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Escalating US-China trade war threatens global trading system

Special Feature:

Ten years on, another global financial crisis brewing?

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Editor's Note

THE decision by US President Donald Trump to launch a trade war against China has caused widespread concern about the adverse impact it may have on the global economy. However, the decision itself should have come as no surprise to any political observer. Trump had made it clear during his election campaign that he was intent on taking this action.

To be sure, previous presidents had talked tough during election campaigns without following through, hence the general complacency. It was also clear that Trump had no inhibitions about launching such a war as he had declared (contrary to the accepted wisdom) that 'trade wars are good, and easy to win'. And given his desire to prove that he was a far tougher president in comparison with his predecessors, particularly Barack Obama, it was only to be expected that he would make this move.

And so he did. In March he made good on his pledge by imposing a 25% tariff on steel and 10% tariff on aluminium imports. Although this impacted all exporters rather than China alone, given the exemptions granted to other countries, it was clear which country was the main target.

As the US piled up the pressure with the subsequent imposition of additional tariffs on $250 billion worth of Chinese imports, the trade war has escalated, with the Chinese naturally retaliating, especially after a bout of diplomacy failed to yield any positive results.

The US has the advantage in the prosecution of this trade war as China, despite its drive to reorient its economy, is still an export-oriented economy. With such a volume and range of Chinese goods still being imported into the US, the latter has had an almost unlimited choice of goods on which to impose tariffs. In contrast, US exports to China are very much smaller in volume, and China has been hard put to match the US tariff imposition item for item.

However, the Chinese have tried to make up for this handicap by targeting agricultural goods originating from Trump's political strongholds, such as soybeans from the US Midwest. To add salt to Trump's wounds, the state-run *China Daily* bought an advertising supplement in the *Des Moines Register*, the largest newspaper in the agricultural state of Iowa, to highlight the impact of tariffs on soybean farmers. This has led to accusations by Trump that Beijing was targeting US voters, and by Vice-President Mike Pence that China was meddling in the upcoming midterm US congressional elections.

It is not clear how long this trade war will last, though there have been suggestions that it may drag on for as long as a year. The US had probably hoped that this would be a short and decisive affair, with the Chinese capitulating. But this is a pipe dream as the Chinese are prepared for the long haul. No doubt the Chinese economy is going through a rough patch. Growth has slowed, its stocks are falling and it has piled up a mountain of debt. But despite all this, the Chinese seem determined not to yield to US pressure or, as they put it, not to negotiate 'with a gun pointed to the head'.

However, the whole idea of victory or defeat in a conflict involving the world's two biggest economies is patently illusionary. In a globalised world where both economies are integrated into the system and supply chains are entwined, any trade war will inevitably hurt the world economy.

The real danger stems from the fact that the global economy is still in a fragile state as it has not fully recovered from the 2008 financial crisis. In fact, in the absence of real reforms, it has now become more vulnerable than ever. In a recent article, Alan Bollard, Governor of the Reserve Bank of New Zealand from 2002-12, highlighted the combustible elements that could spark a fresh crisis. 'Cheap credit has brought mounting debt in the private sector and state-owned enterprises in emerging markets. Deteriorating local currencies and tightening international monetary policy could make it difficult to service some of this debt. Tariff increases causing domestic inflation would worsen policy options.' In short, all the ingredients for a perfect storm.

While bracing themselves for tough times ahead, the Chinese seem genuinely fearful that an escalation of the trade war may plunge their economy and the world into another financial crisis. A recent report by Chinese researchers has warned that if the US broadens its attack by targeting financial products, this could trigger a financial crisis in China. Naturally in a globalised world it will not be confined to China.

While one hopes that cool heads will prevail, nothing can be ruled out with a headstrong president in the White House. The only glimmer of hope is provided by the prospect of a meeting between Trump and Chinese President Xi Jinping in November at the summit of the G20 major economies in Argentina. Hopefully it will result in a process of de-escalation that will help to stabilise the world economy.

In our cover story, we publish articles which analyse various facets of this escalating trade war initiated by the US, highlighting the resulting dangers facing the world economy. With developments moving at such a rapid pace, it has not been possible to consider all ramifications of this war. Hopefully, we will be able to take these up in a future issue.

– The Editors

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The escalating trade war between the US and China threatens to undermine the world trading system and global economic stability. Picture above shows containers at a port in Shanghai, China. 14

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Difficulties expected at year-end climate talks

The year-end climate talks under the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement (PA) to be held in Katowice, Poland, are expected to be very difficult and rocky, given where Parties left off from the Bangkok session held recently.

Meena Raman and Indrajit Bose

Photo by IISD/Kiara Worth (enb.iisd.org/climate/sb48-2/4sep.html)

The UN climate change talks in Bangkok in September saw a continued battle over the interpretation of the Paris Agreement.

THE Bangkok talks, held on 4-9 September to accelerate work on producing a negotiating text on the guidelines to implement the PA (known as the Paris Agreement Work Programme), saw big fights between developed and developing countries, signalling the continued battle over the interpretation of the PA.

The PA was a very delicate deal struck between developed and developing countries in Paris in 2015 following years of intense and difficult negotiations between Parties. Since the political deal among world leaders was settled with the signing and ratification of the PA, many expected that the negotiations over the rules and guidelines for implementation of the Agreement would be smooth sailing. However, this has not turned out to be the case.

Wrangling over what had been agreed to in Paris and how the PA is to be implemented continues to expose the deep political divide between developed and developing countries. The challenge in Bangkok was to bridge the gap with 'tools' that would allow the production of a negotiating text in Poland that is balanced and reflects the views and positions of all Parties, so that the real 'battle' for arriving at compromises would be possible.

However, Parties left Bangkok with progress on the items under the Paris Agreement Work Programme (PAWP) uneven and imbalanced, as is clear from the outcome, captured in a 307-page document.

The outcome document is a compilation of all the work under the PAWP tasked to the various UNFCCC bodies, viz., the Subsidiary Body for Implementation (SBI), the Subsidiary Body for Scientific and Technological Advice (SBSTA) and the Ad Hoc Working Group on the Paris Agreement (APA) to craft the modalities, procedures and guidelines (MPGs) for the implementation of the PA.

Some of the issues progressed to draft decision texts, which was one of the objectives of the Bangkok session. But some issues could not advance due to either disagreements or 'complete lack of respect for developing countries' views', a senior negotiator told the Third World Network.

Three overarching issues held progress hostage: (i) developed countries' refusal to include developing countries' views in the draft iterations of text, such as on nationally determined contributions (NDCs); (ii) developed countries trying to go back on what was agreed in Paris, such as attempting to not recognise differentiation in the provisions of the PA or sidelining issues related to equity such as in the discussion on the global stocktake; and (iii) a complete lack of progress on finance issues. (See below for further details on these issues.)

Developing countries explicitly called out the developed countries on these issues in the joint closing plenary of the three subsidiary bodies on 9 September.

The following are some of the key issues on which the altercations in Bangkok are expected to continue in Poland.

According to sources, underlying these fights are concerns over the 'covert game that is being played behind the scenes' to accommodate the concerns of the United States in particular, which is opposed to having different rules for developed and developing countries in the implementation of the PA and does not want any substantive decisions on finance at the climate conference in Poland this December.

NDCs: Efforts to sideline developing-country views

The battle lines were drawn early in Bangkok in the discussions over NDCs. Led by the US, the developed countries were not prepared to reflect differentiation among developed and developing countries in the guidance to be developed on NDCs, which was the preferred option of a large bloc of developing countries led especially by the Like-minded Developing Countries (LMDC) grouping.

According to sources, an 'evolving document' called a 'draft outline' had been informally circulated among the NDC negotiators, with the idea of testing how to capture Parties' views in textual language. Reflecting differentiation between developed and developing countries became sticky in the draft outline.

In relation to information to facilitate clarity, transparency and understanding of Parties' NDCs, there were different views on the table. One view was that all Parties would provide information on a certain set of elements; the other view was developed countries would provide a certain set of information and developing countries would do it at their discretion or over time.

A fight ensued for four days on how to reflect these 'views' in the text to be produced.

For the discussion on NDCs, the LMDC suggested that the various views be captured as options in the draft outline. According to sources, a negotiator from the LMDC made clear its stand that there were differences among developing and developed countries on the scope of the NDCs (whether it is only about mitigation contributions or if it also includes adaptation efforts, as well as the means of implementation related to finance, technology transfer, capacity-building) and how the information to be communicated in relation to the NDCs is differentiated between developed and developing countries. The negotiator reportedly said that every Party had a right to its view; that all that was being suggested was to reflect all views as options in the draft outline; and that the starting point for the negotiations had to be 'a level playing field'.

Photo by IISD/Kiara Worth (enb.iisd.org/climate/sb48-2/6sep.html)

Delegates from the developing-country Group of 77 and China meeting informally in the corridors during the Bangkok conference. Wrangling over how the Paris Agreement is to be implemented exposes the deep political divide between developing and developed countries in the climate talks.

But the US (which has communicated its intention to withdraw from the PA) could not agree to the proposition and sources said that it shot down the option of reflecting all Parties' views as 'options'.

Long hours till late into the night were spent discussing how to capture the views of Parties. After three days, a formulation emerged on the text to reflect 'views/options'. This was acceptable to the US with the caveat that the formulation could not be attributed with a number; in other words, the suggestion was to leave the 'views/options' in the text un-numbered in the draft outline, while other texts were numbered, which was seen as an attempt to effectively render the 'views/options' paragraphs 'statusless', according to a negotiator.

This disparate treatment, reflecting what the US could go along with, gave rise to questions from developing countries as to why different status was accorded to different texts.

(The work from the Bangkok session is to be taken forward by the presiding officers of the relevant bodies by identifying ways forward, including textual proposals that would be helpful for advancing the negotiations. Hence, according different status to various parts of the texts raised significant concerns for developing countries.)

Further discussions gave way to 'huddles' among the negotiators, and in some of these, emotions ran high. According to sources, the co-facilitators from Singapore and Italy were seen to have 'pressured some Parties' to hand over the mandate of drafting the text to them, where they promised to 'weave magic' in relation to resolving the differences among Parties.

Developing countries held their ground to ensure a level playing field and said that if Parties' views were not being allowed to be captured in texts, the starting point for negotiations was clearly still far away.

Even as negotiators spent busy hours in informal consultations, some of which even went on close to midnight, no agreement could be arrived at. Parties thus went back to the 'additional tool' prepared by the co-chairs of the APA prior to the Bangkok session.

Expressing regret on the issue, the LMDC said during the closing plenary of the Bangkok talks that 'there have been persistent attempts to renegotiate the PA by developed countries, particularly on the essential differentiation between Annex I [mainly developed countries] and non-Annex I [mainly developing countries] Parties coming from the Convention which continues to be reflected in the PA and on the scope of the NDCs as contained in Article 3. Further textual progress has been limited because some Parties did not accept how to reflect differentiation between developed and developing countries as a paragraph and options in the text.' The LMDC called for an appropriate solution on differentiation in relation to this issue.

On the other hand, the Umbrella Group, of which the US is a member, said that 'bifurcation' (referring to differentiation between developed and developing countries) was 'inconsistent with the PA and would hinder [rather] than build trust' among Parties.

The divergent positions over the scope of the NDCs have also spilt over to the negotiations under the SBI in relation to the public registry for NDCs and the registry for adaptation communications (AC), which are under two separate agenda items of the SBI.

Several developing countries have been requesting joint sessions to deal with the subject of the registries instead of having separate discussions, as the NDC and AC issues are intricately linked. They are of the view that there is no need to have two separate registries, arguing that NDCs comprise both mitigation and adaptation, while the developed countries and some other developing countries contend that the features of the registries for NDCs and AC differ. For the developed countries, the registry for NDCs is viewed as only addressing mitigation actions and nothing more.

Celebrating the adoption of the Paris Agreement in 2015. The Agreement was a very delicate deal struck following years of intense and difficult negotiations.

A joint session was held under the SBI to discuss both registries but Parties are not any closer to resolving the differences of views and positions on the matter.

Global stocktake: Attempts to sideline issue of equity

The PA stipulates that the global stocktake (GST) – an assessment of the collective progress of Parties towards achieving the purpose of the Agreement and its long-term goals – which will take place in 2023 has to be carried out in light of equity.

There is an agreement among developing countries that commonly agreed guidance to operationalise equity needs to be designed in the modalities of the GST.

At Bangkok, India, speaking on behalf of the LMDC, called for equity to be captured in the negotiating text not just as an overarching but also as a cross-cutting issue in all the elements of the GST.

However, developed countries from the Umbrella Group wanted the issue of equity to be 'parked' at Bangkok while Parties discuss instead the modalities of the GST.

'Equity is an important component for preserving the collective and facilitative nature of the GST. No modalities can be arrived at without equity in the modalities,' a developing-country negotiator told the Third World Network, adding that this view had been communicated to the developed countries during negotiations.

'Several indicators have been proposed to measure equity. Historical responsibility, equitable access to sustainable development, and carbon space are among them. We need to find a way to operationalise equity,' the negotiator further said, expressing concerns about attempts to push discussions on equity to a corner.

Work done at the Bangkok session is captured in a revised tool, which reflects the views of all Parties and captured as 'options', including on issues related to equity.

Finance-related matters

In relation to finance, several contentious issues emerged around modalities for ex-ante information on the projected levels of public financial resources to be provided by developed countries to developing countries under Article 9.5 of the PA and setting up a process for a new collective goal on finance based on the needs and priorities of developing countries before 2025. See below for progress on the finance-related issues under the respective bodies.

Article 9.5 under the APA

Under the APA, modalities for the ex-ante information under Article 9.5 are being discussed under 'possible additional matters'.

During the discussions, developed countries stressed that discussing modalities for communicating the ex-ante information on the projected levels of public financial resources was outside of the mandate of the PA, even though developing countries repeatedly stressed why addressing this issue of modalities was critical. They explained that for whatever information developed countries provide, proving it useful needs the design of modalities to communicate that information. However, developed countries would not accept any explanation and reasoning, continuing to insist that the issue of modalities was not within the PAWP mandate.

The differences persisted throughout the session and the outcome is captured in the form of draft text language in the revised tool reflecting two options. The first option outlines the modalities for such information (which is the proposal of developing countries) and the second option (proposed by developed countries) simply states that the APA does not need to provide any recommendation on the matter to the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA).

Article 9.5 under the SBI

Under the SBI, the agenda item on Article 9.5 deals with the 'identification of the information to be provided by Parties'. In Bangkok, differences emerged on the nature of the information to be provided.

Sources said that the US mentioned that it did not want to capture information only in 'quantitative finance flows' since much of its support was in terms of 'technical partnerships', while Switzerland said it was not in a position to provide disaggregated quantified information. Sources also said that the idea of 'partnerships' floated by developed countries was not acceptable to developing countries, which were looking for meaningful financial resources from developed to developing countries.

Developing countries also explained that the information to be provided was to enhance predictability and transparency. The PA stated that the financial resources to be provided and mobilised should take into account the needs and priorities of developing countries, and how the needs and priorities were reflected was the starting point for qualitative information, emphasised developing countries.

Another important aspect was the balance between mitigation and adaptation support when the information is provided, how the support is new and additional and how the support takes into account public and grant-based needs for adaptation, developing countries said during the discussions.

Some developing countries also expressed concern over the use of words such as 'donors' in the discussions and asked Parties to refrain from using such terms and to avoid creating artificial distinctions among developing countries.

Even with these differences, developing countries were in favour of capturing the progress of work in a draft decision language format, but developed countries said they could not go along with such a proposal and preferred to work on the basis of an informal note.

Thus, the discussions on the issue concluded with an informal note by the co-facilitators, comprising general considerations, potential considerations for the preparation of quantitative and qualitative information, along with further considerations required. The informal note also contains the submissions from Parties, including a conference room paper by the African Group and the LMDC.

Article 9.7 under the SBSTA

Under the SBSTA, in relation to Article 9.7, Parties in Bangkok discussed 'modalities for the accounting of financial resources provided and mobilised through public interventions' and arrived at a draft decision highlighting different options reflecting the views of developing and developed countries. The draft text was the result of integrating submissions by the developing-country Group of 77 and China, and Australia, Japan and the US.

Even though Parties saw moving to a draft decision as progress, vast substantive differences remained.

According to sources, developed countries wanted references to new terms such as 'reporting Parties' in the text, when the obligation of providing financial support is on developed countries. Developed countries also proposed deleting references to 'loss and damage' and expressed discomfort over the use of words such as 'new' and 'additional' during the discussions, which raised red flags from developing countries.

There were also differences of view on how the information on finance provided and finance mobilised should be treated, with developed countries wanting the clubbing together of both types of information while developing countries wanted a distinction between the two.

In light of the above, the road to and at Katowice, Poland, is bound to be rocky. Whether and how compromises will be reached, given the vastly opposing views between Parties, remains to be seen and is expected to draw much public attention. It will indeed be a testing time for the Polish presidency of the talks. ◆

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Resisting moves to undermine the element of equity in the Paris Agreement

Developing countries will have to be wary of attempts by the rich countries to undermine provisions in the Paris Agreement which recognise the differential burden in their obligation to fight global warming.

Meena Raman

The notion of 'common responsibility' advanced by developed countries ignores their historical carbon emissions.

SINCE the ratification of the Paris Agreement (PA) in 2016, efforts have been underway under the United Nations Framework Convention on Climate Change (UNFCCC) to negotiate the guidelines and procedures for the implementation of the Agreement under what is known as the PA Work Programme (PAWP). These guidelines are expected to be adopted in December this year at the 24th meeting of the Conference of the Parties to the UNFCCC (COP 24) in Katowice, Poland.

The PA was the outcome of major battles on a multitude of issues, especially between developed and developing countries. The developing countries wanted to:

(a) defend the Convention and not let it be changed or subverted;

(b) ensure that the Agreement is non-mitigation-centric with all issues (including adaptation, loss and damage, finance and technology, besides mitigation) addressed and in a balanced manner;

(c) ensure that differentiation in all aspects be reflected, with the principles of equity and common but differentiated responsibilities and respective capabilities (CBDR-RC);

(d) ensure that developed countries enhance the provision of finance and technology transfer;

(e) ensure that 'loss and damage' is recognised as a separate pillar apart from adaptation;

(f) have legally binding provisions, especially on the developed countries in relation to emission reductions and the provision of the means of implementation to developing countries.

A number of developing countries also wanted the temperature goal to limit temperature rise to below 1.5°C from pre-industrial levels, as the 2°C level was viewed as being insufficient.

Developed countries led by the United States and its allies (especially those under the Umbrella Group) wanted the opposite of what developing countries wanted. They mounted an onslaught on the Convention, seeking to:

• weaken the provisions and their obligations;

• redefine differentiation so as to blur the different obligations of developed and developing countries.

The US also did not want legally binding provisions due to a hostile Congress.

The European Union, the Umbrella Group and its allies, apart from weakening differentiation also wanted a more mitigation-centric approach by:

• wanting the nationally determined contributions (NDCs) to reflect only mitigation obligations, and they were very opposed to Article 3 of the PA [which was what the Like-minded Developing Countries (LMDC) wanted on the full scope of NDCs];

• having a focus mainly on the ex-ante information for clarity, transparency and understanding of the mitigation actions of countries; and

• having a focus on the transparency framework in relation to mainly mitigation actions.

In the final hours of the talks on the PA, the LMDC in particular presented its 'super-redlines' to the presidency of the negotiations.[1] They included:

• that the purpose of the Agreement is to enhance the implementation of the Convention in accordance with the principles and provisions of the Convention;

• reflection and operationalisation of equity and CBDR across all elements;

Photo by IISD/Kiara Worth (enb.iisd.org/climate/sb48-2/6sep.html)

A session on climate finance at the Bangkok meeting. Developed countries are resisting decisions to advance the provision of finance to developing countries under the Paris Agreement Work Programme.

• clear differentiation between developed and developing countries on the mitigation efforts;

• commitment by developed countries on provision of finance, technology transfer and capacity-building with no transfer or extension of obligations to developing countries to provide finance.

In the final outcome, some of the important points gained by developing countries were that:

– The PA is not mitigation-centric as desired by developed countries, although in some aspects mitigation does get pride of place.

– In particular, Article 3 of the PA reflects that NDCs are not only about mitigation but cover adaptation as well as the means of implementation.

– The developing countries to a significant extent successfully defended the Convention and stopped the plans of developed countries to drastically rewrite it.

– Differentiation between developed and developing countries was retained in the main, although weakened in some areas.

– The principles of equity and CBDR were mentioned in a specific clause in the important Article 2 on purpose of the Agreement, and operationalised in some key areas of the Agreement.

– Sustainable development and poverty eradication as important objectives of developing countries were referred to as the context of actions by developing countries in some key areas.

– That developed countries should take the lead in mitigation and finance is referred to in the Agreement.

– Although the temperature goal is to limit temperature rise to well below 2°C from pre-industrial levels, the reference to pursuing efforts to limit the rise to below 1.5°C is significant.

The battle of interpretation of the PA continues

Since the commencement of negotiations on the implementation of the PA under the PAWP in 2016,[2] it has been clear that developed countries are still pushing to interpret the PA the way they want and are hell-bent on having their way, despite their failure to get what they wanted in Paris as described above. They read the PA in a skewed way that is intended to bolster their interpretation and approach.

Several developing-country groupings such as the LMDC, the African Group and the Arab Group, in particular, have been putting forward their positions and submissions consistent with their understanding and interpretation of the PA.

So the battle of interpretation continues and the divergences are clear as seen from the documents (referred to as 'tools') that have most recently been produced from the climate talks held in Bangkok from 4 to 9 September, as Parties make efforts to produce a negotiating text for COP 24.[3]

Having secured some gains on the major issues above, developing countries must ensure that in the battle of interpretation of the PA, and through the PA Work Programme, these gains are not lost.

Close attention must be paid to the details of the modalities, procedures and guidelines (MPGs) being drawn up, for the 'devil is in the detail' and it must be ensured that the MPGs are consistent with the PA as well as the Convention.

There are several ways in which the gains that have been made can be lost if developing countries are not careful and in which equity and the CBDR principle under the PA can be seriously undermined, even though Article 2(2) of the PA provides that the Agreement is to be implemented to reflect equity as well as the CBDR-RC principle.

The challenge for developing countries is in ensuring the operationalisation of Article 2(2) of the PA in the MPGs. If the CBDR principle is undermined and further weakened, developing countries would lose the one hook they have in operationalising equity in the implementation of the PA. The result would be that developing countries have to take more climate actions with very little or no means of implementation, while developed countries get away from meeting their commitments under the PA, including in doing their fair share in emission reductions in order to limit the temperature rise as agreed to under the PA.

How equity is at stake

The risk that developing-country positions will be undermined is reflected in the positions of developed countries in the ongoing negotiations under the PAWP. These developed-country positions would be advanced further not only in the negotiations but also through the public discourse via developed-country think-tanks, consultants and civil society.

