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Of tyrants and tsunamis

Jorge Heine

GENERAL TAN SHWE (Tan Who?) is not exactly a household name. But Myanmar's military strongman, in power for 16 years, made a strong claim to the 'Dictator of the Year' title for the way he and his ruling junta reacted to the cyclone that hit his country, the former Burma, on May 2, killing 135 000 people and endangering the lives of several million.

Consider the following, which could be from the pages of a *Manual for the Perfect Third World Tyrant*:

Warned of the cyclone on April 30 by India's meteorological department, the Myanmar military regime did nothing to warn the population or otherwise gear up for the approaching storm.

Once the country had been hit by Cyclone Nargis, instead of prioritising emergency relief, officials continued to channel most of their energies into organising a referendum to be held a week later to legitimise the junta's rule.

Visas denied

Rather than getting himself quickly to the scene of the tragedy – the fertile Irrawaddy Delta in southwest Myanmar that produces two thirds of the country's rice crop – to get a sense of what was going on and provide succour to his people, the 75-year-old Shwe stayed upcountry for more than two weeks. Only on May 18 did he finally deign to descend from his Olympus and show his face to the 2.4m surviving storm victims.

Far from opening the doors of his largely closed-off country to international relief co-operation, he adamantly refused to do so. He denied visas to international NGO and UN staff who were ready to come in and help out. 'Give us the stuff, and we'll distribute it,' said the government. Judging by the way the military has run Myanmar, this was a sure recipe for *not* getting blankets, food and medicines into the right hands quickly – or at all.

This was ironic. Seldom has the international community been as ready to help out, after the steep learning curve of the 2004 tsunami that hit South and South East Asia. After that disaster, Indonesia and Sri Lanka immediately opened themselves to international aid and made the most of it. The notion of the American warship USS Essex with a 2 200 crew and a fleet of 60 helicopters stationed a few kilometres from Myanmar, ready to help but not allowed to do so, boggles the mind. As *The Wall Street Journal* put it: 'The Essex alone has the capacity to turn 200 000 gallons of sea water into fresh drinking water every day… Clean, fresh water is one key to survival for more than one million people displaced by the cyclone.'

Three weeks after the disaster, the general relented and was reportedly ready to receive Ban Ki Moon, the UN's secretary-general (whose phone calls he refused to take) and to selectively give visas to some *Asian* NGOs to help out in post-disaster relief.

Yet, however stark the tragedy in Myanmar, long subjected to a harsh and reclusive military dictatorship, its true significance reaches well beyond its borders.

As climate change makes weather less predictable, natural disasters will become more frequent. For example, the monsoon in Delhi was six weeks early this year. The way governments react to these disasters is key. And this is not confined to the developing world. Hurricane Katrina in the US in August 2005 was a predictable and avoidable disaster, and an object lesson in how governments of the North can fail abjectly in the task as well – both in prevention and in post-disaster relief.

By and large, though, it is the poor in the developing world that suffer the most from such calamities, and it is their plight that the Burmese junta's 'denialist' approach has highlighted.

French foreign minister, *enfant terrible* and founder of Medicins sans Frontieres Bernard Kouchner reacted to the obstruction of foreign relief efforts in the Burmese delta by suggesting the international community consider moving in unilaterally, invoking the principle of 'responsibility to protect' (R2P).

Conceptualised by the Canadian-funded International Commission on State Sovereignty and Intervention (of which Kouchner was a member and which delivered its report in late 2001 when world attention was otherwise engaged), R2P reflects an emerging consensus that the world cannot stand idly by while hundreds of thousands of people are killed or allowed to die, or have their human rights trampled upon.

The notion of 'humanitarian intervention' took the world of international law by storm

Triggered by tragedies such as those in Rwanda, Srebernica and East Timor in the 1990s, and given fresh impetus by Darfur, the notion of 'humanitarian intervention' took the world of international law by storm and quickly became a controversial concept. Its key proposition is that 'human rights trump sovereignty' and that the idea that the world must stand idly by while governments proceed to massacre (or, alternatively, allow to die of famine or other natural, albeit preventable, causes) vast numbers of their population, is no longer acceptable.

