicly listed investor-owned companies, 59% from state-owned companies, and 9% from private investment.

The report also found that all fossil fuel company operations and products worldwide have released more emissions in the last 28 years than in the 237 years previously: 833 GtCO2e in the 28-year period from 1988 to 2015, compared with 820 GtCO2e in the 237 years between 1988 and 1751.

If the trend in fossil fuel extraction continues over the next 28 years as it has over the previous 28, then global average temperatures would rise around 4ºC above pre-industrial levels by the end of the century, with the possibility of substantial species extinction and food scarcity risks, according to the report. (The international community has accepted that global temperature rise should be limited to 1.5ºC or 2ºC in order to prevent catastrophic effects from climatic change.)

The report also noted that coal

ExxonMobil is one of the highest-emitting companies that are public investor-owned.

production in the last 15 years has vastly expanded and this has led to a 2.4% increase in the overall global emissions intensity of fossil fuels since 1988.

In China, growth in coal production has tripled to nearly 4 billion tonnes since 2000, representing half of global output. Most of this expansion has occurred in the provinces of Shanxi, Shaanxi and Inner Mongolia, with companies such as Shenhua, Datong and China Coal Energy as key players.

Citing the Chinese-based data service company sxcoal, the report said production from the top 50 coal company groups in 2015 amounted to 71% of national production. Half of Chinese coal production came from 15 company groups, and a third of national production from just seven companies, namely Shenhua Group, Datong Coal Mine Group, China National Coal Group, Shandong Energy Group, Shaanxi Coal Chemical Industry, Shanxi Coking Coal Group and the Yankuang Group.

As the world's sixth largest coal producer, Russia has seen production increase by 70% since the late 1990s to 373 million tonnes in 2015.

The report also expressed concern over the large investments made by companies such as Suncor, ExxonMobil, Chevron, Shell and ConocoPhillips into carbon-intensive 'unconventional oils' in the form of extraction of oil sands, tight oil and heavy oils which have a greater environmental impact than conventional crude oil.

The report called on investors to exert their influence on companies to take responsibility to, among others, reduce their GHG emissions. As Pedro Faria, Technical Director at CDP, the publisher of the report, put it: '[T]he report shows that investors in fossil fuel companies own a great legacy of almost a third of all industrial GHG emissions, and carry influence over one fifth of the world's industrial GHG emissions today. That puts a significant responsibility on those investors to engage with carbon majors and urge them to disclose climate risk in line with the FSB Task Force for Climate-related Financial Disclosure (TCFD) recommendations, and set ambitious emission reduction targets through the Science Based Targets initiative to ensure they are aligned with the goals of the Paris Agreement.'

The fact that GHG emissions are concentrated largely within a small group of companies may perhaps provide some consolation in the global fight to tackle climate change. By focusing on getting these major emitters to reduce their carbon footprint, much progress can be made towards averting climate catastrophe. ◆

Cooling off in front of a misting fan during a heatwave. If the trend in fossil fuel extraction continues over the next 28 years as it has over the previous 28, then global average temperatures would rise around 4ºC above pre-industrial levels by the end of the century.

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

HEALTH & SAFETY

New 'Monsanto papers' fuel debate over possible chemical cover-up

Fresh documents shed light on corporate influence over regulatory bodies, says law firm that released them.

Carey Gillam

Men at work spraying herbicide. Concerns about the safety of Monsanto's Roundup herbicide have been growing for years.

Reprinted wih permission from EcoWatch (www.ecowatch.com)

FOUR months after the publication of a batch of internal Monsanto Co. documents stirred international controversy, a new trove of company records was released on 1 August which provides fresh fuel for a heated global debate over whether or not the agricultural chemical giant suppressed information about the potential dangers of its Roundup herbicide and relied on US regulators for help.

More than 75 documents, including intriguing text messages and discussions about payments to scientists, were posted for public viewing on 1 August by attorneys who are suing Monsanto on behalf of people alleging Roundup caused them or their family members to become ill with non-Hodgkin lymphoma, a type of blood cancer.

The attorneys posted the documents, which total more than 700 pages, on the website for the law firm Baum, Hedlund, Aristei & Goldman, one of many firms representing thousands of plaintiffs who are pursuing claims against Monsanto. More than 100 of those lawsuits have been consolidated in multidistrict litigation in federal court in San Francisco, while other similar lawsuits are pending in state courts in Missouri, Delaware, Arizona and elsewhere. The documents, which were obtained through court-ordered discovery in the litigation, are also available as part of a long list of Roundup court case documents compiled by the consumer group I work for, US Right to Know.

It was important to release the documents now because they pertain not only to the ongoing litigation, but also to larger issues of public health and safety, while shedding light on corporate influence over regulatory bodies, according to Baum Hedlund attorneys Brent Wisner and Pedram Esfandiary.

'This is a look behind the curtain,' said Wisner. 'These show that Monsanto has deliberately been stopping studies that look bad for them, ghostwriting literature and engaging in a whole host of corporate malfeasance. They [Monsanto] have been telling everybody that these products are safe because regulators have said they are safe, but it turns out that Monsanto has been in bed with US regulators while misleading European regulators.'

Esfandiary said public dissemination of the documents is important because regulatory agencies cannot properly protect public and environmental health without having accurate, comprehensive and impartial scientific data, and the documents show that has not been the case with Monsanto's Roundup herbicide and the active ingredient glyphosate.

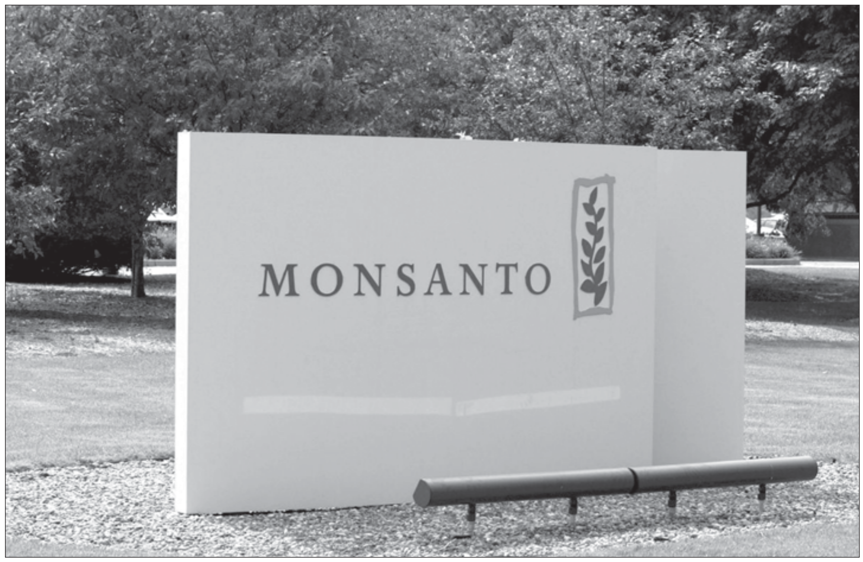
When reached for comment, Robert F. Kennedy, Jr., one of the plaintiffs' lawyers, said, 'This trove marks a turning point in Monsanto's corporate life. They show Monsanto executives colluding with corrupted EPA [US Environmental Protection Agency] officials to manipulate and bury scientific data to kill studies when preliminary data threatened Monsanto's commercial ambitions, bribing scientists and ghostwriting their publications, and purchasing peer review to conceal information about Roundup's carcinogenicity, its toxicity, its rapid absorption by the human body, and its horrendous risks to public health and the environment.'

'We can now prove that all Monsanto's claims about glyphosate's safety were myths concocted by amoral propaganda and lobbying teams,' Kennedy continued. 'Monsanto has been spinning its lethal yarn to everybody for years and suborning various perjuries from regulators and scientists who have all been lying in concert to American farmers, landscapers and consumers. It's shocking no matter how jaded you are! These new revelations are commensurate with the documents that brought down big tobacco.'

Several of the documents discuss a lack of robust testing of formulated Roundup products. In one email, Monsanto scientist Donna Farmer writes 'you cannot say that Roundup is not a carcinogen ... we have not done the necessary testing on the formulation to make that statement. The testing on the formulations are not anywhere near the level of the active ingredient.'

The release of the documents on 1 August came without the blessing of Judge Vince Chhabria, who is overseeing the multidistrict litigation moving its way through the US District Court for the Northern District of California. In March, Chhabria did agree to unseal several other discovery documents – over Monsanto's objections – and those documents prompted a wave of outrage for what they revealed: questionable research practices by Monsanto, cosy ties to a top official within the EPA, and indications that Monsanto may have engaged in 'ghostwriting' of research studies that appeared to be independent of the company.

The revelations within those documents prompted an investigation by the EPA's Office of Inspector General (OIG) into possible Monsanto-EPA collusion, and roiled



Monsanto has made billions of dollars a year for decades from its glyphosate-based herbicides.

Europe where regulators now are trying to decide whether or not to reauthorise glyphosate, which is the most widely used herbicide in the world and is found in numerous products in addition to Roundup.

The lawyers said they are sending copies of the documents to European authorities, to the EPA's OIG and to the California Office of Environmental Health Hazard Assessment (OEHHA), which has been sued by Monsanto for moving to list glyphosate as a known carcinogen.

Monsanto has fought to keep most of the documents it turned over in discovery sealed, complaining to Judge Chhabria that in several court filings plaintiffs' attorneys presented discovery materials out of context and tried to exploit the information to influence public opinion. Chhabria has both chided Monsanto for trying to improperly seal certain documents and warned plaintiffs' attorneys against unfairly publicising certain documents. It is unclear how Chhabria will react, if at all, to the law firm's latest document release.

Baum Hedlund attorneys said they notified Monsanto on 30 June of their intent to unveil the more than 75 documents and gave Monsanto the legally required 30-day window to formally object. That period expired on 31 July, clearing the way for them to make the release on 1 August, said Wisner.

Concerns about the safety of glyphosate and Roundup have been growing for years amid mounting research showing links to cancer or other diseases. But the lawsuits only began to accumulate after the International Agency for Research on Cancer (IARC) in 2015 classified glyphosate as a probable human carcinogen. The plaintiffs in the lawsuits allege that the combination of glyphosate with certain surfactants used in Monsanto-branded Roundup products is even more toxic than glyphosate alone, and Monsanto has sought to cover up that information.

Monsanto has publicly denied that there are cancer connections to glyphosate or Roundup and said 40 years of research and scrutiny by regulatory agencies around the world confirm its safety.

Monsanto has made billions of dollars a year for decades from its glyphosate-based herbicides, and they are the linchpin to billions of dollars more it makes each year from the genetically engineered glyphosate-tolerant crops it markets. The company is currently moving towards a planned merger with Bayer AG. ◆

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COVER

The Asian financial crisis – 20 years later

It was in July 1997 that the Asian financial crisis erupted, wreaking havoc in a region which had distinguished itself with high rates of economic growth for over two decades. Twenty years on, *Martin Khor* reflects on whether the lessons have been learnt and whether the countries of the region are vulnerable to new crises.

IT'S been 20 years since the Asian financial crisis struck in July 1997. Since then there has been an even bigger global financial crisis, centred in the United States starting in 2008. Will there be another crisis in the next few years?

The Asian crisis began when speculators brought down the Thai baht through short-selling, making fortunes in the process. Within months, the currencies of Indonesia, South Korea and Malaysia were also affected. The crisis was to turn the East Asian Miracle into an Asian Financial Nightmare.

Despite all the accolades showered by mainly Western institutions and scholars on the Asian tiger economies before the crisis, weaknesses had built up in the affected countries, including current account deficits, low foreign reserves and high external debt.

A small investor monitoring stock prices at a bank in Hong Kong in 1998 amidst the Asian financial crisis. 'The crisis was to turn the East Asian Miracle into an Asian Financial Nightmare.'

In particular, in a few years before the onset of the crisis, the countries liberalised their financial system, in line with the international advice provided at that time. This enabled local private companies to freely borrow from abroad and in foreign currency, mainly US dollars. Companies and banks in South Korea, Indonesia and Thailand had rapidly accumulated in each country over $100 billion of external loans, prompted by these loans' lower interest rates compared with the local rates. This was the Achilles heel that led their countries to crisis.

These weaknesses made the situation ripe for hedge funds and other speculators to bet against the countries' currencies. When the value of the local currency was brought down against the US dollar, and when governments spent their already-low reserves in a vain attempt to stem the currency fall, three of the countries ran out of foreign exchange to service their external loans.

They went to the International Monetary Fund (IMF) for bailout loans that carried draconian conditions that worsened their economic situation, leading to recession, job retrenchments and corporate bankruptcies, as well as loss of sovereignty.

Malaysia was the fortunate country that did not have to seek IMF loans. The country's foreign reserves had gone to a dangerously low level but were still adequate to finance imports and service foreign debt. If the ringgit had been allowed to fall a bit further, the danger line would have been crossed.

After a year of self-imposed austerity measures, Malaysia dramatically switched course and introduced a set of unorthodox policies. These included pegging the ringgit to the dollar, selective capital controls to prevent short-term funds from exiting, lowering interest rates, boosting bank loans, increasing government spending and rescuing failing companies and banks.

This was opposite to the prevailing economic orthodoxy and the IMF policies imposed on the other three countries, and the global establishment predicted the sure collapse of the Malaysian economy.

But surprisingly the economy recovered, even faster and with less losses than the other countries. In fact the IMF had to relax some of its conditions on the other countries to avoid their performance being poorly compared with Malaysia's. Today the Malaysian measures (or some of them at least) are cited as examples of a successful anti-crisis strategy.

The IMF itself has changed, a little. For example, it now includes some capital controls as part of legitimate policy measures in certain situations.

The Asian countries, vowing never to have to go to the IMF again, built up strong current account surpluses and foreign reserves to protect against bad years and keep off speculators. The economies recovered, but never back to the spectacular 7-10% pre-crisis growth rates.

In 2008, the global financial crisis erupted, with the United States as its epicentre. The tip of the iceberg was the collapse of Lehman Brothers and the massive loans given out to house-buyers that were not credit-worthy, thus the term 'sub-prime crisis'.

The underlying cause was the deregulation of US finance and the freedom with which financial institutions could devise all kinds of shady 'financial products' to draw in investors and unsuspecting customers. They made billions of dollars with all the layers of financial intermediation and manipulative schemes, but with the Lehman collapse the house of cards came tumbling down.

To fight the crisis, the US under President Barack Obama embarked first on expanding government spending. When that had its political limits, he relied on financial policies of near-zero interest rates and 'quantitative easing', with the US Federal Reserve pumping trillions of dollars into the domestic banking system.

The hope was that the easy availability of huge and cheap credit would get consumers and businesses to spend and lift the economy. But that only partly happened. Instead, a significant portion of the trillions went via investors into speculative activities, including abroad to emerging economies.

Europe, on the verge of recession, followed the US with near-zero (in some cases, below zero) interest rates and large quantitative easing, with limited positive results.

A new vulnerability in many emerging economies is the rapid build-up of external debt in the form of bonds denominated in the local currency.

The US-Europe financial crisis affected Asian countries too, but only in a limited way. The main effect was on trade, with declines in export growth and commodity prices, as demand fell in Western markets.

The large foreign reserves built up after the Asian crisis plus the current account surplus situation acted as buffers against external debt problems and kept speculators at bay.

Just as important, hundreds of billions of dollars in funds from the US and Europe poured into Asia yearly in search of higher yield since interest rates in the originating countries were now very low.

These massive capital inflows helped to give a boost to the Asian countries' economic growth but cause their own problems. First, they lead to asset bubbles, or rapid price increases of houses and the stock markets, and the bubbles may burst when they are over-ripe.

Second, many of the portfolio investors are short-term funds looking for a quick profit, and they can be expected to leave when there is a change in conditions, such as a rise in interest rates in the US making that market now more attractive.

Third, the countries receiving capital inflows become vulnerable to financial volatility and economic instability. If and when investors pull some or a lot of their money out, there may be problems including price declines, inadequate replenishment of bonds, and declines in currency and foreign reserves. A few countries may face a new financial crisis.

A new vulnerability in many emerging economies is the rapid build-up of external debt in the form of bonds denominated in the local currency.

The Asian crisis two decades ago taught the lesson that over-borrowing in foreign currency like the US dollar is dangerous for a country as it may face difficulties in servicing the debt if the local currency falls; more money in local currency has to be forked out to repay the same US-dollar debt.

To avoid this, many countries sold bonds denominated in the local currency to foreign investors, so that the repayment will be predictable and stable in terms of the local currency, thus avoiding the risk of a change in the exchange rate.

However, if the bonds held by foreigners are large in value, the country will still be vulnerable to the effects of a withdrawal when conditions change, such as a rise in US interest rates or a crisis in a major emerging country that changes investor perception of emerging-market risk.

As an example, almost half of Malaysian government securities denominated in ringgit are held by foreigners, the result of the wave of capital inflows in recent years. Though the country does not face the risk of having to pay more in ringgit if there is a fall in the local currency, it will have difficulties if foreigners suddenly withdraw a lot of their bonds.

What is the state of the world economy and what are the chances of a new financial crisis? Big and relevant questions to ponder over, 20 years after the start of the Asian crisis and nine years after the global crisis. But that is a subject for another article. ◆

Martin Khor is Executive Director of the South Centre, a think-tank for developing countries based in Geneva, and former Director of the Third World Network.

The Asian financial crisis: Lessons learnt and unlearnt

In considering whether the lessons of the Asian crisis were really absorbed, *Yilmaz Akyüz* observes that while governments often draw lessons from financial crises to adopt measures to prevent their recurrence, such measures are often designed to address the root causes of the last crisis rather than the next one. More importantly, they can actually become new sources of instability and crisis.

The crisis revisited

GOVERNMENTS in both mature and emerging economies no doubt draw lessons from financial crises in order to adopt measures to prevent their recurrence. However, it is often the case that such measures are designed to address the root causes of the last crisis but not the next one. More importantly, they can actually become new sources of instability and crisis. This is indeed the case in emerging economies that experienced recurrent bouts of instability and crises in the second half of the 1990s and early 2000s, including several East Asian economies hit by a virulent crisis in 1997.

The Asian crisis was caused by a combination of misguided financial policies with overreaction of foreign lenders to temporary shortfalls in international liquidity rather than structural imbalances and excessive indebtedness. It was basically a liquidity crisis but it led to insolvencies because of misguided interventions, notably by the International Monetary Fund (IMF). Like crises almost everywhere else, it was preceded by a sharp increase in capital inflows, notably short-term lending by international commercial banks to both banks and firms in the region. Most such lending was directed to non-financial private firms, but in Korea, and to a lesser extent elsewhere, the financial sector was also an important recipient of funds.

An important reason for the surge in international lending to East Asia was the 'yield famine' in advanced economies due to low interest rates resulting from monetary policy response to economic slowdown in the early 1990s. Higher returns in high-growth, low-risk Asian economies with a record of relatively stable exchange rates made them attractive locations for international lenders. Moral hazard also played a role. The Mexican bailout encouraged imprudent lending and governments in East Asia looked ready to bail out private debtors.