Some of the key ways in which equity and CBDR can be undermined are as follows:

From CBDR to CRRC

In the negotiations that are ongoing under the PAWP, developed countries have been opposing the reflection of differentiation among developed-developing countries (which is the CBDR principle and is referred to by the US as the 'bifurcated' system). In place of the CBDR principle, the notion of 'common responsibility according to respective capabilities' (CRRC) is being advanced.

Although the CRRC notion is not explicitly mentioned, entrenching this notion is the underlying intent of developed countries, and this can be seen in the negotiations through the introduction of notions such as 'common MPGs', 'common approaches', 'common time-frames' etc. with 'some flexibilities for developing countries according to their respective capabilities', and through other methods such as 'all countries' having the collective responsibility to address the emissions gap as if everyone had the same starting point, without addressing the historical emissions or the historical responsibility of developed countries.

The attempt by developed countries here is to not have differentiation between developed and developing countries, and instead promote the notion of sharing the responsibility for addressing climate change without differentiating the responsibility between developed and developing countries, especially in relation to emission reductions and the provision of finance, among all countries, and to have the responsibilities shared according to the 'respective capabilities' of countries.

The effect is that the CBDR principle is undermined, by promoting the idea of 'common responsibility' which is not differentiated between developed and developing countries but is differentiated according to respective capabilities of all countries.

The 'but' in the principle of 'common but differentiated responsibilities and respective capabilities' is dropped – making a significant difference in the understanding of the principle, which differentiates developed and developing countries first, before looking at the respective capabilities of countries.

The notion of 'common responsibility'

The notion of 'common responsibility', which is not differentiated between developed and developing countries, is premised on looking at current and future emissions without addressing historical or cumulative emissions among countries:

• The 'common responsibility' idea stems from the notion that some major developing countries are responsible equally for the 'current emissions', rather than looking at 'historical emissions' together with 'current emissions' which amounts to 'cumulative emissions', as well as looking at per capita emissions. This is especially the case in relation to references by developed countries to the 'major emitters', which target China and India in particular.

• The 'common responsibility' (without looking at historical responsibility of developed countries) approach ignores the notion of equitable access to atmospheric space or the 'fair shares approach', and its intent is to wipe out historical responsibility and treat all countries as if they had the same starting point in terms of responsibility for current and future emissions.

This appears to be the underlying reason why developed countries, in the run-up to the PA, were fighting at all costs to have a completely new treaty which is not linked to the Convention, as they wanted to wipe out any association to their historical emissions or responsibility and to start anew.

The 1992 Convention in its preamble notes that 'the largest share of historical and current global emissions of greenhouse gases has originated in developed countries, that per capita emissions in developing countries are still relatively low and that the share of global emissions originating in developing countries will grow to meet their social and development needs'.

At the insistence of developing countries, the PA sets out in Article 2(1) that the Agreement is about 'enhancing the implementation of the Convention'. The Convention provides the legal basis for not ignoring the historical emissions of developed countries which, until then, had allowed developed countries to accumulate their wealth and capabilities and acquire their developed status with no restraint on carbon emissions since the Industrial Revolution.

In the process leading up to the PA, and especially under the Bali Action Plan process, there existed the notion of 'equitable access to atmospheric space', which later became 'equitable access to sustainable development' at COP 16 in Cancun in 2010. These were notions advanced by developing countries in an effort to have some references to how the remaining carbon budget is to be shared between developed and developing countries.[4]

In the run-up to the PA, these notions disappeared and gave way to the concept of 'nationally determined contributions' (NDCs), which are nationally determined, with no reference to the notion of 'equitable access to atmospheric space' or to 'equitable access to sustainable development', which would have meant a top-down approach in determining what countries must do at the international level, as was the case under the Kyoto Protocol for the second commitment period.[5]

However, if the PA is to be implemented to reflect equity and the principle of CBDR-RC, in the light of national circumstances [as contained in Article 2(2)], then equity must remain central to the operationalisation and implementation of the PA, including in the drawing up of the MPGs.

In a bottom-up process, where countries determine how much they will do by themselves, any collective aggregation or quantification of countries' targets without any reference to the cumulative emissions of Parties puts all Parties at the same starting point – meaning that the emissions gap (the gap between the NDC targets and what is needed to limit temperature rise in terms of the global goal) is inequitable, as this means that the remaining carbon budget has to be shared among all equally, regardless of how much developed countries have already used of that carbon space. This approach is highly inequitable, and developing countries must express this explicitly.

To stress this point further, by wiping out historical responsibility/historical emissions and by focusing on the remaining carbon budget or the emissions gap, developed countries are let off the hook for their historical emissions, and all countries are treated as if everyone is at the same starting point in assuming common responsibility for reducing emissions and in closing the emissions gap. This is contrary to the notion of equity and fair shares, and results in inequity.

Hence, in any process, whether it is the Talanoa Dialogue (TD)[6] or the global stocktake,[7] there is a need to address equity up-front and centre, by focusing on the equitable access to atmospheric space concept, the notion of cumulative emissions and the historical responsibilities of developed countries, and not just allow the focus to be on the emissions gap as if all countries had common and undifferentiated responsibility.

Indeed, the need is to focus on the 'but' of the CBDR principle, where the responsibility is differentiated between developed and developing countries, and not allow its erosion, which would lead to the negation of historical emissions and responsibilities in the negotiation of the MPGs or when Parties engage in the Talanoa Dialogue. (See more on this below.)

The notion of 'respective capabilities' in the CRRC approach

Under the CRRC approach, on the issue of 'respective capabilities', some developing countries are viewed as being more capable than others and indeed are even compared with some developed countries too. Therefore, flexibilities in the implementation of the MPGs may be provided to only those countries that are viewed as needing them.

The common refrain from developed countries in the run-up to the PA was that 'the world has changed', meaning that many developing countries are not poor anymore and must be differentiated according to the World Bank income categories of low-income, middle-income or high-income. Underlying this refrain is that those with higher incomes have more capabilities and should therefore not be given flexibilities, and they should also contribute to providing climate finance and should not be receiving finance or technology transfer. These arguments were strongly resisted by developing countries in the negotiations, which countered that this was contrary to the UNFCCC's principles and provisions. The LMDC in particular, which includes China and India, in its interventions stresses that two-thirds of the world's poor live in its member countries.[8]

In the CRRC approach, emerging developing countries will be viewed as needing to also do much more in emission reductions, including by taking on absolute emission reductions similar to those of developed countries and in contributing to financial resources over time, and they would not be given grants or concessional finance by developed countries or affordable technologies.

Those viewed as needing flexibilities from the perspective of developed countries may include Least Developed Countries (LDCs) and Small Island Developing States (SIDS) and that too only until their 'capabilities' or 'capacities' are built up, after which everyone would be treated in the same way in the application of the MPGs.

Such a CRRC approach is not tenable as:

• There is absolutely no legal basis for the CRRC notion in the PA or the parent Convention;

• Differentiation among developing countries is not recognised in the Convention or the PA, except the special circumstances of the LDCs;

• The special case of 'LDCs, SIDS and Africa' was recognised in the Green Climate Fund (GCF) in a decision by the GCF Board in relation to the allocation of the Fund's resources for adaptation, where 'the urgent and immediate needs of vulnerable countries, in particular LDCs, SIDS and African states', were to be taken into account, including in ensuring that 50% of the adaptation allocation be for 'particularly vulnerable countries, including LDCs, SIDS and African States'. This cannot be taken to mean that only these groupings of developing countries have 'less capabilities' in the real world.

In any event, what capabilities a developing country has must be decided by the country itself and is its national circumstance and not for any international process to define. This national determination of a developing country's capability or capacity must be respected.

Hence, the slippery slope of moving from CBDR-RC to CRRC must be prevented and resisted by all developing countries as this is contrary to the Convention and the PA.

Scope of NDCs – a mitigation-centric approach

Under the discussion on NDCs, their features, information and accounting (agenda item 3 of the Ad Hoc Working Group on the PA), the approach of developed countries is to ignore the importance of Article 3 of the PA and to interpret NDCs as referring only to mitigation. The heading of agenda item 3 – 'Further guidance in relation to the mitigation section of decision 1/CP.21, on…' – is used to suggest that the discussion should only be about mitigation when:

• The heading was not negotiated in Paris and cannot circumscribe what should be the substance and content of NDCs as defined by Article 3, and when the term NDCs is used in Article 4, it must have the meaning ascribed to it under Article 3.[9]

• The understanding contained in Article 3 must be operationalised through the relevant articles of the PA and when the discussion is about features, the scope of the NDC is a vital consideration, as well as in relation to information to be provided ex ante or ex post, including in the transparency framework.

Article 3 of the PA provides that 'As nationally determined contributions to the global response to climate change, all Parties are to undertake and communicate ambitious efforts as defined in Articles 4, 7, 9, 10, 11 and 13 with the view to achieving the purpose of this Agreement as set out in Article 2. The efforts of all Parties will represent a progression over time, while recognising the need to support developing country Parties for the effective implementation of this Agreement.'

Article 3 symbolises the 'battle' over the nature of the agreement to ensure that the NDCs are not viewed only as being 'mitigation-centric' (Article 4 refers to the element of 'mitigation', Article 7 to 'adaptation', Article 9 to 'finance', Article 10 to 'technology development and transfer', Article 11 to 'capacity-building' and Article 13 to a 'transparency framework for action and support').

One problem is that even among some developing countries, there is no shared understanding about the importance of Article 3 and how NDCs cannot be viewed without the linkages between mitigation and the means of implementation and adaptation and the means of implementation and the link between mitigation and adaptation for developing countries in reality.

Insisting on the full scope of the NDCs is not being against ambition. On the contrary, only through adopting a comprehensive approach is equity ensured through developing countries being able to achieve ambition in the real world. Linking climate actions to the availability of resources at both domestic and international levels is critical to operationalising equity between developed and developing countries. Critical for developing countries too is the mitigation-adaptation link, the mitigation co-benefits derived from adaptation efforts.

Focus on 'ambition' but not on 'equity'

In the discussions under the Talanoa Dialogue and in the negotiations on the global stocktake, there is strong resistance by developed countries to addressing equity and what this means for developing countries.

For instance, in the Talanoa Dialogue session held in May this year, the questions posed did not include the very key question of 'how did we get here' in relation to the climate problem. The focus by the Fijian COP 23 Presidency was only on 'where are we; where do we want to go and how do we get there'.

Developing-country groupings including the LMDC and the Arab Group stressed that the 'how did we get here' question was an important one that reflects the historical responsibility of developed countries for climate change and was a vital matter to address.[10]

Clearly, not posing this vital question in relation to the historical responsibility of developed countries is an effort at further undermining equity in the negotiations.

In relation to discussions on the global stocktake at the Bangkok talks held in early September to assess the collective progress of Parties in achieving the purpose of the PA, developed countries attempted to sideline the consideration of equity as a substantive element in the design of the stocktake. Developing countries of course resisted such moves.

In addition, it has become common practice for many quarters including the European Union and their think-tanks to cite the United Nations Environment Programme's Emissions Gap reports in the negotiations, or even the reports of the Intergovernmental Panel on Climate Change (IPCC), to expose the emissions gap that exists between what countries are doing and what is needed in limiting the temperature rise and to ask all countries to do more, without looking at who is not doing their fair share consistent with their historical/cumulative and current emissions (which are mainly the developed countries). This is not consistent with equity, as has been pointed out above, as everyone is treated as having the same starting point in terms of responsibilities for the current and future emissions.

Thus, it is imperative for developing countries to push the 'equity' narrative and articulate better how equity is the gateway and the only way to more ambition. This reflects the reality of how developing countries also have to cope with numerous sustainable development challenges.

Developing countries can only do so much with their own domestic resources, and their priority will naturally be to respond first to adaptation and address loss and damage arising from climate-related disasters, as these require urgent attention and cannot wait, given the suffering and effects faced by their people.

Hence, operationalising equity in this regard means the provision of climate finance which takes into account the needs and priorities of developing countries as provided for under Article 9 of the PA and to also enable the transfer of climate-friendly technologies as recognised under Article 10.

Further, developed countries must be exposed to show that they are doing far too little in terms of their fair shares as this is also not consistent with equity.[11]

Also critical for developing countries is to keep the focus on developed countries meeting their pre-2020 commitments so that the emissions gap is not shifted to developing countries in the post-2020 timeframe. This is especially important in view of the urgency for climate action to start now rather than postponing actions till after 2020 under the NDCs.

No meeting of commitments on finance under the PA

Developed countries, led by the United States in particular but not limited to it alone, are resisting decisions to advance the provision of finance to developing countries under the PAWP.

Since COP 23 in Bonn in 2017 and in Bangkok most recently in September, it has been clear that developed countries as a whole are not interested in advancing and implementing the decisions taken on finance in Paris such as whether to agree on a modality to communicate biennially 'indicative quantitative and qualitative information' on the 'projected levels of public financial resources to be provided to developing country Parties' (under Article 9.5), or to begin a process to discuss the new collective goal on post-2020 finance based on the needs and priorities of developing countries;[12] or in relation to the Green Climate Fund,[13] to talk and agree on a target for replenishment of the Fund,[14] or to have the existing Adaptation Fund (in its current form) serve the PA.

These finance issues have become among the most highly contentious under the PAWP, with developed countries stalling and seeking to weaken their existing commitments under the PA and also asserting that these issues are not needed to be agreed to for the first meeting of the Conference of the Parties meeting as the Parties to the PA (CMA 1) in Poland at the end of this year.

In the best-case scenario, the underlying agenda of developed countries seems to be in limiting any financial resources to ‘LDCs and SIDS’ and to get the major developing countries to provide more financial resources to others, even if it is only voluntary; as well as in shifting much of the focus to mobilising finance from the private sector and for developing countries to mobilise their own domestic resources.

Clearly, such efforts by developed countries gravely threaten the implementation by developing countries of climate actions under the PA and undermine equity very fundamentally in not providing the means of implementation for achieving such actions.

The US role and others hiding behind it

An elephant in the negotiating room is the role of the US, which had indicated in June 2017 that it no longer intends to be a Party to the PA. It however remains a Party until November 2020, given the provisions in the PA as to when a Party can withdraw from the Agreement.[15]

Despite its intention to withdraw, the US continues to negotiate as a key Party, calling the shots as was visible at COP 23 and leading its allies in the developed world to accommodate its concerns.

Questions abound in the corridors of the negotiating venues as to whether the US is negotiating in good faith or if it is attempting to undermine the PA to accommodate the interests of the Trump administration so that the US can once again be a Party to the PA, which is however doubtful, given Trump’s view that climate change is a ‘hoax’ concocted by the Chinese.

The US in the PAWP negotiations has firmly opposed issues such as differentiation between developed and developing countries in the MPGs and any proposal by the Group of 77 and China or other developing-country groups on issues of finance such as that under Article 9.5 or in the setting of a new collective goal on finance.

Hence, developing countries must recognise the US inflexibility and that if more concessions are given to accommodate it, it will be counter to the interests of developing countries and will negate the gains made and delicate balance struck in the PA.

Conclusion

Given the above, the stakes involved in the climate negotiations are high, with the potential for eroding the gains made in Paris as well as further undermining equity in the implementation of the PA, which will be highly disadvantageous to developing countries.

With an inflexible US and a willingness among its allies to accommodate US interests further as they have similar positions, the climate talks in Poland this December will see continued division and contention between developed and developing countries.

If the gains they made in Paris are to be protected, then developing countries must spare no effort in defending them and in ensuring that equity is not eroded any further in how the PA is to be implemented, either through the MPGs or through the various processes and decisions that will be adopted in Poland at COP 24. ◆

Notes

1 For more details, see https://www.twn.my/title2/climate/doc/Meenabriefingpaper.pdf
2 See http://www.twn.my/title2/climate/news/Bonn18/TWN_update5.pdf
3 See https://twnetwork.org/climate-change/developing-countries-oppose-renegotiation-paris-agreement
4 See Martin Khor on ‘Equitable sharing of atmospheric and development space’, https://www.southcentre.int/wp-content/uploads/2013/05/RP33_Equitable-Sharing-of-Atmospheric-and-Development-Space_EN.pdf
5 http://www.twn.my/title2/climate/news/doha01/TWN_update20.pdf
6 The 2018 facilitative dialogue to inform the preparation of NDCs under paragraph 20 of decision 1/CP.21.
7 Under Article 14 of the PA to take stock of the collective progress of Parties in achieving the purpose of the Agreement.
8 See http://twn.my/title2/climate/news/paris01/TWN_update10.pdf
9 See http://www.twn.my/title2/climate/news/Bonn18/TWN_update5.pdf
10 TWN Bonn News Update 4, 3 May 2018
11 CSO Equity Review (2017) Equity and the Ambition Ratchet: Towards a Meaningful 2018 Facilitative Dialogue. Manila, London, Cape Town, Washington, et al.: CSO Equity Review Coalition. http://civilsocietyreview.org/wp-content/uploads/2017/11/CSO_Report_COP23_Equity_and_the_Ambition_Ratchet_SCREEN.pdf
12 https://twnetwork.org/climate-change/no-hurry-set-new-collective-goal-finance-say-developed-countries
13 See http://www.twn.my/title2/climate/info.service/2018/cc180702.htm
14 http://www.twn.my/title2/climate/info.service/2018/cc180702.htm
15 The PA entered into force for the US on 4 November 2016, which means that, under Article 28.1 of the PA, the US can withdraw from the PA only after 3 November 2019 (three years after the PA entered into force). And according to Article 28.2, ‘such withdrawal shall take effect upon expiry of one year from the date of receipt … of the notification of withdrawal…’. The earliest that the US pullout from the PA can take effect is thus four years from 4 November 2016, i.e., on 3 November 2020.

Modi and the world's largest health insurance scheme

In his speech on India's Independence Day in August, Prime Minister Narendra Modi claimed that his government would soon be establishing the world's largest health insurance scheme. *Prabhat Patnaik* questions the viability of the scheme in the light of the paltry resources being allocated.

THE fraudulence of the claim made by the government of Indian Prime Minister Narendra Modi with regard to the Ayushman Bharat scheme launched recently surpasses all its previous efforts. This is hardly surprising for a government for which what matters is not what it actually does but how it creates perceptions about what it is doing.

The Ayushman Bharat scheme consists of two separate parts. One is the creation of 150,000 'Health and Wellness Centres', which are simply the old primary health centres given a fancy new name, and for each of which the 2018-19 union budget allocates a mere Rs 80,000. This obviously cannot even be sold as a major new initiative.

Indian Prime Minister Narendra Modi presenting a mock health insurance card to a beneficiary at the launch of the Ayushman Bharat scheme in September.

The other part, which is being sold as such, is the Pradhan Mantri Jan Arogya Yojana, which is the old Rashtriya Swasthya Bima Yojana in a new avatar. This new scheme is supposed to cover 10 crore families (or 50 crore persons) and provide insurance cover of up to Rs 5 lakh per family per annum. (Note on Indian numbering system: 1 lakh = 100,000; 1 crore = 10,000,000.) It is being touted as the largest health insurance scheme in the world. And yet the amount earmarked for the scheme in the 2018-19 budget is a paltry Rs 2,000 crore, which comes to Rs 40 per person per year. Even if the states' share is additionally taken into account (states are supposed to provide 40% of the expenditure under the scheme, as against the centre's 60%), the per capita provision comes to a ridiculous Rs 67.

In fact, ironically in the very budget in which the government claimed that it was rolling out the world's largest health insurance scheme, the total allocation for the health sector showed scarcely any increase at all. Against a revised estimate of Rs 50,079.6 crore for 2017-18, the budget allocation for 2018-19 was a mere Rs 52,800 crore, which represents a 5% increase in nominal terms, and hence a virtually zero percent increase in real terms!

The Indian government think-tank Niti Aayog has suggested that the allocation for the health insurance scheme would be eventually increased to around Rs 10,000 crore. But it also claimed in the same breath that this was all that was needed, i.e., that it would be quite adequate for covering 50 crore persons, each up to a limit of Rs 1 lakh of expenditure per year, which is an utterly ridiculous claim.

Assuming that the total insurance premium paid is roughly equal to the total expenditure incurred by the beneficiaries in the aggregate, Rs 10,000 crore for a beneficiary population of 50 crore amount to an average expenditure of Rs 200 per person per annum. Now, leaving aside government hospitals, where patients are subsidised anyway but which are of course grossly inadequate for meeting the health needs of the targeted population (for otherwise there would be no need for such an insurance scheme at all), a single visit to a private hospital requires a minimum expenditure of Rs 500 just to see a doctor, even if we do not take into account the cost of medicine. The figure of Rs 10,000 crore therefore would not cover even a single visit to the hospital by a member of the targeted population during an entire year. And yet the Niti Aayog thinks that this would be sufficient to provide insurance cover of up to Rs 5 lakh per family to 10 crore families!

Independent researchers have suggested that if in fact 10 crore families are to be provided insurance cover for up to Rs 5 lakh per family per year, then the total amount required for such a scheme would be around Rs 1.2 lakh crore, which is 12 times what the Niti Aayog believes should be the eventual allocation for it, and 60 times the current allocation for the scheme for 2018-19. To pass off this scheme for which hardly any resources are being earmarked at all as an earth-shaking event therefore is a mere pre-election gimmick; it does not represent any genuinely meaningful effort by the government to ensure universal healthcare.

In any case, if universal healthcare is to be ensured, then a National Health Service on the British or Scandinavian pattern is far better than the insurance route. The United States, for instance, has one of the highest ratios of healthcare expenditure to GDP in the world, far higher than that of any Scandinavian or European country: in 2016 the ratio of healthcare expenditure to GDP in the US was 17.2% compared with 11.3% for Germany, 11% for Sweden, 11% for France and 9.7% for the UK. And yet in terms of the provision of quality universal healthcare, the US is generally recognised as lagging behind the European countries. And the reason lies in the fact that it pursues the insurance route. The quality of healthcare suffers because the insurance companies, instead of settling claims, spend huge amounts in employing lawyers to ensure that they do not have to pay hospitals for patients' treatment, which in turn means that the hospitals are always keen to get rid of patients as quickly as possible. The reach of healthcare in the US was always limited; and Obama's attempt to universalise it, in the face of massive opposition at the time, is now being scuttled by the Trump administration.

The insurance route benefits insurance companies more than it benefits the patients. It also benefits private hospitals by enlarging their turnover through multiple tests and consultations which are strictly not necessary. The Modi government's claim of expanding healthcare availability for the impoverished population therefore is wrong both because of the route chosen, namely the insurance route, and also because of the ridiculously paltry financial provision which it is planning to make while following this route.

The Ayushman Bharat scheme does not represent a genuinely meaningful effort by the Indian government to ensure universal healthcare.

And all this is in addition to the fact that in large parts of the country, hospitals simply do not exist, so that being insured for hospitalisation is of no use whatsoever. This ironically could be the reason why the government believes that it need not spend much on the scheme even while showing on paper a very wide coverage for it; but then its claim of ushering in the largest healthcare scheme in the world is completely vacuous.