Not surprisingly, the juxtaposition of 'humanitarian' with 'intervention' – which for some constitutes an oxymoron – led to the concept being recast in more politically correct terms by the said commission. Hence R2P. Although the main

General Tan Shwe, Myanmar's junta leader, second left, is greeted by survivors of Cyclone Nargis at one of the few emergency relief centres that were set up to house victims. AP Photo/Myanmar News Agency

responsibility for the protection of a population lies with its government, if the latter abdicates that responsibility and vast and systematic human rights violations take place (either condoned or instigated by the government nominally in control of that territory), the international community has the right to intervene to protect that population.

Although the notion is still controversial, and many states, especially big powers like the US, China, India, and Russia are quite leery of it, it was formally adopted by the UN in a 2005 resolution, thus giving it official standing. Most recently, the UN Security Council approved a unanimous resolution to intervene in Darfur, largely on the strength of R2P-like reasoning. However, perhaps revealingly, no Western country has yet come up with troops to reinforce those from the African Union in Sudan and effectively end the genocide.

If not now, when?

Should R2P have been invoked after Cyclone Nargis hit Myanmar and the junta turned away international help and endangered hundreds of thousands of lives?

'If not now, when?' That is the question being asked by many who believe that the development of new concepts in international law are hardly worth the effort if they are to remain in the somewhat ethereal domain of high-level conferences and university seminars. If not in the case of an obscurantist military regime that has shown willful disregard for its own people, to the point of denying visas to health and relief workers and not allowing helicopters with supplies to fly in, when?

Others, like my colleague Ramesh Thakur, one of the creators of the concept as a leading member of the above-mentioned commission, are more circumspect. They point out that although 'natural disasters' was originally among the categories mentioned by the commission as qualifying for R2P, by the time the UN adopted the notion in 2005 the item was dropped, and is therefore no longer pertinent. Chinese opposition in the Security Council to any such initiative in Myanmar does not help either.

The jury is therefore still out on what to do when dictators mismanage disasters to the point of inflicting severe suffering on their own people. Interestingly, China, not exactly a bastion of democracy, was much more open to international co-operation and relief after the earthquake in Sichuan that left 70 000 dead a few days after Nargis hit Myanmar. But there is little doubt that, more and more, dictators around the globe find themselves under the magnifying glass. They can run, but they cannot hide.

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No ‘sleeping walking’ in Africa

The Indo-Africa relationship goes back centuries. In the recent past it has had a geo-political and ideological anchor, but the recent summit has moved things to a new level – characterised by trade and development, write **Sanusha Naidu** and **Hayley Herman**

OVER THE past 18 months, Africa’s global position has been elevated by the heightened interest shown in it by both traditional and emerging partners. The Beijing Forum on China-Africa Co-operation in 2006 was followed by the Lisbon Europe-Africa Summit in 2007, the New Delhi India-Africa Summit in April 2008, and the Tokyo International Conference for Development in Africa in May 2008. Africa’s international engagement has never been as pronounced. Nor has the continent ever been as fervently wooed.

The recent India-Africa Forum Summit, in April 2008 in New Delhi, affirmed the South-South co-operation agenda and formalised the framework of India’s African relations. In fact, the summit could be described as a consummation of historical relations between the two Indian Ocean Rim neighbours, dating back to 16th century seafaring trade and including the Bandung Conference of 1955 where India supported African independence and denounced racist oppression in South Africa and Rhodesia.

Significant and symbolic

Considered a modest affair by comparison with the China-Africa meeting or the subsequent Europe-Africa one, the India-Africa Forum Summit was nonetheless significant and symbolic in many ways. This was evident in the way the gathering was organised. It was first mooted by Alpha Oumar Konare, the former African Union (AU) Commission chairperson, during a visit to India in December 2006. The process underpinning the forum was consultative and, operating through AU structures, the two sides formed a working group tasked with formulating the agenda.

Perhaps the real triumph was the invitation list, which extended to Algeria, Burkina Faso, the Democratic Republic of Congo (DRC), Egypt, Ethiopia, Ghana, Kenya, Libya, Nigeria, Senegal, South Africa, Tanzania, Uganda, and Zambia. The 14 African heads of states invited to the summit included the architects of the New Partnership for Africa’s Development (NEPAD) as well as the heads of the eight regional groupings, including the Economic Community of Western Africa States (ECOWAS), the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), the Economic Community of Central African States (ECCAS) and the Maghreb Union. The participating countries were chosen by the AU, signaling that India favoured a multilateral approach in its Africa policy and affirming a commitment to a multilateral approach in addressing development challenges to achieving NEPAD goals.