An important part of capital inflows consisted of short-term arbitrage funds seeking to profit from interest rate differentials. Further, borrowing from cheaper foreign markets allowed local firms to reduce their financing costs. Firms were also driven by eroding competitiveness and reduced export earnings resulting from the entry of low-cost producers, particularly in Korea. They reacted by augmenting investment to increase productivity and market shares. In doing so, they also added to global excess supply in several manufacturing products exported from East Asia. As in Japan in the second half of the 1980s, the rapid expansion of production capacity was a key factor in the subsequent financial difficulties. However, not all international borrowers were engaged in export activity. There was a speculative surge in the property market supported by funds borrowed abroad, notably in Thailand. Similarly, some private firms in the region invested heavily in other non-traded activities, including infrastructure.

Both borrowers and lenders underestimated the exchange rate risk because of the history of stable exchange rates in the region. Exchange rate policies in the region were widely criticised for encouraging excessive borrowing abroad and giving one-way bets to speculators. However, the question of appropriate exchange rate regime under free capital mobility remains unresolved. No regime of exchange rates can guarantee stable rates. Evidence shows that currency crises can occur under flexible exchange rates as under fixed exchange rates. When capital inflows are strong, floating could lead to nominal appreciations, pushing up real exchange rates even further. It is probable that if currencies in East Asia had been allowed to float in the first half of the 1990s when inflows were in excess of what was needed for current-account financing, the result could have been nominal appreciations, pushing up the real exchange rate further and encouraging even more inflows in pursuit of capital gains from currency movements. On the other hand, greater flexibility in times of turmoil cannot prevent a freefall, as seen in East Asia in 1997, notably in Indonesia.

The main policy error relates to domestic financial deregulation and capital account liberalisation. The East Asian economies had been urged to follow Japan on a path of liberalisation, granting financial institutions more freedom in their borrowing and lending decisions, and introducing market-based monetary policy by loosening direct regulatory controls. In Korea the departure from the postwar practice in two key areas, control over external borrowing and state guidance of private investment, played an important role. Financial liberalisation went further in Southeast Asia. Thailand created the Bangkok International Banking Facility to intermediate foreign investment in the region. In reality, it served instead as a conduit for short-term foreign lending to the liberalised Thai banks and finance houses. Leveraged lending for property funded abroad was allowed to go unchecked, leading to a boom in property markets, making borrowers highly vulnerable to a downturn in property prices, a rise in interest rates or a depreciation of the baht.

Thus, in the build-up of external financial fragility, overinvestment in manufacturing, speculative investment in property and excessive short-term borrowing in foreign currencies played a crucial role. However, contrary to the contention of mainstream ideologues at the time, the main reason for these was not that there was too much government intervention and control, but too little.

The crisis broke out in Thailand when its reserves fell rapidly as net capital inflows fell short of the funds needed to meet the widening current account deficits which had reached 8% of GDP at the end of 1996, and the Bank of Thailand could no longer maintain the currency within the fluctuation band. Other economies in the region with better balance-of-payments fundamentals suffered primarily from contagion through the exchange rate. The decision to float the baht called into question the assumption of exchange rate stability upon which the existing regional division of labour had been built. As exchange rates came under pressure, markets soon became aware of the similarities in financial vulnerability and inadequacy of reserves, and governments were forced to float.

As the panic spread to the whole region, foreign speculators selling domestic currencies were joined by domestic financial and non-financial firms seeking to escape from the squeeze on their balance sheets caused by rising domestic cash needs to service foreign debt and falling cash flows to meet them. Although Korea had not experienced a speculative property bubble, it also suffered corporate bankruptcies. The Southeast Asian scenario was repeated in Korea as domestic debtors attempted to hedge or reduce their foreign exposure, causing a downward spiral in the currency market.

Lessons and policy responses

Recurrent currency, balance-of-payments and financial crises in emerging economies in the 1990s and early 2000s, including the 1997 Asian crisis, show that at times of surges in capital inflows, vulnerabilities can emerge in at least four areas: (i) currency and maturity mismatches in private balance sheets; (ii) domestic credit, asset and spending bubbles; (iii) unsustainable currency appreciations and external deficits; and (iv) reliance on IMF assistance and policy advice rather than self-insurance against sudden stops and reversals of capital flows.

In the new millennium governments in many emerging economies have taken measures to remove vulnerabilities in some of these areas, particularly as they faced a new surge in capital inflows, first thanks to the very same credit and spending bubbles that culminated in a severe crisis in the US and Europe in 2008 and then the ultra-easy monetary policies pursued in these economies in response to the crisis. However, they also liberalised further the capital account for non-residents and residents, leading to a deeper integration into the international financial system and creating new channels of transmission of external financial shocks without removing the traditional channels.

In some respects the boom in capital flows in the new millennium has been somewhat better managed in East Asia than the boom of the 1990s, and better than in most other emerging economies. One of the first steps taken was to move to more flexible exchange rate regimes. However, unlike other emerging economies which used monetary policy primarily for inflation targeting and left the currency to the whims of capital flows, most East Asian economies avoided significant currency appreciations despite strong surges in capital inflows. They have done this not only through interventions in foreign exchange markets, but also by using market disincentives for certain types of capital inflows, such as taxes on interest income and capital gains from foreign holdings of local securities, taxes on banks' short positions, and higher reserve requirements for non-resident local currency deposits. Korea used such measures to such an extent that the won became one of the weakest currencies in the aftermath of the 2008 crisis when there was a strong surge in capital inflows. However, it should be kept in mind that while Thailand and Malaysia had moderate real appreciations in the run-up to the 1997 crisis, this was not the case in Korea and Indonesia.

Second, East Asian economies, like many others, made strong efforts to build self-insurance by accumulating large amounts of international reserves. Unlike most other emerging economies, in East Asia reserves did not just come from capital inflows. An important part has been generated by current account surpluses – that is, they are earned reserves rather than borrowed reserves. All countries hit by the 1997 crisis made significant progress in the management of their current accounts in the new millennium, running sizeable surpluses or moderate deficits. They also sought to strengthen regional cooperation in contingency financing by extending and multilateralising the Chiang Mai Initiative.

Third, in order to reduce vulnerability to external debt crises, East Asian economies, like several emerging economies, have sought to move from debt finance to equity finance on grounds that equity liabilities are less risky and more stable. Foreign direct investment regimes have been liberalised and overall limits and sectoral caps over direct and portfolio equity inflows have been relaxed or removed. As a result, non-resident holding of equities as a percentage of market capitalisation rose sharply, reaching 30-40% and even exceeding 50% in some, compared with 15% in the US. It has been in the order of 20% in Malaysia and Indonesia, 30% in Thailand and almost 50% in Korea.

While the Korean equity market is quite deep, coming in among the top 12 globally in capitalisation, many emerging economies lack a strong local investor base. Consequently, the entry and exit of even relatively small amounts of foreign investment can result in large price swings. Even in countries with little foreign presence, such as China, equity prices have thus become highly susceptible to changes in the global risk appetite because local investors now act with a global perspective.

Fourth, since currency mismatches in balance sheets played a central role in crises in emerging economies, governments have sought to reduce their exposure to exchange rate risk by opening local bond markets to non-residents and borrowing in local currencies. In East Asia the development of regional bond markets was also seen as a solution to the problems of currency and maturity mismatches, culminating in the Asian Bond Market Initiative in 2003. Governments in several emerging economies have effectively stopped issuing foreign-currency debt in international markets. A much higher proportion of public debt held by non-residents is now issued locally, denominated in local currencies and subject to local jurisdiction.

Domestically issued local-currency debt held by non-residents is not always included in external debt statistics even though according to the conventional definition based on the residency of holders, such debt is part of external debt. Because of this discrepancy, the external debt of emerging economies is often underestimated. For instance, when the Malaysian central bank started using a new definition of external debt in 2013, including all debt owed to non-residents irrespective of currency and place of issue, total external debt of Malaysia went up from 30.5% of GDP to over 60%.

Whether in local currency or dollars, foreign ownership of debt is a key indicator of external vulnerability. For instance, the US has always been uneasy about foreign holdings of its treasuries. Around one-third of US treasuries are held by non-residents. Sovereign debt in many emerging economies is now internationalised to a greater extent. In some emerging economies the share of non-residents in local government bond markets exceeds 50%. In Indonesia and Malaysia this proportion has varied between 30% and 40% in recent years. The proportion is much higher when internationally issued government debt is included. Furthermore, unlike US treasuries, this debt is not in the hands of foreign central banks and other official bodies, but mostly in the portfolios of fickle investors.

Opening local bond markets and borrowing from non-residents in local currency have no doubt allowed the sovereign to pass the currency risk to lenders. However, it has also led to a significant exposure to interest rate shocks and loss of autonomy in controlling domestic long-term rates and heightening their sensitivity to fluctuations in debt markets of major advanced economies. It has impaired the ability of local markets to act as a 'spare tyre' for local borrowers at times of interruptions to access to external financing. This could prove equally or even more damaging than currency exposure in the transition of central banks of major advanced economies from low-interest to high-interest regimes and normalisation of their balance sheets.

Fifth, most emerging economies have also shifted from cross-border borrowing to local borrowing from international banks by opening up their banking sector to them. There has been a sharp increase in the share of foreign banks in emerging economies in the new millennium even though the crisis in the US and Europe resulted in a certain degree of withdrawal of their banks from these economies. In Indonesia half of banks are foreign. Korea had no foreign banks in 1996, but their number increased rapidly in the new millennium. Local currency claims of international banks on residents of emerging economies rose from 15% of their total claims in the mid-1990s to 40% on the eve of the global crisis. Local lending by foreign banks in all currencies, including foreign currencies, is now greater than their cross-border lending. As seen during the eurozone crisis, foreign banks tend to act as a conduit of financial instability in advanced economies, transmitting credit crunches from home to host countries, rather than insulating domestic credit markets from international financial shocks.

Sixth, in East Asia banking regulations and supervision have improved, promoting more prudent lending and restricting currency and maturity mismatches in bank balance sheets. However, banks now play a much less prominent role in the intermediation of international capital flows than in the 1990s. International bond issues by corporations have grown much faster than cross-border bank lending directly or through local banks. More importantly, a very large part of capital inflows now go into local securities markets, bypassing the banking system.

Seventh, the opening of domestic asset and credit markets to non-residents has been accompanied by extensive liberalisation of the capital account for residents in East Asia and elsewhere. Since the global crisis, there has been a massive accumulation of debt in dollars by non-financial corporations, mainly through international bond issues. In major emerging economies, such issues have also been made through foreign subsidiaries. These are not always repatriated and registered as capital inflows and external debt, but they have a similar impact on corporate fragility. In East Asia, dollar debt accumulation is particularly notable in Indonesia and Korea. This means that the reduction in currency mismatches in balance sheets is largely limited to the sovereign while private corporations have been building up debt in low-interest reserve currencies very much in the same way as in the 1990s.

Eighth, most Asian emerging economies have also allowed and even encouraged corporations to invest abroad and become global players, occasionally by leveraging internationally. Limits on the acquisition of foreign securities, real estate assets and deposits by individuals and institutional investors have been raised or abolished in Malaysia, Korea and Thailand. During the surges in capital inflows, a main motive for outward liberalisation was to relieve upward pressures on currencies and avoid costly interventions in foreign exchange markets. In other words, liberalisation of resident outflows was used as a substitute for restrictions over non-resident inflows.

Finally, like many others, East Asian economies have not been able to prevent ultra-easy monetary policies in the US, Europe and Japan from producing domestic credit and asset market bubbles in the past 10 years. Increases in non-financial corporate debt in Korea and Malaysia are among the fastest, between 15 and 20 percentage points of GDP, including both external and domestic debt. At around 90% of GDP, Malaysia has the highest household debt in the developing world. In Korea the ratio of household debt to GDP is higher than the ratio in the US and the average of the OECD. Thailand has also seen a significant increase in household indebtedness since 2007, by some 25 percentage points of GDP.

Vulnerability to global financial shocks

Capital account regimes of emerging economies, including in East Asia, are much more liberal today both for residents and for non-residents than in the 1990s. Foreign presence in credit, equity and debt markets has reached unprecedented levels, strongly affecting their liquidity and valuation dynamics and making them highly susceptible to global financial conditions. In the same vein, residents of these economies have increasingly become active in international financial markets as borrowers and investors. As a result, all emerging economies have now become susceptible to global financial cycles and shocks irrespective of their balance-of-payments, external debt, net foreign assets and international reserves positions although these play an important role in the way such shocks could impinge on them.

Indeed, asset and currency markets of all emerging economies, including China and other East Asian economies with strong international reserves and investment positions, were hit on several occasions in the past 10 years, starting with the collapse of Lehman Brothers in September 2008. The Lehman impact was strong but shortlived because of the easy money policy introduced in response by the US. Subsequently these markets came under pressure again during the ‘taper tantrum’ in May 2013 when the US Federal Reserve revealed its intention to start reducing its bond purchases; in October 2014 due to growing fears over global growth and the impact of an eventual rise in US interest rates; and in late 2015 on the eve of the increase in policy rates in the US for the first time in seven years. These bouts of instability did not inflict severe damage because they were temporary, shortlived dislocations caused by shifts in market sentiments without any fundamental departure from the policy of easy money. But they give strong warnings of the kind of turmoil emerging economies could face in the event of a normalisation of monetary policy in the US, hikes in interest rates and contraction in global liquidity.

After the Asian crisis, external vulnerability came to be assessed in terms of adequacy of reserves to meet short-term external debt in foreign currencies, defined as debt with a remaining maturity of up to one year. While this is the most widely used indicator of external sustainability, empirical evidence does not always show a strong correlation between pressure on reserves and short-term external debt. Often, in countries suffering large reserve losses, sources other than short-term foreign currency debt played a greater role.

Vulnerability to liquidity and currency crises is not restricted to short-term foreign currency debt. Countries with extensive foreign participation in equity, bond and deposit markets could be highly vulnerable even in the absence of high levels of short-term foreign-currency debt. Currencies can come under stress if there is a significant foreign presence in domestic deposit and securities markets and the capital account is open for residents. A rapid and generalised exit could create significant turbulence with broader macroeconomic consequences, even though losses due to declines in asset prices and currencies fall on foreign investors and mitigate the drain of reserves. Financial turmoil could be aggravated if foreign exit is accompanied by resident capital flight. Indeed resident outflows rather than exit by foreign investors may well play a leading role in the drain of reserves and currency declines as seen in some previous episodes including in the $1 trillion decline in China’s reserves during 2015-16.

Such market pressures have emerged in Malaysia from mid-2014 onwards mainly due to political instability when foreign holders of domestic securities started to unload ringgit-denominated assets. Equity and currency markets fell sharply and foreign reserves declined from over $130 billion to $97 billion by June 2015. In October 2015, the ringgit came under strong pressure, hitting the lowest level since September 1998 when it was pegged to the dollar. Although it showed some recovery subsequently, at the end of 2016 it reached below the lows seen during the turmoil in January 1998 as investors continued to download domestic assets, reacting to measures restricting currency speculation as well as prospects of higher US interest rates.

In all four East Asian countries directly hit by the 1997 crisis, international reserves now meet short-term external dollar debt. But they do not always leave much room to accommodate a sizeable and sustained exit of foreign investors from domestic securities and deposit markets and capital flight by residents. This is particularly the case in Malaysia where the margin of reserves over short-term dollar debt appears to be quite small while foreign holdings in local debt and equity markets are sizeable.[1] According to the latest figures by the country's central bank, international reserves are RM425 billion while short-term external debt, including short-term loans obtained and bonds and notes issued abroad and non-resident holdings of ringgit-denominated short-term debt securities and deposits, is about RM413 billion. However, the latter does not include long-term local-currency debt held by non-residents, which, together with large equity holdings by them, constitutes an important source of drain on reserves in the event of market stress, as seen after 2014.

By contrast, Thailand's foreign reserves position looks comfortable, exceeding its short-term dollar debt by a large margin (some $150 billion) and providing ample buffer against a rapid exit of foreign investors from its securities markets. In Indonesia reserves exceed short-term dollar debt also by a large margin ($80 billion), but foreign holdings in its local bond and equity markets are also substantial and the current account is in deficit. The country was included among the 'Fragile Five' in 2013 by Morgan Stanley economists for being too dependent on unreliable foreign investment to finance growth. In Korea too, the margin is large, over $250 billion, but foreign holdings of domestic securities are more than twice as much. Thus a rapid exit from the securities market can also put pressure on the won. Indeed when Korea was hit by fallouts from the US crisis in 2008, it lost some $60 billion in reserves and was given a swap line by the US Federal Reserve.

There has been no severe financial crisis in major emerging economies in the last decade and a half when global financial conditions have remained highly favourable thanks to policies of easy money in the US, Europe and Japan. This has created addiction to cheap funds, a massive accumulation of debt and a sharp increase in foreign presence in securities, credit and property markets of emerging economies. As a result, they have become highly vulnerable to a severe and sustained reversal of these conditions.

The self-insurance they have built up in international reserves may prove inadequate in the event of a sudden stop in capital inflows, massive exit of foreign investors and capital flight by residents. Nor can they count on South-South cooperation such as the Chiang Mai Initiative Multilateralisation (CMIM) of East Asian countries and the Contingent Reserve Arrangement (CRA) of BRICS. The CMIM is inadequate in size and flawed in design – some 1.5% of total GDP of the countries involved and access beyond 30% of quotas is tied to an IMF programme. The initiative has never been called upon; during the Lehman collapse, Korea and Singapore approached, instead, the US Federal Reserve, and Indonesia secured finance with a consortium led by the World Bank. The CRA does not look very much different from the CMIM. It is designed to complement rather than substitute the existing IMF facilities. Its size is even smaller and access beyond certain limits is also tied to the conclusion of an IMF programme.

That leaves two options in the event of a serious liquidity crisis – seek assistance from the IMF and central banks of reserve-currency countries, or engineer an unorthodox response, even going beyond what Malaysia did during the 1997 crisis, bailing in international creditors and investors by introducing, *inter alia*, exchange restrictions and temporary debt standstills, and using selective controls in trade and finance to safeguard economic activity and employment. The East Asian countries, like most emerging economies, appear to be determined not to go to the IMF again. But, serious obstacles may be encountered in implementing unilateral heterodox measures, including creditor litigation and sanctions by creditor countries.

Consequently, deepening integration into the inherently unstable international financial system without securing multilateral mechanisms for orderly and equitable resolution of external liquidity and debt crises could prove to be very costly. ◆

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Endnotes

1 According to the latest figures given by the Malaysian central bank on 14 July 2017, short-term external debts of banks and non-banks add up to RM398 billion. At the current exchange rate this comes to more than $90 billion while reserves are $99 billion. Since much of this private short-term debt is in dollars (or in other reserve currencies), the margin of reserves over short-term external dollar debt can be estimated to be relatively small, possibly less than $20 billion.

COVER

Why have we not learnt more from the 1997-98 East Asian financial crises?

Different, often contradictory lessons have been drawn from the 1997-98 East Asian crises. Ideological implications and political differences involved have generally complicated the possibility of drawing shared lessons from the crises. Finally, vested interests supporting existing international financial governance arrangements have continued to impede implementing lessons.

Jomo Kwame Sundaram

Foreign portfolio capital flows fuelled stock market manias in the Asian region but, as they were easily reversible, also enabled panics.

THE East Asian crises which began two decades ago in July 1997 gave rise to various attempts to explain the unexpected events in terms of mainstream theories of currency crisis. Proponents made much of current account or fiscal deficits, real as well as imagined. When this line of reasoning clearly proved to be wrong, inadequate or unpersuasive, a second approach was to turn the preceding celebration of the purported East Asian miracle on its head by suggesting that key elements, such as government intervention and 'social capital', were responsible for the crises. Those promoting this condemned 'social capital' as cronyism (government favouritism towards politically well-connected business interests) compromising corporate governance. These were real problems, but largely irrelevant to causing the crisis. Finally, there was also some grudging acknowledgment of poor or wrong sequencing of financial liberalisation, rather than of financial liberalisation per se.