The National Health Policy unveiled in 2017 had suggested that total government expenditure on health (of the central and state governments taken together) should be raised from the current 1.15% of GDP to 2.5% by 2025. If the central government was serious about meeting this objective, then it should have increased the proportion of the union budget devoted to healthcare. Instead we find that as a proportion of the central government's total budgetary expenditure, the amount earmarked for the Ministry of Health and Family Welfare has declined from 2.4% in 2017-18 (revised estimate) to 2.1% in 2018-19 (budgeted estimate).

The 2.5% target for 2025 is itself too low. The high-level expert group on universal healthcare which submitted its report to the Planning Commission in October 2010 had recommended that government expenditure on healthcare should be raised to 2.5% of GDP by the end of the Twelfth Five-Year Plan in 2017 and to 3% of GDP by 2022. The fact that in 2017 itself the proportion of government health expenditure in GDP is no higher than in 2010, and the target for achieving even the 2.5% figure has been shifted from the end of the Twelfth Plan to 2025, speaks volumes about the seriousness of successive governments in providing healthcare. And the fact that despite the revised target dates set in 2017, the share of the central budget devoted to healthcare still shows no sign of increasing, and on the contrary actually shows a decline in 2018-19 compared with the previous year, only underscores the callousness with which the government treats the health of the deprived segment of the population.

When such is the state of affairs, to claim, as the Modi government is doing, that the largest health coverage scheme in the world has been inaugurated by it, is just a cruel joke. ◆

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Escalating US-China trade war threatens the global trading system

Since the US launched a trade war against China earlier this year and provoked the inevitable retaliation and counteraction, fears have been growing that the resulting escalation is putting the global economy and the world trading system in jeopardy. *Martin Khor* explains.

A container ship berths at a US port upon returning from China. The US' unilateral targeting of imports from China has undermined the legitimacy of the world trading system.

24 September marked another milestone in the escalating global trade war that threatens to shake the foundations of the world trading system and cause economic uncertainty at a time of financial fragility. It's an altogether bad development that adds more gloom to global economic prospects.

The United States had announced it was going ahead with slapping an additional 10% tariff on $200 billion worth of imports from China. Hours later, China said it would impose 5-10% extra tariffs on $60 billion of imports from the US in retaliation.

Both sets of tariff increases came into effect on 24 September. But that's not all. The US also said it would raise the extra tariffs on the $200 billion of imports from 10% now to 25% at the end of the year. And if China retaliates (which it now has), the US might slap higher tariffs on yet another $267 billion of Chinese imports.

This comes on top of tariffs on an initial $50 billion worth of Chinese imports that the US had charged a few months ago, and equivalent tariffs on $50 billion of US imports that China imposed as retaliation.

And even before that, the US had put extra tariffs on steel and aluminium imports from all countries, except a few that were exempted for the time being. The US is also threatening to slap tariffs on imported auto vehicles and parts including from Europe. That is on hold because of a bilateral deal reached, but could be reignited if US President Donald Trump is not satisfied with European behaviour.

The US itself is experiencing negative effects of this trade war. The prices of the initial $50 billion of imported Chinese products have started to go up in the US, raising costs for both consumers and producers. The Chinese are similarly affected. Exports of both countries are also bound to decline, and this will eventually affect their overall economic growth.

There will be collateral effects on other countries. In Asia, those that are integrated in the global supply chain will find less demand for their exports of components to China. For Malaysia, for example, the effect is projected by analysts to be around 0.4 to 0.7 percentage point of GNP in 2019. This could be offset by positive effects. Some companies producing in China are considering relocating to other countries, including Malaysia, to escape the US' punitive tariffs. And some Malaysian products may become cheaper than Chinese products which will now be subject to extra duties. But it is likely that the bad effects will outweigh any such good effects, at least in the short run.

It is clear that the US is to blame for the trade war. Its unilateral actions go against the spirit and rules of the trading system, and have in fact undermined its legitimacy and viability.

The steel and aluminium tariffs were imposed under the security clause of the US' domestic trade law, while the other tariff increases are under Section 301 of the trade law. The US actions are against various WTO rules.

Challenges to the US unilateral measures have been brought by China and other countries at the WTO. If the US is found in violation, which is quite likely, it will have to stop its actions or face retaliation: the countries that win the cases heard by WTO panels of experts are allowed to impose equivalent tariffs on US products.

However, the US has engineered a crisis in the WTO's dispute settlement system so that soon the outcome of successful cases against it cannot be implemented. This is because the US is now paralysing the WTO's Appellate Body by refusing to allow new appellate body members to be appointed to replace those retiring. Soon there will be only three members left, out of a full body of seven, and two more will have retired by December 2019. A minimum of three members is needed to sit on a case.

Thus, if a lower-level panel rules against the US' unilateral actions, and the US lodges an appeal which cannot be heard because there are insufficient appellate body members, the panel decision cannot be enforced.

This would make the WTO a quite toothless organisation. There would be no legal remedy to enforce penalties for breaking the WTO laws. Countries that impose unilateral tariff increases can get away with it. In turn, other countries would also do the same.

The rules-based trade system is already starting to break down. We are now seeing blatant protectionism by the US and retaliation by affected countries. Within months the trade war could spread, with the law of the jungle becoming more prominent.

There are some rules over which tears will not be shed in the developing countries if they cannot be upheld anymore, such as the WTO's TRIPS Agreement on intellectual property. The free trade economist Jagdish Bhagwati has said the TRIPS treaty does not belong in the WTO.

But what all member states like about the WTO is its role in ensuring the predictability that their exports can sell in the markets of its members, with tariffs at rates agreed to at the WTO. If that predictability is lost, then there can be a lot of uncertainty, as one country after another can unilaterally impose extra tariffs on other countries, which may then trigger retaliation.

This breakdown of the trading system may be the more serious effect of what started as a US-initiated trade war. President Trump may not care what happens to the system, as he has said many times that the WTO is a terrible organisation which the US should leave. And his recent actions in fact seem calculated to undermine if not destroy it.

It is a new world we are looking at, in a scenario that would not have appeared possible a year or even months ago. Policymakers, companies, analysts and the public should ponder about this, even as they follow the details of the tit-for-tat trade war between the US versus China and other countries. ◆

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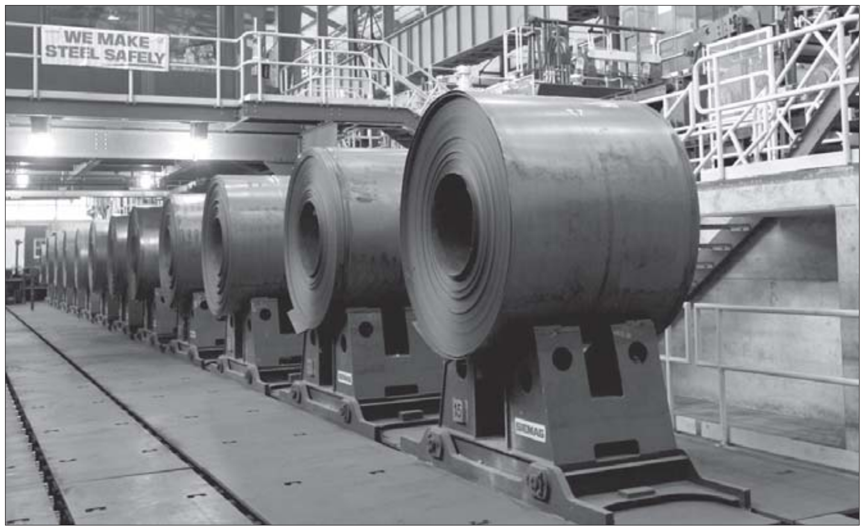
COVER

Trade wars and other emerging threats: Attempts by the US to write new trade rules

Abhijit Das argues that the trade war launched by the US, when viewed in the context of other related actions, evinces a clear intention by the West to consolidate its hegemony of the world trading system.

WHAT is common to the following: the continuing unabated trade war triggered by US President Donald Trump; the US paralysing the dispute settlement mechanism of the World Trade Organisation (WTO); and the determined effort by the developed countries to reform the WTO after making the Doha Round of multilateral trade negotiations dysfunctional?

Joining the dots, it is clear that each of these seemingly unconnected actions by the US and a few other countries is part of a concerted effort by them to craft new trade rules that will further deepen their economic dominance in a fast-changing world. It is therefore relevant to understand what this portends for multilateralism as the world has known it for the past few decades.



Rolled steel at a steel mill in the US state of Michigan. The US' steel and aluminium tariffs are an attempt to get back jobs in this sector which have been shifted by US multinational firms to other countries.

The wave of trade protectionism unleashed by the dubious US tariffs on steel and aluminium products in March this year on the specious ground of national security, and the counter-response by some countries, is setting global trade and multilateralism on a downward spiral. The US has since fired another salvo in the unfolding trade war by imposing tariffs on imports worth $250 billion from China, supposedly to punish it for its alleged theft of intellectual property, with China responding with tariffs of its own on US products.

What explains the trade war triggered by the US? There appear to be three reasons for it.

Firstly, the illegal tariffs on steel and aluminium are a blatant attempt by the US to get back jobs in this sector, which have been shifted by US multinational firms to other countries on account of the declining competitiveness of the manufacturing sector in the US.

Secondly, these tariffs are intended to compel the rest of the world, particularly the developing countries, to export to the US on terms dictated by the latter. If, in the process, WTO norms are violated, then so be it.

Thirdly, the tariffs slapped on China for its alleged theft of intellectual property of US innovators are an attempt by the US to halt China's determined steps to acquire global leadership in high-technology industry under its 'Made in China 2025' initiative.

While the trade war is of relatively recent vintage, attempts at sabotaging the dispute settlement mechanism of the WTO predate President Trump. How does the US seek to paralyse this mechanism?

The judicial arm of the WTO dispute settlement system consists of two tiers. Dispute resolution panels adjudicate on issues of facts and law that are raised by WTO member countries aggrieved by the actions of another member. The Appellate Body is the standing court of appeal for issues of law and legal interpretation arising from decisions rendered by the panels in the first instance. The Appellate Body is composed of seven permanent members appointed by WTO member states by consensus.

While the process of appointment of Appellate Body members was generally a smooth affair in the past, over the last few years the US has blocked the selection of new members. If the US continues with its recalcitrant approach, then by January 2020 the Appellate Body would be rendered inutile, as only one member would be

WTO headquarters in Geneva. 'It is imperative that the developing countries jointly resist the intense pressure to start discussing reform of the WTO on the terms being proposed by the developed countries.'

left.

How would the US benefit from this unfortunate situation of the Appellate Body?

Even in the best of times, the US has not been a strong votary of rules-based multilateralism. The dispute settlement mechanism in general, particularly the functioning of the Appellate Body, has imposed some restrictions on the ability of the US to resort to power-play at the WTO.

If the dispute settlement mechanism is paralysed, the rules-based edifice of the WTO would crumble. Consequently, there would be no restraint on the US to take more illegal and unilateral trade actions against countries that do not comply with its wishes and that resist adhering to its vision of what trade rules should be.

Paralysis of the dispute settlement mechanism would provide the US with an opening to resort to illegal action to deny market access to developing countries. Given the significant dependence of many developing countries on the US market for their exports, in no time most of them are likely to be coerced into coming to the negotiating table.

In the asymmetrical power equations in bilateral settings, the US can extract far-reaching concessions from the developing countries, which it has so far been unable to secure at the WTO. This would enable the US to rewrite bilateral trade rules, which would thereafter be made global norms through the third element of this strategy – reforming the WTO.

It is no secret that after failing to achieve their offensive objectives aimed at opening developing-country markets, but being at risk of having to make concessions on their own agricultural subsidies, the developed countries walked away from the multilateral Doha Round negotiations of the WTO. They are now busy crafting a narrative that the WTO needs to be reformed.

While no formal proposal on WTO reforms was made by any WTO member before the summer break, the contours of the likely thrust in this direction are discernible from a 'non-paper' of the European Union and a trilateral joint statement by the EU, Japan and the US. It is relevant to briefly mention some of the main elements of the proposed reforms.

Firstly, subject to the advantage of the developed countries, the 'most-favoured nation' (MFN) principle of the WTO is sought to be set aside. Secondly, the healthy convention of decision-making by consensus at the WTO is sought to be given a go-by. Thirdly, leeway is sought to be given to countries to strike so-called plurilateral trade agreements, without the entire WTO membership being required to endorse such deals exclusively by consensus. Fourthly, the member-driven nature of the WTO is sought to be fundamentally altered by empowering the WTO secretariat. This has the potential of formally allowing the WTO secretariat to meddle with domestic policymaking in developing countries and exercise influence in directions that may not be in their interest. Fifthly, new rules are sought to be negotiated for curtailing the ability of developing countries to financially support their state-owned enterprises. While this may appear to be targeted at China, it would prevent governments in other developing countries from providing incentives to their enterprises in an attempt to catch up with the developed world.

Overall, the seemingly unconnected actions of the US thus appear to be part of a coherent strategy being pursued by Robert Lighthizer, the United States Trade Representative. The proposals for reforming the WTO are nothing short of an attempt to change the fundamental attributes of the multilateral trading regime and rewrite trade rules to perpetuate the economic and commercial dominance of the developed countries and prevent developing countries from pursuing catch-up policies. Those developing countries which resist this attempt of the developed countries are likely to become victims of unilateral trade measures and other forms of arm-twisting aimed at coercing them to fall in line. These illegal actions would be facilitated by a dysfunctional dispute settlement mechanism at the WTO.

It is imperative that the developing countries jointly resist the intense pressure to start discussing reform of the WTO on the terms being proposed by the developed countries. If the developing countries fail to act in cohesion, then they would be compromising their development prospects in the short term in many areas, and in the long term in the digital economy. ◆

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Donald Trump's economic gamble with trade wars and tax cuts

Trump has taken a huge gamble in launching a trade war against China. While the US is in a position to withstand any punishment from China for the next few months, the danger is if the war drags on beyond that. *John Rapley* explains.

PICTURE the US-China trade spat as a boxing match (Donald Trump probably has). The US is the slugger – the pulverising champion – and China is the fast-rising challenger. A bit like George Foreman against Muhammad Ali in the Rumble in the Jungle. The champion slugger both can and must land a knockout punch early – because he hasn't trained to go the distance. If he doesn't, he's in trouble.

The early rounds appear to be going Trump's way. Reports from Beijing suggest the Chinese leadership was caught off-guard by the intensity of Trump's early assault. As if expecting him to jab gently to probe their defences, they were rocked on their heels by the ferocity of the barrage: some $200 billion of tariffs on Chinese imports, with more where that came from.

A trader at the New York Stock Exchange. While the rising stock market in the US creates a wealth effect, there's been little new investment beyond what one would expect at this point in the business cycle.

Although China emerged from the 2008 global financial crisis in better shape than most countries, thanks to a $4 trillion stimulus programme, the resulting investment boom sent China's gross debt soaring. Worse, much of the investment yielded low returns, making some debt difficult to service. A severe economic hit now could drive up defaults, possibly inducing a financial crisis. China is vulnerable.

In contrast, the US has rarely looked stronger. Real GDP growth recently surpassed 4% while the unemployment rate is below that. And, to further swell his arsenal, the president got Congressional Republicans to cut taxes, pumping another estimated $1.5 trillion into the US economy over the next decade, with most of the gains expected in the first three years.

In short, the US can withstand almost any punishment that China can mete out in the coming months. Investors are thus betting on the US. Since Trump first announced tariffs, the Chinese currency and stock markets have plunged, whereas America's bond and stock markets have barely hiccupped. Indicating how painless it's all felt, Trump told CNBC, 'We're playing with the bank's money.'

'The wrong moment'

Were the fight to last beyond a few rounds, however, American stamina would quickly wane. Outside the White House, most economists believe the US is now probably at the peak of its business cycle, and some worry that the tax cuts may actually worsen the downturn when it comes.

Former US Federal Reserve chairman Ben Bernanke echoed a view widespread among economists that the tax cuts came at 'the very wrong moment'. Because fiscal stimulus is generally considered most effective at the opposite end of the business cycle, amid recession, the long-term impact on economic growth may be minimal to nil. The principal effect of the tax cuts may thus be to redistribute some future growth to the present – supercharging the economy today and worsening the recession when it comes. Or, as Bernanke put it, 'In 2020, Wile E. Coyote is going to go off the cliff, and he's going to look down' – the stimulus will run out just as Trump is campaigning for re-election.

It's as if before leaving the locker room, the champion gorged on candy bars instead of whole grains. He came out swinging, but will be spent by the middle rounds.

Taking the punches

Of course, the Trump administration begs to differ, touting the wage gains and new investment that will result from this influx of new money, thereby permanently raising the economy's growth rate. That is, of course, possible. But not, on present evidence, likely.

Although it's still early days, so far the vast majority of the tax cuts have been used by corporations to pad profits and buy back shares. This supports share prices, not to mention any executive compensation packages tied to those share prices. But while a rising stock market creates a wealth effect, and thus stimulates consumption, there's been little new investment beyond what one would expect at this point in the business cycle.

When the burst of consumption tapers off, there won't be new output to pick up the slack. Nor, for that matter, will workers be in a position to step up. So far, less than 3% of the tax money has gone towards improving worker compensation, and most of that has taken the form of one-time bonuses. Real wage growth remains sluggish.

As Muhammad Ali knew on that steamy Kinshasa night when he stepped into the ring with George Foreman, title fights are determined less by who can do the most damage than by who is willing to take the most punches. There are suggestions the Chinese leadership is now adopting a long-term view of the trade conflict, interpreting it as a strategic attempt by Washington to thwart China's rise. Were the Beijing leadership able to find a way to survive the early rounds of this contest, it may be prepared to go the distance.

Donald Trump, on the other hand, may find himself facing voters in the midst of a recession, or at least when the shine is fading from the economy. Who knows? As happened to George Foreman in 1974, he may face his knockout punch well before distance. ◆

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Tariff tactics and the dangers of trade war

In launching their trade war against China, Trump and his advisors seem oblivious to the fact that their moves will not only raise consumer costs in China and the US but also have a destabilising impact on the global economy, says *Jacob Pagano*.

SINCE the beginning of his campaign, US President Donald Trump turned to a simple catchphrase when discussing China: the two nations, he argues, exist in a 'trade war' and beginning this past April, his administration enacted tariffs on a range of products imported from China. According to Trump's administration, the tariffs will protect US economic interests, primarily by making domestic products more competitive.

Yet, as is becoming increasingly evident with implementation, the policy touted by the Trump administration could not only raise consumer costs in China and the US but also have destabilising effects on the global economy.

'The Trump policy...[treats] global trade as a zero-sum game rather than a series of co-dependent relationships.'

The core idea in the US tariff enactment – that the best way to bolster one's own economy is by reducing the strength of others – is not attuned to the interconnected networks and complex patterns of the 21st century. The Trump policy represents a nationalist agenda that fails to heed those realities, treating global trade as a zero-sum game rather than a series of co-dependent relationships. And rather than initiating urgent policy conversations, they will sow distrust and create further impediments.

The specific narrative begins in April, when the US began imposing tariffs on steel and aluminium imports from China. It followed in May with a 25% tariff on Chinese goods considered 'industrially significant technology' and in July with a 25% tariff on $34 billion of other Chinese exports.

During each round of tariffs, the Ministry of Commerce in Beijing has responded by enacting reciprocal taxes on US products.

The Chinese government has also made clear it is willing to reverse the cycle of tariffs, conditional on a change in US policy. Not long ago, Ministry of Commerce spokesman Gao Feng articulated that message, saying the US 'should take note of the calling from businesses and consumers in both countries and the fact both countries are linked closely in the supply chain'.

As Gao suggests, it is not only China and the US whose economies are implicated, but nations that trade with them, many of which face new volatility in their imports and exports. Simply put, the global supply chain – especially concerning steel, fuel and other major industrial technologies – is impacted by the rates at which the US and China are trading. That means a country expecting to buy imported Chinese steel from the US, for example, now faces a major question mark where it previously enjoyed some certainty.

This has sent a 'ripple effect' into economies across the world, as companies and governments scramble to adjust prices and shipping costs.

In addition to this immediate volatility, there will be long-term repercussions, including the fact that with each round of tariffs it becomes more difficult to discern what industry the Trump administration might target next. This puts strategic, long-term investments into a mercurial spot, and might lead to the forming of economic blocs. That is, nations which previously had dexterity in choosing trade partners could begin initiating economic arrangements to hedge against uncertainty elsewhere.

Meanwhile, the process of enacting tariffs without warning or full explanation initiates a dangerous precedent and a potential cycle of escalation. Rather than enacting tariffs on major industries, representatives from both nations should be offered a forum in which to express their concerns, and policymaking should begin addressing them.

In an era where globalism and access to foreign markets underpins the core of many industries, it is crucial China and the US find strategies to enable trade to be more equitable, opening doors overseas rather than stopping them at the coast. ◆

Jacob Pagano is a writer and reporter. This article is reproduced from the China Daily *website (chinadaily.com.cn).*

Trade wars a symptom of unbalanced hyperglobalised world

The world economy remains in a fragile state, and a sharp escalation of tariffs and heightened talk of a trade war will only add to its underlying weakness, says the United Nations Conference on Trade and Development (UNCTAD).

Kanaga Raja

A garment factory at an export processing zone in Kenya. The spread of low-productivity assembly lines in EPZs across the South has exacerbated the income gap between manufacturing workers and owners of capital in developing countries.

IN its *Trade and Development Report 2018 (TDR-2018)*, released on 26 September, UNCTAD said that in the absence of strong global demand, trade is unlikely to act as an independent engine of global growth. Because tariffs operate in the first place by redistributing income among several actors, gauging their impact is not as straightforward as some of the more apocalyptic trade pundits are predicting.

Still, they will almost certainly not have the desired effect of reducing the current account deficit in the United States; will raise uncertainty if tit-for-tat responses ensue; and will cause significant collateral damage for some developing countries, adding to the pressures already building from financial instability.

This is not, however, the start of the unravelling of the 'post-war liberal order'. That order has been eroded over the past 30 years by the rise of footloose capital, the abandonment of full employment policies, the steady decline of income going to labour, the erosion of social spending and the intertwining of corporate and political power.

'Trade wars are a symptom of an unbalanced hyperglobalised world,' said UNCTAD.

At a media briefing, Richard Kozul-Wright, Director of UNCTAD's Division on Globalisation and Development Strategies and lead author of the report, said: 'We have a fragile global economy.'

He said that this time last year the International Monetary Fund (IMF) was extremely confident about the state of the global economy, with synchronised growth and recoveries everywhere. However, UNCTAD had warned in last year's *Trade and Development Report* that this was much more of a complicated situation. 'And we think the situation is even more fragile today than it was 12 months ago. The world economy is walking a tightrope between debt-fuelled growth and financial instability.'

While there has certainly been a recovery in the United States, said Kozul-Wright, 'the question is whether that is an economic sugar-rush driven by tax cuts and military spending or whether there is a sustainable growth path behind that. We tend to think it is the former.'

He said that 10 years after Lehman Brothers collapsed, the multilateral system is in crisis. 'This town [Geneva, which houses the headquarters of the WTO] is momentarily the centre of that crisis, that we see trade tensions as a symptom of larger causes.'