At the end of the summit two documents were adopted: the Delhi Declaration and the India-Africa Framework for Co-operation. These agreements will guide Indo-African relations until the next forum is held in 2011 and will provide a platform to assess long-term synergies and successes of the partnership. The accord also enables current and future African governments to measure how the government in New Delhi is living up to promises it has made to strengthen political ties in peace and security, and civil society and good governance.

A joint effort to help reform the global system is the cornerstone of the political partnership, while support from the African bloc for a seat in a restructured UN Security Council is a key consideration.

Beyond the normative political expressions of championing the cause for a fair and just international order, the real thrust of the summit could be felt in the forging of a pragmatic partnership for economic co-operation.

India’s economic footprint in Africa has been steadily growing over the past decade. India-Africa trade jumped from $967m in 1991 to more than $9.5bn in 2005. Indian exports to the continent increased from $2bn in 2000 to more than $6bn in 2005. In the same period, Indian imports from Africa increased from $3bn to more than $4bn. For the period April 2006–January 2007, India’s trade with

Tanzanian foreign minister Bernard Membe, left, Indian foreign minister Pranab Mukherjee, centre, and African Union chairperson Alpha Oumar Konare, second right, at the start of the India-Africa Forum Summit in New Delhi earlier this year.
AP Photo/Gurinder Osan

the continent was estimated at $19.3bn. In 2006 exports to Africa amounted to $9.5bn while imports from the continent were $12.6bn. Estimates for 2007-2008 put India's total trade with the continent at between $25bn and $30bn.

Augmenting economic ties

Spearheaded by its ministry of external affairs, Delhi has embarked on a series of engagements in collaboration with the Confederation of Indian Industries (CII) and the Export-Import Bank of India (EIBI) to augment economic ties with African countries. These include the Focus Africa Programme, launched as part of the EXIM Policy 2002-2007 strategy of the EIBI. Through this programme, the Indian government provides financial market development assistance to various trade promotion organisations, export promotion councils and apex chambers. So far, operative lines of credit extended to sub-Saharan Africa by the EIBI total more than $550m.

The India-Africa Partnership Project is a second initiative. Under the auspices of the CII and the EIBI, conclave meetings have been held to help African and Indian businesses identify and pursue investment deals in Africa's nascent industries. As a precursor to the summit, a conclave meeting was held in Delhi in March with 500 delegates, including government officials from more than 20 African countries. The meeting discussed potential trade, investment and private sector business ventures between India and Africa, including more than 130 projects worth more than $10bn. Deals signed included a memorandum of understanding to export high-quality Ethiopian leather to India. India's EXIM bank extended a $30m credit line to the African Export-Import Bank (Afreximbank) to finance Indian exports to Afreximbank members.

To complement these burgeoning economic ties, the Indian government committed itself to the following at the summit:

- hiking financial credits from $2bn over the past five years to $5.4bn;
- investing $500m in development projects across the continent over the next five years;
- allowing duty-free imports and preferential market access for primary and finished products, including cotton, cocoa, aluminium ores, copper ores, cashew nuts, cane sugar, clothing, fish fillets, and gem diamonds from 34 least developed countries in Africa, and
- doubling trade from $25bn to $50bn by 2011.

This will undoubtedly give more impetus to India's current engagements, which include:

- a $1bn investment in a joint venture with the AU to build a pan-African e-network to provide 'telemedicine' and 'tele-education' through integrated satellite, fibre, and wireless connectivity;
- a $200m line of credit to NEPAD, under the India-Africa Fund, designed to promote African economic integration, and
- a $500m line of credit for the Techno-Economic Approach for Africa-India Movement (TEAM-9), an initiative with eight Francophone countries.

The TEAM-9 initiative was launched in 2004. It is reported that $280m worth of projects have already been approved against concessional lines of credit. These include $970 000 for the construction of a national post office in Burkina Faso, $30m for rural electrification in Ghana, $4m for a bicycle plant in Chad, $12m for a tractor assembly plant in Mali, and $15m for potable drinking water projects in Equatorial Guinea. Six other countries are interested in joining the initiative.