Learning from crises ensures that their most important lessons are not lost, that the tragic does not become farcical. Recurrence of crises implies that important lessons have not been appreciated. Unfortunately, erroneous lessons drawn – by orthodox economists, financial analysts and the media – have obscured important policy lessons. They have also diverted attention away from the intellectual and ideological bases of the erroneous analyses and policies responsible for the crises. Many such ideas were due to so-called 'Washington Consensus' advocacy of economic liberalisation at both national and global levels. Hence, drawing correct lessons could undermine the analytical and policy authority of the interests and institutions behind this Consensus.

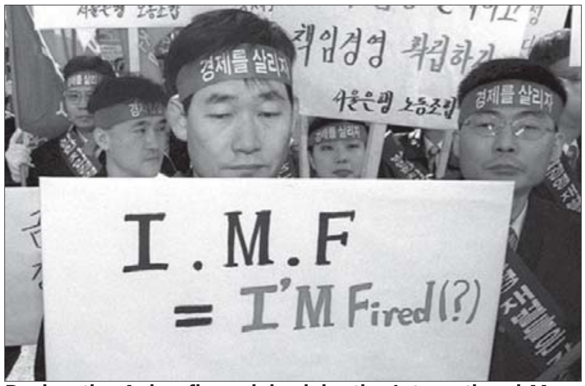
Although there was a considerable volume of work critical of the East Asian miracle, none actually anticipated the 1997-98 financial debacle. While certain aspects of the crises were common to all four East Asian economies most adversely affected – Indonesia, the Republic of Korea, Malaysia and Thailand – others were not.

Dominance of manufacturing, especially the more technologically sophisticated and dynamic variety, by foreign transnational corporations subordinated domestic industry in the region, allowing finance, both domestic and foreign, more influence. Finance, in turn, developed complex symbiotic relations with politically influential rentiers. Southeast Asian financial interests were quick to identify and secure new possibilities for capturing rents from arbitrage as well as other opportunities offered by international financial integration. Thus, transnational dominance of Southeast Asian industrialisation facilitated the ascendance of finance and politically influential rentiers.

Malaysia and Thailand also wanted capital inflows to finance current account deficits. These were primarily due to service account deficits (mainly for imported financial services and investment income payments abroad), growing imports for consumption, speculation abroad and excessive real estate investments. Such capital inflows did not signific-antly accelerate economic growth, especially of exports. Instead, they contributed to asset price bubbles.

After months of international speculative attacks on the Thai baht, the Bank of Thailand let its currency 'float' from 2 July 1997, allowing it to suddenly drop in value. By mid-July 1997, the currencies of Indonesia, Malaysia and the Philippines had also fallen precipitously after being floated, with their stock market indices following suit.

In the following months, currencies and stock markets throughout the region came under pressure as easily reversible short-term capital inflows took flight in herd-like fashion. In November 1997, despite Korea's different economic structure, its won also collapsed. Most other economies in East Asia were also under considerable pressure, either directly (e.g., the attack on the Hong Kong dollar) or indirectly (for instance, to remain competitive against devalued currencies).



During the Asian financial crisis, the International Monetary Fund (IMF) called for spending cuts and other pro-cyclical policies, which only exacerbated the downturn.

From miracle to debacle

Rapid economic growth and structural change in the region, mainly associated with industrialisation, can generally be traced back to the mid-1980s. Currency devaluation, deregulation of onerous regulations as well as new targeted subsidies and incentives helped attract relocation of production facilities to Indonesia, Malaysia, Thailand and China from Japan and other first-generation newly industrialising economies such as Korea, Singapore and Taiwan, which were experiencing currency appreciation, tight labour markets and rising production costs.

This sustained export-oriented industrialisation in Southeast Asia well into the 1990s, accompanied by the growth of other manufacturing, service and construction activities. High growth was sustained for a decade, during which fiscal surpluses were maintained, monetary expansion was not excessive and inflation was otherwise kept under control. Until 1997, savings and investment rates were high and rising in the Southeast Asian economies. Foreign savings supplemented high domestic savings in all four East Asian crisis economies, especially Malaysia and Thailand. Unemployment declined, while fiscal balances generally remained positive until 1997. The flood of financial investments inevitably meant declining returns and asset price bubbles, especially in property and share markets.

Foreign borrowing implied 'currency mismatch', especially when US dollar borrowings were invested in activities that did not generate foreign exchange. As a high proportion of the debt was short-term in nature and deployed to finance medium- to long-term projects, a 'term mismatch' problem also arose. Most serious analysts now agree that the crises essentially began as currency crises of a new type, different from those previously identified with either fiscal profligacy or current account deficits. Starting as currency crises, they quickly became more generalised financial crises, eventually affecting the real economy. Reduced financial liquidity, inappropriate official policy responses and ill-informed, herd-like market responses worsened this chain of events.

Financial liberalisation favoured 'short-termist' investments over more long-term productive investments in manufacturing and agriculture, worsening the economies' current account deficits. Thus, foreign savings supplemented already-high domestic savings, increasingly invested in unproductive activities due to growing foreign domination of new industries, giving rise to macroeconomic concerns by the mid-1990s when the yen, rising from after the September 1985 Plaza Accord, was finally allowed to depreciate. The savings-investment gap was thus increasingly financed by greater reliance on foreign direct investment (FDI) and foreign borrowings.

Both FDI and foreign debt, in turn, implied investment income outflows abroad. As the current account deficit was increasingly financed by short-term capital inflows, reversal of such flows could only have disastrous consequences. Meanwhile, foreign portfolio investments increasingly influenced stock markets in the region. In the face of superficial information, large portfolios, short-term investment horizons and fund manager incentives, foreign financial investments were more prone to herd behaviour. Private sector debt exploded in the 1990s, not least because of 'debt-pushers' from abroad keen to secure higher returns from the booming region. Meanwhile, East Asian commercial banks' foreign liabilities also rose quickly.

Ostensibly prudent financial institutions often prefer to lend for real property and stock purchases, and thus secure assets with rising values as collateral, rather than to provide credit for more productive uses. While foreign banks were more than happy to lend US dollars at higher interest rates than were available in their home economies, East Asian businesses were keen to borrow at lower interest rates than were available domestically.

Meanwhile, as foreign exchange risks rose, dollar currency pegs – introduced by central banks to reduce foreign exchange volatility – increased their vulnerability. The pegs encouraged much un-hedged borrowing by influential debtors with strong stakes in maintaining the pegs regardless of their adverse consequences. (Unlike Korea, Southeast Asia lacked a politically influential export-oriented industrial community to lobby for floating or depreciating their currencies instead.)

Thus, despite their adverse consequences for international cost competitiveness, after pegging their currencies to the US dollar from the late 1980s, most Southeast Asian central banks resisted downward adjustments to their exchange rates. To make matters worse, the 1997-98 East Asian financial crises saw tremendously disruptive 'overshooting' in exchange rate adjustments for a year.

Although East Asia's financial systems were quite varied and hardly clones of the Japanese 'main bank' system (as often wrongly alleged), they nevertheless also became prone to asset price bubbles, albeit for different reasons. Rapid growth, based on export-oriented industrialisation from the late 1980s, gave rise to accelerated financial expansion, involving asset price bubbles, including property booms.

Clearly, investor panic was the principal cause of the Asian financial crises. The tightening of macro-economic policies in response to the panic served to exacerbate rather than to check the crises. While cronyism is wrong, it was not the main cause of the East Asian crises. The crises showed that even sound macro-economic fundamentals do not guarantee immunity from contagion and crisis. With the currency collapses, assets acquired in the region depreciated in value from the perspective of the foreign investor, precipitating an even greater sell-off and panic, causing herd behaviour and contagion to spread across national borders.

Meanwhile, liberalising the capital account essentially guaranteed investors ease of exit besides lifting limitations on nationals holding foreign assets, thereby inadvertently facilitating capital flight. Thus, financial liberalisation allowed lucrative opportunities for taking advantage of falling currencies, exacerbating regional currency and share market volatility. All this, together with official responses, caused the collapse of the currencies and the stock markets aggravated by herd behaviour and contagion.

Little was achieved by officials insisting that the crises should not have happened because economic fundamentals were fine, even if true. Official denials sometimes even exacerbated the problem, especially when authorities did not do what market opinion makers deemed appropriate. Governments cannot liberalise the capital account and then complain when short-term portfolio investors suddenly withdraw. Capital controls can make rapidly with-drawing capital from an economy difficult, costly or both. Many governments treat FDI quite differently from portfolio investments.

Aftermath

Not surprisingly, conventional wisdom has continued to blame the crises on poor government policies. Citing currency crisis theories, macroeconomic, especially fiscal, policies were condemned as inappropriate. In fact, most East Asian economies had been maintaining budgetary surpluses for some years at least. The International Monetary Fund (IMF) and others, including the international business media, called for spending cuts and other pro-cyclical policies (such as raising interest rates) which exacerbated the downturns. Adopted in much of the region from the end of 1997, they precipitated economic collapse instead. Thus, currency and financial crises triggered crises of the real economy.

From early 1998, however, as conventional macroeconomic explanations were found wanting, a new line of criticism focused on the political economy of the region. Cronyism in corporate governance was condemned as the source of the regional financial crises. US Federal Reserve chair Alan Greenspan, US Deputy Treasury Secretary Lawrence Summers and IMF Managing Director Michel Camdessus led a fast-growing chorus criticising Asian corporate governance from late January.

By the second quarter of 1998, however, it was clear that such policy recommendations and condition-alities had actually worsened rather than ameliorated the deteriorating economic situation. The failure of fiscal as well as corporate governance explanations of the Asian crises was evident not only to heterodox economists in the region. Eminent Western economists more familiar with the affected economies conspicuously challenged the orthodoxy, helping to turn the tide. Then World Bank senior vice president and chief economist Joseph Stiglitz famously disagreed with IMF Deputy Managing Director Stanley Fischer, while other prominent economists, such as Paul Krugman and Jeffrey Sachs, provided important support for adopting counter-cyclical policies, and some libertarian market economists also challenged the role of the IMF on other grounds.

Meanwhile, heterodox economists emphasised how the transformation of the region's economies and financial systems from the late 1980s had engendered their increased vulnerability and fragility. Liberalised financial arrangements and institutions attracted massive capital inflows to the rapidly growing region. Much of these came from Japanese and continental European banks as US and UK banks exercised greater prudence in international lending as they continued to recover from the 1980s' sovereign debt crises. Bank for International Settlements (BIS) regulations also encouraged short-term lending, which was easily 'rolled over' indefinitely in good times. But such 'rolling over' could be quickly terminated when conditions became less favourable, as happened when the crisis began.

Significant inflows were also attracted by stock market and other asset price booms in the region, transforming them into bubbles. Thus, foreign portfolio flows fuelled stock market manias. But as they were easily reversible, they also enabled panics. In the face of uncertainty and limited information, herd behaviour – especially characteristic of capital markets – exacerbated pro-cyclical market behaviour, blowing up bubbles in 'good times' and bursting them with catastrophic effect in times of panic. As financial globalisation enabled such fickle market behaviour to have consequences across national borders, it exacerbated contagion. As more distant foreign, including institutional, investors tended to view things more regionally, their investment decisions were more likely to exaggerate regional neighbourhood effects.

A year after the crisis began in July 1997, US President Bill Clinton acknowledged the need for a new international financial architecture in a speech in mid-1998, triggering international discussion for a brief time. The apparent spread of the crisis to Brazil and Russia added grist to the mill. The collapse of New York-based Long-Term Capital Management (LTCM) following the Russian crisis led the US Federal Reserve to coordinate a private sector bailout of the hedge fund in a successful pre-emptive effort to contain the problem.

This initiative legitimised government efforts in East Asia to intervene to ensure functioning financial systems and liquidity to fund economic recovery. The Malaysian government's establishment of bailout institutions and mechanisms in mid-1998 and its imposition of capital controls on outflows from September 1998 also warned that other countries would go their own way if nothing was done. When the US Fed lowered interest rates soon after, capital flowed to East Asia once again.

Ironically, the relatively rapid 'V-shaped' economic recoveries in the region from the last quarter of 1998 may well have reduced pressure to reform the international financial system. Talk of Clinton's new international financial architecture rapidly faded as rapid regional recovery was seen as proof of international financial system resilience. Interest in crisis avoidance, crisis management, development finance, international financial system governance and regional financial cooperation, among other topics, was revived by the 2008-09 global financial crisis, but has since receded again despite the limited reforms which have been put in place, mainly at the national level.

The Japanese government's offer of $100 billion to the region to manage the crisis during the third quarter of 1997 was blocked by the US government, some of its allies and the IMF. Later, a smaller amount was made available under the Miyazawa Plan, allowing for more modest facilities, institutions and instruments. From around 2000, following a regional meeting of finance ministers in Chiang Mai, Thailand, a series of 'bilateral' credit lines emerged, but with the condition of requiring an IMF programme. In May 2007, the finance ministers of Japan, China and Korea agreed to 'plurilateralise' the arrangements and to increase resources committed to the credit facility. There have also been other regional initiatives since, including the Asian bond market and the Asian Infrastructure Investment Bank, which have made varying degrees of progress. An earlier idea, similar to the European Investment Bank and the Latin American Development Bank (expanded from the Andean Development Corporation), to mobilise private funds for long-term investments, e.g., in infrastructure, has not progressed as regional cooperation has become increasingly hostage to relations between Japan and China.

Arguably, pragmatism compelled responsible officials to become more Keynesian, at least in responding to the crisis. For a time at least, some authorities adopted counter-cyclical policies. There has also been greater vigilance in pursuing central banks' prudential regulatory and supervisory responsibilities in preventing financial excesses as well as consequent fragility and vulnerability. Some authorities are also more prepared to intervene to 'delink' or isolate markets if necessary in order to limit contagion among market segments as well as from finance to the real economy.

Some insiders insist that such changes are in place despite continuing lip-service to more 'neoliberal' preoccupations such as keeping inflation in check. Others, however, claim that such vigilance and preparedness has declined with time and fading memories of 1997-98. Also, as history never repeats itself, it is very difficult to be prepared for future exigencies as financial systems evolve creatively in response to constraints, often creating unexpected new vulnerabilities.

Clearly, various different and sometimes contradictory lessons have been drawn from the 1997-98 East Asian crises. However, the analytical implications and political differences involved have complicated the possibility of drawing shared lessons from the crises. The region's rapid recovery and improved growth in most developing countries in the new century also meant less interest in and appetite for far-reaching reforms. Although many similar issues were raised by the 2008-09 global financial crisis, eurozone commitments have straightjacketed prospects for European recovery. Meanwhile, powerful interests supporting existing international financial governance arrangements continue to impede progress on that front, with little challenge from recent Western nationalist resurgences. Such interests continue to draw support from conventional market wisdom, reinforced by the business media and its continuing hold on international monetary and financial governance.◆

Jomo Kwame Sundaram, a former economics professor and United Nations Assistant Secretary-General for Economic Development, received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.

'Financial liberalisation' triggered the Asian financial crisis

It was the opening up of the 'tiger economies' to freer flows of international finance which knocked them off their growth trajectories and triggered the 1997 Asian financial crisis, says *Prabhat Patnaik*.

TWENTY years ago, a major financial crisis hit the countries of East and Southeast Asia in July 1997. This crisis was a watershed in the history of Third World development, in the sense that these 'tiger economies' which had seen extraordinarily high growth rates until that time, remained permanently crippled thereafter. Just around the time that they were shaking off the effects of the 1997 crisis on their respective economies, the collapse of the 'housing bubble' in the United States plunged the entire world capitalist system into a crisis which also affected them, so that they could never recapture their earlier growth trend.

The earlier growth performance of these Asian economies had been used by the World Bank, the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD, the rich countries' club) to debunk the growth strategy pursued by India and a host of other Third World economies in the immediate aftermath of decolonisation (what is called in India the 'Nehruvian strategy'), which visualised delinking from world capitalism through trade and capital controls, and emphasised dirigiste development based on the domestic market, for breaking out of the colonial pattern of international division of labour. Against such a strategy of 'economic nationalism', it was argued that the Asian economies were doing remarkably well by hitching themselves to the global economy and eschewing dirigisme and controls.

Put differently, the argument was that a break from the inherited pattern of international division of labour would occur spontaneously under capitalism; it did not require the paraphernalia of State intervention and controls. Indeed, countries which resorted to the latter had come a cropper, while countries, exemplified by the 'Asian tigers', which adopted economic liberalism and 'left things to the market' had performed so much better. Since the former economic strategy had grown out of a certain understanding of world capitalism, namely that it was marked by 'imperialism' which tended to produce 'underdevelopment' in the Third World, the experience of the East and Southeast Asian economies was used to debunk the idea of 'imperialism', certainly in the post-colonial world and even as a necessary economic accompaniment of the earlier political system of colonialism.

The OECD had published several volumes in 1970 containing case studies of Third World countries which argued this thesis and launched an attack on the dirigiste strategy. The Left too had been critical of the dirigiste strategy (in the case of India, the 'Nehruvian strategy'), but on entirely different grounds. It had staunchly supported whatever anti-imperialist thrust this strategy had, but had criticised it for its inability to introduce radical land reforms and break land concentration, which restricted both the size of the home market and its rate of growth (the latter owing to the low rate of growth of agriculture within a largely unreformed agrarian structure). The limitation of the strategy, the Left had argued, arose from this source and not from its adoption of import substitution, State investment, capital and trade controls, and restrictions on domestic and international big business.

It turned out on closer examination that the East Asian strategy had not actually been what the OECD, IMF and World Bank economists had claimed either. It was not based on relying on free markets, eschewing State intervention and giving capital a free run. On the contrary, the State had essayed even micro-level intervention, exhorting capitalists to export, allowing them to dump goods abroad (by charging higher prices at home) and setting up export-processing zones which domestic and foreign (mainly Japanese) capital could use as bases to launch export drives. Their strategy had been neo-mercantilist rather than neoliberal, with the State playing a major role, though a role different from that in countries like India; and it had succeeded because imperialist countries had allowed them market access.

Financial liberalisation

The opening of these economies to freer flows of international finance is what knocked them off their growth trajectories. These economies had launched a programme of 'financial liberalisation' just a few years before the crisis which had brought in huge amounts of foreign finance.

The very opening up of fast-growing but hitherto financially closed economies (they had been getting direct foreign investment but not footloose finance) to free flows of finance would have brought large financial inflows anyway. But additionally such inflows were aided by an interest differential. In the US, interest rates had been kept low in the beginning of the 1990s in a bid to stimulate growth, while interest rates were comparatively higher in the fast-growing Asian economies. With financial liberalisation, this made domestic firms turn to cheaper foreign funds, and it also made foreign banks and financial institutions pour funds into the Asian economies to obtain larger interest earnings.

Whenever there is a surge of financial inflows into an economy, then, no matter what it does, this economy gets into difficulties. Just think of the various possibilities. If it simply allows these funds to come in without any intervention and domestic expenditure does not increase, then the exchange rate appreciates, which has a contractionary effect on domestic output and employment, even as the external liabilities of the country go up. This is a bizarre situation, a case of 'debt-financed deindustrialisation', i.e., borrowing from abroad to ruin one's own economy.