'Some of those causes are failed policies. We have been through ten years of saving banks, pushing austerity, encouraging mergers and banging relentlessly the drum of free trade.'

That, he said, has, as emphasised in last year's *TDR*, been a cover for a rise in the rent-seeking economy and a 'Medici vicious circle' in which economic and political power have become reinforcing to the detriment of large parts of the global system and citizenry within countries.

In particular, as a consequence of that kind of agenda, many of the underlying problems that caused the crisis – footloose capital, precarious jobs, persistent inequality and rising debt – have not been addressed.

Kozul-Wright said that trust was sucked out of the financial system with the crisis in 2008 and trust is now being sucked out of the political system as a consequence of the failure to deal with these problems. And the trade war in many respects is a reflection of that lack of trust across the political system.

'What we are seeing now are the tensions and problems of hyperglobalisation and there is no doubt that trade is caught up in that,' said Kozul-Wright.


UN Photo

The US representative signing the Havana Charter in Havana in 1948. UNCTAD has called for revisiting the Charter with a view to promoting more equitable and sustainable international economic integration.

He said that UNCTAD is 'less apocalyptic than many people writing about this although we are worried, but our worries are not so much from the direct impact of trade, which we don't think will be very significant, but through a whole series of demand-side and distributional effects that will come in response to the tit-for-tat tariffs … now taking place essentially between the United States and China'.

In a fragile world economy, such uncertainties will have ramifications, according to Kozul-Wright, and the ramifications could be significant particularly for those countries that are financially vulnerable.

At the media briefing, Kozul-Wright was also asked to comment on a 20 September meeting at the Canadian mission in Geneva where some 13 countries including the European Union discussed proposals for WTO reform that targeted the developing countries, in particular China, including proposals to deny the consensus principle and to do away with special and differential treatment for developing countries in the WTO.

In response, he said that as far as he could tell, it was an attempt to prevent China from doing more of what it had done successfully to develop over the last 25 years.

'To me it's shocking. I would use the word "shocking" actually – the attitude of the advanced economies towards what is the one success story from the developing world of the last 25 years,' he said.

'If you look at the list of things that the countries want to outlaw, it's all the things that the Europeans were doing when I was a kid in the 1950s and 1960s. State ownership was part of the normal discourse on how you ran a successful economy in the advanced world in the first 30 years of the post-war period. Technology transfer and finding ways to access the technological frontier, relatively soft intellectual property rules, all kinds of ways of trying to get at technology [were] part of the story. Finding the right balance between the public sector and the private sector was part of the story.

'Now these are the things that it seems are no longer acceptable because one country has used these policies very successfully to create its own firms,' said Kozul-Wright.

He said that despite talk about China being a mercantilist economy, the biggest mercantilist economies are in the West. The US and the European economies are mercantilist economies in that policies are made in support of, and in some cases by, their largest players.

He added that 'one thing that China has done that no one can dispute is a model that has eliminated poverty. Why in the world would you not want to think of ways of generalising that model, rather than finding ways to clamp down on all the measures that were used as ingredients to make that model successful?'

'To me it makes no sense other than to explain it as part of a rent-seeking world which has become a serious source of not only economic problems but political tensions as well,' said Kozul-Wright.

Backlash against hyperglobalisation

According to *TDR-2018*, the backlash against hyperglobalisation is gaining momentum, with the international trading system on the frontline.

As discussed in previous *TDRs*, the roots of the heightened insecurity, indebtedness and inequality that are hallmarks of the current era stem more from the workings of the financial system than the trade regime; and that regime proved robust in the face of the economic fallout from the global financial crisis.

Moreover, using tariffs to mitigate the problems of hyperglobalisation will not only fail to do so but run the danger of adding to them, through a vicious circle of retaliatory actions, heightened economic uncertainty and slower growth.

Still, it would be foolish to dismiss the constituency in advanced economies worried about trade shocks as simply ignorant of the subtleties of Ricardian theory or misguided victims of populist politicians. Indeed, in addition to discontent in the North, there are numerous and long-standing concerns that developing countries have been raising about the workings of the international trading system which have also intensified in this century.

In reality, the lived experiences of each and every constituency at the local level reflect the intertwining of trade, financial and technological forces operating through national, regional and global markets and managed by policies, regulations and institutions designed to govern those markets and interactions.

The dominant narrative of the current era equates globalisation with the growing reach (and porosity) of markets and an accelerating pace of technological change. It employs the language of 'free trade' to promote the idea of a harmonious (win-win) world governed through clear rules and greater competition. But hyperglobalisation has as much to do with profits and mobile capital as with prices and mobile phones and it is governed by large firms that have established increasingly dominant market positions.

'Indeed, while trade and technology, through both destructive as well as creative impulses, have, no doubt, had an impact on the way we go about organising our lives, in the end it is social and political initiatives in the form of rules, norms and policies that matter most for the outcomes of an interdependent world.'

And, as described in previous *TDRs*, the hyperglobalised world is one where money and power have become inseparable and where capital – whether tangible or intangible, long-term or short-term, industrial or financial – has extricated itself from regulatory oversight and restraint and muted the voice and influence of other social stakeholders with an interest in the direction of public policy.

As a result, said UNCTAD, it is hardly surprising that heightened anxiety among a growing number of casualties of hyperglobalisation has led to much more questioning of the official story of the shared benefits of trade. Trade sceptics now have substantial political constituencies across the world, in both developed and developing countries.

Mainstream economists bear part of the responsibility for the current state of affairs. Ignoring their own analytical nuances and the subtleties of economic history, they remain biased in favour of unqualified free trade when it comes to communicating with policymakers and broader audiences. The mainstream narrative pitches 'comparative advantage' as a 'win-win' boost to economic efficiency and social welfare, without specifying the conditions under which such beneficial outcomes can occur or how any negative effects could be abrogated.

There is no doubt that the new protectionist tide, together with the declining spirit of international cooperation, poses significant challenges for governments around the world. However, the call to double down on 'free trade' provides a cover for a regime of footloose capital, concentrated market power and the capture of public policy by powerful economic interests. Fighting isolationism effectively requires recognising that many of the rules adopted to promote 'free trade' have not promoted a rules-based system that is inclusive, transparent and development-friendly.

Reviving optimism about trade and multilateralism must go beyond simply promoting trade for trade's sake and pitching multilateralism as the last line of defence against an autarchic Hobbesian dystopia. A more positive narrative and agenda is required, said UNCTAD.

TDR-2018 said that the governance of international trade in the era of hyperglobalisation has contributed to increasing domestic inequalities in many countries. This has in part reflected the way in which trade is governed in global value chains (GVCs), which has heightened the bargaining power of footloose capital, including through job offshoring to poorer countries (or simply the threat of that), as well as market-concentrating and rent-seeking practices of large firms that effectively weaken competition.

This is partly because international trade is increasingly governed by 'free trade' agreements that empower global firms. For example, services derived from intangible assets whose geographical location can be determined by firms almost at will – such as financial assets or intellectual property rights (IPR) – can now be 'traded' more freely between higher-tax and lower-tax jurisdictions and within transnational corporations (TNCs) themselves.

Overall, these processes have tilted the distribution of value added in favour of capital, especially transnational capital, whose owners remain mostly headquartered in developed countries.

Between the end of the Second World War and the global financial crisis, the growth of world trade consistently outpaced that of global output albeit with significant differences in the gap across sub-periods. The gap has persisted since 2008, just as both trade and output growth have been low by historical standards.

Between the mid-1980s and 2016, the share of world exports to developing and transition economies rose from roughly one-quarter to one-half. South-South trade accounted for more than 50% of this increase, from a base of only one-quarter of exports to the South in 1986. Since these data include trade in intermediate goods, these changes partly reflect the expansion of GVCs, which have had significant impacts on the geography of production of manufactured products.

While gross trade data show that developing countries' gross revenues from manufacturing as a share of their total exports increased from about one-half in 1995 to two-thirds in 2016, this may overestimate the rise of manufacturing in developing countries' exports, partly because of double-counting problems arising in the context of GVCs.

Trade under hyperglobalisation, and the associated expansion of GVCs, is often pitched as widening the opportunities for inclusive growth and shared prosperity. The underlying assumption is that because GVCs allow developing countries to focus on individual links in the chain, their firms can integrate with the world economy 'on a shoestring' without facing the large risks (and costs) incurred by investing in all the tasks required for producing the finished product or services. According to this view, developing countries can thereby more easily reap the benefits of their major comparative advantage: abundant cheap labour. Following this logic, such integration in the global economy should lead to a reduction of inequality in the South as demand for unskilled labour increases.

Reality is, unfortunately, less obliging. Indeed, it is now increasingly acknowledged that trade patterns under hyperglobalisation contributed to polarising domestic income and wealth distribution not only in the North but also in the South, thus exacerbating domestic economic inequalities. Recently released data that enable the disaggregation of the value added along GVCs support this view. They suggest that these outcomes are partly the result of the proliferation of GVCs and partly due to the behaviour of lead firms, mostly large TNCs that are today the most significant players in international trade.

TDR-2018 highlighted new evidence that GVCs and the spread of low-productivity assembly lines in export processing zones (EPZs) across the South have not just contributed to suppressing the wages of manufacturing workers in the North, but have also exacerbated the income gap between manufacturing workers and owners of capital in developing countries.

In analysing the rise of export market concentration under hyperglobalisation, and the associated increase in the ability of large firms to extract rents, UNCTAD said much as was argued in *TDR-2017*, the evidence is that increased rents have largely resulted from newer and more intangible barriers to competition, reflected in heightened protection for IPR and abilities to exploit national rules and regulations for profit-shifting and tax-avoidance purposes.

The consequent increase in returns from monopolies generated by IPR as well as a reduction in the relative tax costs of larger companies create an uneven playing field. The empirical exercises carried out for *TDR-2018* suggest that the surge in the profitability of top TNCs – a proxy for the very large firms dominating international trade and finance – together with their growing concentration, has acted as a major force pushing down the global labour income share, thus exacerbating personal income inequality.

In developing countries, the negative impact of international trade on inequality was partly the result of the proliferation of special processing trade regimes and EPZs. Many countries created regimes favouring exporters, with the objective of attracting or preserving investment, production and jobs on their shores. The associated risk, however, is that such regimes merely subsidise labour-intensive assembly work or, more precisely, subsidise the organisation of low-cost and low-productivity assembly work by large exporters or foreign TNCs in control of GVCs.

'Evidence accumulating in recent years, particularly from experiences in China, points to the limited benefits of such policies for the broader economy and their negative effects on income distribution,' said UNCTAD.

The mixed outcomes of policies to promote processing trade often reflect the strategies of TNCs to capture value in GVCs that are designed on their own terms, with high-value-added inputs and protected intellectual property content sold at high prices to processing exporters, with the actual production (fabrication) in developing countries accounting for only a tiny fraction of the value of exported final goods.

The ongoing success of China at bolstering its productive capacities – thus slowly breaking out of the trap of processing trade and moving up the value ladder – has crucially relied on its capacity to claim and use policy space to actively leverage trade through targeted industrial and other policies aiming at raising domestic value added in manufacturing exports. It has also relied on the ability of the Chinese authorities to develop independent financing mechanisms and acquire control over foreign assets, which is being perceived by developed countries as a threat to their own business interests.

To an even larger extent than domestic markets, global exports today are dominated by very large companies, most of them TNCs. Large firms have become the most relevant actors in international trade, although their dominance is hard to quantify precisely, because of data limitations and obstacles to combining country-level trade data with transnational firm-level data.

Nevertheless, recent evidence from aggregated firm-level data on goods exports (excluding the oil sector, as well as services) shows that, within the very restricted circle of exporting firms, the top 1% accounted for 57% of country exports on average in 2014. Moreover, while the share of the top 5% exceeded 80% of country export revenues on average, the top 25% accounted for virtually all country exports. The distribution of exports is thus highly skewed in favour of the largest firms, especially in G20 emerging economies and in developed countries.

In sum, said *TDR-2018*, the evidence describes a widening gap between a small number of big winners in GVCs and a large collection of participants, both smaller companies and workers, who are being squeezed. Rising export market concentration and intangible barriers to competition, both of which have increased the rents of top TNCs (the largest players in international trade and finance), have exacerbated other impacts of trade on inequality.

Furthermore, as large TNCs have increased their weight in rule-making at all levels, they have become ever less accountable from a social perspective as well as with respect to environmental concerns.

This is one of the main reasons why trade liberalisation under hyperglobalisation did not deliver the promised shared prosperity in the North or the South. Rather, it promoted debt-fuelled market concentration dominated by a relatively small number of top TNCs, deepened the financialisation of the global economy and vastly increased the influence of transnational capital over national and international policy decisions that affect global production, employment and income distribution.

The belief that international trade can be an 'engine for development' and help establish an inclusive growth path, as recently affirmed in the 2030 Agenda for Sustainable Development, is neither new nor unreasonable. Yet, these objectives should not lead to simplistic advocacy of untrammelled free trade.

When UNCTAD was convened for the first time in 1964, policymakers from the South were concerned that their countries were increasingly being marginalised by an international trading system that added to polarising pressures in the global economy. This was not seen as the ineluctable consequence of market or technological forces but the outcome of institutions, policies and rules, at the national and global levels, that always and everywhere animate and channel these forces in both creative and destructive directions, and could be changed if the balance was seen as unfair and undesirable.

'More than half a century later, and despite myriad changes in the volume, direction and governance of cross-border trade, such concerns have surfaced once again, in advanced economies as well as in developing economies.'

It is evident that increased trade under hyperglobalisation has created opportunities for structural change, but only in very limited parts of the Global South. Besides the first-tier newly industrialising economies (NIEs) and more recently China, only a few countries have managed to leverage trade as a means for mobilising and reallocating productive factors away from primary commodities towards higher-value-added manufacturing and service activities, and even then in a sporadic manner. As global trade has decelerated since the global financial crisis, underlying structural weaknesses have been revealed in many countries.

In many cases, the growth spurts that occurred were on the back of unsustainable booms in extractive industries, which in turn further entrenched patterns of hyperspecialisation, when what was needed was to move towards more diversified structures. In developing countries that did increase manufactured exports via the offshoring of production, the underlying shift in corporate strategy to minimise costs and maximise the capture of rents has, in combination with the indiscriminate application of neoliberal policies, exacerbated the unequalising impact of trade.

These outcomes pose several macroeconomic risks and development challenges which are starkly evident today, said UNCTAD. The main concern is probably the negative impact that trade under hyperglobalisation has had on aggregate demand.

Global financial markets and major transnational financial institutions have, with some justification, become the principal villains in this story but it is now evident that non-financial corporations cannot remain immune from criticism. Facing weaker prospective sales in a context of weak aggregate demand and compounded by the post-crisis turn to austerity, large corporations have cut back on investment, further depressing aggregate demand and contributing to slower trade in recent years.

In an interdependent world characterised by financial instability and low growth, trade risks becoming a zero-sum game. Unilateral actions by governments to reinvigorate their own economy by trade protectionism, currency depreciation or wage restraint risk increasing tensions between countries and ending in a self-defeating spiral. But simple-minded calls for more trade liberalisation are no substitute for development strategies either.

It is true that trade has been successfully leveraged for promoting structural change by some countries, most recently China. But without policy interventions to generate structural change, channel profits into productive investment and bring better-quality employment, trade can nurture more economic, social and environmental damage, at odds with the Sustainable Development Goals.

The various pieces of evidence examined call for a more evidence-based and pragmatic approach to managing trade as well as to designing trade agreements. Crucially, it is important to address trade with a narrative that departs from unrealistic assumptions, such as full employment, perfect competition, savings-determined investment or constant income distribution, which underpin mainstream computable general equilibrium trade models and the associated policy discourse on trade policy. Instead, the insights of new trade theory that acknowledge the impact of trade on inequality need to be combined with an assessment of the causal relationship between rising inequality, corporate rent-seeking, falling investment and mounting indebtedness.

Revisiting the Havana Charter

According to *TDR-2018*, as UNCTAD has argued consistently in the past few years, a new international compact is required – a Global New Deal – that would aim for international economic integration in more democratic, equitable and sustainable forms.

Specifically, with reference to strategies for international trade and the architecture that sustains it, there is a strong case for revisiting the Havana Charter 1948, which emerged, albeit ephemerally, from the original New Deal and still provides important insights for our contemporary concerns.

First of all, the Charter (Chap. II, Art. 2.1) looked to nestle trade in the appropriate macroeconomic setting, noting that 'the avoidance of unemployment or underemployment, through the achievement and maintenance in each country of useful employment opportunities for those able and willing to work and of a large and steadily growing volume of production and effective demand for goods and services, is not of domestic concern alone, but is also a necessary condition for the achievement of the general purpose ... including the expansion of international trade, and thus for the well-being of all other countries'.

This focus on employment has largely been lost in the period of hyperglobalisation, and also finds little reflection in the 'trade' and 'economic cooperation' agreements that have dominated the landscape. Yet it must be revived if the widespread backlash against trade is not to gather more strength, said UNCTAD.

Second, the Charter recognised the links between labour-market conditions, inequality and trade, calling for improvements in wages and working conditions in line with productivity changes. It also sought to prevent 'business practices affecting international trade which restrain competition, limit access to markets or foster monopolistic control' (Chap. V, Art. 46.1), and dedicated an entire chapter to dealing with the problem of restrictive business practices. Revisiting these goals in light of 21st century challenges should be a priority.

Third, the Charter insisted that there were multiple development paths to marry local goals with integration into the global economy and that countries must have sufficient policy space to pursue pragmatic experimentation to ensure a harmonious marriage. This need for policy space also brings to the forefront the matter of negotiating trade agreements that have in recent decades privileged the requirements of capital and limited the possibilities for development in line with social priorities.

A decade after the collapse of Lehman Brothers, the global economy has been unable to establish a robust and stable growth path. Instead, weak demand, rising levels of debt and volatile capital flows have left many economies oscillating between incipient growth recoveries and financial instability. At the same time, austerity measures and unchecked corporate rentierism have pushed inequality higher and torn at the social and political fabric.

As the drafters of the Havana Charter knew from experience, tariffs are treacherous instruments for dealing with these problems and if a vicious cycle of retaliation takes hold, it will only make matters worse. But trade wars are a symptom, not a cause, of economic morbidity.

'The tragedy of our times is that just as bolder international cooperation is needed to address those causes, more than three decades of relentless banging of the free trade drum has drowned out the sense of trust, fairness and justice on which such cooperation depends,' said UNCTAD.

US protectionism and trade wars

According to *TDR-2018*, one factor intensifying uncertainty is the protectionist turn in the United States. From January 2018 the US administration has announced various measures that have come close to triggering what many are calling a 'trade war', beginning with quotas and tariffs on solar panels and washing machine imports from China, and then moving onto steel and aluminium for a wider set of countries, as well as investigating US car imports. The tariffs were imposed under a WTO clause relating to imports that threaten national security, though the idea is to curb competition from 'cheap metal that is subsidised by foreign countries', which amounts to a 'dumping' charge.

Subsequently, further trade sanctions were imposed on China on the grounds that it was using unfair tactics such as hacking commercial secrets and demanding disclosure of 'trade secrets' by US companies in return for access to the Chinese market.

According to *TDR-2018*, the impact of such a wave of protectionism is uncertain. It is true that the US aggregate trade deficit increased by close to 13% to $568 billion in 2017. Of that, around $375 billion was on account of the deficit with China. The point, however, is that imposing these unilateral tariffs is not going to help in reducing these deficits, which reflect macroeconomic imbalances, and things could get even worse with retaliatory action. Moving in this direction would likely disrupt prevailing global value chains around which much of trade is now built.

Such disruption would, in the first instance, affect the profits of multinational operations rather than national output, but with a likely adverse knock-on impact on investment given the heightened level of uncertainty. However, over time it could encourage relocation or 'reverse' relocation in some areas in order to jump tariff barriers, thereby partially arresting the process of globalisation.

On the other hand, to the extent that it increases government revenues and therefore expenditures in individual nations, it could drive growth based on domestic demand with reduced leakages in the form of imports. So the effect on global growth and its distribution is not easily predicted. But so long as trade continues, which it would since factors other than tariffs drive trade, trade deficits and surpluses would persist.

In sum, said UNCTAD, while unilateral protectionist actions by the US may or may not help strengthen its domestic producers, they are unlikely to make a significant difference to the size of its external deficit. Moreover, they are likely to introduce disruptions to trade patterns and add to uncertainty, which in the absence of expansionary macroeconomic measures will probably damage world trade.

'They will also have distributional consequences which are likely to weaken growth. The Trump Administration sees its protectionist actions as a way of escaping the long years of relative stagnation. What it may actually get is more of the same,' UNCTAD added. ◆

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Ten years on, in uncharted waters

September is the 10th anniversary of the 2008 global financial crisis. While there were multiple causes for the crisis, the principal cause was a regulatory failure, i.e., failure to regulate the financial sector. As to whether the world today is safer from such a crisis, *T T Ram Mohan* argues that while there have been some regulatory reforms, they have not been comprehensive enough to address the vulnerabilities of the financial sector to similar financial shocks.

ECONOMISTS thrive on crises. The East Asian crisis of 1997 caused a rethink on full capital account convertibility and fixed exchange rates. The Internet bubble and bust of the early 2000s led many to question the impact of new technology on long-term productivity growth. The scandals in the corporate world through the 2000s in the US provided grist for a fresh debate on corporate governance.

None of these was any match for the opportunities for cerebration created by the financial crisis of 2007. The crisis, which peaked in early September 2008, occasioned an enormous outpouring of scholarly papers, articles and books on the causes of the crisis and the lessons to be learnt. Have these made the world any safer? Unlikely, as we shall see later.

A demonstrator holding a sign in front of the New York headquarters of Lehman Brothers investment bank in September 2008. Ten years after the global financial crisis, the world is still not safe from fresh financial turmoil.

Regulation failure

The crisis of 2007 had multiple causes. Global macroeconomic imbalances, a loose monetary policy in the US, the housing bubble in the US again and elsewhere, a bloated financial sector, a flawed belief in efficient markets, greedy bankers, incompetent rating agencies — these and others have been identified as among the villains of the crisis. All of them undoubtedly contributed their part. But each has happened before without on its own bringing on a global economic crisis.

Most of the blame for the implosion of the financial sector in 2007-08 lies elsewhere — in a failure of regulation. This failure manifested itself in several ways. One, banks were allowed extraordinarily high levels of debt in relation to equity capital. Two, banks in the advanced economies moved away from the business of making loans to investing their funds instead in complex assets called 'securitised' assets. The securitised assets consisted of bundles of securities derived from sub-prime loans, that is, housing loans of relatively higher risk.

The switch from loans to securitised assets had enormous implications for banks. With a loan, losses are recognised over time. In contrast, investments are 'mark to market', that is, losses or gains on these have to be recorded instantly. As housing prices started falling and the securitised assets lost value, it translated into enormous losses for banks.

These losses eroded bank capital and created panic among those who had lent funds to banks. The lenders to banks, it turned out, were not primarily retail depositors but short-term lenders in the wholesale market. This was the third element in the failure of regulation, allowing banks excess dependence on short-term funds.