NEPAD priority areas

According to the Framework Co-operation document, further commitments were made to support priority areas of the NEPAD programme, as well as, inter alia:

- promote development of small and medium-scale enterprises to encourage industrialisation,
- facilitate enhanced trade co-operation through value add or processing initiatives at source,

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Mohammed Dangor

SA's official diplomatic relationship with Syria is still at a fairly early stage. Mohammed Dangor was appointed ambassador to Damascus just over two years ago, in acknowledgment of the rapidly growing engagement between the Southern African region and the Middle East – on both the political and economic fronts. The ambassador is thus well placed to provide a South African perspective on the Middle East and the forces shaping one of the world's most important political and social hotspots.

His Excellency Mr Mohammed Dangor is the South African ambassador to the Syrian Arab Republic and to Lebanon.

Prior to this appointment, he was South Africa's Consul General in Jeddah, Saudi Arabia.

Earlier, he was a founder member of the United Democratic Front affiliate Call of Islam; a founder member of the ACTSTOP civic, and convenor of the South African National Civic Organisation's housing committee.

He was elected to the Gauteng Provincial Legislature in 1994 and was chair of the public accounts and housing committees. He was also elected vice chairperson and treasurer of the National Association of Public Accounts Committees. Also in the political arena, he was African National Congress Gauteng treasurer.

In the commercial sphere, he was manager of the development division of Perm Bank.

Other positions he has held include: deputy director of Operation Hunger, executive secretary of the Returnees Committee, and vice president of the South African chapter of the World Conference of Religion and Peace.

Syria has played an important role in promoting pan-Arabism. Is this vision still alive, and how does it influence Syrian national identity?

In reality, Syria is probably the only pan-Arabic country in the world today. It's probably the only place where they still teach medicine in Arabic. Most Arab citizens can enter Syria without a visa. This opened the way for Iraqis to move into Syria without a regulatory regime, using only their identity documents. This resulted in almost two million Iraqis now being in Syria – particularly Christian Iraqis, who have found a home there.

So yes, pan-Arabism is still an important driver in Syria. But I think there are two driving forces in the Middle East now. The one is pan-Arabism and the other is pan-Islamism. But they are both at the street level. Only in Syria, at the state or national level, is pan-Arabism a motive force.

In other countries, other issues take precedence as drivers and there is a gap between the street and the state. What we need to further explore is the impact of pan-Islamism and its various manifestations. The Turkish impact and the pan-Islamism of Turkey is also going to have an impact on the rest of the Middle East and the wider Islamic world.

Could you elaborate on that point?

The roots of the present Turkish ruling party are Islamist, albeit modernist. It projects a moderate image, to the extent where it is even beginning to talk about re-examining some of the precedents, including the issues of sex and gender. Of course, the Turks had a major influence in Syria. Today, Turkey exercises increasing economic influence on Syria and this development is beginning to shift Syria's allegiances back to Turkey.

Could you say a few things about the key historical moments in Syria's national life? What have been some of the key political issues that have shaped Syrian independence, thinking, ideology, politics, etc?

Syria was a province of the Ottoman Empire. Until the collapse of the Ottoman Empire, it was the administrative centre for the region, which included the northern portion of Saudi Arabia up to Medina. The Syrians fought very hard for independence against the French (after the collapse of the Ottoman Empire, Syria fell under French mandate). The French carved the northwest out of Syria and created the state of Lebanon. From a French perspective, Lebanon was designed to be a majority Christian state in the sea of Muslims in the Middle East. However, pan-Arabism was in fact a driving force that had its roots mainly among Christian intellectuals in Syria, Iraq and Lebanon. They were trying to bring about a counterbalance to what the French were doing. State failure in the current context has, therefore, caused pan-Islamism to become an important force.

Could you also include in your response the impact of Baathism in Syria?

At the moment Baathism, as a pan-Arab

movement, is the ideology of the ruling party, which leads 10 other parties in a ruling coalition in Syria. In the last elections, held in 2007, 16 independents won seats outside of the Baath party coalition but the president won almost 90% of the vote for another seven years. Baathism ensures that you have a secular society in Syria, which is probably the only secular society in the Middle East

Why is that?