If with larger inflow of funds, the current deficit expands because of larger domestic expenditure, then too there are problems. If the increase is in consumption expenditure, then effectively the country is borrowing short-term funds to indulge in a consumption splurge, typically of the rich; and when such funds are taken out, there is a foreign exchange crisis, which causes a squeeze, typically on the consumption of the poor, to generate resources for the outflow. On the other hand, if it uses the funds for investment purposes, then the country is 'borrowing short to invest long', i.e., using short-term funds for long-term investment, which means that when the funds are taken out, it would face a liquidity crisis.

It can of course simply hold reserves and prevent any appreciation of the exchange rate. But since reserves (which are equivalent to lending abroad) earn very little by way of returns, while the funds coming into the economy earn much higher rates of return, holding larger reserves, though averting the prospects of a foreign exchange crisis in the event of funds being taken out, entails the country's 'borrowing dear to lend cheap', which is patently absurd. Thus any large inflow of short-term foreign funds is necessarily fraught with danger for the host economy.

The Asian economies typically enlarged their investment rates when there was this surge in foreign financial inflows. Some of these inflows had arisen anyway because domestic firms were borrowing abroad to raise investment; additionally, other firms jacked up their investment with the easy availability of funds owing to these inflows, some of which found their way to local banks. These economies, South Korea being a prime example, were thus not only 'borrowing short to invest long', but borrowing in foreign exchange to finance non-foreign-exchange-earning investments, such as in the infrastructure sector.

When the crisis came, there was both a run on foreign exchange and a run on banks; and these two reinforced one another. As the exchange rate fell, banks' liabilities which were in foreign currency increased relative to their assets which were in domestic currency, making them vulnerable. And this very fact made foreign investors take out their deposits, which further made the exchange rate collapse.

The policies imposed by the IMF to which these economies turned made matters worse, since the IMF, while extending loans, insisted that those taking out funds must be allowed to do so. The IMF loans therefore were used for financing capital flight, while the draconian austerity and 'denationalisation' measures (handing over domestic assets to foreigners) took a heavy toll on people's lives and the countries' sovereignty. Ironically the country that came out of the crisis at the earliest and with the least painful effects on the people was Malaysia, which imposed capital controls to prevent the flight of finance.

Vulnerability

Since the crisis, these economies (and other Third World countries too, including India) have started holding much larger foreign exchange reserves in order to avoid a repetition of such an eventuality. But at the same time their debt to foreigners, as distinct from foreign currency debt, has gone up substantially.

This distinction can be understood as follows: when a foreign national brings in foreign currency, exchanges it for local currency and buys domestic assets with it, then there is a debt to foreign nationals but not a foreign currency debt. But since, in the absence of capital controls, the foreign national can always sell the asset and take money out by changing the domestic currency into foreign exchange, the threat to the country's economy is no less with the former kind of debt than with the latter.

If both kinds of debt are added up, then the foreign exchange reserves of these countries still remain woefully inadequate, relative to this total debt, to prevent a recurrence of a crisis in the event of a capital outflow. But while these countries remain as vulnerable as before, and are well below the growth trajectory they were pursuing earlier, foreign control over their assets has increased dramatically. The problem, in short, lies in allowing free capital flows, including financial flows, and not in specific policy measures within such a regime.

The hegemony of international finance capital, which led to economies 'opening' themselves up to the vortex of global financial flows, demolished both Nehruvian dirigisme and East Asian neo-mercantilism. And the same hegemony has now brought the world capitalist economy to a crisis from which it is in no position to recover. ◆

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The Asian financial crisis and the vicissitudes of globalisation

The 1997 Asian financial crisis and, more critically, the Great Financial Crisis a decade later, have undermined the hegemony of neoliberalism as the defining ideology of the current global economic order. This 'shattering of the faith' has manifested itself in a popular backlash against globalisation. *Chakravarthi Raghavan* explains this development and the unease it is creating among the global creditor class.

THE global creditor class (banks and other financial firms) seems to be in a sort of subterranean panic that two decades after the Asian financial crisis, and a decade after the Great Financial Crisis (GFC), and despite all their claims and those of international organisations (promoting their interests) of financial regulation and repair, the creditors have failed to regain the confidence of the public.

The schizophrenia behind this panic is over the fact that the creditor community had opposed and tried to weaken (with some success) the regulatory reforms instituted at national and international levels; and since then they have been busy trying to dismantle them or ensure they are not adequately enforced.

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Globalisation – a rarely properly defined term that has become ubiquitous since the mid-1980s and appears to mean all things to all and sundry – has now become more or less anathema in much of the industrialised world, while it is sought to be promoted and preserved by the developing world, with China emerging as some kind of a champion, replacing the United States, the architect and hegemon of the postwar economic order. The frequent use and misuse of the term 'globalisation' has probably contributed to some extent to the backlash.

Responding to these varying trends, the Basel-based Bank for International Settlements (BIS) – the so-called central bank for the central banks of the world – has warned, in its 87th Annual Report released in June, against throwing the baby out with the bathwater.

Without precisely identifying the liberal (laissez faire) era of industrial capitalism of the late 19th and early 20th centuries, the BIS talks of the 'evolution of globalisation' and its first wave, which died out with World War I (1914-18). It describes how after World War II 'trade openness' surged far beyond that in the first wave of globalisation, doubling (relative to GDP growth) the prewar peaks since 1960. Globalisation, the BIS underscores, has enabled the raising of living standards and the lifting of large proportions of the population out of poverty. (There is little doubt that 'globalisation' and economic growth and the space it provided enabled some of the governments in countries with large pockets of poverty to intervene and directly provide work and minimum incomes to the very poor.) As such, while the adjustment costs need to be carefully managed, globalisation does not deserve the backlash it is now receiving in the advanced industrial world, contends the BIS. And trade openness, the BIS notes, is symbiotic with financial openness. The BIS nonetheless has issued cautions over rising debt levels and the risks during the downswings of financial cycles.

The unwary, on a cursory reading of the narration in the BIS report of the first and second waves of globalisation, might be left with the impression that in both (somewhat vaguely defined) eras, more or less similar policies of economic liberalism prevailed. This is far from the actual facts.

The era of modern capitalism (distinguished from earlier periods of feudalism and mercantilism) is generally identified as beginning with Adam Smith and continuing through Marx, John Stuart Mill, Heckscher and Ohlin, and Keynes. (It would be simplistic though, as currently in vogue among conservatives in the Anglosphere, to associate Adam Smith unreservedly with free-market theories. While he was intent on delivering the *coup de grâce* to dying mercantilism, he nevertheless vigorously provided support for the British Navigation Acts in the then raging controversies between Britain and its American colonies.)

Depending on the school of economics to which one belongs, some parts of this era are referred to as the 'golden age of capitalism'. For the liberal, laissez-faire economists, the period of unregulated, unrestrained 'free markets' up to the great Wall Street crash of 1929 and the Great Depression that ensued was the 'golden era'. Since 1980, the Bretton Woods twins (the IMF and the World Bank), the BIS, the GATT and its successor the World Trade Organisation (WTO) have all been promoting policies of that era under what has come to be known as neoliberal economics.

On the other side, to the Keynesians, by and large, it is the postwar economic order that prevailed from about 1945-48 to the early 1970s which is the golden era: the era of industrialisation, trade expansion, full employment, rising workers' incomes and living standards, an era marked by organised labour providing employment security, and the state and employers providing social security and retirement benefits, with the consumer spending that ensued leading in turn to corporate profits and investment growth.

There are some myths and mythologies surrounding both, but none more so than in the rosy view of the laissez-faire capitalist era – alleged worldwide free markets, free trade and free capital flows that prevailed from about 1870 to 1913. These have been exposed as 'myths' and comprehensively analysed by Paul Bairoch and Richard Kozul-Wright in a 1991 discussion paper published by the UN Conference on Trade and Development (UNCTAD) (subsequently revised and published as a chapter under the title 'Globalization Myths' in R Kozul-Wright and R Rowthorn, eds., *Transnational Corporations and the Global Economy*, 1998, Macmillan Press/St. Martin's Press).

Bairoch and Kozul-Wright debunked some of the myths around the thesis that in the first globalisation era there was free trade and free flows of capital. They brought out that a regime of free trade – beginning with the Anglo-French trade treaty of 1860 and a series of French treaties with countries in continental Europe, all with the 'most favoured nation' clause – lasted for only about two decades. Around the time, the United States, emerging from the civil war, erected tariff walls and industrialised itself through import substitution strategies. In continental Europe itself, Germany and then France too, finding their agriculture hit by cheap grain imports from the US and Russia, and their industry also unfavourably affected by manufactured imports (with List in Germany more or less writing the counter-thesis to British free trade concepts), soon erected protective walls. Only Britain – and its colonies – persisted with policies based on openness to trade, though not to unrestricted cross-border flows of capital. As a result, the devastating effects of the Great Depression affected Britain most, while France and Germany escaped with much less damage.

As for financial openness and free movement of capital, this was generally accepted until 1914, payments imbalances being nonetheless restricted by the need to pay for international transactions in gold.

In light of all this, there is a need to modify one's assessment of trade and financial openness in the first era of globalisation and the conclusion that this openness drove globalisation.

In the postwar period, until about the mid-1970s, economic growth and trade expansion were underpinned by active state involvement and regulation of the economy, institution of old age pensions and social security, and employment security and rising incomes and wages through collective bargaining; this in turn resulted in consumer spending, and expansion of demand creating investment.

The efforts in that era, in particular in the US, of both pursuing domestic welfare and waging war abroad (the Vietnam War) but without raising taxes, inevitably led to inflation, followed by the stagflation of the mid-1970s. This period saw several US and European actions that may or may not be instances of cause-and-effect. Several European nations which were not involved in the Vietnam War nevertheless 'profited' by supplying goods and services to the US war machine; in terms of the then prevalent gold-dollar parity monetary regime of the Bretton Woods era, they accumulated dollar surpluses which they sought to convert into gold. As a response to these and the ensuing imbalances and erosion of US gold reserves, President Nixon, with just a half-hour's notice to the International Monetary Fund (IMF), took the unilateral decision to end that parity and close the gold window.

After some temporary arrangements/accords between the US and Europe, including raising the price of gold vis-a-vis the dollar, the entire postwar Bretton Woods system was allowed to collapse, with IMF members adopting the Jamaica amendments to the IMF Articles of Agreement, and a system of floating exchange rates determined by financial markets. (In fact, however, countries and central banks did intervene in currency markets to provide support to their currencies within prescribed margins.) The currency chaos that followed was exacerbated by the growth in the interim of the Eurocurrency market and euromoney market of offshore currencies. There were also the two oil price increases of 1973 and 1979 agreed upon and instituted by the Organisation of Petroleum Exporting Countries (OPEC). It is still a matter of much argument and controversy among economists whether the oil price increases contributed to inflation or were merely responses to the inflation on the part of producers.

Whatever the cause and effect, the inflation and stagflation in the major economies challenged the credibility of Keynesian policies and made Friedman's monetary economics and what became known as the Chicago school's neoliberal economics feasible. Though very soon economists revised and adapted Keynes's theories, giving rise to what is known as neo-Keynesian economics, they were unable to recover ground lost in the government policy sphere to the neoliberals. (Only the Great Financial Crisis which erupted in 2008 has brought about a revival of Keynesian efforts to stimulate the economy via unorthodox monetary policies as by the US Federal Reserve. Whether it will result in a reversal of neoliberal economics remains to be seen.)

The 1980 election of Ronald Reagan as US President, and his strident espousal of the neoliberal economic policies adopted a few months earlier in the UK by Prime Minister Margaret Thatcher, resulted in what is known as the Thatcher-Reagan counter-revolution. The mandate for change in the US was taken by the IMF and World Bank as a mandate for change in economic policies in the developing world, and the Fund and Bank enforced this change through their conditional lending and structural adjustment policies. Deindustrialisation followed in the developing countries that adopted the policies of this so-called Washington Consensus, which forced them to open up to trade and finance even while in the major advanced economies, agriculture remained highly subsidised and protected.

After a period of rapid growth, trade slowed down while finance took on a life of its own with little relationship to the real economy, with periodic financial cycles of upswings and downswings both triggered by and contributing to the rise in household indebtedness together with stagnation in the incomes of the majority in major advanced economies. All this culminated in the Great Financial Crisis, and the subsequent lukewarm efforts at financial regulatory reform (for example, the Dodd-Frank Act in the US).

At the international level, efforts began at the BIS and the associated Basel Committee on Banking Supervision (BCBS) on Basel III, a comprehensive set of reform measures to strengthen the regulation, supervision and risk management of the banking sector. The framework is still a work in progress, with the June meeting of the BCBS failing to achieve a consensus on both the framework and its starting date. It mainly takes into account the situation in advanced economies, with doubts as to whether and how developing countries would be able to comply. In fact, some sceptics, like David Shirreff in his book *Break Up the Banks!*, have questioned the utility of Basel III and are advocating a completely different approach to reform of the banking sector. (See the review of Shirreff's book by Andrew Cornford in *Third World Economics*, No. 639, 16-30 April 2017.)

Those in the creditor community and international organisations espousing and promoting the interests of the creditor class might do well to look at the extensive literature available on the US policies under President Franklin Delano Roosevelt (FDR), in particular in his first term (1933-37). Henry Kaufman, a former Wall Street banker but now a fierce critic, recently authored a book contrasting how the bankers and their shenanigans were dealt with under FDR and (in the wake of the Great Financial Crisis) under President Obama. Kaufman, according to a review in the *Financial Times*, is scathing in his criticism of Obama and the failure of his administration to bring any major banker to trial.

After the Wall Street crash of 1929, the Republicans who then controlled the US Congress (Republican Herbert Hoover was the President) began an inquiry into the financial sector in 1930 in the Senate Committee on Banking and Finance. But the inquiry went nowhere, with the Democrats accusing the majority party of trying to cover up and whitewash the affair. Three successive chief counsel of the Committee quit, having been denied subpoena powers by the Committee and hence being unable to get at documents or examine witnesses on oath.

The 1932 US election saw patrician FDR sweeping the polls in a landslide, winning the White House and with comfortable majorities in both houses of Congress. The now Democratic-controlled Senate got a new counsel for its Banking and Finance Committee, Ferdinand Pecora. (In popular narration, including Wikipedia, this inquiry has come to be known more as the Pecora Commission rather than by the names of the Senate Committee leaders.) Armed with subpoena powers, Pecora forced Wall Street tycoons to produce their internal documents and give evidence on oath in public before the Committee. Figures like Richard Whitney, president of the New York Stock Exchange; investment bankers Otto H Kahn, Charles E Mitchell, Thomas W Lamont, Albert H Wiggin and JP Morgan Jr; and celebrated commodity market speculators such as Arthur W Cutten were forced to testify in person before the open Senate inquiry. Wide media coverage of the inquiry helped mobilise public opinion in support of such reforms as bank deposit insurance, restoring public confidence and avoiding or ending runs on banks; the establishment of the US Securities and Exchange Commission and its regulatory and investigatory powers, used to end shady practices and insider trading; and other New Deal reforms.

Pecora achieved disclosure of the abusive practices of the financial industry and got a top personality like JP Morgan Jr to admit that he and his partners had not paid any income taxes in 1931 and 1932. (The contrast with the current situation in the US, where President Trump has not disclosed his tax returns, is rather striking.) Others admitted to insider trading and other questionable practices. The public outcry led Congress and FDR to enact several regulatory reforms such as those mentioned above, and bankers shown to have committed fraud were prosecuted and jailed.

In contrast, after the GFC, some minor traders have been jailed, but not one banker or other senior executive of a major financial firm. The Dodd-Frank financial reforms are yet to be fully enforced, and the bankers and shadow-banking institutions have been busy trying to weaken or dismantle even these limited reforms.

Is it then surprising that the public have become cautious, amid constant threats of cutbacks in social security and other welfare measures which would weaken consumer demand and thus investment and, with it, economic growth? And with stagnant incomes, and so-called flexible employment contracts more and more prevalent, much of the middle and working classes are getting into debt just to keep afloat.

In the immediate aftermath of the Asian financial crisis, it was fashionable for financial media (including such figures as Martin Wolf of the *Financial Times*) to blame the Asians for crony capitalism and to cheer the policy prescriptions of the IMF and other international financial institutions with their one-size-fits-all programmes of structural adjustment and trade and financial liberalisation. In the late 1990s the IMF was promoting capital convertibility to the point where it was trying to get the abrogation of provisions in its Articles of Agreement that enabled capital controls.

Only recently, after the GFC of 2008, have the same international financial institutions and the financial media begun promoting neo-Keynesian policies of public spending and stimulus to counter the deflationary forces of the GFC. The IMF also changed its stance, not only supporting the non-orthodox monetary policies that the US Federal Reserve and other leading central banks used to stimulate the economy, but even conceding use of capital controls in certain scenarios.

The BIS though by 2010 began worrying about the very low or near-zero interest rates, and the resulting disincentive to savers, that however still failed to produce consumer spending. It began advocating monetary and fiscal tightening, and gradual increases in central bank policy rates. The advice was largely ignored, thus enabling anaemic global growth. Noting this, Martin Wolf has recently called the BIS 'the stopped clock of international economic institutions'.

It is this malaise of stagnant incomes and falling living standards of the middle and working classes that has created the current disillusionment with globalisation and the backlash against it.

In this context, Chapter III of this year's BIS Annual Report has a useful and pointed discussion of financial-cycle risks and consumption risks (and renewed rise in debt levels, including in emerging economies), and it includes a useful table which brings out the early warning indicators of stress in domestic banking systems.

However, as Andrew Cornford, a former senior economist at UNCTAD now with Observatoire de la Finance who follows financial market regulations, notes, it is not at all clear how appropriate it is to discuss risks to investment in abstraction from consumption. The level of investment depends on prospects for consumption, and sustainable levels of consumption in at least the medium term depend on buoyant consumers' income and not – as in major countries prior to the GFC – on rapid accumulation of consumer debt (though this last brings revenues and profits to banks). This implies that growth of productivity resulting from buoyant investment also depends on buoyant consumption that is not dependent on excessive indebtedness but on buoyant incomes for the majority of economic agents. Acknowledgement of such links would require a somewhat different approach to policy.

As in other mainstream and financial discourse, the discussion in the BIS report of world trade focusses exclusively on dangers from protectionism. There is little awareness of the possibility that part of the slowdown in world trade growth may be due to slower innovation in transport and communications. The effects of such innovation figured more prominently in discussion of trade earlier in the 20th century. Indeed, in much literature greater importance was attributed to developments on this front than to protectionism. Cornford, for example, thinks that 'a balanced discussion of the subject has to integrate the effects of economic growth, financing for trade, protectionist measures, and transport costs – with appropriate disaggregation – and would not serve simply as a peg for observations about the neoliberal bugbear of protectionism'.

Discussions in mainstream economics of today (whether at the WTO, international financial institutions including the IMF, BIS, or elsewhere) often also advocate labour market flexibility (not necessarily well defined) – flexibility that neither the international civil servant economists nor tenured economists in academia like to be applied to themselves. That apart, there seems little awareness that measures advocated under the heading of 'flexible labour markets' have too often been such as likely to increase economic insecurity for much of the population – a condition that does not encourage consumption.