There were other failures of regulation. Banks had low standards for making housing loans. Bankers' pay was designed so that it allowed them to take excessive risk. The boards of banks did not exercise adequate oversight.

These failures were not confined to the US. They infected banks in Europe and some in Asia as well. These banks were not merely exposed to American assets. As economic historian Adam Tooze has pointed out in a recent book and in an article in *Foreign Affairs* (September/October 2018), they had financed these assets through large borrowings in the American wholesale market. The sub-prime problem was thus not just an

The 2008 financial crisis was rooted in a failure of regulations, which manifested itself in, among others, banks' investment in securitised assets derived from subprime housing loans of relatively higher risk.

American problem but a problem for large chunks of the global banking system.

As wholesale markets dried up, the US Federal Reserve provided dollar funds to central banks in Europe and in Asia. Governments everywhere rushed to save their financial institutions. Central banks provided liquidity support to banks. The failure of banks was sought to be counteracted by fiscal and monetary expansion. The loss of jobs and output has been enormous. Various political consequences have unfolded: the eurozone crisis, Brexit, the rise of nationalism and anti-immigrant policies, the Trump phenomenon in the US and the return of protectionism.

How did such a colossal failure of regulation occur? The problem was 'regulatory capture', the ability of financial institutions to influence policies of governments and regulators. Financial institutions are a big source of political funding. There is also the 'revolving door' syndrome. Bankers in the US and Europe hop on to jobs in government and regulation. Government officials and regulators land lucrative jobs and assignments with banks.

The 'revolving door' plays havoc with regulation. It must also explain the total lack of accountability of bankers for the havoc they created. No top banker has been prosecuted or jailed. Instead, banks have paid up hefty fines for assorted violations, the fines coming from the pockets of shareholders.

India has not suffered much on account of the financial crisis. Growth has slowed down to 7% but that is in line with the trend rate over the past two decades. Several prudent policies have helped. India has not embraced full capital account convertibility. It has kept short-term foreign borrowings within stringent limits. India did not open up to foreign banks despite pressure from the US and international agencies. Foreign banks retreated from overseas markets following the crisis, causing a severe credit crunch in places such as Eastern Europe. India escaped this fate.

Core issues

Is the world safer from a financial crisis today? The key reform measures have focused on getting banks to have more equity capital and to reduce dependence on short-term borrowings. The design of executive pay has been changed so as to reduce incentives for taking excessive short-term risk. Some improvements in governance have been effected. These measures have made banks safer than before the crisis but still not safe enough.

That is because three issues remain significantly unaddressed. First, the 'too big to fail problem' – some banks being so large that they cannot be allowed to fail. Some of the biggest banks in the world have grown even bigger after the crisis. Concentration in banking has increased.

Second, the size of debt in various forms in the world economy. A crucial aspect of the financial crisis was the build-up of private debt, that is, the debt of households and non-financial firms. Two Chicago economists, Atif Mian and Amir Sufi, argued in a well-received book, *House of Debt*, that the expression 'financial crisis' was something of a misnomer. The key driver of the recession in the US was the rise in household debt and the consequent drop in household consumption. This does not negate the view that regulatory failure was the principal cause. It only means that regulation must address growth in credit as well as the flow of credit into sectors such as real estate.

In the years following the crisis, private debt has fallen but government debt and corporate debt have risen. The former head of the UK's Financial Services Authority, Adair Turner, says that total debt – government, corporate and household – as a percentage of GDP is higher than ever before (*Financial Times*, 11 September). For the global economy as a whole, the overhang of debt poses serious challenges.

Third, financial globalisation makes the world vulnerable to US monetary and fiscal policy. From time to time, the US unleashes a flood of dollars at low rates. The world laps up the cheap finance. Then, the US raises interest rates. Other economies find themselves staring at huge debt repayments. Further, the dollar remains the reserve currency of the world. The US can borrow to the hilt but the dollar will not depreciate, it may even appreciate!

The present crisis in emerging economies highlights how vulnerable emerging markets are to the vagaries of American economic policy. The world needs to be weaned away from its dependence on the dollar. Alas, an alternative global financial architecture is nowhere in sight. Economists are free to draw their lessons from financial crises but the world is ultimately shaped by political and business interests, not by economists. ◆

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The Turkish financial meltdown: An analysis

Although there have been attempts to blame the Trump sanctions for the Turkish financial meltdown, the truth is the sanctions only acted as a trigger as the economy was sitting on a time bomb. *Yilmaz Akyüz* elucidates.

Turkey's Borsa Istanbul stock exchange. The presence of non-resident portfolio investors in domestic markets is one of the sources of financial vulnerability in the Turkish economy.

THE meltdown of the Turkish currency over a matter of a few days in August has elicited various reactions and interpretations both at home and abroad, and created widespread concern that it could mark the beginning of a series of crises in emerging economies exposed to a reassessment of risks by international investors and lenders as well as a rapid normalisation of monetary policy in the United States.

Some commentators have attributed the crisis to the sanctions imposed by a Trump administration discontented with the foreign policies pursued by Turkey on many fronts. The government of President Recep Tayyip Erdogan has been too happy to put the blame on 'the economic warfare launched by the United States', rather than years of misguided policies that rendered the economy highly susceptible to political and economic shocks. It has even enjoyed support from some Western governments weary of Trump's errant foreign policy. Others drew parallels with previous crises in emerging economies, notably the East Asian crisis, placing particular emphasis on the role of external debt in dollars, notably excessive short-term borrowing.

In reality, the Trump sanctions only acted as a trigger as the economy was sitting on a time bomb. The currency was already under pressure before the sanctions came into force because of growing awareness of the fragility of the economy. The lira had lost a quarter of its value against the dollar between January and July 2018.

On the other hand, there are some crucial differences between the underlying vulnerabilities culminating in the Turkish and East Asian crises, particularly with respect to the size of current account deficits, the foreign presence in domestic securities, credit and deposit markets, the extent of dollarisation and the scope for capital flight by residents. In all these respects, Turkey has been much more vulnerable to currency turmoil than were the East Asian economies in the 1990s.

In a book published by OUP last year, I identified Turkey as the most fragile emerging economy highly vulnerable to external financial crisis after examining, as of end 2013, various sources of potential pressure on its currency and drain on its international reserves in the event of a sharp turnaround in market sentiments and a sudden stop of capital inflows. It was clear that in such an event, Turkey could not at the same time finance its current account deficit, remain current on its external debt payments in dollars and allow a rapid exit of non-resident portfolio investors from domestic financial markets even in the absence of capital flight by residents. It was also remarked that capital flight for residents often constituted greater pressure on the currency and international reserves. This was a serious potential threat in Turkey as residents could freely buy and sell dollars, hold forex deposits in local banks and transfer their assets abroad.

The economy has become even more fragile since then. The current account deficit has remained unchecked as the government sought consumption/construction-led, debt-driven economic expansion which has added very little to productive capacity and export potential. Persistent deficits have been financed by massive sale of national assets and external borrowing, leading to a rapid deterioration of the net international investment position, from around -42% of GDP in 2013 to over -54% by 2018.

External debt as a proportion of GDP rose from 41% in 2013 to 63% on the eve of the crisis. A large proportion of this debt, over 25% of GDP, had a remaining maturity of up to one year. The sum total of short-term debt and current account deficits was more than twice as much as international reserves. Furthermore, the presence of non-resident portfolio investors in domestic markets became more visible and capital flight by residents remained an even more serious source of pressure on the currency and reserves for political as well as economic reasons.

Sovereign external debt now accounts for some 20% of the total while the rest is equally divided between banks and non-financial corporations. The latter have been allowed to borrow in dollars both at home and abroad irrespective of their potential to earn foreign currency to service it. Such debt poses greater threat to stability than sovereign debt since, at times of currency turmoil, private debtors attempt to close their open positions by purchasing foreign currency in order to avoid further losses and this in turn accelerates the decline of the currency.

Turkey has thus practised an extreme form of laissez faire in financial affairs and, in effect, become a highly dollarised, dual-currency economy. Not only liabilities and assets are increasingly denominated in the dollar, but an important part of property prices, incomes and rents, as well as government contracts in public-private partnership projects are also fixed in dollars.

In such an economy, a significant loss of confidence can exert intense pressure on the currency irrespective of volume and terms of external debt. With the Trump sanctions, the lira started a freefall primarily because of flight of residents, both asset holders and dollar debtors, from the currency, sudden stop of capital inflows and the exit of non-residents from local markets. Besides, the decline was accentuated by speculators shorting liras in swap operations in anticipation of a significant drop in the currency. The short-term dollar debt to international creditors has not yet come into play. Still, the outcome has been steep falls in the lira and stocks and a hike in yields on local-currency sovereign debt. The cost of insuring Turkish debt (credit default swaps – CDS) has shot up, reaching 500 basis points compared with 240bp for Brazil and 315bp for Greece.

In view of stern opposition by the president, the central bank avoided a hike in lending rates, but closed its low-cost repo funding, forcing banks to borrow at its more expensive overnight rate – something aptly described as a 'stealth' tactic to hike borrowing costs. Further, it has limited currency swap transactions to curb speculation against the lira.

Turkey, as most other major emerging economies, is highly averse to recourse to the International Monetary Fund (IMF) for international liquidity because of the IMF's appalling record in interventions in past crises in emerging economies. As anticipated in an earlier Inter Press Service (IPS) article, Turkey thus sought help from its close allies, securing a pledge of $15 billion from Qatar.

These measures, together with nine days' respite offered by the Muslim Eid Al-Adha holiday, brought some calm to currency and financial markets. But all is not over yet. The underlying structural fragilities remain unabated and cannot be remedied overnight because they involve severe balance sheet distortions and imbalances.

Even if the lira remains relatively stable from now on, the sharp decline it has so far undergone – by some 40% since the beginning of the year – could impinge heavily on unhedged debtors, resulting in serious debt-servicing difficulties and even defaults. As Bloomberg reports, the CDS curve is inverted – as it was in Greece in the worst days of its debt crisis – not only for sovereign debt but also for the debt of some of the biggest commercial banks; that is, it costs more to insure one-year default than to buy five-year protection. This suggests that markets are expecting imminent debt-servicing difficulties.

As loans and bonds mature in coming months, the country may find it very difficult to persuade creditors to roll over debt or to replace maturing bonds with new ones even at significantly higher rates. An important part of syndicated bank loans is due for renewal in September. The dispute with the US involving the state-owned Halkbank over Iranian sanctions can make the renewal process complicated (I thank Hakan Ozyildiz for this point). Thus, with short-term debt coming into play, the crisis could cease to be a currency crisis but a full-blown debt and banking crisis, leading to a deep and protracted economic contraction.

The crisis could also generate severe contagion to the rest of the world. Defaults by Turkish debtors could squeeze some European creditors, mainly a number of banks in Spain, Italy and France which have relatively high exposure directly or through subsidiaries in Turkey. This would also have a serious impact on global risk appetite. A sharp reassessment of risks, together with monetary tightening in the US and Trump follies in trade, could wreak havoc in several emerging economies which have gone out of bounds in the years of easy money since 2008.

When so many policy mistakes are committed and so much debt is accumulated and assets are lost, there is no easy way out. But, it is always possible to ease the pain. It is not clear if the Turkish government will be able to move from populist rhetoric to effective economic measures to address the root causes of the crisis. On the other hand, should the crisis spread globally, the international community is unlikely to be able to manage it in an orderly and equitable way, rather than muddling through it as in the past, because it is no more prepared to respond to such crises than it had been in previous episodes. – *IPS* ◆

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Another global financial crisis for developing countries?

Developing countries are now faced with the threat of another global financial crisis. Regrettably, as *Anis Chowdhury* and *Jomo Kwame Sundaram* point out, they have rendered themselves more vulnerable by pursuing some misguided policies.

A customer at a money changer's outlet in Jakarta. Many emerging market currencies, including the Indonesian rupiah, have recently come under considerable pressure.

GEORGE Soros, Bill Gates and other pundits have been predicting another financial crisis. In their recent book, *Revolution Required: The Ticking Time Bombs of the G7 Model*, Peter Dittus and Herve Hannoun, former senior officials of the Bank for International Settlements, warned of 'ticking time bombs' in the global financial system waiting to explode, mainly due to the policies of major developed countries.

Recent events vindicate such fears. Many emerging market currencies have come under considerable pressure, with the Indonesian rupiah, Indian rupee and South African rand all struggling since early this year. Brazil's real fell sharply in June, and Argentina has failed to stabilise its peso despite seeking aid from the International Monetary Fund (IMF). As Turkey struggles to stabilise its lira, many European banks' exposure has heightened fears of another global financial crisis.

Why the vulnerability?

Some fundamental weaknesses are at the core of this vulnerability. These include the international financial 'non-system' since the collapse of the Bretton Woods system in 1971, and continuing to use the US dollar as the main international reserve currency. This burdens deficit countries vis-à-vis surplus countries and ensures near-universal vulnerability to US monetary policy. Thus, most countries accumulate dollars as a precaution, i.e., for 'protection', eschewing other options such as investing in socially desirable projects.

Policymakers not only failed to address these weaknesses following the 2008-09 global financial crisis (GFC), but also compounded other problems. Having eschewed stronger, more sustained fiscal policy interventions, monetary policy virtually became the sole policy instrument. Major central banks, led by the US Federal Reserve, embarked on 'unconventional monetary policies', pushing real interest rates down, even into negative territory.

Emerging and developing economies (EDEs) offering higher returns temporarily experienced large short-term capital inflows. The external debt of emerging market economies has grown to over $40 trillion since the GFC. The combined debt of 26 large emerging markets rose from 148% of gross domestic product (GDP) at the end of 2008 to 211% in September 2017, according to the Institute of International Finance (IIF).

Easy money raised household and corporate debt, fuelling property and financial asset price bubbles. According to the IMF's April 2018 *Fiscal Monitor*, global debt peaked at $164 trillion in 2016, or 225% of global GDP, compared with 125% before the GFC. The IIF reported that global debt rose to over $247 trillion in early 2018, i.e., equivalent to 318% of GDP.

Rising debt levels pose serious downside risks for the global economy. With easy money coming to an end, as the Fed continues to 'normalise' monetary policy by raising the policy interest rate, capital flight to the US is undermining emerging market currencies. When debt defaults increase with interest rates while income growth remains subdued, the world becomes more vulnerable to financial crisis.

Continued use of the US dollar as the main international reserve currency exposes the global economy to the risk of financial crisis.

Diminished capacities

Both developed and developing countries have less policy space than during the GFC. Most governments are saddled with more debt following massive financial bailouts followed by abandonment of efforts to sustain robust recovery.

According to the IMF April 2018 *Fiscal Monitor*, average public debt of advanced economies was 105% of GDP in 2017, constraining fiscal capacity to respond to crisis. Meanwhile, monetary policy options are exhausted after a decade of 'unconventional' monetary policies.

General government debt-to-GDP ratios in emerging market and middle-income economies almost reached 50% in 2017 – a level only seen during the 1980s debt crisis. The 2017 ratio exceeded 40% in low-income developing countries, climbing by more than 10 percentage points since 2012.

Playing with Fire by Yilmaz Akyuz, former South Centre chief economist, has highlighted the self-inflicted vulnerabilities of developing countries. Public debt-GDP ratios in EDEs are likely to rise due to falling commodity prices and stagnant global trade, while they have almost no monetary policy independence due to deeper global financial integration.

While corporate sectors have been busy with mergers, acquisitions and share buybacks with cheap credit instead of investing in the real economy, the financial sector has successfully portrayed sovereign debt as 'public enemy number one'.

Held hostage to finance capital, governments around the world have wasted the opportunity to improve productive capacities by investing in infrastructure and social goods when real interest rates were at historic lows. At around 24% of global GDP, the global investment rate remains below the pre-crisis level of around 27%, with investment rates in EDEs either declining or stagnant since 2010.

Failure to address the falling wage share of GDP, rising executive pay and asset price bubbles, due to 'easy' monetary policy, have continued to worsen growing income inequality and wealth concentration. Meanwhile, deep cuts in government spending and public services, while reducing top tax rates, cause anger and resentment, often directed at 'the other', contributing to the spread of 'ethno-populism'.

In turn, growing inequality limits aggregate demand, which has been maintained by unsustainably raising household debt, i.e., perverse 'financial inclusion'.

Turbulence in currency markets is due to developing countries' limited economic policy space. A decade after the GFC, developing countries still experience lower growth and investment rates.

Financial sectors of emerging market economies now have more and deeper links with international financial markets, also reflected in high foreign ownership of stocks and government bonds, with large sudden capital outflows causing financial crises.

Meanwhile, recent commodity price drops have accelerated the rising indebtedness of low-income countries. According to the IMF, 24 out of 60 (40%) are now either already facing debt crises or highly vulnerable – twice as many as five years ago, with a few already seeking IMF bailouts.

The problem is compounded by declining concessional aid from developed countries. Also, more creditors are not part of the Paris Club, obliged to deal with sovereign debt on less onerous terms. Meanwhile, growing trade and currency conflicts are worsening the woes of those already worse-off. – *IPS* ◆

Anis Chowdhury, Adjunct Professor at Western Sydney University (Australia), held senior United Nations positions in New York and Bangkok. Jomo Kwame Sundaram, a former economics professor, was United Nations Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.

Emerging markets currency crisis is the product of the global liquidity deluge

Anthony Rowley says it is time for an international review of the amount of liquidity flooding the global financial system and the ability of markets, particularly in developing countries, to withstand massive movements of capital.

BACK in the 1990s, a few years before the Asian financial crisis erupted, I suggested to a senior International Monetary Fund (IMF) official whom I was interviewing that unrestricted capital flows into emerging markets might not be an altogether good thing. His reply almost took my breath away and I am reminded of it now as we face another possible currency crisis.

It was necessary to expose emerging markets to global capital flows, he suggested, 'to test their weak points'. This seemed to me at the time akin to saying that small farms should be connected to massive irrigation pipelines to see whether the ensuing deluge of water would wash them away.

Currency rates on display outside an exchange house in Buenos Aires. 'Today, we are again seeing a number of emerging market currencies in crisis territory – not least the Argentinian peso and the Turkish lira but also the Indonesian rupiah...'

Many countries in Asia duly went ahead and abolished capital controls in line with the neoliberal economic thinking of the 'Washington consensus' which also conferred upon emerging markets the mixed blessing of portfolio inflows into and out of their newly established or recently revived stock markets.

Then came the 1997 crisis and among those that suffered most were Indonesia, where the rupiah fell recently to its lowest level in three years, barely above its 1998 crisis level, and South Korea. Malaysia, at that time also under the government of Prime Minister Mahathir Mohamad, wisely imposed capital controls.

Another IMF official cautioned before the 1997 crisis that that idea of 'phasing in' capital market liberalisation, in order to test the waters before opening up fully, was not practicable. The denizens of the Washington ivory tower later relented to this view. But, by then, the horse had bolted and many saw little point in closing the stable door.

Today, we are again seeing a number of emerging market currencies in crisis territory – not least the Argentinian peso and the Turkish lira but also the Indonesian rupiah, while the Chinese renminbi is also coming under downward pressure. The Australian dollar, though hardly an emerging market currency, is meanwhile suffering a mini-crisis.

This turmoil is partly collateral damage from US President Donald Trump's absurdly irresponsible trade wars against China and others, and the impact that is having on market sentiment. And it is partly a result of rising interest rates in the United States and the consequent desire of global investors to chase yield not in emerging markets but in dollar investments.

What is scary about this impending new currency crisis is that it could also precipitate a debt crisis, especially in Asian and other emerging markets and particularly in the corporate sector. Dollar- or other foreign currency-denominated debt becomes harder to service in terms of local currency earnings once those currencies start to slide.

What is happening now in corporate debt markets, mainly in emerging economies, should be worrying people much more than it is. Why? For one, corporate debt in emerging and developing economies now significantly exceeds levels before the 2008 global financial crisis. As pointed out by this writer previously, the World Bank has noted that the increase in corporate debt ratios over the past decade has been 'most pronounced in East Asia and the Pacific'.

What is important now is to consider the possibility that re-imposition of capital flows may be on the cards in countries where signs of distress emerge – and that open capital regimes need to be re-examined.

To go back to the parallel between global capital flows and irrigation systems, the liquidity in the main conduit has grown massively as a result of huge quantitative easing exercises by the world's leading central banks in response to the global financial crisis in 2008.

Much of this liquidity subsequently flowed to emerging markets to escape derisory yields on financial securities in advanced economies, not least in the US. This process is being reversed now, and with US interest rates rising – and set to rise further – more money will exit emerging markets.

It is surely time for an international review of the size of global liquidity relative to the ability of stock and bond markets around the world – especially those in emerging markets – to absorb massive inflows and outflows without suffering systemic failure at the national or global level.

Asian and other emerging markets have erected some defences against financial crises since 1997, not least by building up foreign exchange reserves and arranging currency swaps at government level. At the corporate level, there is better matching of debt maturity and currency risks. But even these defences could be washed away by the tide of global liquidity.

Whether an administration in the world's largest economy that is obsessed with 'making America great again' by cutting others down to size is capable of leading a global reform initiative is, to say the least, open to question. Maybe only another crisis can precipitate needed reforms. ◆

Anthony Rowley is a veteran journalist specialising in Asian economic and financial affairs. This article is reproduced from the website of the South China Morning Post *(www.scmp.com).*

How to prevent financial crises in emerging markets

After a brief survey of Argentina and Turkey, two countries grappling with a financial crisis, *Kavaljit Singh* warns of the danger of a financial contagion impacting the emerging markets of Asia. While stressing the importance of capital controls and macroprudential tools to ensure financial stability, these, he argues, may not be enough to withstand financial shocks in the absence of international cooperation.

A demonstrator in Buenos Aires holds a sign that reads 'IMF, get out'. Many Argentines blame the IMF for the policies that led to the 2001 financial crisis which triggered social unrest and political instability.

ARGENTINA'S currency crisis is deepening. On 29 August, the peso crashed more than 7% – the biggest one-day fall since December 2015 when President Mauricio Macri allowed the currency to float freely and removed capital controls. In a two-minute televised address on that day, Macri said he had requested from the International Monetary Fund (IMF) an early release of funds from a $50 billion stand-by arrangement. The televised address did not help to eliminate market uncertainty. Instead, it made investors more jittery than ever, pushing the peso to its worst decline in almost three years.

On 30 August, Argentina's central bank raised its policy benchmark interest rate by 15 percentage points to a whopping 60% – the highest in the world – to stop investors from pulling money out of the country. This huge rate hike, however, failed to stem the peso's decline. The peso slumped a further 13% and closed at a record low of 39.2 per US dollar despite direct interventions by the central bank in the currency markets throughout the week to prop up its currency and bolster market confidence.

In 2018, the Argentine peso has depreciated by 51% against the dollar, making it the worst-performing emerging market currency this year.