Saudi Arabia and Israel are theocracies. I think that secularism is a natural phenomenon that emerges out of the co-existence between the people of various faiths that lived in Syria in the past. Iraq had a similar history, until the US invasion when divisions started to emerge. Some people suspect that third forces have encouraged these divisions among the Iraqis. On the one hand, the Syrians look at the example of Iraq; on the other is the example of Lebanon. It's Beirut and Baghdad. They say they want neither of the two.

Secularism in Syria is meant to serve as an example. I've been invited to Easter services by the Patriarch and I would find the Mufti delivering a message of support on that particular day. I've been invited to the Mawlid celebrations that mark the occasion of the prophet's birthday and I would find the Patriarch delivering a message of support there. Their interfaith collaboration is not unnatural. It is not an artificial construct. It is something that is within the fabric of Syrian society. Nobody will ask you if you are Sunni or Shia or Christian. It doesn't enter the discourse at all.

Relations with Iran have often placed Syria at odds with both the West and other Arab states. How do you explain this foreign policy posture?

We must go back to the time of the Iran-Iraq war, during the period of former president Saddam Hussein. Syria was the only Arab country that opposed Iraq's invasion of Iran at that time. This was based purely on the principle that they couldn't upset the boundaries that had been established by the previous Western colonial powers. But the truth is that there was also the belief that Saddam Hussein was acting in concert with the Americans and other western powers.

Since then, they project this pan-Arabism on the one hand, but on the other they also say they would not want to upset the applecart. Hence a closer alliance was formed between Iran and Syria. Another factor is the isolation of Syria by other Arab élites. The Turkish move of building closer ties with Damascus now breaks that isolation because it doesn't confine it to an Iran-Syria axis, as [US President] George Bush has called it. Instead, it brings other players into the regional dynamics. If you start examining what could happen to the region, for example if a Kurdish national state is formed, it could have an impact upon Iran, Turkey, Syria and Iraq.

To conclude this question, how would you describe Syria's relationship with Iran? Is it one based on ideological-political affinity, or something else?

It is not an ideological relationship. It should be characterised as a relationship of mutual interest.

Then we come to the very complex story of Syria's relationship with Lebanon. Briefly describe the nature of the historical engagement and how things are currently?

The historical fact is that Lebanon was carved out of Syria, and therefore Syria never established diplomatic relations with Lebanon until recently when the foreign ministers pronounced that the two countries would establish diplomatic relations. However, this relationship must be forged on the basis of two sovereign countries, free from interference by others.

But we must also look at the existential context. It's the same families, both in Syria and Lebanon. It's the same economy; the one breathes off the other. The port of Beirut probably serves as the major port for goods that go into Syria. Exports into Lebanon from anywhere must pass through Syria at one point or another. This close interdependence is very important. The tensions at the moment are really tensions of a political nature, and I think that these are of an intractable nature. It seems to be intractable at this point because you are talking about two kinds of issues. One is about the Lebanese themselves, and the Syrians have clearly expressed the view in a recent policy statement that this is a Lebanese issue and the Lebanese must sort out their own problems. It is not a Syrian issue, and if there's any problem in Lebanon in future they will not intervene.

It must also be borne in mind that the Syrians went to Lebanon at the request of the Arab League during the civil war

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From 'Shouting Hill' in the Golan Heights, Syrians shout and wave flags at family members living in nearby Israeli-occupied territory. Redux/Jiro Ose

American foreign policy: *quo vadis*?

What role the US should play in the world is a central question for American voters as they ponder their choice for the new occupant of the White House, writes **Francis A Kornegay**

As the 2008 presidential election cycle unfolds in the United States, American foreign policy, after eight years of the George W Bush administration, is in deep crisis. It is a crisis of moral, intellectual, political, and operational dimensions, involving the execution of statecraft and diplomacy on a global scale. And it is compounded by its intersection with major tectonic geopolitical and geo-economic shifts underway in the international system. It is a crisis that is historically conjunctural in nature, raising major issues of sustainability. Is America, as the world's sole hyper-superpower, sustainable as the leading state actor on the world stage? Is its current foreign policy-national security paradigm of global dominance sustainable? Are these questions even sufficiently on the table in Washington to provide Americans, let alone non-Americans looking on from the outside, with a clue that the country's political leadership has enough of an awareness of global changes to make necessary adjustments in policy and posture?