It was in fact the economic security that the postwar order ensured that unleashed consumer spending. Neither the BIS nor any of the international financial organisations has flagged or advocated measures which would safeguard incomes and enhance economic security, acting as a bulwark against the breakdown of communities and the increasingly pervasive sense of hopelessness amongst much of the population in major developed countries. None of them has advocated ending precarious work contracts, which are capable of generating lower but misleading statistics for unemployment. Security of employment and labour rights is not exactly a Marxist or communist concept. Support for it has an honourable non-Marxist tradition in economics, with a range of non-Marxist economists like Amartya Sen, JK Galbraith, JM Clarke and others voicing support for labour rights, all seeing it as a counterbalancing force vis-a-vis corporate power. Yet this support does not find reflection in the current era in the output of the main multilateral organisations. Even the International Labour Organisation (ILO) deals with this issue rather carefully (lest it attract the wrath of leading governments, which might cut funding!).

At the same time, the financial community and its lobbyists are busy trying to weaken, if not dismantle, the limited regulatory reforms put in place after the GFC.

All this implies continued political uncertainty in the Anglosphere and in the EU, making it difficult to predict short-to-medium-term outlooks or for countries to build up economic resilience as the BIS advocates. ◆

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Trump intel chief: North Korea learnt from Libya war to 'never' give up nukes

While North Korea's continuing missile tests have drawn a predictable response from the mainstream media, no attempt has been made to explain Pyongyang's single-minded pursuit of the nuclear option. This is despite the recent candid admission by US President Trump's Director of National Intelligence that there is a sound rationale for this quest.

Jon Schwarz

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THE media is now filled with headlines about North Korea's missile test on 28 July, which demonstrated that its intercontinental ballistic missiles (ICBMs) may be able to reach the continental US. What isn't mentioned in any of these stories is how we got to this point – in particular, what Dan Coats, US President Donald Trump's Director of National Intelligence, explained at the Aspen Security Forum on 21 July.

North Korea's 33-year-old dictator Kim Jong-un is not crazy, said Coats. In fact, he has 'some rationale backing his actions' regarding the country's nuclear weapons. That rationale is the way the US has demonstrated that North Korea must keep them to ensure 'survival for his regime, survival for his country'.

Kim, according to Coats, 'has watched, I think, what has happened around the world relative to nations that possess nuclear capabilities and the leverage they have and seen that having the nuclear card in your pocket results in a lot of deterrence capability'. In particular, 'The lessons that we learnt out of Libya giving up its nukes … is [sic] unfortunately: If you had nukes, never give them up. If you don't have them, get them.'

This is, of course, blindingly obvious and has been since the US

North Korean leader Kim Jong-un meeting scientists and technicians doing research in nuclear weapons. Kim, according to the US Director of National Intelligence, has 'seen that having the nuclear card in your pocket results in a lot of deterrence capability'.

helped oust long-time Libyan dictator Muammar Gaddafi's regime in 2011. But US officials have rarely if ever acknowledged this reality. Here's the timeline:

In December 2003, Libya announced that it would surrender its biological and chemical weapons stockpiles, as well as its rudimentary nuclear weapons programme.

In celebrating Libya's decision, then-US President George W Bush declared that the rest of the world should take away the message that 'leaders who abandon the pursuit of chemical, biological and nuclear weapons, and the means to deliver them, will find an open path to better relations with the United States and other free nations'. Paula DeSutter, Bush's Assistant Secretary of State for Verification and Compliance, explained that 'we want Libya to be a model for other countries'.

In 2011, the US and NATO conducted a bombing campaign to assist Libyan rebels in overthrowing the Gaddafi government. Gaddafi himself was captured by one rebel faction, who apparently sodomised him with a bayonet and then killed him.

You would definitely expect this to get the attention of North Korea's ruling clique – especially given that Iraq had also disarmed and then been

An airstrike by NATO forces in Libya, March 2011. At the time, the North Korean Foreign Ministry stated that the 2003 deal to rid Libya of weapons of mass destruction had been 'an invasion tactic to disarm the country'.

invaded, with its dictator executed by a howling mob.

And, indeed, North Korea said this explicitly at the time. Its foreign ministry stated, 'The Libyan crisis is teaching the international community a grave lesson,' which was that the deal to rid Libya of weapons of mass destruction had been 'an invasion tactic to disarm the country'.

Yet the Obama administration shamelessly denied this. A reporter told US State Department spokesperson Mark Toner that 'North Koreans are looking at this' and it didn't 'give them a lot of incentive to give up their nuclear weapons'. Toner replied that 'where [Libya is] at today has absolutely no connection with them renouncing their nuclear programme and nuclear weapons'.

Moreover, North Koreans and other countries can read, and so understand what America's foreign policy elite has repeatedly explained why we want small countries to disarm. It's not because we fear that *they* will use weapons of mass destruction (WMDs) in a first strike on *us*, since nations like North Korea understand that would immediately lead to their obliteration. Instead, our mandarins explicitly say the problem is that unconventional weapons help small countries deter *us* from attacking *them*.

There are many examples. For instance, in a 2001 memo, then-US Secretary of Defense Donald Rumsfeld stated: 'Several of these [small enemy nations] are intensely hostile to the United States and are arming to deter us from bringing our conventional or nuclear power to bear in a regional crisis …

'[U]niversally available [WMD] technologies can be used to create "asymmetric" responses that cannot defeat our forces, but can deny access to critical areas in Europe, the Middle East, and Asia … "asymmetric" approaches can limit our ability to apply military power.'

The think-tank Project for a New American Century, a neoconservative pressure group that had a heavy influence on George W Bush's administration, made the same point in an influential paper called 'Rebuilding America's Defenses':

'The United States also must counteract the effects of the proliferation of ballistic missiles and weapons of mass destruction that may soon allow lesser states to deter US military action by threatening US allies and the American homeland itself. Of all the new and current missions for US armed forces, this must have priority …

'In the post-Cold War era, America and its allies, rather than the Soviet Union, have become the primary objects of deterrence and it is states like Iraq, Iran and North Korea who most wish to develop deterrent capabilities.'

In fact, even Dan Coats himself has said this, in a 2008 op-ed he co-wrote. 'An Islamic Republic of Iran with nuclear weapons capability would be strategically untenable,' Coats said, because it would possess a 'deterrent' against US attack. And to prevent Iran from acquiring the ability to deter us, he explained, we might have to attack them.

The following is the transcript of Coats's remarks at the Aspen Security Forum on 21 July:

Coats: It has become a potential existential threat to the United States and it is of great concern.

Lester Holt (interviewer): And in terms of the number of options available publicly we know that there aren't a lot of great options there, and a lot of it is trying to see into Kim Jong-un's head and that's I suspect that most difficult kind of intelligence trying to predict someone's behaviour.

Coats: Well, he's demonstrated behaviour publicly that really raises some questions about who he is and how he thinks and how he acts, what his behaviour is, but our assessment has come – has pretty much resulted in the fact that while he's a very unusual type of person, he's not crazy. And there is some rationale backing his actions which are survival, survival for his regime, survival for his country, and he has watched, I think, what has happened around the world relative to nations that possess nuclear capabilities and the leverage they have and seen that having the nuclear card in your pocket results in a lot of deterrence capability. The lessons that we learnt out of Libya giving up its nukes and Ukraine giving up its nukes is unfortunately: If you had nukes, never give them up. If you don't have them, get them, and we see a lot of nations now thinking about how do we get them and none more persistent than North Korea …. ◆

Jon Schwarz writes for The Intercept (theintercept.com), from which this article is reproduced with permission.

WORLD AFFAIRS

The mask is off: Trump is seeking war with Iran

Trita Parsi warns that President Trump is intent on wrecking the nuclear accord with Iran by October with false claims of non-compliance and launching a war against that country.

The reactor building at a nuclear power plant in Bushehr, Iran. The Trump administration appears committed to finding a way to claim that Iran has violated its nuclear deal, regardless of the facts.

SOMETHING extraordinary has happened in Washington. President Donald Trump has made it clear, in no uncertain terms and with no effort to disguise his duplicity, that he will claim that Tehran is cheating on the nuclear deal by October, the facts be damned.

In short, the fix is in. Trump will refuse to accept that Iran is in compliance and thereby set the stage for a military confrontation. His advisers have even been kind enough to explain how they will go about this. Rarely has a sinister plan to destroy an arms control agreement and pave the way for war been so openly telegraphed.

The unmasking of Trump's plans to sabotage the nuclear deal began in mid-July when he reluctantly had to certify that Iran indeed was in compliance. Both US intelligence as well as the International Atomic Energy Agency had confirmed Tehran's fairplay. But Trump threw a tantrum in the Oval Office and berated his national security team for not having found a way to claim Iran was cheating. According to *Foreign Policy*, the adults in the room – Secretary of State Rex Tillerson, Secretary of Defense Jim Mattis and National Security Advisor HR McMaster – eventually calmed Trump down but only on the condition that they double down on finding a way for the president to blow up the deal by October.

Prior to the revelation of Trump's Iran certification meltdown, most analysts and diplomats believed that Trump's rhetoric on Iran was just that – empty talk. His bark was worse than his bite, as demonstrated when he certified Iran's compliance back in April and when he renewed sanctions waivers in May. The distance between his rhetoric and actual policy was tangible.

Rhetorically, Trump officials described Iran as the root of all problems in the Middle East and as the greatest state sponsor of terror. Trump even suggested he might quit the deal. In action, however, President Trump continued to waive sanctions and admitted that Iran was adhering to the deal. As a result, many concluded that Trump would continue to fulfil the obligations of the deal while sticking to his harsh rhetoric in order to appease domestic opponents of the nuclear deal as well as Trump's allies in Saudi Arabia and Israel.

But now, assessments are changing. The tangible danger of Trump's malice on the Iran deal – as well as the danger of the advice of the 'adults in the room' – became further clarified towards the end of July as tidbits of the reality TV star's plans began to leak.

How to wreck a deal

Recognising that refusing to certify Iran would isolate the United States, Trump's advisors gave him another plan. Use the spot-inspections mechanism of the nuclear deal, they suggested, to demand access to a whole set of military sites in Iran. Once Iran balks – which it will since the mechanism is only supposed to be used if tangible evidence exists that those sites are being used for illicit nuclear activities – Trump can claim that Iran is in violation, blowing up the nuclear deal while shifting the blame to Tehran.

Thus, the advice of the adults in the room – those who are supposed to restrain Trump – was not to keep the highly successful nuclear deal, which has taken both an Iranian bomb and war with Iran off the table. Rather,

The US moves to claim violation by Iran of the nuclear accord are 'a rerun of the machinations that resulted in the Iraq war.' Picture shows then US Secretary of State Colin Powell addressing the UN Security Council in February 2003 to make the case for war on Iraq.

they recommended killing it in a manner that would conceal Trump's malice and shift the cost to Iran.

According to *The New York Times*, the groundwork for this strategy has already been laid. US Senate Foreign Relations Chair Bob Corker calls this strategy 'radical enforcement' of the deal. 'If they don't let us in,' Corker told *The Washington Post*, 'boom.' Then he added: 'You want the breakup of this deal to be about Iran. You don't want it to be about the US, because we want our allies with us.'

This is a charade, a rerun of the machinations that resulted in the Iraq war. It doesn't matter what Iran does or doesn't do. If it were up to Trump, he'd never have accepted that Iran was in compliance in the first place. He admitted as much to *The Wall Street Journal*: 'If it was up to me, I would have had them [the Iranians] non-compliant 180 days ago.'

Sounding supremely confident of the 'radical implementation' strategy, Trump added that 'I think they'll be non-compliant [in October].' In so doing, he further confirmed doubts that the process is about determining whether Iran is in compliance or not. The administration is committed to finding a way to claim Iran has violated the accord, regardless of the facts – just as George W Bush did with Iraq.

Potential to backfire

But Trump's confidence may be misplaced on two levels. First, abusing the inspection mechanisms of the deal may prove harder than Trump has been led to believe. The inspections are the cornerstone of the deal, and Iran's ability to cheat on the deal is essentially non-existent as long as the integrity and efficiency of the inspections remain intact. But if Trump begins to abuse the mechanism to fabricate a conflict, he will end up undermining the inspections regime and actually enhance the ability of those in Iran who would like to pursue a covert nuclear programme. Precisely because of the commitment of Europe and others to non-proliferation, they are likely to resist Trump's efforts to tinker with the inspections.

Second, by revealing his hand, Trump has displayed his duplicity for all to see. That includes the American public, whose anti-war sentiments remain strong and are a key reason they supported the nuclear deal in the first place.

The American public knows the Iraq playbook quite well. Trump's own supporters remain enraged by the disastrous war with Iraq. They know how they got played. It's difficult to imagine why they would allow themselves to get played again by a president who has left little doubt about his intent to deceive. ◆

Inspectors from the International Atomic Energy Agency and Iranian technicians monitor the Natanz nuclear facility in Iran, January 2014. 'If Trump begins to abuse the [inspections] mechanism to fabricate a conflict, he will end up undermining the inspections regime...'

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Saudi Arabia is buying off and silencing its critics

Thanks to the power and influence of the Gulf petrodollar, Western politicians, media and think-tanks have acquiesced in the continuing atrocities in Yemen and other human rights violations being perpetrated by Saudi Arabia and its Gulf state allies, says *Yasin Kakande*.

THE existence of Al Jazeera continues to pose a formidable problem for the Persian Gulf state monarchies. This reality was starkly revealed during the recent blockade in which Saudi Arabia and the United Arab Emirates closed off food and medicine shipments to Qatar, accusing it of supporting terrorism by funding and hosting Al Jazeera Arabic. The suppression was supposed to be carried out quietly, but Qatar's protests revealed a disturbing gameplan.

With its independent editorial voice, Al Jazeera (a media outlet where I have contributed articles) is the only major media outlet in the Gulf state region committed to watching and reporting on atrocities and the persistent threats to human rights and democratic freedom of expression. Al Jazeera has stepped in when others – including the US and Europe – have remained silent. In exchange for silence, American and European interests have preserved and extended lucrative relationships in business as well as defence contracts.

If you are following the global mainstream media coverage of the Saudi-led war in Yemen, you will have noticed the looming silence about the war there, as compared with the frequent coverage of the war in Syria. In Yemen, thousands are dying from Saudi bombardments, starvation and the biggest cholera outbreak in the world. In one report, Yemeni prisoners said they had been crammed into shipping containers smeared with faeces, blindfolded for weeks, sexually assaulted and beaten by the United Arab Emirates, Saudi Arabia's main ally. One torture method, known as the 'grill', had victims tied to a spit like a roast and spun in a circle of fire. Al Jazeera has been the only major media outlet in the region reporting about Yemen, so shutting it down could enable the Saudis and their Emirati friends to upgrade their atrocities to genocide.

US President Donald Trump with Saudi King Salman during the former's visit to Saudi Arabia in May. Trump negotiated a $110 billion arms deal with the Saudis that does not include any conditions seking to take human rights guarantees into consideration.

There has been an additional cost for American and European interests. The Gulf petrodollar has strengthened, emboldening the acquiescence of US and European politicians, media and think-tanks. Most Western universities and policy institutes receive impressively generous funding from the Gulf monarchies and, in exchange, the tone of academic discourse constrains the focus on human rights abuses and attempts to accommodate the Gulf state rulers from a pragmatic point of business relationships and global commerce.

Linked to this is the ever-manifest presence of law firms and lobbying groups in Washington, DC, especially from Saudi Arabia, that have influenced US policy and public opinion. Numerous entities have benefited from Gulf state donations, including the Middle East Policy Council, the Middle East Institute and the Smithsonian Freer Museum of Art, just to name a small handful.

As disturbing as this should be, partnerships between Saudi Arabia and international organisations empowered to protect human rights are even more worrisome.

In June, Saudi Arabia won a seat on the governing body of the International Labour Organisation (ILO) at the annual conference in Geneva. It will now be involved in setting ILO policies, budget and programme activities, and its presence could silence ILO critics who have called out Gulf states for widespread migrant worker abuses.

The Saudi kingdom, which just won a third term on the UN Human Rights Council, has also been elected to the UN Commission on the Status of Women – a peculiar step, given the kingdom's less-than-egalitarian stance on rights and social privileges for women.

The Trump administration, meanwhile, appears to be trying to appease cash-rich Arab dictators while aggressively proselytising about a human rights agenda to leaders of poorer nation-states. The message to human rights victims who happen to be in oil-rich states is to patiently endure the abuses until the inevitable time when these countries run out of oil and must reconfigure their economies. For now, the US and Europe side with the rich dictators. The West has ensconced itself in an alliance that is a profound betrayal of conscience, values and historical roots.

Trump has articulated a message that unsettles human rights activists in the region. Throughout the 2016 presidential campaign, Trump blasted Hillary Clinton for taking money from Saudi Arabia, which he accused of having a horrific human rights record and being behind the 9/11 attack. However, as president, Trump visited Saudi Arabia, meeting all Gulf rulers during his first formal state visit. Effusively praising his hosts, Trump negotiated a $110 billion arms deal with Saudi Arabia. The deal does not include any contingencies or conditions seeking to take human rights guarantees into consideration. Rather, the deal is essentially a carte blanche gift to a nation with one of the worst records in atrocities that violate the sanctity of human rights.

In the 1960s, President John F Kennedy mustered the courage to ask the Saudi king to end slavery as a condition for sustaining the relationship between the US and Saudi Arabia. Saudi Arabia formally outlawed slavery as a result, though the extreme exploitation of (foreign) workers continued. Current US leaders have shown themselves to be even more inclined to predicate the relationship between the US and Saudi Arabia on the accumulation of wealth rather than on questions about human rights and censorship.

The Al Jazeera newsroom in Doha, Qatar. Al Jazeera has been the only major media outlet in the region reporting about the Saudi-led war in Yemen.

So if governments, politicians, academic institutions, media and even non-governmental organisations are unable or unwilling to heed the voices of desperate people seeking to live with dignity and human rights in the Gulf states, then the question becomes 'Who will?'. It is a vulnerable time for democracy and human rights in the region: The petrodollar appears to be corrupting everyone into silent accommodation. Preserving the status quo on a slim surface is apparently the only meaningful objective for many, regrettably.

Individual human rights activists, meanwhile, have suffered increasingly dire consequences for speaking up. Many activists in Saudi Arabia, Bahrain and the United Arab Emirates have endured prolonged detentions with torture while others have been deported abruptly, cut off from their livelihoods and from their families.

The United Arab Emirates recently arrested Ahmed Mansour, reportedly the only human rights activist who was moving freely about the country. Ahmed has described himself as 'the last man talking' in the United Arab Emirates and the region about human rights violations, as almost every other activist in the Gulf state countries is in jail or exile or has been silenced by the fear of what the authorities will do not only to him or her but also to loved ones. Dr Naser bin Ghaith, a distinguished economist, already has served a lengthy prison term.

For my work as a journalist and author who chronicled the extensive abuses and exploitation of migrant workers, I was terminated and deported from the United Arab Emirates. And after being outspoken against the sheikhs, I have found countless doors closed to me in both media and academic institutions, many of which are supported financially by the United Arab Emirates and other Gulf state interests.