IMF and Argentina: A rocky relationship

Argentina has had a troubled relationship with the IMF. Many Argentines blame the IMF for the policies that led to the 2001 financial crisis which triggered social unrest and political instability. In May 2018, Argentina sought financial assistance from the IMF amid a rapid depreciation of the peso. In June, the IMF Executive Board approved a three-year, $50 billion stand-by arrangement and the government immediately withdrew $15 billion from this facility. It is not yet disclosed how much money has been requested for early disbursement from the IMF, but market analysts believe that the Macri government is seeking at least $3 billion in September to calm investors' nerves.

Although the IMF has agreed to change the phasing of the financial programme, it is not yet clear whether any new conditions would be attached to the early release of funds. It is likely that the IMF will impose new austerity measures in exchange for the early disbursement. In a statement issued on 29 August, IMF Managing Director Christine Lagarde stated: 'I have instructed IMF staff to work with the Argentine authorities to strengthen the Fund-supported arrangement and to re-examine the phasing of the financial programme.' However, this statement did little to impress jittery investors, and the peso plunge continued.

Investors are increasingly concerned over the country's ability to meet dollar-denominated debt payments due next year. Argentina has about $25 billion of peso- and dollar-denominated debt payments coming due by the end of 2019. As the depreciation of the peso would lead to higher debt-servicing payments, investors fear that Argentina may not be able to meet its dollar-denominated debt obligations and could default.

Argentina's twin fiscal and current account deficits coupled with substantial foreign debt levels make its economy extremely vulnerable to tightening of global financial conditions. Additionally, agricultural exports (which contribute nearly 40% of the country's total exports) have been hit by the worst drought in 30 years. With high inflation (currently at 31%) and dim economic prospects, the peso is expected to remain weak for some time.

The impact of rate hikes on the domestic economy is already becoming visible as higher financing costs have led to a contraction of economic activity. The fiscal adjustments are also having an adverse impact on growth. The economy contracted 6.7% in June 2018 compared with the same month last year. There are strong fears that Argentina's economy is heading for a recession in the third quarter of this year. The government has recently admitted that poverty levels would rise this year because of high inflation.

In the coming days, the Macri government will find it challenging to implement stringent austerity measures further as elections are scheduled for October 2019. Any attempt to impose deeply unpopular austerity policies and economic reforms will further erode Macri's political capital and could dent his chances of winning re-election next year.

Argentina's ongoing currency turmoil is particularly worrisome as the government adopted orthodox economic policies often sought by the international investment community. The government dismantled interventionist policies; appointed market-friendly technocrats in the finance ministry; took a step towards a more independent central bank; raised interest rates to a record 60%; implemented painful austerity measures; and secured a $50 billion loan from the IMF. Yet, the country's currency troubles are far from over. The peso is still losing value and the economy is headed towards a recession. It is amply clear that policy measures taken by the Macri government are not in line with investors' expectations.

Argentine Finance Minister Nicolas Dujovne meeting IMF Managing Director Christine Lagarde at IMF headquarters on 4 September. On 29 August, the Argentine government had requested an early release of funds from a $50 billion stand-by arrangement with the IMF.

The Argentine episode offers several valuable lessons to other emerging market economies (EMEs) that are facing similar financial fragilities. It illustrates that floating exchange rates do not always guarantee insulation from shocks in the exchange rate. More importantly, it has shown that the IMF's stand-by loan of $50 billion – the largest credit line in IMF history – utterly failed to provide an effective anchor for addressing financial vulnerabilities and bolstering market confidence.

A very familiar crisis in Turkey

Meanwhile the Turkish lira has depreciated more than 40% against the US dollar since January 2018. Much of the recent steep fall in the lira's value is the result of a sharp deterioration in the US-Turkey relationship over the detention of an American pastor, but the economy's external position is extremely vulnerable due to massive borrowing in foreign currencies by the private sector and a debt-financed consumption boom.

Nearly 70% of Turkey's overall debt is denominated in dollars and euros. Taking advantage of lower interest rates globally, Turkish firms borrowed heavily in foreign currencies in the post-crisis period. According to JPMorgan, around $179 billion of Turkey's foreign debt matures between now and July 2019, out of which the private sector owes $146 billion (81%). A weak lira will make it harder for Turkish private firms to repay their foreign currency debts. If funds become scarce due to a sudden stop of capital flows to Turkey, the private sector will struggle to roll over its foreign currency debt.

The weakening of the lira also poses a refinancing risk to Turkish banks due to their excessive dependence on wholesale external funding (denominated in foreign currency) to fund lira-denominated loans in the country. A weak lira will make it much more expensive for Turkish banks to refinance their external market funding.

Besides, Turkey's lira crisis poses risks of wider contagion spreading to the European banking system as five big European banks (BBVA, UniCredit, ING, BNP Paribas and HSBC) have a sizeable presence in its domestic banking system or exposure to Turkey. According to cross-border banking data from the Bank for International Settlements, Turkish borrowers owe $82.3 billion to Spanish banks; $38.4 billion to French banks; $17 billion to Italian banks; and $19.2 billion to UK banks.

Declining foreign exchange reserves will make it difficult for Turkish authorities to finance the widening current account deficit (currently at 6% of GDP) or to arrest the slide of the lira by intervening in currency markets by selling dollars. Turkey had official reserves of $100 billion (foreign currency reserves of $77 billion and gold reserves of $22 billion) in July 2018.

Unlike Argentina, however, Turkey has not jacked up interest rates nor sought financial assistance from the IMF. The Turkish authorities have ruled out the imposition of capital controls to restrict outflows, but new restrictions were recently imposed on currency-swap transactions to curb short-selling against the lira. For liquidity support, Turkey has signed a $3 billion bilateral currency swap agreement with Qatar.

Challenges for Asian EMEs

A key policy concern is the threat of financial contagion from currency collapse in Argentina and Turkey to emerging markets in Asia. Argentina's currency turmoil has exacerbated the sell-off in currencies, equities, bonds and other financial assets in many Asian EMEs. Although Asia's economic fundamentals appear stronger than those of Argentina and Turkey, the currencies of India and Indonesia are currently trading at all-time lows.

The Indian rupee remains the worst-performing Asian currency this year. It has depreciated by 11% year to date. On 31 August, the rupee fell to a record low of 71 against the US dollar. Since April 2018, the fall in the rupee can be attributed to higher crude oil prices, the rising dollar, and concerns over the current account deficit widening to 2.8% of GDP in 2018-19. Besides, the market expectations of rising interest rates in the US, the consistent outflow of foreign funds and growing global trade tensions have also contributed to the weakening of the rupee.

The Indonesian rupiah is the second-worst-performing Asian currency this year, after the rupee. It has depreciated 7.8% this year. Spooked by the Argentine peso crash, the rupiah plunged to 14,750 per dollar – the lowest level since the Asian financial crisis of 1998 – even though the Indonesian central bank has been selling billions of dollars from its forex reserves kitty to stem the fall. It has also raised interest rates four times since May.

The widening current account deficit remains one of the key concerns for Indonesia. While the rupiah is continuing to weaken, Indonesia's bond markets have also come under selling pressure as the foreign ownership of government bonds is very high. Foreigners hold about 40% of the government bond market in Indonesia.

The Chinese yuan meanwhile has fallen more than 8% against the dollar amid fears of a trade dispute with the US, rising US interest rates and concerns over an economic slowdown in the domestic economy. Back in 2015-16, the Chinese authorities spent nearly a trillion dollars from the country's forex reserves to stabilise the currency. However, this time the authorities are shying away from direct interventions in the currency markets. The current policy response is directed towards using regulatory tools such as raising the reserve requirement ratio on foreign-exchange forward contracts from zero to 20% in order to make it more expensive to short the yuan.

The importance of capital controls and macroprudential tools

Maintaining financial stability is a big policy challenge for all EMEs. The recent episodes of financial crisis have amply shown that even those countries that followed seemingly sound macroeconomic policies also got exposed to 'sudden stops' or large reversals in capital flows. Hence the moot question is: How should emerging-economy policymakers respond to prevent rapid currency depreciation and a sudden reversal in capital flows?

To begin with, EME policymakers should proactively enforce capital controls to stem the risks of rapid capital outflows. The orthodox view is that capital controls do more harm than good. Critics question the effectiveness of capital controls, especially on outflows. Despite the negative connotation associated with the word 'controls', there are many positive experiences of using controls on outflows as a crisis management tool. This long list includes Malaysia in 1998, Iceland in 2008, Cyprus in 2013 and China in 2016.

EME policymakers can impose controls on both inflows and outflows of capital to insulate themselves from external shocks as well as to provide some breathing space to address longer-term structural problems. Controls on inflows can be helpful in altering their composition in favour of less risky and longer-maturity flows. Brazil is a well-known case in point. During 2009-11, Brazil adopted a series of capital controls (including a tax on portfolio investments) to discourage inflows to combat the appreciation of the real.

Rather than being used as a last resort and on a temporary basis, capital controls should have a place in the standard policy toolkit and could be deployed by EMEs keeping in mind their specific policy frameworks and country contexts.

Given the prevailing adverse

market conditions, policymakers in Argentina and Turkey should shun their rigid stance against capital controls and adopt a pragmatic approach towards managing destabilising capital flows. The decision making in a complex, uncertain and financially interconnected world should not be driven by outdated neoliberal orthodoxy.

In parallel, EME policymakers should also impose macroprudential policy measures (such as caps on foreign currency lending, credit controls, and countercyclical capital requirements) for containing financial boom-and-bust cycles.

It is well recognised that policy interventions are more warranted during the boom period to limit the build-up of risk in the financial system. In this regard, it is desirable to use both capital controls and macroprudential measures in an emerging economy facing a surge of capital inflows ('sudden floods'). EME policymakers can choose the optimal mix of capital controls and macroprudential measures in mitigating currency and financial risks.

In addition, policymakers need to stay extra-vigilant about corporate debt issued in foreign currencies by non-financial corporations due to the potential risks associated with twin currency and maturity mismatches. Overall, there is a greater need for improving financial regulation and market surveillance in EMEs.

In the medium to long run, policymakers in EMEs should concentrate on attracting long-term capital flows that improve the country's productive capacity through the transfer of technology and managerial know-how, rather than short-term volatile capital flows (such as bank lending and portfolio investments) that have tenuous linkage with the real economy and are prone to abrupt reversals. The role of short-term portfolio flows in causing or exacerbating financial crises in many EMEs is well documented.

It is high time that EME policymakers rethink their approach towards global financial integration. Previous experiences of financial liberalisation (especially capital account liberalisation) in many EMEs have proved to be costly and exposed them to financial crises of various kinds, while the actual benefits of capital account liberalisation are hard to find. In particular, the liberalisation of short-term capital flows should be avoided.

Protesters wearing masks of G20 leaders during a demonstration ahead of the 2017 G20 summit in Hamburg, Germany. So far the G20 has proved to be ineffective in developing a collective response to manage financial risks.

The need for international cooperation

There is no denying that EME policymakers should adopt sound domestic policies and improve macroeconomic fundamentals, but it may not be sufficient to withstand financial shocks that EMEs are currently facing from spillovers of monetary policy normalisation in the US and other advanced economies. Hence, there is a need for global policy coordination. The advanced economies should also realise this need as increased financial market volatility can generate significant spillback effects on their economies.

Post-crisis, the importance of a global financial safety net has been well recognised. In this regard, bilateral swap agreements and regional financing arrangements (such as the Chiang Mai Initiative and the BRICS Contingent Reserve Arrangement) can be useful in providing immediate liquidity support when a crisis hits a country.

International policy cooperation is vital for managing volatile cross-border capital flows that can create financial fragility in the EMEs. Apart from imposing capital controls within the recipient countries, there is a logical reason for imposing capital account restrictions in the source countries to manage destabilising capital flows at both ends. Although the prospects of such a cooperative multilateral approach remain bleak, its potential benefits for global financial stability are enormous.

So far the G20 grouping of major economies has proved to be ineffective in developing a collective response to manage policy spillovers and spillbacks. As financial risks are likely to amplify in the coming months, it is critical that all G20 members cooperate to identify and manage risks collectively. Otherwise, what's the point of the G20 harping about promoting global financial stability? ◆

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Visions of war and wealth in the Middle East

US involvement in Iraq and Afghanistan is part of a long-term strategy to gain regional influence and access to resources.

Edward Hunt

US soldiers on patrol in Afghanistan. A panel of current and former US officials at a recent security conference said that the war in Afghanistan would probably continue for years.

AT a recent security conference, a panel of current and former US officials discussed the possibility of extending the US military presence in Iraq and Afghanistan for years into the future and considered the potential to more effectively tap into the natural resources in both countries.

The panellists said that the war in Afghanistan would probably continue for years, but they were less certain about the prospects for Iraq. They shared their thoughts as part of a session at the 18-21 July Aspen Security Forum on what a US victory would look like in both countries.

Moderator Kim Dozier opened the session by asking, 'Will we still have tens of thousands of troops in Iraq and Afghanistan in a decade from now?'

The panellists mostly agreed that at least some minimal US commitment was necessary. A number of them called for a long-term military presence in both countries. Some were quite optimistic about the untapped oil and mineral wealth in the region.

The panellists included former US officials Thomas Shannon, Samantha Vinograd and Juan Zarate. Shannon is a career ambassador who worked in the Trump administration for about a year before announcing his retirement earlier this year. Vinograd and Zarate both worked for the Bush administration, which started the wars.

Congressman Adam Schiff, the top Democrat on the House Intelligence Committee, also participated in the discussion. In 2001, Schiff voted in favour of the bill that authorised the Bush administration to attack Afghanistan. In 2002, Schiff voted in favour of the resolution that authori sed the Bush administration to attack Iraq.

All of the panellists have played some role in the wars, both of which have been devastating. The Costs of War Project at Brown University estimates that more than 100,000 people have died in the war in Afghanistan and about 200,000 people have died in the war in Iraq. The great majority of victims in the war in Iraq have been civilians.

Rather than dwelling on these issues, however, the panellists used their time to consider the ways in which the US government can still achieve its strategic objectives.

One of the major issues they considered was whether the United States should maintain a long-term military presence in both countries. Two of the panellists, Zarate and Vinograd, argued that US military forces should remain in both countries for some time to come.

Zarate argued that 'we should have a military presence consistently in both in a decade or two'. He also called for the creation of 'a permanent base in Erbil', the capital city of Iraq's Kurdish area. He argued that the base could provide the US with an alternative to a base it is using in Turkey while sending a 'very near signal to the Iranians … that we are going to be present, if need be'.

Another possibility, according to Vinograd, would be to take US involvement in South Korea as a model. Vinograd explained that the US has maintained a permanent military presence in South Korea since the time of the Korean War. 'I really struggle to think of any real military operation right now where there wouldn't be some longer-term presence on the ground,' she said.

Not all of the panellists fully agreed with the proposals, however. Shannon argued that the United States

The panel at the Aspen Security Forum comprised (L-R) moderator Kim Dozier, Adam Schiff, Juan Zarate, Thomas Shannon and Samantha Vinograd.

does not function well as an 'occupying power'. He said that the United States performed more effectively as a 'collaborating power'. Shannon also wavered on the idea of creating a permanent military base in Erbil, saying that it was 'an interesting idea' that deserves consideration.

Schiff agreed that the United States should remain involved in Afghanistan but doubted whether the US could succeed in Iraq. 'The investment in Iraq was not worth it,' he said.

Another major issue the panellists considered was how to create stable governments in both countries. One of their big fears is that neither the Afghan nor Iraqi government can survive very long without US assistance. The panellists wondered if they could create stronger governments by exploiting the extensive material wealth in both countries.

Zarate noted that the mineral wealth in Afghanistan has been estimated at about $1 trillion. He suggested that it could be tapped by companies in the United States and elsewhere.

'We're not a mercenary country in that we send troops to where we want to have … business opportunities,' Zarate said. 'But to the extent that we're already present, to the extent that we've already expended blood and treasure, why not consider how it is that we're thinking about the positive elements of economic development?'

Shannon saw similar possibilities. He noted that President Trump has already pointed to commercial opportunities in both countries as reasons for continuing US military operations. 'This is an extractive opportunity,' Shannon said, citing petroleum as an example.

Once again, however, not all of the panellists were on the same page. Vinograd said that when she had been working in Iraq in 2007, it had been difficult to find ways to attract businesses to the country. 'I don't see large-scale business opportunities in Iraq until the security situation is more sustainable over the medium term,' she said.

Schiff was more troubled by the proposals. He argued that the US should not risk the lives of US soldiers to create business opportunities in foreign lands. 'I kind of recoil at the idea of using business opportunity as the primary argument for the deployment of military forces,' he said.

Although the panellists did not reach a consensus, their conversation revealed quite a lot about the basic mindset in Washington about the two wars. Their considerations showed that US officials still aspire to create governments that will provide them with access to the area and the ability to influence the surrounding area.

According to Shannon, these strategic issues are perhaps more important than ever.

'Increasingly we've realised that what we're doing in Afghanistan and what we're doing in Iraq is not just about Afghanistan or about Iraq,' he said. 'It's about the regional challenges we face in South and Central Asia, and in the larger Middle East, and so our interests there are going to extend far beyond what is happening inside of these countries, but what happens beyond.' ◆

A worker at an oil refinery in Basra, Iraq. Tapping the mineral wealth in Iraq and Afghanistan was among the issues discussed by the panel.

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From Gaza to Jerusalem to Iran

Shifts in the Middle East and the place of Palestine

Amidst the shifting alignments and goals of some key players in the Middle East crisis, there is one enduring element: the Palestinian struggle for their homeland. *Joel Beinin* locates the latest phase of the Palestinian struggle – the Great March of Return – in this complex political mosaic.

The Great March of Return *(pic)* is one of several recent signs that young Palestinians are seeking new modes of resistance.

THE Palestinian Great March of Return, which began on 30 March and continued into June, was a popular mobilisation of people of the Gaza Strip initiated by politically unaligned young men and women. The campaign of unarmed marches towards the border between the Gaza Strip and Israel demonstrated popular support for a new Palestinian political direction.

It contrasts sharply with both the diplomatic impasse over Israel/Palestine and the emerging reactionary political realignment of the Middle East. The administration of US President Donald Trump appears to be following the lead of Israel and the Sunni Arab regimes of Saudi Arabia, the United Arab Emirates (UAE) and Egypt in forging a regional axis of evil aimed at confronting Iran and its allies: Syria, Hezbollah in Lebanon and the Yemeni Houthis, which the Saudis simplistically label Iranian surrogates. The animators of this anti-Iranian strategy will need to relegate the Palestinians to collateral damage in order to succeed.

Thirty-three-year-old Ahmed Abu Artema (alternatively, Abu Ratima) may not have been the first to call for a non-violent march towards the border between the Gaza Strip and Israel. But he was promoting the idea on his Facebook page as early as 2011. On 7 January 2018, a month after President Trump announced that he would relocate the US embassy to Jerusalem, Abu Artema revived his proposal in another Facebook post. He became one of the main organisers and spokespersons for the Great March of Return.

The campaign of demonstrations raised two demands: 1) that Israel and Egypt lift the decade-long siege on the Gaza Strip; and 2) the right of Palestinian refugees to return to their homes. However, one supporter of the protest articulated a much more modest goal: 'We only want to make our voices heard. We want them to know that there are human beings living here, just like everywhere else, with dreams, just like everywhere else.'[1]

No one could seriously have believed that 1.3 million refugees who inhabit the Gaza Strip were about to charge across the barrier Israel has erected around the territory. But raising the right of return highlights the origins of the Palestinian-Israeli conflict, rather than merely its post-1967 consequences. This may partially explain Israel's extraordinarily violent response. From 30 March to 12 June, the Israel Defense Forces (IDF) killed at least 135 Palestinians and injured over 14,000, of whom over 7,800 were hospitalised.[2]

The Great March of Return overlapped with one of the most inflammatory pieces of political theatre the Trump administration has produced. On 14 May, Trump's coterie of hardline Zionist funders and supporters epitomised by Sheldon Adelson and anti-semitic evangelical Protestant preachers Robert Jeffress and John Hagee, the head of Christians United for Israel, celebrated the inauguration of the US embassy in Jerusalem. Wall Street was represented at the event by former Goldman Sachs Executive Vice President, US Treasury Secretary Steve Mnuchin. The same day, Israeli forces shot dead over 60 Palestinians and injured over 2,000 who required hospitalisation, nearly half the Palestinian fatalities and a quarter of the hospitalisations from 30 March to 12 June.[3]

Global public opinion was shocked and widely condemned Israel's use of live ammunition against unarmed demonstrators. Several Arab states issued pro forma verbal denunciations. But the only practical response was Egypt opening its border with the Gaza Strip for the month of Ramadan, allowing a limited number of Palestinians to exit.[4] Egypt and Saudi Arabia reportedly pressured Hamas,[5] which deployed its extensive resources and infrastructure to impose its dominance over the Great March of Return, to halt the demonstrations in exchange for regular opening of the Rafah crossing between the Gaza Strip and Egypt.

The desire to advance the anti-Iranian alliance with Israel largely explains the muted response of Saudi Arabia, the UAE and Egypt.

The UAE made the initial steps that eventually culminated in what is just short of an open alliance, by contacting Israel in the early 1990s to secure Israeli agreement for a proposed Emirati purchase of advanced F-16 fighter jets from the US.[6] The architect of those contacts and the subsequent development of relations with Israel was Mohammed bin Zayed (dubbed MBZ), the crown prince of Abu Dhabi, the political heavy hitter among the seven statelets that comprise the UAE. The crown prince of Saudi Arabia, Mohammed bin Salman (known as MBS), is MBZ's young protégé and ally.

Although in 1979 Egypt became the first Arab country to sign a peace agreement with Israel, it is no longer a leading politico-diplomatic force in the region and has been outstripped by the rising prominence of the Saudis and Emiratis in Arab politics. In July 2013 General Abdel Fattah al-Sisi led a military coup against Egypt's elected president, Muslim Brother Mohammed Morsi. Qatar and Turkey had been supporting the Morsi regime. The Saudis and Emiratis jumped at the opportunity to take their place and affirmed their regional dominance by bailing the Sisi regime out with as much as $20 billion in official development assistance and foreign direct investment from 2013 to 2015 and pledges of an additional $4 billion each in aid and investments (with Kuwait kicking in another $4 billion) at the March 2015 Egypt Economic Development Conference in Sharm al-Shaykh.

Consequently, Egypt had little choice but to join the boycott of Qatar proclaimed by the Saudis and Emiratis in June 2017. Qatar's offence was having dared to use its enormous wealth to pursue an independent foreign policy, most importantly détente with Iran, with whom it shares the South Pars/North Dome natural gas condensate field in the Gulf, the world's largest. In response to the boycott, Qatar re-established full diplomatic relations with Iran. Qatar has also supported non-Wahhabi Islamist forces in the region: Egypt's Muslim Brotherhood, Tunisia's Ennahda, Palestine's Hamas and the regime of Turkey's President Recep Tayyip Erdogan.