It is important to point out that US foreign policy and national security strategy are an indelibly bipartisan enterprise. This is the case, even as the rise of the ideologically driven neoconservative foreign affairs elite during the Bush administration has tended to polarise the policy environment between a motley collection of traditional internationalists and realists tending towards degrees of multilateralism, on one side, and hawkish unilateral interventionists on the other. And this includes such hybrids as 'liberal hawks' and 'conservative realists' overlapping the parties. While liberal internationalists and realists inhabit such institutional realms as the Council on Foreign Relations, the Carnegie Endowment for International Peace, the Brookings Institution, and the Center for Strategic and International Studies, the neocons and those further to the right have institutional bases in such think tanks as the American Enterprise Institute and the Heritage Foundation. To the left-of-centre is the long-established Institute for Policy Studies, occupying the fringes of this bipartisan establishment with its affiliated 'Foreign Policy in Focus'. Then there are smaller party and/or candidate-affiliated policy shops like the Clintonian Center for American Progress and the centrist Center for a New American Security.

This article was written before Obama's nomination as the Democratic Party's presidential candidate

Recycling policy elites

It is from these mainly Washington environs that the new (or old-returning – after all, this tends to be a revolving door

American soldiers arrest a suspected insurgent in Iraq. The US's continued presence in Iraq is the burning foreign policy issue in the coming presidential election. Reflexnews/John Wilcox

dynamic) foreign policy mandarins of the next administration will hail. A steady recycling of policy elites and institutional linkages accompanies each presidential election cycle, a process that takes on especially momentous import at the close of an administration that has occupied the White House for two terms – and where neither party's electoral contender is an incumbent.

The question is, has anything been learned after eight years? For American foreign policy has changed little from the days of Cold War confrontation with the former Soviet Union and its Warsaw Pact allies. Perhaps this has been a function of the triumphalism induced by Soviet bloc implosion and collapse that left an American-led Western capitalist system intact and positioned to dictate the political and economic terms of the post-Cold War order. Even the global 'war on terror' has its organic links in what Mamoud Mamdani calls the 'late Cold War' with its 'blowback' legacies.

What is to be expected from the presidential candidates vying to succeed Bush? Here, it is important to distinguish them, not so much by party as by the extent to which they represent the likely continuity of tradition or hold out the possibility of some important departures in American foreign policy. Republican Party nominee John McCain, Senator of Arizona, and the Democratic contender from New York, Senator Hillary Clinton, can be clustered together as 'traditionalists' embracing hawkish liberal-to-conservative devotion to a continuing American 'dominance paradigm' little changed from the Cold War era. Illinois Senator Barack Obama, the Democratic Party candidate, on the other hand, is a 'non-traditionalist' falling outside the establishment consensus. However, his foreign policy-national security team, for the most part, nests well within the establishment, albeit perhaps more on its left-liberal to moderate centrist wing and including some new recruits as well.

Obama's key advisers

Ari Berman of *The Nation* (which has endorsed Obama's presidential candidacy) observed that while it is true that 'a number of Obama's key advisers – like former national security adviser Tony Lake, former assistant secretary of state Susan Rice, and former navy secretary Richard Danzig – held prominent positions under Bill Clinton … Obama's team includes some of the most forward-thinking members of the Democratic foreign policy establishment, like Joseph Cirincione and Lawrence Korb of the Center for American Progress, the party's leading experts on nonproliferation and defence issues, respectively, along with former counterterrorism czar Richard Clarke and Carter administration national security adviser Zbigniew Brzezinski'.

Berman follows up by pointing out that 'unlike Obama's advisers, the top Clintonites overwhelmingly supported the war in Iraq' whereas 'from the march to war onward, Clinton and her advisers have dominated foreign policy discussions inside the Democratic Party'. Apart from Clintonian (second administration) secretary of state Madeleine Albright, who joined in Hillary Clinton's initial attack on Obama as naïve for wanting to talk to America's adversaries, the stand-out Clinton foreign policy guru has been former UN ambassador Richard Holbrooke. Holbrooke, described as 'the heaviest of the heavyweights', is said to personify some of the strong feelings those in the Democratic foreign policy community harbour toward the Clintons: 'they respect Holbrooke's experience, accomplishments and intelligence but are dismayed at his arrogance, political opportunism and hawkish posturing.' Berman continues: 'Clinton insiders speculate that if Hillary assumes the presidency, Holbrooke could very well land the secretary of state position he's always coveted.' By contrast, a more politically adept possible contender for secretary of state in an Obama administration could well be the Hispanic governor of New Mexico Bill Richardson.