The world should be asking, 'What will happen to billions of innocent people who work hard to achieve a modicum of comfort and economic welfare when the last independent person of social conscience stops talking?' There is still time to reverse this ominous trend. ◆

Yasin Kakande is the author of The Ambitious Struggle: An African Journalist's Journey to Hope and Identity in a Land of Migrants*. The above article was first published on Truthout (www.truthout.org/opinion/item/41437-saudi-arabia-is-buying-off-and-silencing-its-critics).*

Challenging nuclearism: The Nuclear Ban Treaty assessed

On 7 July, almost 72 years after the first atomic bomb was detonated in the New Mexico desert, 122 nations voted at the United Nations to permanently ban nuclear weapons under international law. However, as *Richard Falk* emphasises in the following analysis, the fact that all nine states with nuclear weapons as well as those living under the 'umbrella' of the nuclear-armed states refused to support the move poses a formidable challenge in translating the goal of a nuclear-weapons-free world into reality.

Ambassador Elayne Whyte Gomez of Costa Rica, president of the UN conference negotiating the Nuclear Ban Treaty, saluting the adoption of the treaty on 7 July.

ON 7 July, 122 countries at the UN voted to approve the text of a proposed international treaty entitled 'Draft Treaty on the Prohibition of Nuclear Weapons'. The treaty is formally open for signature in September, but it will only become a binding legal instrument according to its own provisions 90 days after the 50th country deposits with the UN Secretary-General its certification that the treaty has been ratified in accordance with their various constitutional processes.

In an important sense, it is incredible that it took 72 years after the attacks on Hiroshima and Nagasaki to reach this point of setting forth this unconditional prohibition of any use or threat of nuclear weapons [Article 1(e)] within the framework of a multilateral treaty negotiated under UN auspices. The core obligation of states that choose to become parties to the treaty is very sweeping. It prohibits any connection whatsoever with the weaponry by way of possession, deployment, testing, transfer, storage and production [Article 1(a)].

The Nuclear Ban Treaty (NBT) is significant beyond the prohibition. It can and should be interpreted as a frontal rejection of the geopolitical approach to nuclearism and its contention that the retention and development of nuclear weapons is a proven necessity given the way international society is organised. It is a healthy development that the NBT shows an impatience towards and a distrust of the elaborate geopolitical rationalisations of the nuclear status quo that have ignored the profound objections to nuclearism of many governments and the anti-nuclear views that have long dominated world public opinion. The old reassurances about being committed to nuclear disarmament as soon as an opportune moment arrives increasingly lack credibility as the nuclear weapons states, led by the United States, make huge investments in the modernisation and further development of their nuclear arsenals.

Despite this sense of achievement, it must be admitted that there is a near-fatal weakness or, at best, a gaping hole in this newly cast net of prohibition established via the NBT process. True, 122 governments lend weight to the claim that the international community, by a significant majority, has signalled in an obligatory way a repudiation of nuclear weapons for any and all purposes, and formalised prohibition of any action to the contrary. However, the enormous fly in this healing ointment arises from the refusal of any of the nine nuclear weapons states to join in the NBT process even to the legitimating extent of participating in the negotiating conference with the opportunity to express their objections and influence the outcome. As well, most of the chief allies of these states that are part

Nuclear-capable missiles on display at the entrance to a US airbase in the state of Wyoming. The US and the other nuclear weapons states have refused to sign the Nuclear Ban Treaty.

of the global security network of states relying directly and indirectly on nuclear weaponry also boycotted the entire process. It is also discouraging to appreciate that several countries in the past that had lobbied against nuclear weapons with great passion such as India, Japan and China were notably absent and also opposed the prohibition. This posture of undisguised opposition to this UN-sponsored undertaking to delegitimise nuclearism, while reflecting the views of a minority of governments, must be taken extremely seriously. It includes all five permanent members of the UN Security Council and such important international actors as Germany and Japan.

The NATO triangle of France, the United Kingdom and the United States, three of the five veto powers in the Security Council, angered by its inability to prevent the whole NBT venture, went to the extreme of issuing a Joint Statement of denunciation, the tone of which was disclosed by a defiant assertion removing any doubt as to the abiding commitment to a nuclearised world order: 'We do not intend to sign, ratify or ever become party to it. Therefore, there will be no change in the legal obligations on our countries with respect to nuclear weapons.'

The body of the statement contended that global security depended upon maintaining the nuclear status quo, as bolstered by the Non-Proliferation Treaty (NPT) of 1968 and by the claim that it was 'the policy of nuclear deterrence which has been essential to keeping the peace in Europe and North Asia for over 70 years'.

It is relevant to take note of the geographic limits associated with the claim of the peace-maintaining benefits of nuclear weaponry, which ignores the ugly reality that devastating warfare has raged throughout this period outside the feared mutual destruction of the heartlands of geopolitical rivals, a central shared forbearance by the two nuclear superpowers throughout the entire Cold War. During these decades of rivalry, the violent dimensions of geopolitical rivalry were effectively outsourced to the non-Western regions of the world during the Cold War, causing massive suffering and widespread devastation for many vulnerable peoples inhabiting the Global South.

Such a conclusion suggests that even if we were to accept the claim that nuclear weapons deserve credit for avoiding a major war, specifically World War III, that 'achievement' was accomplished at the cost of millions, probably tens of millions, of civilian lives in non-Western societies. Beyond this, the achievement involved a colossally irresponsible gamble with the human future, and succeeded as much due to good luck as to the rationality attributed to deterrence theory and practice.

The NBT itself does not challenge the Westphalian framework of state-centrism by setting forth a framework of global legality that is issued under the authority of 'the international community' or the UN as the authoritative representative of the peoples of the world. Its provisions are carefully formulated as imposing obligation only with respect to 'State parties', that is, governments that have deposited the prescribed ratification and thereby become formal adherents of the treaty. Even Article 4, which hypothetically details how nuclear weapons states should divest themselves of all connections with the weaponry, limits its claims to State parties, and offers no guidance whatsoever in the event of suspected or alleged non-compliance. Reliance is placed in Article 5 on a commitment to secure compliance by way of the procedures of 'national implementa-tion'.

The treaty does aspire to gain eventual universality through the adherence of all states over time, but in the interim the obligations imposed are of minimal substantive relevance beyond the agreement of the non-nuclear parties not to accept deployment or other connections with the weaponry. It is for another occasion, but I believe a strong case can be made under present customary international law, emerging global law and abiding natural law that the prohibitions in the NBT are binding universally independent of whether a state chooses or not to become a party to the treaty.

Taking an unnecessary further step to reaffirm statism and specifically 'national sovereignty' as the foundation of world order, Article 17 gives parties to the NBT a right of withdrawal. All that state parties have to do is give notice, accompanied by a statement of 'extraordinary circumstances' that have 'jeopardised the supreme interests of its country'. The withdrawal will take effect 12 months after the notice and statement are submitted. There is no procedure in the treaty by which the contention of 'extraordinary circumstances' can be challenged as unreasonable or made in bad faith. It is an acknowledgement that even for these non-nuclear states, nothing in law or morality or human well-being takes precedence over the exercise of sovereign rights.

While Article 17 is not likely to be invoked in the foreseeable future, the provision reminds us of this strong residual unwillingness to supersede national interests by deference to global and human interests. The withdrawal option is also important because it confirms that national security continues to take precedence over international law, even with respect to genocidal weaponry of mass destruction. As such, the obligations undertaken by parties to the NBT are reversible in ways that are not present in multilateral conventions outlawing genocide, apartheid and torture.

Given these shortcomings, is it nevertheless reasonable for nuclear abolitionists to claim a major victory by virtue of tabling such a treaty? Considering that the nuclear weapons states and their allies have all rejected the process and even those within the circle of the intended legal prohibition reserve a right of withdrawal, the NBT is likely to be brushed aside by cynics as mere wishful thinking and by dedicated anti-nuclearists as more of an occasion for hemlock than champagne.

The cleavage between the nuclear weapons states and the rest of the world has never been starker, and there are absent any signs on either side of the divide to make the slightest effort to find common ground, and there may be none. As of now, it is a standoff between two forms of asymmetry. The nuclear states enjoy a preponderance of hard power, while the anti-nuclear states have the upper hand when it comes to soft power, including solid roots in 'substantive democracy', 'global law' and 'natural law'.

The hard power solution to nuclearism has essentially been reflexive, that is, relying on nuclearism as shaped by the leading nuclear weapons states. What this has meant in practice is some degree of self-restraint on the battlefield and in crisis situations (there is a nuclear taboo without doubt, although it has never been seriously tested) and, above all, a delegitimising, one-sided implementation of the Non-Proliferation Treaty regime. This one-sidedness manifests itself in two ways:

The cleavage between the nuclear weapons states and the rest of the world has never been starker.

(1) Discriminatory administration of the underlying non-proliferation norm, most unreservedly in the case of Israel; as well, the excessive enforcement of the non-proliferation norm beyond the limits of either the NPT itself or the UN Charter, as with Iraq (2003) and currently by way of threats of military attack against North Korea and Iran. Any such uses of military force would be non-defensive and unlawful unless authorised by a Security Council resolution supported by all five permanent members and at least four other states, which fortunately remains unlikely [UN Charter, Article 27(3)]. More likely is recourse to unilateral coercion led by the countries that issued the infamous Joint Statement denouncing the NBT, as was the case for the US and the UK with regard to recourse to the war against Iraq, principally rationalised as a counter-proliferation undertaking, which turned out itself to be a rather crude pretext for mounting an aggressive war, showcasing 'shock and awe' tactics.

(2) The failure to respect the obligations imposed on the nuclear weapons states to negotiate in good faith an agreement to eliminate these weapons by verified and prudent means, and beyond this to seek agreement on general and complete disarmament. It should have been evident, almost 50 years after the NPT came into force in 1970, that nuclear weapons states have breached their material obligations under the treaty, which were validated by an Advisory Opinion of the International Court of Justice in 1996 that included a unanimous call for the implementation of these Article VI legal commitments. Drawing this conclusion from deeds as well as words, it is evident for all with eyes that want to see, that the nuclear weapons states as a group have opted for deterrence as a permanent security scheme and non-proliferation as its management mechanism.

One contribution of the NBT is to convey to the world the crucial awareness of these 122 countries as reinforced by global public opinion that the deterrence/NPT approach to global peace and security is neither prudent nor legitimate nor a credible pathway leading over time to the end of nuclearism.

In its place, the NBT offers its own two-step approach – first, an unconditional stigmatising of the use or threat of nuclear weapons, to be followed by a negotiated process seeking nuclear disarmament. Although the NBT is silent about demilitarising geopolitics and conventional disarmament, it is widely assumed that latter stages of denuclearisation would not be implemented unless they involved these broader assaults on the war system. The NBT is also silent about the relevance of nuclear power capabilities, which inevitably entail a weapons option given widely available current technological knowhow. The relevance of nuclear energy technology would have to be addressed at some stage of nuclear disarmament.

Having suggested these major

shortcomings of treaty coverage and orientation, can we, should we cast aside these limitations and join in the celebrations and renewed hopes of civil society activists to rid the world of nuclear weapons?

My esteemed friend and colleague, David Krieger, who has dedicated his life to keeping the flame of discontent about nuclear weapons burning and serves as the longtime and founding President of the Nuclear Age Peace Foundation, concludes his informed critique of the Joint Statement by NATO leaders with this heartening thought: 'Despite the resistance of the US, UK and France, the nuclear ban treaty marks the beginning of the end of the nuclear age' (Krieger, 'US, UK and France Denounce the Nuclear Ban Treaty').

I am not at all sure about this, although Krieger's statement leaves open the haunting uncertainty of how long it might take to move from this 'beginning' to the desired 'end'. Is it, as self-styled 'nuclear realists' like to point out, no more than an ultimate goal, which is polite coding for the outright dismissal of nuclear disarmament as 'utopian' or 'unattainable'?

We should realise that there have been many past 'beginnings of the end' since 1945 that have not led us any closer to the goal of eliminating the scourge of nuclearism from the face of the earth. It is a long and somewhat arbitrary list, including the immediate horrified reactions of world leaders to the atomic bomb attacks at the end of World War II, and what these attacks suggested about the future of warfare; the massive anti-nuclear civil disobedience campaigns that briefly grabbed mass attention in several nuclear weapons states; tabled disarmament proposals by the United States and the Soviet Union in the 1960s; the UN General Assembly Resolution 1653 (XVI) that in 1961 declared threat or use of nuclear weapons to be unconditionally unlawful under the UN Charter and viewed any perpetrator as guilty of a crime against humanity; the Cuban missile crisis of 1962 that scared many into the momentary realisation that it was not tolerable to coexist with nuclear weapons; the International Court of Justice majority opinion in 1996 responding to the General Assembly's question about the legality of nuclear weapons that limited the possibility of legality of use to the narrow circumstance of responding to imminent threats to the survival of a sovereign state; the apparent proximity to an historic disarmament arrangement agreed to by Ronald Reagan and Mikhail Gorbachev at a summit meeting in Reykjavik, Iceland in 1986; the extraordinary opening provided by the ending of the Cold War and the collapse of the Soviet Union, which should have been the best possible 'beginning of the end'; and finally, Barack Obama's Prague speech in 2009 (echoing sentiments expressed less dramatically by Jimmy Carter in 1977 early in his presidency) in which he advocated to great acclaim dedicated efforts towards the elimination of nuclear weapons if not in his lifetime, at least as soon as possible – it was a good enough beginning for a Nobel Peace Prize, but then one more fizzle.

Each of these occasions briefly raised the hopes of humanity for a future freed from the threat of nuclear war and its assured accompanying catastrophe. Yet there were few, if any, signs of progress from each of these beginnings greeted so hopefully towards the ending posited as a goal. Soon disillusionment, denial and distraction overwhelmed the hopes raised by these earlier initiatives, with the atmosphere of hope in each instance replaced by an aura of nuclear complacency, typified by indifference and denial. It is important to acknowledge that the bureaucratic and ideological structures supporting nuclearism are extremely resilient and have proved adept at outwaiting the flighty politics of periodic flurries of anti-nuclear activism.

And after a lapse of years, yet another new beginning is now being proclaimed. We need to summon and sustain greater energy than in the past if the NBT is to avoid the fate of earlier new beginnings. Let this latest beginning start a process that moves steadily towards the end that has been affirmed. We know that the NBT would not itself have moved forward without civil society militancy and perseverance at every stage. The challenge now is to discern and then take the next steps, and not imitate the precedents of the past that followed the celebration of a seeming promising beginning with a misplaced reliance on the powers that be to handle the situation, and act accordingly. In the past, the earlier beginnings were soon buried, acute concerns eventually resurfaced, and yet another new beginning was announced with fanfare while the earlier failed beginnings were purged from collective memory.

Here, we can at least thank the infamous Joint Statement for sending a clear signal to civil society and the 122 governments voting their approval of the NBT text that if they are truly serious about ending nuclearism, they will have to carry on the fight, gathering further momentum and seeking to reach a tipping point where these beginnings of the end gain enough traction to become a genuine political project, and not just another harmless daydream or well-intended empty gesture.

As of now, the NBT is a treaty text that courteously mandates the end of nuclearism, but to convert this text into an effective regime of control will require the kind of deep commitments, sacrifices, movements and struggles that eventually achieved the impossible, ending such entrenched evils as slavery, apartheid and colonialism. ◆

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HUMAN RIGHTS

By the wayside

Since Michel Temer became Brazil's President in 2016, agribusiness and ranching interests have intensified their efforts to evict indigenous peoples from their ancestral lands. The Guarani-Kaiowá tribe is the latest victim of this 'slow genocide'.

Eimhin O'Reilly

Alejandra del Rey/FIAN International

'The Guarani-Kaiowá have spent decades as refugees on their own lands.'

THROUGHOUT May, indigenous protesters armed with spears, bows and arrows rallied against planned legislation put forward by Michel Temer's interim conservative government to strip the National Indian Foundation (FUNAI) of the power to determine indigenous territories. In the streets of Brasília, protesters faced the tear gas and rubber bullets of Brasília's riot police. The law, if passed, would leave decisions about indigenous territories to Congress, dominated by the powerful agribusiness lobby – part of the so-called Beef, Bullets and Bible Caucus.

Temer's 2016 government takeover has intensified efforts by agribusiness and ranching interests to evict indigenous peoples from their ancestral lands through intimidation and violence. The Guarani-Kaiowá tribe has often borne the brunt of such repression – their home state of Mato Grosso do Sul has the country's highest rate for murders of indigenous peoples. In fact, the Brazilian government's conservative turn appears to have further emboldened local landowners – there are videos online of hired gunmen driving through Guarani reserves, shooting at unarmed civilians. Last June, a violent attack in a Guarani community left a health worker dead and six others wounded, including a 12-year-old boy.

The Guarani-Kaiowá have spent decades as refugees on their own lands, eking out a living on the few overcrowded reserves they have been granted (like Dourados, where 12,000 Guarani live on about 11.5 square miles of land) or in informal camps, sandwiched between dusty roads and vast, fenced-off farmland.

What the Guarani-Kaiowá have suffered is often described as a 'slow genocide'. In the first century after the arrival of the Portuguese in 1500, over 90% of Brazil's indigenous population were killed. Yet the Guarani-Kaiowá were largely spared the initial ravages of colonisation because they inhabited the densely forested and less accessible Brazilian interior (Guarani-Kaiowá translates as 'people of the forest', and Mato Grosso do Sul as 'thick forest of the south'). Still, the ever-expanding appetite for tea, beef, sugar and soy pushed European settlers further into Guarani lands. The 20th century saw the mass displacement of indigenous peoples throughout Brazil, including the Guarani-Kaiowá, in a colonisation initiative known as the March to the West.

Even after suffering evictions from their own lands, the landowners' monopoly over local employment and a lack of land for hunting, fishing and planting still leave the Guarani-Kaiowá no choice but to work for the same families that occupy their ancestral territory. According to Fiona Watson, campaigns director at Survival International, wages are meagre, barely reaching subsistence and sometimes paid in alcohol.

By 1964, when tanks stormed the modernist government buildings in Brasília, ushering in over two decades of brutal military rule, Brazil's indigenous peoples were facing total annihilation. As part of its national development plan, the military government intensified colonisation efforts in the indigenous territories of the Brazilian interior, which, together with a pervasive judicial impunity, effectively legalised the murder of Indians.

Even with the 1985 return to democracy, change remained painfully slow. While the 1988 Constitution recognised native Brazilians as human beings for the first time and pledged to recognise all indigenous lands within five years, less than half have been formalised today, nearly 30 years later. Mato Grosso do Sul only granted indigenous people labour rights in 1999.

Given these conditions, the Guarani have relied on *retomadas*, or reoccupations of this ancestral territory, to reclaim their homelands.

Cacique (chief) Marcos Veron of Takuára village led several such reoccupations, all of which failed. In 1997, a local judge ordered the tribe to leave, and in 2001, heavily armed police and soldiers forced them off the land.

Veron was born on Guarani land, sometime between 1928 and 1932. Throughout his life, he had seen his community become increasingly marginalised, both physically and socially. In 1953, after years of gradual incursions, cattle ranchers forced his community off their lands entirely. However, he went on to become an internationally recognised defender of Guarani rights, and even toured around Europe in 2000 to raise awareness of the plight of his people.

In January 2003, Veron led his final *retomada*, leading about 100 Guarani-Kaiowá onto the grounds of the massive Brasília do Sul ranch.

He was aware of the risk of doing so. The day before, according to his son Ernesto, he said, ‘We are going back onto our land and we are never going to leave again. If they kill me, you will all continue to fight because Takuára is our land. Do not let them destroy our reserve.’