In contrast to the aggressive strategy of Saudi Arabia, the UAE and Israel, the administration of President Barack Obama sought to avoid a confrontation with Iran by approving the 2015 nuclear agreement (JCPOA) with Iran negotiated by the P5+1 (the five permanent members of the UN Security Council plus Germany). Even the vociferous and undiplomatically public objections of Israeli Prime Minister Benjamin Netanyahu did not deter Obama from seeking to defuse tensions with Iran. But Obama apparently felt the political price of confronting Israel decisively over its settlements in the West Bank was too high. So although Obama's objective was the opposite of that of Saudi Arabia and the UAE, the Palestinians nonetheless came out the losers.

By confronting Obama on Iran, Netanyahu enhanced his political standing at home and with the Republican Party. He was therefore emboldened to seek alliances with Obama's detractors, including Donald Trump. Consequently, Netanyahu's American and Israeli supporters found themselves in the same camp as the Saudis and Emiratis as they sought potential American allies for their project of realigning the Middle East around an anti-Iranian axis.

In August 2016 Erik Prince, the former head of the private security firm Blackwater and brother of US Secretary of Education Betsy de Vos, arranged a meeting between an envoy of Saudi's MBS and the Emirate's MBZ and Trump presidential campaign officials,[7] including Donald Trump Jr., and Joel Zamel, an Australian-Israeli social media manipulation specialist with security and counter-terrorism connections,[8] to offer their support to the Trump campaign. The outcome of the meeting is in dispute and under investigation by special counsel Robert Mueller. However that is resolved, the meeting of the minds among MBZ, MBS, freelance Israeli right-wingers and the Trumpists acquired operational capacity with Trump's election as president. Trump honoured Saudi Arabia with his first overseas trip in office in May 2017. The following month King Salman designated MBS as crown prince of Saudi Arabia and declared the boycott of Qatar.

Turkey came to Qatar's aid, which strained its relations with Saudi Arabia. At the same time, Turkey's insistence that the US support its campaign to eliminate the autonomous Kurdish region of Rojava in northern Syria has tested the 65-year-old US-Turkish alliance. Saudi Arabia and Turkey, once stable pillars of American influence in the Middle East, now find themselves on opposite sides in a battle for regional influence in which US interests are not unequivocally aligned with either party.

President Trump initially followed the lead of the Saudis and Emiratis in denouncing Qatar as a 'funder of terrorism'. He may not have known at the time that Qatar hosts the forward headquarters of the US Central Command at Al Udeid Air Base. However, Trump walked back his position in remarks welcoming Qatar's Emir Tamim bin Hamad Al-Thani to the White House in April 2018.[9] Relations between Israel and its Arab partners in the anti-Iranian alignment are sometimes similarly awkward.

Several secret meetings between Israelis and Emiratis have been reported.[10] But Saudi Arabia is reluctant to openly acknowledge its alignment with Israel. Israel, nonetheless, is relentlessly seeking a more public relationship with its Gulf Arab partners. Before Saudi Arabia and Russia kicked off in the opening game of World Cup 2018, the Israeli Foreign Ministry's official Arabic Twitter account wished Saudi Arabia 'best of luck!'[11]

The stars of the governments of Israel, Saudi Arabia and the UAE, white nationalist Trumpists, American Jewish and evangelical Protestant ultra-Likudinks, and Democratic Party Israel-firsters like Senators Chuck Schumer, Robert Menendez and Benjamin Cardin appear to be aligning. By withdrawing from the 2015 nuclear agreement with Iran and moving the US embassy to Jerusalem, President Trump, his chief Middle East advisers – first son-in-law Jared Kushner, Jason Greenblatt and Ambassador to Israel David Friedman, and funder-in-chief Sheldon Adelson – emboldened by uber-hawkish National Security Advisor John Bolton, have suggested they are willing to follow the lead of Israel, Saudi Arabia and the UAE in confronting Iran.

The leaked details of Kushner's proposed plan for an Israeli-Palestinian peace suggest that the Trump administration, with the enthusiastic support of Prime Minister Netanyahu and his American acolytes, is seeking to turn the West Bank into what Netanyahu has dubbed 'state minus' – Bantustans in Areas A and B with a nominal Palestinian capital in the Jerusalem suburb of Abu Dis. The Gaza Strip would be a separate entity: either left to rot or somehow attached to Egypt, which wants no part of it.

The normally compliant King Abdullah II of Jordan has taken the lead in articulating Arab opposition to the Trump administration's Jerusalem policy. After a round of meetings with Netanyahu, Kushner, Greenblatt and German Chancellor Angela Merkel, he reiterated, '[T]here will not be peace in the Middle East without establishing a Palestinian state with Jerusalem as its capital.'[12] For decades the Saudi, Emirati, Egyptian and Jordanian regimes have accorded low priority to the Palestinian cause. However, consecrating Israeli sovereignty over all of Jerusalem is an issue that concerns some 1.5 billion Muslims. The Saudis, whose king claims the title of 'servant of the two shrines'(Mecca and Medina), and King Abdullah II, the nominal custodian of the Haram al-Sharif (the Noble Sanctuary) in Jerusalem, would severely imperil their legitimacy if they acceded to it.

The combination of the Israeli massacre of Palestinians in the Gaza Strip and the inauguration of the US embassy in Jerusalem linked the issues of the Gaza Strip and Jerusalem. Consequently, the drive to marginalise the rights of the Palestinian people, which is a necessary step to consolidating an anti-Iranian regional front, was at least temporarily obstructed. According to a 2015 UN report, the Gaza Strip may become 'unlivable' by 2020. This humanitarian catastrophe will cast a shadow over efforts to conclude what President Trump has repeatedly called 'the ultimate deal'. Moreover, the Great March of Return is one of several recent signs that young Palestinians are seeking new modes of resistance.

Ahmed Abu Artema believes that unarmed popular mobilisation is the only viable method of Palestinian resistance and should continue. He writes: '…despite the response from Israeli snipers, I continue to be committed to nonviolence, as are all of the other people "coordinating" this march. I use quotation marks because when a movement becomes this large – attracting what we estimate to be as many as 200,000 people on Fridays – it cannot be completely controlled. We discouraged the burning of Israeli flags and the attachment of Molotov cocktails to kites. We want peaceful, equal coexistence to be our message.

'We have also tried to discourage protesters from attempting to cross into Israel. However, we can't stop them.'[13]

As Rashid Khalidi recently wrote, 'The Palestinians have not forgotten, they have not gone away.'[14] As long as this remains the case, the question of Palestine remains on the agenda and an obstacle to an open alliance between Israel, Saudi Arabia, the UAE and Egypt. ◆

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Yemen's descent into hell

For years now, says *Rajan Menon*, a relentless Saudi air campaign (quite literally fuelled by the US military) has hit endless civilian targets, using American smart bombs and missiles, without a peep of protest by Washington. Through what he calls 'the statistics of suffering', he attempts to convey the unspeakable plight of the Yemeni people.

Two boys inspect a house destroyed by a Saudi-led airstrike in Sana'a. By April 2018, the Saudi-led coalition had conducted over 17,000 airstrikes across Yemen.

IT'S the war from hell, the savage one that Saudi Arabia and the United Arab Emirates, along with seven other Middle Eastern and North African states, have been waging in Yemen since March 2015, with fulsome support from the Pentagon and American weapons galore.

It's got everything. Dead children in the dozens, a never-ending air campaign that pays scant heed to civilians, famine, cholera, you name it. No wonder it's facing mounting criticism in the US Congress and from human rights groups. Still, ever since President Donald Trump (like Barack Obama before him) embraced the Saudi-led coalition as the US' righteous knight errant in the Middle East, the fight against impoverished Yemen's Houthi rebels – who have, in turn, been typecast as Iran's cat's paw – has only grown fiercer. Meanwhile, the al-Qaeda affiliate there continues to expand.

For years now, a relentless Saudi air campaign (quite literally fuelled by the US military) has hit endless civilian targets, using American smart bombs and missiles, without a peep of protest or complaint from Washington. Only a highly publicised, completely over-the-top slaughter recently forced the Pentagon to finally do a little mild finger wagging. On 7 August, an airstrike hit a school bus – with a laser-guided bomb made by Lockheed Martin – in northern Yemen, killing 51 people, 40 of them schoolchildren. Seventy-nine others were wounded, including 56 children. Soon after, a UN Security Council-appointed group of experts issued a report detailing numerous other egregious attacks on Yemeni civilians, including people attending weddings and funerals. Perhaps the worst among them killed 137 people and wounded 695 others at a funeral in Sana'a, Yemen's capital, this April.

The attack on those schoolchildren and the UN report amplified a growing global outcry against the carnage in Yemen. In response, on 28 August, US Secretary of Defense James Mattis let it be known that the Trump administration's support for the Persian Gulf potentates' military campaign should not be considered unreserved, that the Saudis and their allies must do 'everything humanly possible to avoid any innocent loss of life'. Considering that they haven't come close to meeting such a standard since the war started nearly five years ago and that the Trump administration clearly has no intention of reducing its support for the Saudis or their war, Mattis's new yardstick amounted to a cruel joke – at the expense of Yemeni civilians.

The statistics of suffering

Some appalling numbers document the anguish Yemenis have endured. Saudi and Emirati warplanes officially have killed – and it's considered a conservative estimate – 6,475 civilians and wounded more than 10,000 others since 2015. Targets struck have included farms, homes, marketplaces, hospitals, schools and mosques, as well as ancient historic sites in Sana'a. And such incidents haven't been one-off attacks. They have happened repeatedly.

By April 2018, the Saudi-led coalition had conducted 17,243 airstrikes across Yemen, hitting 386 farms, 212 schools, 183 markets and 44 mosques. Such statistics make laughable the repeated claims of the Saudis and their allies that such 'incidents' should be chalked up to understandable errors and that they take every reasonable precaution to protect innocents. Statistics compiled by the independent Yemen Data Project make it clear that the Gulf monarchs don't lie awake at night lamenting the deaths of Yemeni civilians.

Saudi Arabia and its partners have accused the Houthis, the rebels with whom they have been in such a deadly struggle, of also attacking Yemeni civilians, a charge Human Rights Watch has validated. Yet such a they-do-it-too defence hardly excuses the relentless bombing of non-military sites by a coalition that has overwhelming superiority in firepower. Houthi crimes pale by comparison.

And when it comes to the destruction of civilian lives and livelihoods, believe it or not, that may be the least of it. Take the naval blockade of the country by Saudi Arabia and the United Arab Emirates that cut the number of ships docking in the Houthi-controlled port of Hodeida from 129 between January and August 2014 to 21 in the same months of 2017. The result: far less food and medicine entered the country, creating a disaster for Yemenis.

That country, the Arab world's poorest, has long relied on imports for a staggering 85% of its food, fuel and medicine, so when prices soared, famine spread, while hunger and malnutrition skyrocketed. Nearly 18 million Yemenis now rely on emergency food aid to survive: that's an unbelievable 80% of the population. According to the World Bank, '8.4 million more are on the brink of famine'. In December 2017, following a barrage of bad publicity, the Saudi-Emirati blockade was eased marginally, but it had already set in motion a spiral of death.

The blockade also contributed to a cholera epidemic, which the shortage of medicines only exacerbated. According to a World Health Organisation report, between April 2017 and July 2018, there were more than 1.1 million cholera cases there. At least 2,310 people died from the disease, most of them children. It is believed to be the worst cholera outbreak since statistics began to be compiled in 1949. At 800,000 cases between 2010 and 2017, Haiti held the previous record, one that the Yemenis surpassed within half a year of the first cases appearing. The prime contributors to the epidemic: drinking water contaminated by rotting garbage (uncollected because of the war), devastated sewage systems, and water filtration plants that stopped running due to lack of fuel – all the result of the horrendous bombing campaign.

Presenting documents for receiving food rations provided by a local charity in Sana'a. Nearly 18 million Yemenis, or 80% of the population, now rely on emergency food aid to survive.

Wartime economic blockades starve and sicken civilians and soldiers alike and so amount to a war crime. The Saudi-Emirati claim that the blockade's sole purpose is to stanch the flow of Iranian arms to the Houthis is nonsense, nor can it be considered a legitimate act of self-defence, even though it was instituted after the Houthis fired ballistic missiles at the airport in the Saudi capital and the residence of that country's monarch. (Both were shot down by Saudi air defences and were clear responses to coalition airstrikes on Houthi-held territory that killed 136 civilians.) By the standards of international humanitarian law or simply common sense, choking off Yemen's imports was a disproportionate response, and clairvoyance wasn't required to foresee the calamitous consequences to follow.

True to form, President Trump's UN ambassador, Nikki Haley, echoed Saudi charges that the Houthi missiles were Iranian-supplied Qiam-1s and condemned that country's interference in Yemen. Given the scale of destruction by a foreign coalition using armaments and technical assistance provided by the United States (and Britain), her comments, in less grim circumstances, would have been laughable.

Those American-supplied weapons have included cluster munitions, which pose a particular hazard to civilians because, when dropped from a plane, their devastating bomblets often disperse over enormous areas. (Such bombs are banned under a 2008 treaty signed by 120 countries that neither Riyadh nor Washington has joined.) In May 2016, the Obama White House confirmed that it had stopped sending such weapons to Saudi Arabia, which then continued to use Brazilian-made variants. However, other American arms have continued to flow to Saudi Arabia, while its warplanes rely on US Air Force tankers for mid-air refuelling (88 million pounds of fuel as of this January, according to a Central Command spokeswoman), and the Saudi mili-

A man carries part of a missile he says was dropped during a Saudi-led airstrike near Saada, Yemen. The Saudi-led coalition has depended on armaments and technical assistance provided by the US and Britain.

tary has received regular intelligence information and targeting advice from the Pentagon since the war began. And with the advent of Donald Trump, such military involvement has only deepened: US Special Operations forces are now on the Saudi-Yemen border, helping to find and attack Houthi redoubts.

In June 2018, ignoring US opposition, the Saudi coalition heightened the risk to Yemeni civilians yet more by launching an offensive ('Golden Victory') to capture the port of Hodeida. (So much for the Pentagon's standard claim that supporting the war gives the US influence over how it is waged and so limits civilian casualties.) Saudi and Emirati airpower and warships supported Emirati and Sudanese troops on the ground joined by allied Yemeni militias. The advance, however, quickly stalled in the face of Houthi resistance, though only after at least 50,000 families had fled Hodeida and basic services for the remaining 350,000 were disrupted, creating fears of a new outbreak of cholera.

The roots of war

Yemen's progression to its present state of perdition began as the Arab Spring's gales swept through the Middle East in 2011, uprooting or shaking regimes from Tunisia to Syria. Street demonstrations grew against Yemen's strongman, Ali Abdullah Saleh, and only gathered strength as he attempted to quell them. In response, he allied ever more strongly with Saudi Arabia and the United States, alienating the Houthis, whose main bastion, the governate of Saada, abuts the Saudi border. Adherents of Zaydi Islam, the Houthis played a pivotal role in creating a political movement, Ansar Allah, in 1992 to assert the interests of their community against the country's Sunni majority. In an effort to undercut them, the Saudis have long promoted radical Sunni religious leaders in Yemen's north, while intermittently raiding Houthi territories.

As a Houthi rebellion began, Saleh tried to make himself an even more indispensable ally of Washington in its post-9/11 anti-terrorist campaigns, notably against al-Qaeda in the Arabian Peninsula (AQAP), a growing local franchise of al-Qaeda. For good measure, he joined the Saudis in painting the Houthis as little more than tools of an Iran that Washington and Riyadh both loathed. When those powers nonetheless came to see the Yemeni autocrat as a political liability, they helped oust him and transfer power to his deputy, Abdu Rabbu Mansour Hadi. Such moves failed to calm the waters, as the country started to disintegrate and Saudi-US efforts to consolidate the transition from Saleh to Hadi unravelled.

Meanwhile, regular American drone strikes against AQAP angered many Yemenis. In their eyes, not only did the attacks violate Yemen's sovereignty, they intermittently killed civilians. Hadi's praise for the drone campaign only discredited him further. AQAP's power continued to grow, resentment in southern Yemen rose, and criminal gangs and warlords began to operate with impunity in its cities, highlighting the Hadi government's ineffectuality. Neoliberal economic reforms only further enriched a clutch of families that had long controlled much of Yemen's wealth, while the economic plight of most Yemenis worsened radically. The unemployment rate was nearly 14% in 2017 (and exceeded 25% for young people), while the poverty rate rose precipitously, as did inflation.

It was a formula for disaster, and when Hadi proposed a plan to create a federal system for Yemen, the Houthis were infuriated. New boundaries would, among other things, have cut their homeland off from the Red Sea coast. So they gave up on his government and girded for battle. Soon, their forces were advancing southward. In September 2014, they captured the capital, Sana'a, and proclaimed a new national government. The following March, they occupied Aden in southern Yemen and Hadi, whose government had moved there, promptly fled across the border to Riyadh. The first Saudi airstrikes against Sana'a were launched in March 2015 and Yemen's descent to hell began.

The American role

The commonplace rendition of the war in Yemen pits a US-backed Saudi coalition against the Houthis, cast as agents of Iran and evidence of its increasing influence in the Middle East. Combatting terrorism and countering Iran became the basis for Washington's support of the Saudi-led war. Predictably, as this cartoonish portrayal of a complicated civil war gained ground in the mainstream American media and among Beltway pundits (as well, of course, as in the Pentagon and White House), inconvenient facts were shunted aside.

Still, all these years and all those dead later, it's worth considering some of those facts. There are, for instance, significant differences between the Houthis' Zaydi variant of Shia Islam and the Twelver Shiism dominant in Iran – and some similarities between Zaydis and Sunnis – which makes the ubiquitous claims about an Iran-Houthi faith-based pact shaky. Moreover, Iran did not jump into the fray during the violent 2004-10 clashes between Saleh and the Houthis and did not have longstanding ties to them either. In addition, contrary to the prevailing view in Washington, Iran is unlikely to be their main source of weaponry and support. Sheer distance and the Saudi coalition's naval blockade have made it next to impossible for Iran to supply arms to the Houthis in the volume alleged. Besides, having pillaged various military bases during their march towards Aden, the Houthis do not lack for weaponry. Iran's influence in Yemen has undoubtedly increased since 2015, but reducing the intricacies of that country's internal crisis to Iranian meddling and a Tehran-led Shiite bloc expanding from Syria to the Arabian Peninsula amounts to, at best, a massive oversimplification.

The obsession of Trump and his key advisers with Iran (a remarkable number of them are Iranophobes) and The Donald's obsession with plugging American arms makers and hawking their wares help explain their embrace of the House of Saud and continuing support for its never-ending assault on Yemen. (Jared Kushner's bromance with Saudi Crown Prince Mohammad bin Salman undoubtedly played a part as well.) None of that, however, explains the full-scale American backing for the Saudi-led intervention there in the Obama years. Even as his administration denounced Bashar al-Assad's slaughter of Syrian civilians, his officials seemed unmoved by the suffering war was inflicting on Yemenis. In fact, the Obama administration offered $115 billion worth of weaponry to Riyadh, including a $1.15 billion package finalised in August 2016, when the scale of Yemen's catastrophe was already all too obvious.

In recent years, opposition to the war in the US Congress has been on the rise, with Senator Bernie Sanders and Representative Ro Khanna playing prominent roles in mobilising it. But such congressional critics had no effect on Obama's war policy and are unlikely to sway Trump's. They face formidable barriers. The mainstream narrative on the war remains powerful, while the Gulf monarchies continue to buy vast quantities of American weaponry. And don't forget the impressive, money-is-no-object Saudi-Emirati lobbying operation in Washington.

That, then, is the context for the Pentagon's gentle warning about the limits of US support for the bombing campaign in Yemen and Secretary of State Mike Pompeo's subsequent certification, as required by Congress, that the Saudis and Emiratis were taking perfectly credible action to lower civilian casualties – without which the US military could not continue refuelling their planes. (Mattis 'endorsed and fully supported' Pompeo's statement.)

As the fifth anniversary of this appalling war approaches, American-made arms and logistical aid remain essential to it. Consider President Trump's much-ballyhooed arms sales to the Saudis, even if they don't total $100 billion (as he claimed): Why then would the Saudi and Emirati monarchs worry that the White House might actually do something like cutting off those lucrative sales or terminating the back-end support for their bombing campaign?

One thing is obvious: US policy in Yemen won't achieve its declared goals of defeating terrorism and rolling back Iran. After all, its drone strikes began there in 2002 under George W Bush. Under Obama, as in Pakistan and in Afghanistan, drones became Washington's anti-terrorist weapon of choice. There were 154 drone strikes in Yemen during the Obama years, according to the most reliable high-end estimates, and civilian casualties ranged between 83 and 101. Under Trump they soared quickly, from 21 in 2016 to 131 in 2017.

The reliance on drone attacks has bolstered al-Qaeda's narrative that the American war on terror amounts to a war on Muslims, whose lives are deemed expendable. And so many years later, in the chaos of Yemen, the group's power and reach is only growing. The US-backed, Saudi-led intervention is also likely to prove not just self-defeating but self-prophetic. It seems to be cementing an alliance between Iran and the Houthis who, though they have been pushed out of Aden, still control a big chunk of Yemen. Meanwhile, in a move that could make the war even deadlier, the Emiratis appear to be striking out on their own, supporting secession in southern Yemen. There's not much to show on the anti-terrorism front either. Indeed, the Saudi coalition's airstrikes and US drone attacks may be moving Yemenis, enraged by the destruction of their homes and livelihoods and the deaths of loved ones, towards AQAP. In short, a war on terror has turned into a war of and for terror.

In Yemen, the United States backs a grim military intervention for which – unless you are a weapons company – it is hard to find any justification, practical or moral. Unfortunately, it is even harder to imagine President Trump or the Pentagon reaching such a conclusion and changing course. ◆

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1953 Iran coup: A crime authored in London and Washington

August of this year marked the 65th anniversary of the infamous coup staged by Britain and the US through their intelligence agencies to topple the democratically elected nationalist regime of Prime Minister Mossadegh of Iran when he moved to nationalise and seize control of his country's oil reserves from the British-owned Anglo-Iranian Oil Company.

John Wight

Coup supporters celebrate victory in Tehran on 19 August 1953. The putsch was planned, organised and unleashed by the CIA in conjunction with MI6.

AUGUST marked 65 years since the Western-orchestrated coup in Iran. 19 August 1953 is the day that Iranians were taught a hard lesson in the rules of the game when it comes to empire and hegemony.

For on this day, the country's democratically elected prime minister, Mohammad Mossadegh, was overthrown at the hands of Washington and London. It was, by any measure, an act of international banditry that continues to cry out for just redress.

Operation Ajax was planned, organised and unleashed by the CIA in conjunction with MI6 in response to the decision that was taken by Mossadegh – acting with the support of the Iranian Parliament (Majlis) – to nationalise Iran's oil and husband the resulting revenue for the benefit of the Iranian people.

Up to that point, the lion's share of the revenue garnered from the exploitation of Iranian oil had been sucked out of the country by the Anglo-Iranian Oil Company (AIOC) – the British state-owned oil company established in 1908 with this objective in mind and the forerunner of today's global oil conglomerate BP.