The comparative hawkishness of the Clinton foreign policy team is amplified by the candidate's belligerence on 'obliterating' Iran, using the Islamic republic as a convenient straw man to emphasise her support for Israel, about which some in her camp and neoconservatives have tried to raise doubts in relation to Obama and his advisers. Here, Clinton would seem to be close to Republican candidate McCain, save for her similarity with Obama on emphasising the need for an American withdrawal from Iraq sooner rather than later.

McCain's commitment to a long-term occupation of Iraq would represent continuity with the Bush administration in confirmation of what many suspect about Republican geostrategic priorities in the Middle East, and Central and South West Asia: the establishment of a long-term presence as a means of accessing Eurasia's oil and natural gas reserves, centring on Iraq's immense resources and potential, while exerting a neo-containment strategy against Russia, Iran and China; neo-containment interacting with the promotion of oil and natural gas pipeline strategies aimed at by-passing an emerging Moscow-Tehran geopolitical-economic energy axis. The fact that this continuation of the Cold War under the guise of the 'war on terror' faces an uphill struggle against the success of deft Russian energy security geopolitics and growing European and Asian interest in Iran's reserves, is indicative of the regional and global tensions that may await the world if McCain is voted into the White House in November.

In the case of Obama, perhaps the best indication of his departure from both with respect to Iraq and foreign policy generally was an interview he gave to *The New Yorker* in November 2006, before he threw his hat into the presidential ring.

What comes across in the interview is an openness to review and reconsider old assumptions about American foreign policy, the changing world and America's role in it. Having opposed the Iraq war from the beginning, Obama reflected on the fact that given that it was, at the time, 'hard to anticipate where we're going to be in Iraq', the first priority should be 'to stabilise and extricate ourselves from the morass that we're in right now'.

A phased withdrawal

He voiced the hope that the James Baker-Lee Hamilton Iraq Study Group would move in the direction of 'a phased withdrawal'. In so doing, 'I think not only do we have to engage the Iraqis but also the regional powers, including Iran and Syria, in a conversation about stabilising the area, and force them to recognise that they've got a self-interest' (when in fact, it has been the regional actors who have been trying to force that realisation on a tone-deaf Bush administration which, only with great difficulty, has taken the regional realities of Mesopotamia into consideration).

The mere notion of a 'conversation' with Iran and Syria is a far cry from Clintonian sabre-rattling threatening Iran's 'obliteration', and from Bush administration ambivalence regarding the need to engage Iran on Iraq, on the one hand, while pursuing futile sectarian geopolitics of isolating Iran in the Persian Gulf – a strategy that has gone nowhere amid the resistance of Saudi Arabia and the Gulf Co-operation Council which are seeking their own regional accommodation with Tehran. The last thing they want is an American attack on Iran. Not only was this conveyed to Bush and vice-president Dick Cheney on their forays to the Gulf this year, but, for good measure, the Saudis were not up to any expansion of OPEC oil production. Could this have been America's 'Suez Moment'? In any case, these regional realities surrounding America's Iraq quagmire are indicative of any number of assumptions that have to be rethought and recalculated.

Obama continued: 'More broadly, and this I think would be one of the most important things a new president can do, is to essentially figure out what is the updated version of the post-World War II order that was structured by Truman and Acheson, and Marshall and Kennan – what does that look like? What is our national-security strategy? Because we've never gone through that process. In the nineties, the basic feeling was, you know, as long as McDonald's are opening up all over the world everything's going to be OK. And then we had 9/11, and immediately launched into a unilateral, sabre-rattling approach to foreign policy. But what we've never really done is thought strategically about how, in an age of asymmetrical warfare, with countries like China and Russia that are no longer direct enemies, but are clearly competitors, and huge chunks of the world that are essentially collapsing and ungoverned – what does that mean for us? And what does that mean for our military? So that would be point No. 1.