That morning, Veron stood his ground as a band of gunmen descended upon their makeshift camp. Suddenly, in front of nearly 100 witnesses, one of the assailants thrust the butt of his rifle into Veron’s head, fracturing his skull. Veron’s family, friends and neighbours were indiscriminately attacked while Veron was struck again and again, his blood soaking into the rich red soil. He died a few hours later.

The tragedy was just one example of centuries of violence, repression and discrimination against the Guarani-Kaiowá. That Veron’s murder received any kind of investigation at all was highly unusual. After a protracted eight-year legal battle, three of the assailants were charged on the lesser crimes of criminal conspiracy, torture and kidnapping. The local rancher who allegedly orchestrated the killing, Jacinto Honório da Silva, was never convicted, and continues to threaten the Veron family.

Marcos Veron’s son and current *cacique*, Ládio Veron, retraced his father’s journey in a speaking tour around Europe in early 2017, bearing a list of demands nearly identical to that of his father. ‘We want a dignified life in Mato Grosso do Sul, Brazil, far from the paramilitaries who are there today. We want peace. We want to live on our own sacred lands,’ he told audiences in 12 different countries.

These lands, just a tiny fraction of the Guarani-Kaiowá’s former territory, have already been identified and declared. But landowners have fiercely contested the final step that would allow the Guarani-Kaiowá to return – physical demarcation – and forced suspension of the process in 2010.

Speaking in crowded lecture halls and parliament buildings – often wearing an ornate feather headdress, his face painted in black and red – it was clear that Ládio had inherited his father’s righteous anger and firm conviction. On each occasion, he recited a litany of appalling abuses, painting a vivid picture of both gruelling hardship and resolute defiance.

Ládio Veron had campaigned extensively for former president Luiz Inácio Lula da Silva, buoyed by the promises he made to complete the final step for the Guarani-Kaiowá to return to their lands. Yet in a pattern all too familiar to indigenous communities throughout the continent, once in office, Lula made only a few small concessions to the Indians, or what Ládio describes as ‘breadcrumbs’.

His successor, Dilma Rousseff, declined to even meet with the Guarani-Kaiowá. ‘Dilma didn’t give us anything,’ Ládio told me, ‘but at least she didn’t make any promises.’

Still, the indifference of these administrations pales in comparison with the current government’s hostility, and Ládio, like many others, considers Michel Temer’s ascension to the presidency to be a parliamentary coup. While in Europe, he would often describe Temer as a *golpista* – a coup leader – and would hold up signs reading ‘*Fora Temer*’ (Temer Out).

Ládio and his community have been truly left by the wayside. Life as a Guarani-Kaiowá today is precarious at best. According to one report, 390 Guarani-Kaiowá leaders were assassinated between 2003 and 2014, starting with Marcos Veron. Poverty and hunger are rife, while crowded, informal housing, together with pollutants from the surrounding farms and roads, have led to countless preventable deaths from malnutrition, diarrhoea and other illnesses. The life expectancy for a Guarani-Kaiowá is just 45, while the infant mortality rate is a staggering 38 per 1,000 live births, equal to the rate in India or Uganda. In Ládio’s view, ‘Brazil today puts the rights of soy above the rights of indigenous children.’

What is harder to grasp is the cultural violence these communities experience. According to Guarani legend, their ancestors spent centuries searching for the mythical ‘land without evil’. Where they settled is known as Tekoha, the place of being, of belonging. In the words of Guarani ethnologist Tonico Benites: ‘With no land to maintain their ancient cultures, the Guarani-Kaiowá feel ashamed and humiliated. Many feel sad, insecure, unstable, scared, hungry and miserable.’

These feelings, sharpened by the upheaval of traditional social structures and incessant persecution, find expression in tragic ways – rampant alcoholism and suicide. The suicide rate for the Guarani-Kaiowá is 34 times the national average, one of the highest rates in the world.

Driven by a simple dream of living ‘*uma vida tranquila*’ – a peaceful life – Ládio’s only recourse is to tell his story. He hopes this will keep the spirit of his father and his people alive, even thousands of miles away from his homeland. ◆

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Closing the gender gap could add $5.8 trillion to world economy – ILO

The latest International Labour Organisation report reveals that half the women worldwide are out of the global labour force despite their clear preference to work at paid jobs. Further, if the G20 commitment to reduce the gap in participation rates between men and women by 25% by the year 2025 is realised, it could result in a sizeable rise in global gross domestic product and potential tax revenue for development.

Kanaga Raja

CLOSING the gender gap by 25% by the year 2025 has the potential to boost global employment by 189 million and raise global gross domestic product (GDP) in 2025 by 3.9%, or $5.8 trillion, the International Labour Organisation (ILO) has said.

In its *World Employment and Social Outlook* report released on 14 June, the ILO said that the achievement of such a goal could also unlock large potential tax revenues. For example, global tax revenue could increase by $1.5 trillion given currently projected government revenue shares in GDP, most of it in emerging ($990 billion) and developed countries ($530 billion). 'Consequently, policies promoting gender equality could be self-financing,' it said.

It however noted that larger female participation might shift some home production, which is unaccounted for in GDP, to market production, so that the actual increase in global output will be smaller.

'The fact that half of women worldwide are out of the labour force when 58% of them would prefer to work at paid jobs is a strong indication that there are significant challenges restricting their capabilities and freedom to participate,' said Deborah Greenfield, ILO Deputy Director-General for Policy.

'The most immediate concern for policymakers, therefore, should be to alleviate the constraints that women face in choosing to enter the labour market and address the barriers they are confronted with once they are in the workplace,' she added.

'We need to start by changing our attitudes towards the role of women in the world of work and in society. Far too often some members of society still fall back on the excuse that it is "unacceptable" for a woman to have a paid job,' said Steven Tobin, lead author of the report.

According to the ILO report, in 2014, leaders of the G20 major economies committed to the '25 by 25' target, i.e., to reduce the gap in participation rates between men and women by 25% by the year 2025. Estimates indicate that, under certain assumptions, if such a goal were to be realised across all countries, it has the potential to boost global employment by 189 million, or 5.3%.

The vast majority of job gains (162 million) would be in emerging countries due to their relative size, combined with the fact that they also have the widest gender gaps. The impact in developing and developed countries would be smaller, both in absolute terms and as a percentage of current employment levels (due primarily to the presence of comparably narrower gender gaps in labour market participation). Nevertheless, in both instances employment would grow, by 2% in developing and by 3.3% in developed countries.

'Such an outcome would yield significant economic gains, raising global GDP in 2025 by 3.9%, or US$5.8 trillion (equivalent to raising average global GDP growth over the next eight years by almost half a percentage point).'

Perhaps not surprisingly, said the ILO, the regions with the largest gender gaps, namely Northern Africa, the Arab States and Southern Asia, would see the greatest benefits in terms of growth. Nevertheless, even Northern America and Northern, Southern and Western Europe could increase their average annual GDP growth by a quarter of a percentage point, an important contribution during times of near-zero economic growth.

Labour force participation

According to the ILO report, globally, the labour force participation rate for women – at 49.4% – is 26.7 percentage points lower than the rate for men in 2017 and likely to remain unchanged in 2018.

Underlying this gap is a long-term downward trend in participation rates for both men and women, with the combined participation rate decreasing from 65.7% in 1997 to 62.9% in 2017.

The largest gender gap in participation rates, at 30.6 percentage points, is faced by women in emerging countries. The second largest occurs in developed countries, at 16.1 percentage points; however, this has narrowed by more than 5 percentage points over the past two decades and is projected to continue to close.

The ILO said with the exception of Eastern Asia and Southern Asia, the gender gap in labour market participation has narrowed in every region over the past two decades, albeit to varying degrees. This narrowing is largely attributable to improvements in female participation rates. The one exception is Northern America, where the participation rate for men is falling faster than the rate for women, thus leading to an apparent 'improvement' in the gap.

Northern Africa has one of the widest gender gaps in labour force participation rates, at 51.2 percentage points (behind the Arab States at 55.2 percentage points). A declining male participation rate and a relatively stable female rate helped narrow the gap by 2.2 percentage points between 1997 and 2007. During the past decade, however, progress has slowly reversed, with a widening of the gap by 0.2 percentage points albeit as participation rates increased for both genders (though at different rates). The region still faces one of the lowest rates of female labour force participation, at 22.9% in 2017, but a continued narrowing in the gender gap is expected through 2021.

Over the past two decades, Latin America and the Caribbean has recorded the largest percentage-point reduction in the labour participation gap of all regions. The gap narrowed by 9.5 percentage points over the period, to 25.6 percentage points in 2017, most of which took place between 1997 and 2007 (7 percentage points). The overall trend was driven by a steady decline in the male participation rate combined with an increase in the share of women entering the labour force. The ILO said between 1997 and 2007, the female participation rate rose by 5.3 percentage points, but since then it has increased by a more modest 0.8 percentage points, reaching 52.7% in 2017. A further modest narrowing in the gap is anticipated from 2018 to 2021.

In Northern America, the participation gender gap has narrowed by 3.4 percentage points over the past 20 years, to reach 12.1% in 2017. Since 2007, the participation rate for men has declined by 3.8 percentage points and that for women by 2.5 percentage points, bringing the female rate to 56.2% in 2017. Both the female and male rates are anticipated to decrease marginally in 2018, but at similar paces, and so the gap should remain unchanged through 2021.

The widest gender gap in labour force participation – at 55.2 percentage points – continues to persist in the Arab States. The participation rate for women is still the lowest globally, but it has been rising steadily – reaching 21.2% in 2017. However, said the ILO, progress has been too slow to bridge the gap and catch up with the male counterpart rate of 76.4%. Moreover, progress has slowed over the past 20 years, as the gap has narrowed by only 0.2 percentage points since 2007, following a reduction of 2.6 percentage points between 1997 and 2007. The gender gap is expected to continue to close through 2021.

Eastern Asia is one of only two regions (with Southern Asia) where the female labour force participation rate has declined markedly since 1997. For Eastern Asia, this has resulted in a widening of the labour force participation gap to 15.5 percentage points in 2017. In fact, the participation rates for both men and women declined significantly between 1997 and 2007, but over the past decade the male participation rate has declined by 1.3 percentage points, while the female rate has declined by 2 percentage points, resulting in a widening of the gap. Despite this, the participation rate for women in the region remains the second highest globally at 61.3%. A further decline in female participation through 2021 is expected to widen the gap further.

Over the past decade, Southern Asia has experienced the largest widening of the gap of all regions. The gap increased by around 2.1 percentage points from 2007 to 2017, resulting in a gap of 50.8 percentage points in 2017. From 2007, the rising participation rate of women observed during 1997-2007 began to reverse, resulting in a decline of 4.5 percentage points in the rate of female participation, to 28.6% in 2017. A slight increase in the female rate and narrowing in the participation gap are anticipated from 2018 to 2021.

In Northern, Southern and Western Europe, the gap in the labour force participation rate has narrowed by 8.3 percentage points in the past 20 years, to reach 12.5 percentage points in 2017. 'This trend has been driven by a declining male participation rate, while the rate for women has increased, reaching 51.3% in 2017.' This trend was amplified in the wake of the global financial crisis. A modest narrowing in the gap is anticipated between 2018 and 2021, as participation rates are expected to decrease for both women and men.

Unemployment gap

The ILO report found that while women are less likely to participate in the labour force, when they do participate, they are more likely than their male counterparts to be unemployed.

Globally, the unemployment rate for women stands at 6.2% in 2017, representing a gap of 0.7 percentage points from the male unemployment rate of 5.5%. This is projected to remain relatively unchanged going into 2018 and through 2021.

Since 1997, the global gender gap in unemployment has stayed around 0.8 percentage points. In emerging countries, however, the gap has widened in the past decade: from 0.5 percentage points in 2007 to 0.7 percentage points in 2017. In contrast, since 1997 the gaps in both developing and developed countries have narrowed, by 0.2 and 0.8 percentage points respectively. Accordingly, as of 2017, developed countries have the least difference between male and female unemployment rates, with a gap of 0.5 percentage points.

Women in the Arab States

experience the highest rate of unemployment across all regions, at 21.2% in 2017. This is more than twice the rate for their male counterparts, at 8.3%, resulting in the largest regional unemployment gender gap, at 12.9 percentage points. Since 2007, the region has experienced a substantial widening of the gap, by 1.8 percentage points, mostly due to an increase in the unemployment rate for women. The gap is expected to narrow somewhat between 2018 and 2021.

In Northern Africa, women who participate in the labour force face the second highest unemployment rate globally, at 20%, more than twice the rate for men. Significant narrowing in the unemployment gap was achieved between 1997 and 2007, with the gap being reduced by 2.5 percentage points. However, progress has since reversed; the gap widened by 0.7 percentage points between 2007 and 2017 and is expected to continue to widen, albeit marginally, through 2021.

Northern America is one of three regions in the world where women in the labour force have a higher likelihood of being employed than men. The unemployment rate for women, at 4.9% in 2017, is 0.4 percentage points lower than the rate for men, at 5.3%.

Gender segregation

The ILO report said that a comparison of the sectoral distribution of employment by sex reveals strong evidence of gender segregation.

The global average segregation across all sectors has increased between 1997 and 2017, from 15.0 percentage points to 20.5 percentage points.

'In other words, to achieve matched allocation of men and women in every sector would require a shift of one in every five men or women to different sectors.'

At the global level, education, health and social work is the sector with the highest relative concentration of women, followed by wholesale and retail trade. In contrast, the sectors of construction and transport, storage and communication tend to have the highest relative concentration of male workers.

'Labour market segregation at the sectoral and occupational levels is potentially self-reinforcing because some occupations are more common in some sectors than in others.'

Furthermore, said the ILO, such segregation also affects gender gaps related to incomes and working conditions, and could even affect gaps in labour force participation and unemployment.

In other words, if women are segregated into certain occupations and those occupations are not growing, this phenomenon can have a severe impact on labour market outcomes, the ILO cautioned.

The report found that globally, the share of wage and salaried employment in total employment has increased from 48.4% in 1997 to 54.8% in 2017. Over this period, the share for women increased by 8.9 percentage points, from 46.5% to 55.4%, while for men the share increased by 6 percentage points, from 48.4% to 54.4%. As a result, the gender gap was reversed, so that in 2017 the share of workers in wage and salaried employment is higher for women than for men.

In developing countries, only 13.6% of women enjoy wage and salaried employment, compared with 24.3% of men. At the other end of the spectrum, the share of women in wage and salaried employment in developed countries is 89.1%, compared with 83.7% of men. The difference is marginal for emerging countries (around 51% for both).

By region, the greatest disparities are observed in sub-Saharan Africa, where the male share in wage and salaried employment, at 36.3%, is 13.7 percentage points higher than the female share, at 22.6%. The gap has also widened over the past decade, from 12.9 to 13.7 percentage points.

Southern Asia also has a large gender gap in the wage and salaried employment share, in which the male rate, at 26.8%, is 8.6 percentage points higher than the female share at 18.2% in 2017.

In contrast, said the ILO, the share for women is higher than that for men in four out of 11 regions in 2017 – the biggest difference is in Northern, Southern and Western Europe, where the share for women is 88.6%, 7.7 percentage points higher than that for men, at 80.9%.

Overall for developed countries, the higher the average wage, the wider the gap in wages. In these countries, the gender wage gap is particularly magnified among the highest-paid occupations, such as managers and CEOs: this is known as vertical segregation, or the 'glass ceiling'. For instance, in Europe, the overall gender pay gap reaches close to 20%; however, among CEOs the gap is twice as large, at nearly 40%, and it continues to widen to 50% among the top 1% of earners, said the report.

'Given the importance of social norms and gender role conformity in explaining gender gaps in the world of work, appropriate policy responses must address the root causes of segregation and diversify traditional employment opportunities for women and men,' said the ILO. Only then can the constraints on women's roles in the workplace be broken down. This means combating discrimination both within and outside the workplace.

In particular, appropriate policy responses, with a view to achieving the targets of the Sustainable Development Goals (notably Goal 5, Gender Equality), need to principally address the differential treatment and perception of women relating to their place both in the world of work and in society more broadly.

According to the ILO, these include, but are not limited to, promoting equal remuneration for work of equal value; tackling the root causes of occupational and sectoral segregation; and transforming institutions to prevent and eliminate discrimination, violence and harassment against both women and men.◆

Kanaga Raja is Editor of the South-North Development Monitor (SUNS) *published by the Third World Network. This article is reproduced from* SUNS *(No. 8483, 16 June 2017).*

The 'Condition of England Question' 2017

The Grenfell Tower fire in the London borough of Kensington and Chelsea which broke out in June, claiming some 80 lives, brought to the fore the whole question of the social condition of Britain. *Jeremy Seabrook* considers anew a question first raised in 1839 by the English historian and social critic Thomas Carlyle.

WHEN Emma Dent Coad won for the Labour Party the constituency of Kensington in the election of June 2017, this seemed a fitting symbol of divided Britain.

That one of the richest boroughs in London should tilt narrowly towards Labour was unparalleled, and revealed why Prime Minister Theresa May's calling of an election (to make Britain 'strong and stable', and to strengthen her hand in Brexit negotiations) had been a grievous error. Her political ineptitude, her indifference to those she had championed as the 'just about managing' and her refusal to take part in televised debates, left the field open for Labour leader Jeremy Corbyn – almost universally declared to be 'unelectable' by commentators, opinion-formers and other licensors of public opinion – to increase Labour's share of the vote to within 2% of that of the Conservatives.

Grenfell Tower in London enveloped in smoke on 14 June.

Within a few days of the election, one of the greatest social catastrophes to strike Britain in decades illuminated the extent of inequality in Britain: in the richest borough in one of the richest countries on earth, Grenfell Tower, a 24-storey block of 'social housing', burned, and an unknown number of people died. The fire spread upwards in minutes, in part because of combustible 'cladding', designed to modernise the 1974 structure but, according to residents, to make it easier on the eye to rich neighbours, for whom it was a distasteful reminder of the poverty in their midst. Despite the efforts of firefighters to bring out the trapped and injured, at least 80 people were killed: in the absence of precise information, people in the community estimate the toll to be far higher than official figures show.

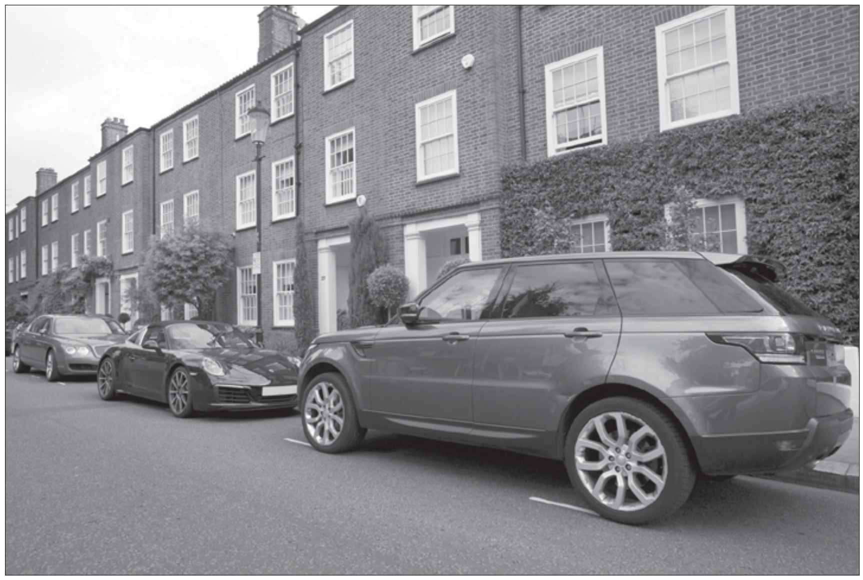
No sooner had the flames been extinguished than another storm arose, namely, about the significance of the event and what it showed – or did not show – about the 'condition of England'; a question that has rarely been raised since Thomas Carlyle first posed it in 1839.