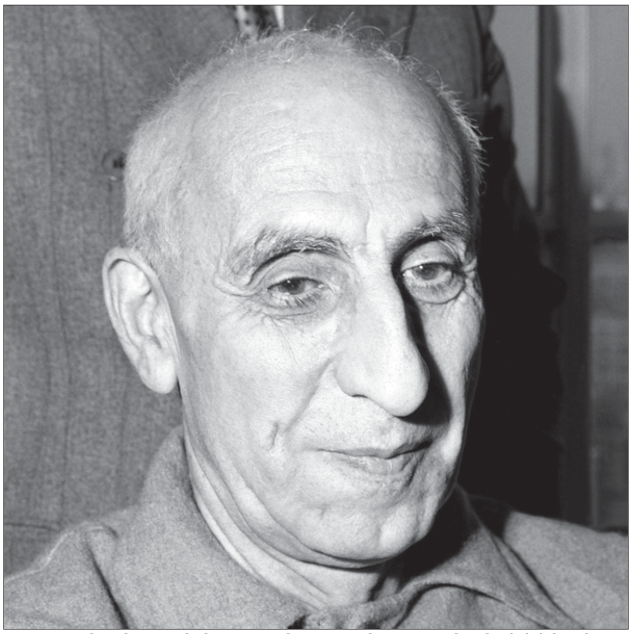
London's colonial assertion of control over Iran's natural resource was undertaken at the point when its Royal Navy was moving from coal- to oil-powered engines. In the interests of an empire that covered a quarter of the world at that time, the global reach of the Royal Navy was indispensable. Thus, the domination and exploitation of Iran's oil assumed, for London, a priority of critical strategic importance.

None other than Britain's future prime minister, Winston Churchill, proclaimed the importance of Persian (Iranian) oil with customary bombast: 'Fortune brought us a prize from fairyland beyond our wildest dreams. Mastery itself was the prize of the venture.' Such an open celebration of the opportunity for national enrichment at another country's expense is so unabashed it would make a low-rent mafia hood blush.

Over the years of Britain's control of Iranian oil, Tehran received a derisory percentage. It was a one-sided arrangement of such unabashed colonial arrogance it could only succeed in triggering a rise in national consciousness. And it was on the back of this rise in national consciousness that Mohammad Mossadegh was appointed Iran's prime minister in 1951 by a reluctant shah, upon being nominated for the post by the Majlis by an overwhelming majority.

The young shah, Mohammad Reza, whose father had been forced off the throne in 1941 by the British and the Soviets due to his pro-German sympathies in World War II, sat on the throne as a constitutional monarch during this period. Mossadegh and the nationalist current he represented was anathema to the shah's ambitions for personal power. They were ambitions that were encouraged by the British with the protection of their oil interests in mind, resulting in rising tensions as the country approached a crossroads in its history.

Upon coming to power, Mossadegh carried through his plan of nationalising and seizing control of Iran's oil reserves from the British, while confiscating the assets of the AIOC.



Deposed Prime Minister Mohammad Mossadegh *(pic)* had nationalised and seized control of Iran's oil reserves from the Brtish.

Mossadegh justified his actions thus: 'Our long years of negotiations with foreign countries [over a just distribution of oil revenues] have yielded no results … With the oil revenues, we could meet our entire budget and combat poverty, disease, and backwardness among our people.'

He went on: 'Another important consideration is that by the elimination of the power of the British company, we would also eliminate corruption and intrigue, by means of which the internal affairs of our country have been influenced. Once this tutelage has ceased, Iran will have achieved its economic and political independence.'

The making of a coup

The British responded by making it impossible for Iran to sell its newly nationalised crude on the world market. However, for a colonial power whose empire had gone into steep decline, this wasn't enough to satisfy its desire for retribution. Lacking the requisite strength and ability to settle accounts on its own, it was then that London turned to Washington, which had been established as the first among equals of Western imperial powers, for assistance.

The reasoning employed by London to draw the Americans into their feud with Mossadegh was that Iran was in danger of turning communist, citing the growing popularity and influence of the country's Tudeh (Communist) Party as evidence. With Washington in the throes of anti-Soviet and anti-communist fever, it succeeded and the plan to topple Mossadegh – Operation Ajax – was put in motion with the CIA assuming the lead role.

Key to its success was the bribing of senior army and police officers, along with journalists, religious clerics and members of the Iranian parliament, who were tasked with whipping up anti-Mossadegh sentiment. A smear campaign, designed to inflame the religiosity of a large section of the Iranian population, accused Mossadegh of being a communist.

According to declassified CIA documents, when it began on 15 August, the coup appeared to have failed. Mossadegh's security forces made dozens of arrests and forced the shah, who was also in on the conspiracy, to flee the country.

However, utilising the momentum of mass demonstrations that were organised with money provided by the CIA, on 19 August, Mossadegh was arrested along with thousands of his supporters. Thereafter, the shah returned from exile to become Washington's placeman, ruling the country with extreme brutality and corruption, until the Iranian Revolution removed him and his clique from power in 1979.

The context to this history is, of course, Washington's unremitting demonisation of Iran today. The false depiction of the country as a sponsor of terrorism and a threat to the region has been used to justify the Trump administration's unilateral withdrawal from the Iran nuclear deal, the tightening of sanctions and the looming threat of war.

The fact that the precise opposite is the case – that Iran has been indispensable in combating Western-backed terrorism in the region and stands as a pillar of resistance to the sectarian regional ambitions of key US strategic allies, Israel and Saudi Arabia – has been wilfully abstracted in favour of this Alice-in-Wonderland narrative.

The CIA- and MI6-orchestrated coup to topple Mossadegh reminds us that no region has endured more at the hands of US hegemony than the Middle East. It cements, as well, Mossadegh's place in history as a man with the courage to defy the West.

It is a proud legacy of defiance that lives on in the refusal of the Iranian people to submit to Washington's writ in our time. While that will be rightly celebrated in Tehran on the 65th anniversary of the CIA-led coup, the eve of the occasion was marked in Washington by the creation of a so-called Iran Action Group, tasked with coordinating its policy towards Iran and with 'changing its regime's behaviour'. ◆

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When the world laughed at Donald Trump

When Trump addressed the UN General Assembly earlier this year, his pompous claims in the opening passages of his speech about his achievements drew some laughter. But as he proceeded to the heart of his speech, it was clear there was nothing to laugh about.

Vijay Prashad

WHEN US President Donald Trump began his speech at the UN General Assembly, laughter erupted from the hall. 'In less than two years,' Trump said, 'my administration has accomplished more than almost any administration in the entire history of our country.' There was a pause. Then, Trump continued, 'America's – so true' – but he was interrupted by laughter. Not laughter at a joke that Trump had cracked. Nothing like that. The laughter was directed at him. 'Didn't expect that reaction,' Trump said, 'but that's OK.' There was more laughter, even raucous laughter.

The delegates from the 192 other member states sitting in the hall of the General Assembly found Trump's brashness funny. Two delegates from two different countries in Asia told me that there is something about Trump's braggadocio that amuses many of them. 'It is a little bit like the super-size culture' of the United States, one delegate said – everything is bigger, the buildings, the fast food, the cups of coffee. The other delegate laughed when I asked about the laughter – there was an infectious feeling in the hall. It was like being in a comedy club. Even before the comic gets into the heart of the jokes, the joy of being there, the excitement of the coming joke, provokes premature laughter. That was what happened when Trump spoke.

US President Donald Trump addressing the UN General Assembly in September in a speech that was initially interrupted by laughter from delegates.

The birth of a fractured world order

Laughter should have followed the rest of his speech, but it did not. Many of the delegates found it a dangerous speech, a belligerent speech with US guns focused on Iran and Venezuela. All the talk about economic nationalism and sovereignty did not make sense, said a delegate from Asia. If the US were truly turning inward, the delegate said, then it should not threaten countries with military and economic war. What those threats do is create further instability and distrust and lead this fragile world order into uncharted territory.

Unlike in 2003, the US is no longer the most powerful country in the world – even though it has the deadliest military. Talk of multilateralism from the UN Secretary-General downwards flooded the chamber not on idealistic terms but because there is a firm sense that other powers have now staked their place in the world order.

The peace arrangement in Korea, despite Trump trying to take credit for it, is a sign of the consolidation of China and Russia's joint project in the Pacific rim of Asia. Little was said in the Western press about the Eastern Economic Forum – held in Vladivostok, Russia, in September – where China, Russia, the Koreas and Japan came to an understanding about the way forward on the Korean peninsula. The United States and Europe had no role in that crucial meeting. Nor in the last meeting held between North Korea's Kim Jong-un and South Korea's Moon Jae-in. Similarly, the deal between Russia and Turkey to suspend full-scale conflict in

Idlib, Syria, came from a discussion that included Syria and Iran but excluded the United States and the Europeans. These moves – alongside the Chinese economic projects across Asia – suggest that a new, fractured world order is under construction. The United States has little role in this emerging universe.

Sanctions and bombs

A few days before he came to the UN General Assembly, Trump sat with the Colombian President Iván Duque and with White House Chief of Staff John Kelly. Fortunately, the Venezuelan journalist Lohena Reverón taped the quite ugly remarks. Trump began to talk about the drone attack on Venezuela's President Nicolas Maduro. Trump and Kelly joked about how when the drone appeared, the military parade scattered. 'That's not good,' Trump said, suggesting that the Venezuelan military has limited morale. Because of this, Trump said, the Venezuelan government 'frankly could be toppled very quickly by the military, if the military decides to do that'.

On 26 September, Trump repeated these comments, saying, 'Every option is on the table with respect to Venezuela.' The term 'every option' refers directly to military intervention.

The attack on the military parade in Venezuela on 5 August was mirrored in the attack on the military parade in Iran on 22 September. Neither attack had major repercussions.

At the UN General Assembly, Trump criticised the Iranian government as he had attacked the Venezuelan government earlier. He accused Iran of an 'agenda of aggression and expansion' and announced new sanctions against Iran to go into effect on 5 November. Iran's government has been open to wide-ranging discussion with the United States, as long as the US respects the nuclear treaty that went into effect in 2015. It is the United States that had withdrawn from the treaty, and it is Trump's team that has been speaking aggressively about Iran.

The United States offered no words of solidarity with the people of Venezuela or Iran or even the militaries of these two countries, which had been attacked over the course of the past two months. He had already mocked the Venezuelan military. He remained silent about the 30 people killed at the Iranian parade. Human sentiment is not within Trump's range. His were words of iron.

There was no hope in Trump's speech. It was vintage ugliness – threats against this and that power, disregard for the process of diplomacy.

US isolation

Allies are going to be hard to find for the Trump administration. In his speech, he listed India, Israel, Poland and Saudi Arabia. None of these countries would be willing to directly join in a US adventure against Venezuela or even against Iran. Trump's war – if there is to be a war – would pit US troops against these two countries, with no support from the member states of the United Nations.

European powers met on the side of the UN to affirm their support for the Iran nuclear deal. They have tried – unsuccessfully – to create a legal shield to protect European firms from US penalties if they continue to trade with Iran. China is nonplussed. It has openly broken US sanctions and will continue to do so. China and the United Arab Emirates are Iran's largest trading partners, with the European Union at No. 3 (Italy is the largest trade partner for Iran within the European Union). Close to 700,000 barrels of Iranian oil go to China each day. Chinese businesses have major stakes in Iran's economy. Chinese cranes hover across Tehran's skyline, indicating the role of China in Iran's economy. Neither the Europeans nor the Chinese would allow the US to escalate military action against Iran. It is simply not in their interest.

Nor do the Latin American states want the US to invade Venezuela. After Trump made his comments, the Secretary-General of the Organisation of American States, Luis Almagro, said that 'with respect to a military intervention' he felt that no 'option should be ruled out'. But these comments did not go down well in the Lima Group, a 14-member state bloc formed in 2017 with the United States at its core to pressure the government of Venezuela. The Lima Group's statement said it wanted a 'peaceful and negotiated' settlement, not a military intervention. Colombia did not sign the statement, but said it agreed with its sentiment. Such an intervention would be very unpopular in Latin America. It would be impossible if the left wins the election in Brazil on 7 October.

The smell of sulphur

At the 2006 opening of the UN General Assembly, Venezuela's then President Hugo Chávez took to the podium the day after US President George W Bush had been there. The United States' illegal war on Iraq remained a sensitive issue, and the US was pushing for war against Iran and Syria. Chávez opened his statement with characteristic brio: 'The devil came here yesterday, and it smells of sulphur still today.' The delegates laughed. *This* was funny.

Trump does not fit into the suit of the devil. There is nothing devilish about him. His is the costume of the buffoon; he is the leader of a country whose influence in the world has declined dramatically. It is expected that Trump would threaten everyone. It is even a concern that Trump – being in charge of such a vast and powerful military – might bomb someone. But it is thought that the United States is no longer able to move an agenda in the way that it did in 2003. ◆

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Another lost generation in Gaza

An entire new generation of Gazans have grown up knowing only the 70-year-old open-air prison/refugee camp in which they are confined. The more than two million Palestinians who live there, collectively punished for decades, exist constantly on the edge of mental, physical and economic crisis. *Mohammed Omer* highlights their plight.

FOR nine-year-old Anas, standing at the wall in Rafah which separates Egypt from Gaza, there is no attainable world beyond. That world exists only in his dreams. He can go to school and come back home to play – but always in the shadow of this blockade, called the wall. There he can play football, as if it is his personal World Cup.

Anas is not alone in dreaming of a world beyond. An entire new generation of Gazans has grown up knowing only the 70-year-old open-air prison/refugee camp in which they are confined. The more than two million Palestinians who live there, collectively punished for decades, exist constantly on the edge of mental, physical and economic crisis, as the international children's organisation Save the Children has warned.

'A whole generation of children in Gaza is balancing on a knife edge where one more shock could have devastating life-long consequences,' Dr Marcia Brophy, a senior mental health adviser for Save the Children in the Middle East, said in a statement.

Anas said he wakes up in fear every night as Israeli drones patrol the sky above. Like his parents and siblings, he never knows when the drones will fire missiles again to disrupt the life of Gaza's captive civilians. His teacher worries that his fear-induced stress results in Anas suffering a lack of concentration and focus in school.

'Inside the classroom, he is in another world, but that is not uncommon – the majority of my school children show similar symptoms,' said Umm Abdullah, Anas's teacher in Gaza.

Save the Children surveyed 150 young adolescents, with a median age of 14, and 150 caregivers in Gaza. It found that 95% of the children it interviewed displayed symptoms such as feelings of depression, hyperactivity, a preference for being alone, and aggression.

'A whole generation of children in Gaza is balancing on a knife edge...'

Many children in Gaza grew up experiencing three Israeli offensives, in 2008 to 2009, 2012 and 2014. Not surprisingly, these military conflicts leave deep wounds in most families, with relatives, neighbours and friends maimed, injured or killed, accompanied by massive destruction to Gaza's infrastructure, including schools and hospitals. Anas's school was hit in 2014.

The Save the Children survey found that 68% of Gaza's children suffer from varying degrees of insomnia, with 78% saying the single biggest source of fear is the sound of Israeli warplanes. Every time Anas hears a drone overhead, his instinct is to hide. Even then, though, he says, 'When I go under the bed, I can still hear it, and I am more afraid in the darkness.'

Anas is less fearful during the day, when he makes his way to school. There he is more used to the menacing presence of the drones buzzing overhead.

But daylight does not always bring relief. As 15-year-old Samar, interviewed in the Save the Children survey, said, 'I have many horrible nightmares, and a constant fear of being targeted by a bomb, or being shelled, injured or killed. Sometimes during the day, I remember those nightmares.'

The children surveyed also showed signs of resilience, however, with 80% saying they could at least express their fears to families and friends, and 90% saying they felt supported by their parents. 'Much of children's security was related to a sense of stability that their families were able to offer, with more than 80% of the 150 children interviewed saying they did not feel safe being away from their parents,' said Brophy.

In times of war, however, teacher Umm Abdullah admits that 'I have difficulty finding peace within myself, because I am surrounded by war, and I can't hide the constant fear and anticipation of the next attack.'

The 12-year blockade has severely diminished the quality of life in Gaza, where youth unemployment now stands at 60% and poverty levels are up from 30% to the current 53%. The Gazan economy continues to collapse. According to Abu Salaman Al Mughani, *mukhtar* of Gaza, 'The majority of Gaza merchants are in jail in Gaza, because they cannot pay their debts under blockade conditions.'

According to a recent World Bank statement, 'The current market in Gaza is not able to offer jobs and incomes, leaving a large population in despair, particularly the youth. Gaza's exports are a fraction of their pre-blockade level, and the manufacturing sector has shrunk by as much as 60% over the last 20 years. The economy cannot survive without being connected to the outside world. Minor changes to the restrictive system currently in place will not be sufficient. Proposed projects to increase the supply of water and electricity are extremely welcome, but unless there is an opportunity to boost incomes through expanding trade, the sustainability of these investments will be in doubt.'

In June, the United States vetoed a Kuwait-drafted UN Security Council resolution calling for the protection of Palestinian civilians. Meanwhile, Israeli troops killed at least 132 Palestinians, including 14 children, and wounded more than 13,000 during the Great March of Return, the weeks-long peaceful protests near the fence separating Gaza from Israel.

Save the Children's research took place prior to the Great March.

While no one knows what the future holds in store for these children, the report found that 'the last 10 years have seen families face a host of difficulties and uncertainties in Gaza. The Israeli blockade, as well as three conflicts, has put enormous strain on the economy and key services.'

The tragic result is that, like health care, basic human rights have become a rarity, and a luxury, in blockaded Gaza. ◆

Award-winning journalist Mohammed Omer reports regularly on the Gaza Strip. Follow him on Twitter:@MoGaza. The above article is reproduced from the Washington Report on Middle East Affairs *(August/September 2018).*

WOMEN

The plight of women and young people in the Rohingya refugee crisis

25 August 2018 marked one year since violence erupted in Myanmar's Rakhine State, triggering the massive Rohingya exodus to neighbouring Bangladesh. As the crisis continues with no immediate end in sight, it is crucial to expand and sustain health and life skills services for Rohingya women, girls and youth to locate opportunities amid challenges.

Asa Torkelsson

A YEAR ago, renewed violence in Myanmar's Rakhine State ripped 14-year-old *Fathema's family apart. Her father and brothers were killed, her widowed mother became the head of a household on the run, escaping with Fathema and her other daughters to the crowded Rohingya refugee camps in neighbouring Cox's Bazar, Bangladesh.

Given the atrocities experienced by so many thousands of Rohingya women and girls, the immediate humanitarian response focused on providing urgent medical attention and health supplies, along with psychosocial counselling for traumatised survivors, including those who became pregnant through rape.

Much of this help came through Women Friendly Spaces in Cox's Bazar – the '*shanti khana*' or 'homes of peace' – which have long provided a safe space for women and girls to avail of essential services, or simply to bond with others, as they seek to heal. The help and information provided there have also inspired many Rohingya women to become community volunteers themselves.

Forty-year-old Zarina* recalls, 'In Myanmar, I didn't know child marriage was bad. Here, through the caseworkers at the Women Friendly Space, I've learnt about it and other issues like domestic violence. My eyes are now open, my brain is working. I realise that child marriage is bad for health, it robs a girl of her youth and her life. I want to end child marriage.'

UNFPA/Melissa Lukdeke

A group discussion taking place at a Women Friendly Space in a Rohingya refugee camp in Cox's Bazar, Bangladesh.

Zarina and other community volunteers are also seeking to improve a key health indicator. Currently, only about one in five pregnant women in the refugee camps will give birth in a proper health facility, despite the availability of dozens of trained midwives and other personnel. Sometimes they are prevented by their husbands – or, in the case of women who have been raped, they fear stigma and discrimination from the wider community.

'Giving birth is like a war, it can be so challenging,' said 35-year-old Nasreen*, another community volunteer. 'Every month I help four to five women to the facility here for deliveries. If girls or women don't willingly want to go to the delivery services, I convince them to access health points and ensure safer pregnancy and childbirth.'

Back in Myanmar, Fathema would probably have been married by now and, at 14, may already have become a mother. But, just as Zarina and other women were provided with key information about life and love, a new youth-focused initiative at these Women Friendly Spaces is transform-

UNFPA/Allison Joyce

Midwives tend to a woman in labour. Currently only about one in five pregnant women in the Rohingya refugee camps will give birth in a proper health facility.

ing them into learning centres for Fathema, her sisters and other young persons, teaching them about the spectrum of gender equality and rights through the prism of sexual and reproductive health and well-being.

The module – adapted from the global Gender Equity Movement in Schools (GEMS) prototype – underscores how crucial it is to impart life skills education as early as possible, to better equip young persons to navigate the often difficult choices faced during the transition from childhood to adolescence to adulthood, including issues such as gender equality, pubertal changes and hygiene, relationships and conflict management.

For young girls in particular, long constrained by the complexities of patriarchy and sexism, the sessions can be liberating, showing them how they should be in charge of making decisions about their own lives – including if and when to marry and to whom, whether to have children and how many, and how to better address and protect themselves from gender-based violence and child marriage.

These concepts can be overwhelming for any young person, and all the more so for those raised in particularly conservative environments. But by bringing such issues to the forefront in a gentle, non-threatening way, multiple points of view can be discussed and debated openly and safely.

Fathema learnt so much from the sessions at the Women Friendly Space, she's become a volunteer herself. 'The first people I talk to are my parents,' she said. 'And then I talk to other young people in my area. I knew nothing about the changes that happen to girls. Now I know how to cope, and I can help other girls as well.'

Putting all these lessons into practice will not be easy for Fathema and her peers, just as it hasn't been for Zarina and older refugee women, but introducing them to these ideas is an important first step towards moving from disempowerment to empowerment, even in this challenging context.

As humanitarian actors strategise a long-term response to this protracted crisis, there must be a strong emphasis on the interactions between the obvious pillars of aid – food, water, health, sanitation, shelter and protection – and the special needs of women, girls and young persons, including safer pregnancy and childbirth; the prevention of, and response to, gender-based violence; and education and life skills for children and youth who will, in all probability, become adults in the camps of Cox's Bazar.

'Initially I faced violence from my husband because I had four daughters which he wasn't happy about,' Zarina said. 'But I now teach my husband and others about gender equality.' – *IPS* ◆

* Not their real names

Asa Torkelsson is the representative of the UN Population Fund (UNFPA) in Bangladesh.

A Rohingya girl carrying a child at a refugee camp in Cox's Bazar. The special needs of women, girls and young persons in the Rohingya refugee crisis include safer pregnancy and childbirth, prevention of gender-based violence, and education and life skills for children and youth.

The Iraqi poet *Ma'ruf al-Rusafi* (1875-1945) was born in Baghdad of Kurdish parents. He taught in Istanbul and Jerusalem; he entered politics advocating Arab unity, and was Iraqi Minister of Education.

The abyss of death

Ma'ruf al-Rusafi

A mountain our life is, overlooking
An abyss of death.
                    Along the ridge
We walk, blind: always, walking,
Off we fall.
          This universe,
A sea it is, created things
Surge in it. We, when they
undulate,
Are the bubbles. They
Appear, vanish,
                 Are seen, not seen,
Always to scatter
Fated, fated to disperse.

Translated by Issa Boullata and Christopher Middleton