The Right have blamed the Left for 'politicising the tragedy' of Grenfell Tower. *The Spectator* accused Corbyn of 'trying to turn the tragedy into a morality play about rich and poor'. Naturally, the Right would prefer to see it as tragedy since this is impersonal, a cruel blow of fate, even a visitation of God. What ill-willed persons would want to turn such natural phenomena into 'a political football'? This is why the media have dwelt upon harrowing personal stories: individuals who escaped the burnt-out structure draw attention away from the decaying social structure of which it is an emblem, and in which many millions are trapped without hope of rescue.

The first official response, after an indolent show of compassion, was an attempt by those in power to take control of the narrative. After May's initial reluctance to meet people who had escaped the fire (she met only with senior managers of firefighters and didn't even deign to speak to those who had actually confronted the blaze), the Queen and Prince William made a swift appearance in the Westway Sports Centre to offer sympathy and support to those whose lives had been devastated: the elect stepped in where the merely elected feared to tread.

The appointment of Sir Martin Moore-Bick to head the inquiry (the terms of reference of which he said would be unlikely to satisfy residents of Grenfell Tower) would ensure that the story told focussed principally on the cause of the fire and how it spread so quickly. He would 'gather evidence and establish the facts'; even though evidence and facts (however indispensable) are not what traumatised and anguished people want when their wounds are so raw.

That kindness, compassion and protection were in such short supply only confirmed the insentience of rulers anxious to tell their own version of events that threatened to run out of their control. There will be no 'inquiries' into the neglect of those who live in social housing: this would demand a searching scrutiny from which even the most eminent judges would flinch.



A street in a wealthy part of the borough of Kensington and Chelsea, where Grenfell Tower is located. The Grenfell Tower fire illuminated the extent of inequality in Britain.

There will be no 'inquiries' into the neglect of those who live in social housing: this would demand a searching scrutiny from which even the most eminent judges would flinch.

When the head of the Kensington and Chelsea Tenants Management Organisation 'stepped down' – as such luminaries usually do, in their elegant footwear – his resignation was followed by that of council leader Nicholas Paget-Brown and his deputy, the aristocratic Rock Feilding-Mellen. They were replaced by Elizabeth Campbell, another Conservative member of the council, and no doubt a person as thoroughly committed to safeguarding the interests of the poor as the imperturbable Paget-Brown (who withdrew because of 'perceived' failings by the council, which suggested the faulty vision of others). Ms Campbell admitted she had never been in a high-rise flat; not surprising, dwelling, as she does, in a £4.5 million house in a borough which contains 12 of the 20 most expensive streets in Britain.

There was much stress on 'discovering the truth', 'getting to the bottom of it', as though government and its appointees were confronted by a dark mystery, in the solution of which they vowed they would 'leave no stone unturned' – an unfortunate image in view of the charred rubble of the tower block. Social injustice scarcely requires the work of detectives.

The second element in the effort to keep custody of the story was deployment of the language of warfare – perhaps only natural, given the number of military barracks in the borough. The police referred to those 'missing presumed dead'. Bulletins on 'casualties', 'survivors', 'victims' and 'evacuation' eerily evoked escapees of a devastated Middle Eastern city. The government announced it would send an 'independent recovery task force'. Wasn't a 'task force' what Margaret Thatcher sent to the Falklands more than 30 years ago? Firefighters said the scene resembled 'a war zone'. A 12-month 'amnesty' was to be offered to undocumented migrants and to those 'living under the radar'. The blackened slab of the tower recalled a long history of wrecked cityscapes, from Warsaw to Dresden to Beirut to Aleppo.

Echoes of World War II were also rekindled in the tribute paid by officialdom to 'the community', those who, in the absence of any visible help from their national or local government, stood together and shared their depleted resources with one another. The people were indeed heroic in the face of the shirking of responsibility by their nominal leaders. Politicians, commentators and observers gushed with admiration for the humanity and fellow-feeling of residents; a poor consolation prize to those who had indeed 'lost everything', including lives, loves and their very reason for existing.

It is not by chance that the Grenfell Action Group had earlier referred to the council's redevelopment policy as a 'scorched earth' enterprise. The people understood that war had long ago been declared upon them. Indeed, struggle for possession of the narrative shows that we are indeed in a form of not-so-low-level class warfare. And, contrary to all that we knew – or thought we knew – about social conflict, the most committed class warriors are not the poor and oppressed, but those who drive the great juggernaut of 'development' into the heart of where people live and work and call it 'regeneration'.

If London has returned once more to its radical roots, this is because we can now see the real meaning of the rhetoric of 'modernisation', 'progress', the 'world-class city' and 'destination of choice' for the victors of globalisation – that Third World War, in which cleansing of the poor from Britain's cities is simply one local skirmish. The rich of the earth see the London property market as a 'safe' haven for their wealth, whether merited or ill-gotten. In the process, it is of course necessary that 'clearances' should occur – another word with a long history, where spaces occupied by others are required for more lucrative purposes. As a consequence, 'enclosures' are once more on the agenda, fortified enclaves where the overlords of humanity may enjoy in tranquillity the fruits of their onerous labour; and if this means large-scale removals, so be it, although money, and not fire, is the usual instrument for removing people from sites they lawfully occupy.

'Demand' for housing comes, not from those without shelter, but from construction companies and development consortia, in the service of a global property market. 'Luxury' is now the inescapable preface to any poky and jerry-built apartment block; 'affordable housing' the euphemism for accommodation out of reach of the majority, while government-funded social housing has fallen by 97% since 2010.

Beyond the official pieties, avowals of 'never again' and the ritual 'learning of lessons', the interests of class are inescapable. The 'them' and 'us' model of class was clear in the Grenfell Tower catastrophe, but so was the hierarchical model. Monarchy set the example by gracing the blighted area with its healing touch, and elite castes quickly repossessed (as with a property on which the mortgage is unpaid) the narrative of what happened. Some local residents offered generous material assistance, including accommodation for the houseless; others, within days of the horror, were tweeting that 'these people' had been offered money, food, clothing, housing and full support, yet they still complain. One Conservative councillor suggested they should not forget 'they actually came out of it alive'. A more kindly majority were busy collecting charitable donations and bringing help to those in need, while long-suffering and ill-treated public servants – firefighters, police, nurses and doctors – proved that their worth was greater than anything that the financial services sector could put together in all its showy aggregate. The humiliated and injured of Grenfell sought to comfort one another, tend the bereaved, the grieving and the disoriented as best they could, consoling each other in a way reminiscent of an older working-class tradition; while 'community leaders' were sought out by Authority after the example of an archaic imperial order – a metaphor supported by the ethnic composition of the inhabitants of Grenfell Tower.

Residents stand watch as the fire engulfs Grenfell Tower. 'The humiliated and injured of Grenfell sought to comfort one another, tend the bereaved, the grieving and the disoriented as best they could...'

Here were made manifest some of the far-from-hidden injuries of class. The class system may have been reconfigured by the demands of modernity – the richest people in the Borough of Kensington and Chelsea are a mixture of the traditional landowning and aristocratic classes, bankers and financiers as well as those who 'came up from nowhere', including popular entertainers and entrepreneurs – but it represents a return to Disraeli's 'two nations', where wealth and poverty bear no relation to any conceivable human worth; a state of affairs we are asked to bless as the natural embodiment of 'the nation'.

This event – even more than the election – offered bitter confirmation of inequality in Britain; a rift between rich and poor which demands more than shallow piety and easy pity, and cannot be remedied by the politics of passing penitence. If Jeremy Corbyn's Labour Party grasp this, there is no reason why a socialist should not, for the first time in Britain, become Prime Minister when Theresa May's tottering regime falls apart; as it has done in a borough where people in its rich areas can expect to live 16 years longer than those in its poorest neighbourhoods. ◆

Jeremy Seabrook is a freelance journalist based in the UK. His latest book is The Song of the Shirt *(published by Navayana).*

TRIBUTE

To 'afflict the comfortable'

Remembering Miguel d'Escoto Brockmann, the Sandinista priest and one-time United Nations General Assembly president who died on 8 June.

Jonah Walters

DURING his decades as a public figure, Miguel d'Escoto Brockmann – Nicaraguan politician, priest and former president of the United Nations General Assembly – managed to escape much of the international notoriety visited upon his Sandinista comrades. But from the beginning of his political life to his death, he was never far from the struggle.

D'Escoto, who died on 8 June from apparent stroke complications, was a lifelong proponent of a radical politics that once seemed to promise restoration for a battered and disoriented international left. He led a tripartite life – as a revolutionary, a priest and a public servant – during a period of profound change in his home country, when an insurgent egalitarianism swept through popular consciousness to saturate both secular and Catholic worldviews.

Throughout the 1980s, grassroots movements pushed the struggle over the Catholic Church's social mission out of the Vatican and into the glare of the Central American sun. As poor people's movements in the Global South, particularly Latin America, repeatedly challenged elite power and wealth, some factions of Catholics broke with the Church hierarchy to advance a radically transformed vision of Catholic social doctrine.

This reinterpretation of the Church's obligation to the poor went beyond the historic Catholic commitment to charity to advocate involvement in political struggles – including revolutionary ones. Known in Latin America as 'liberation theology', this tendency also found some adherents in the North American Maryknoll missionary order, which had long included political activism as part of its ministry.

Miguel d'Escoto Brockmann (1933-2017).

In the 1960s, after much internal debate, the Vatican seemed to legitimate liberation theology, but by 1985 this emergent radicalism had grown militant enough to rattle Church elites. Pope John Paul II retaliated by stripping four Nicaraguan priests of their holy orders. D'Escoto, a Maryknoll priest and Nicaragua's foreign minister at the time, was one of them.

But it was then-Nicaraguan Minister of Culture Ernesto Cardenal, also defrocked by the pope, who became the international symbol of the Church's campaign against radical priests, not d'Escoto. An iconic photo that soon circulated the world captured Cardenal kneeling before John Paul II on a dusty Managua tarmac, smirking incredulously as the pope chided him with a single finger.

As for d'Escoto, never in the spotlight but always deeply engaged in the movement: 'I was at a ministerial meeting in India at the time,' he said of the iconic photo op decades later. It was there, in the solitude of his diplomatic lodgings, that he 'wept and wept and wept', deeply injured by the dismissal of his spiritual calling.

Almost 25 years later, in 2009, d'Escoto found himself in the middle of another diplomatic mission when crisis struck again. After Honduran President Manuel Zelaya was deposed by a right-wing coalition supported by the United States, left-wing presidents from around the region gathered in San Salvador to condemn the coup. Zelaya soon boarded a plane for Honduras to reassert his claim to the presidency. But after a tense standoff – as military vehicles blocked the runway, protesters swarmed the airport and the airplane circled overhead – Zelaya was forced to abort the strategy, instead landing in Managua.

D'Escoto, then the presiding president of the United Nations General Assembly, was one of only two world leaders to accompany Zelaya on the tense flyover. A few days earlier, speaking in English before the UN, d'Escoto condemned the coup, warning that 'reactionary forces who have never given a hoot for the growing number of our dispossessed are now alarmed by the remarkably powerful movements that have brought progressive governments to power'.

In the early 1960s, when the freshly ordained Father d'Escoto approached a New York City magazine editor with the idea of starting a publishing house, what would come to be known as 'liberation theology' was all but unknown to English-speaking Catholics. Developed primarily by Latin American clergy, liberation theology proposed that among the Church's deepest and holiest commitments was its duty to advocate for the poor. A generation of priests and nuns came to see it as their spiritual calling to participate in the struggles against exploitation then shaking political systems around the world.

Orbis Books, the Ossining, New York publishing house d'Escoto founded in 1970, ferried this radical reinterpretation of the Church's social mission into the North American Catholic mainstream, publishing English translations of works by Gustavo Gutierrez, Cardenal and others. Through Orbis, d'Escoto built an outlet for his militant ministry, developing a political-spiritual practice that, in the words of one of his associates, went beyond simply comforting the afflicted to also 'afflict the comfortable'.

But he soon left the comfort of Maryknoll enclaves in North America to participate more directly in political struggles further south. A qualified civil engineer as well as a priest, he spent years building homes for the urban poor, first in Chile during the socialist Salvador Allende administration and later in Managua, after a 1972 earthquake devastated the city and helped bring about a crisis of legitimacy for the dictator Anastasio Somoza.

Sometime in the 1970s, d'Escoto joined the clandestine Sandinista National Liberation Front (Frente Sandinista de Liberación Nacional, FSLN). In 1977, he came forward as a member of Los Doce, the cadre of civil society figures who helped legitimate the ascendant revolutionary movement by demanding that the FSLN be allowed to participate openly in national politics. Less than three years later, the Sandinistas were in power, and d'Escoto was helping to determine the course of the revolution as Nicaragua's foreign minister.

Despite being known as a bookish type, enamoured with blueprints and old bibles, d'Escoto proved a relentless public servant, conducting himself with the passion of a fire-and-brimstone preacher and the tenaciousness of a professional revolutionary. The pope's revocation of his priesthood in 1985 did nothing to moderate his politics; if John Paul had hoped to gag d'Escoto, his plan backfired.

In 1986, motivated by the international community's cavalier reaction to the US invasion of Grenada, d'Escoto overcame the scepticism of his Sandinista collaborators to make a decision that would deliver him perhaps his greatest diplomatic triumph. Disgusted by the US' pattern of abusing poorer nations with impunity, he sought legal redress for the crimes the Reagan administration had committed in Nicaragua throughout the 1980s.

Drawing upon stockpiles of evidence gleaned from diplomatic encounters, he brought charges against the United States to the International Court of Justice at The Hague, alleging that the superpower's support for the 'contra' insurgency amounted to an illegal intervention in Nicaragua's domestic affairs.

In an enormous upset, the court ruled in favour of Nicaragua and its young revolutionary government, affirming that the northern superpower had violated Nicaragua's sovereignty by arming anti-government paramilitaries and mining the nation's harbours.

Throughout the 1980s, d'Escoto waged a public struggle against the church hierarchy in Nicaragua, embodied by Cardinal Miguel Obando y Bravo – 'the principal accomplice of aggression against our people', according to d'Escoto – who received political and financial support from domestic elites as well as North American meddlers.

After the FSLN's electoral defeat in 1990, d'Escoto maintained his political commitment to the Sandinista project, serving for a time as the administrative leader of the network of neighbourhood organisations assembled under the umbrella of the 'communal movement'. Originally convened as Sandinista Defence Committees (CDS), these neighbourhood associations advanced an ambitious programme of local self-determination by organising public works projects and creating local governance structures. Though the CDS had once represented the largest mass movement in the country, after 1990 the movement diminished in size and influence as state support receded.

Throughout its period as the political opposition (1990-2007), the FSLN party hierarchy became steadily more remote from the popular sectors that had once comprised the revolution's base. During this time, d'Escoto held tight to embattled party leader Daniel Ortega – a strategic orientation that allowed the priest to remain proximate to state power, but unfortunately cast him as an apologist as Ortega jettisoned sections of the party's historic platform in a bid to win support from the centre-right.

Perhaps most uncomfortably, d'Escoto's proximity to Ortega during this period positioned him as a political ally of his one-time archnemesis, Cardinal Miguel Obando y Bravo, who endorsed Ortega's candidacy for president in 2006.

As I've argued elsewhere, when Ortega returned to power after a successful re-election campaign in 2007, he presided over a severely compromised FSLN that had sacrificed much of its revolutionary programme in pursuit of state power. But for d'Escoto, at least, the alliance with Ortega paid political dividends.

In 2008, d'Escoto was elected president of the General Assembly of the United Nations, where he went about pursuing an ambitious plan for reorganising the agency in the service of the Global South. Central to this plan was weakening the power of the UN Security Council and overhauling international lending institutions like the International Monetary Fund. Well aware that Global South nations remained severely constrained by the institutional power of the Global North, he took aim at what he saw as the main instruments of military and economic coercion available to countries like the United States. However, though he assembled a team of advisers that included leftist thinkers like Noam Chomsky and

Howard Zinn, his plans to kick the legs out from underneath the Bretton Woods institutions ultimately languished without widespread international support.

A less-than-favourable profile in the *New Republic* took d'Escoto to task for his fiery press briefings, characterising them as 'invective-laced bravura jags'. But many remember him as a principled advocate for downtrodden nations throughout the world, unafraid to seize the floor of aloof international bodies to advance local struggles.

This readiness to repurpose imperial institutions in the service of anti-colonial objectives was on full display in 1986, when he had faced down the United States in international court – and won. He reprised this performance from the floor of the General Assembly in 2008, when he resoundingly condemned Israeli aggression in Gaza, much to the chagrin of the outgoing Bush administration.

Miguel d'Escoto Brockmann, like many of his generation in Latin America, embodied the fruitful link between faith and political practice, deriving from his Catholic piety an enduring commitment to egalitarian politics. As a member of the Sandinista revolutionary cadre, he served as an example to generations of Third World militants. And, in his capacity as the institutionalised revolution's lead diplomat, he personified the Nicaraguan revolution's unsettling influence on a world order rooted in the history of imperial control.

In 2014, Pope Francis restored d'Escoto's holy orders. The man who once wept alone in a hotel room in India, only to appear before the United Nations some 24 years later as 'an instrument of peace, justice, and solidarity', was finally vindicated by the Church that had rejected him. He died a hero and a priest. ◆

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The poet, dramatist and critic *John Pepper Clark-Bekederemo* (b. 1935), whose poetry celebrates the physical landscape of Africa, is widely regarded as the most lyrical of Nigeria's poets.

Night rain

John Pepper Clark-Bekederemo

What time of night it is
I do not know
Except that like some fish
Doped out of the deep
I have bobbed up bellywise
From stream of sleep
And no cocks crow.
It is drumming hard here
And I suppose everywhere
Droning with insistent ardour upon
Our roof thatch and shed
And through sheaves slit open
To lightning and rafters
I cannot quite make out overhead
Great water drops are dribbling
Falling like orange or mango
Fruits showered forth in the wind
Or perhaps I should say so
Much like beads I could in prayer tell
Them on string as they break
In wooden bowls and earthenware
Mother is busy now deploying
About our roomlet and floor.
Although it is so dark
I know her practised step as
She moves her bins, bags and vats
Out of the run of water
That like ants filing out of the wood
Will scatter and gain possession
Of the floor. Do not tremble then
But turn, brothers, turn upon your side
Of the loosening mats
To where the others lie.
We have drunk tonight of a spell
Deeper than the owl's or bat's
That wet of wings may not fly.
Bedraggled up on the iroko, they stand
Emptied of hearts, and
Therefore will not stir, no, not
Even at dawn for then
They must scurry in to hide.
So let us roll over on our back
And again roll to the beat
Of drumming all over the land
And under its ample soothing hand
Joined to that of the sea
We will settle to a sleep of the innocent and
free.