'On the domestic front, I would say that it is time for the Democrats to get over what happened in '94, and to move on an aggressive plan for health-care reform in this country. And I personally think universal health care remains a vital goal for us to meet. And I think for us to shy away from it robs the Democrats of any claim of dealing with one of the most pressing issues – not just for individual families but also for our economy and our competitiveness. And the third, which I've already, I think, hinted at, is energy. I believe Al Gore – and the other, you know, ten thousand scientists out there. I know there are those two holdouts in the White House. From a national-security posture, there's not a better thing we could do – for example, dealing with proliferation issues in Iran – than to drive the price of oil down to twenty-five bucks a barrel. It's the single biggest thing we could do to effectuate change and cut the legs out of some of the fundamentalist impulses in the Middle East. And so why we're not pursuing that in a very aggressive way baffles me. And I think the country's ready for it. I mentioned that, travelling around the country, what I've been struck by is the degree to which, despite gas prices going down, the issue of energy policy is still registering very high among voters. They recognise that the current path we're on is unsustainable.'

In the nineties, the basic feeling was, you know, as long as McDonald's are opening up all over the world everything's going to be OK

If Obama appears open to pursuing a sustainable foreign policy at a time of major geopolitical-economic power shifts underway, contrast this with an interpretation of the Clintonian foreign policy outlook offered up in a critique by historian and foreign policy analyst Benjamin Schwarz in the June 1996 edition of *Atlantic Monthly*. 'Three years ago, in light of the end of the Cold War, the Clinton administration undertook a 'fundamental reassessment' of America's national-security

Democratic candidate Barack Obama addresses more than 200 000 people at the Victory Column in Berlin during a European tour aimed at forging relationships with US allies ahead of the presidential election. AP Photo/Jae C Hong

requirements. But after six months of analysis administration officials concluded that the defence of US global interests still demanded military spending of more than $1.3-trillion over the following five years and the permanent commitment of more than 200 000 US soldiers in East Asia and Europe – in other words, a strategy remarkably similar to that which America pursued during the Cold War.'

Triumphalist narrative

Moreover, at the time this was written, when the first Clinton administration was winding up, Schwarz noted that: '…rather than relinquish America's costly and risky responsibilities by dissolving Cold War alliances, defence strategists now plan to expand NATO's responsibilities eastward' which, according to Russian specialist Stephen F Cohen, is at the root of current US-Russian tensions due to the bipartisan triumphalist narrative that flowered under Clinton. As Cohen puts it: 'It meant Washington could break strategic promises to Moscow, as when the Clinton administration began NATO's eastward expansion, and disregard extraordinary Kremlin overtures', continuing into the current Bush years when the US 'unilaterally withdrew from the ABM Treaty and granted NATO membership to countries even closer to Russia – despite Putin's crucial assistance to the US war effort in Afghanistan after September 11'.

Thus did Clintonian hawkish liberalism pave the way for neoconservative-inspired Bush unilateralism, bringing us full-circle with both tendencies embodied in the candidacies of Hillary Clinton and John McCain.

The current residual fault-lines of East-West conflict would come in for even sharper resolution in a McCain administration implementing his idea of a League of Democracies; in effect giving NATO a geopolitical gloss of 'democratic expansionism', coupled with an outreach to co-opt the likes of Israel, India, Brazil and SA among other emerging powers and 'regional influentials' who might be amenable to joining the US and NATO in a reinvigorated neo-Western alliance. Apart from the fact that some see this is as another neoconservative-inspired UN-bypassing gambit, such an alignment runs aground of the indelible energy security geopolitical-economic trends reshaping the global landscape in ways running counter to American foreign policy conventional wisdom and dictates.

Just the fact that, following on liquified natural gas (LNG) deals with Malaysian companies, Iran breached the Western sanctions front by concluding a 25-year supply agreement with Elektrizitats-Gesellschaft Laufenburg (EGL) of Switzerland and now appears to be back on track with India in activating the long-delayed Iran-Pakistan-India pipeline reflect the new dynamics in play. This sign of Indian reassertion of strategic autonomy and foreign policy independence after having embarked on an unmistakably pro-Washington courtship is further indication that the energy dictates of national interests are overriding a Western reconsolidation and reassertion of global dominance. These new realities are not lost on the likes of the former chairman of the US House International Relations Committee, Lee H Hamilton, who is currently president and director of the prestigious Woodrow Wilson International Center for Scholars.

Hamilton, who has declared his support for Obama, noted late last year that 'objectively, we are not the omnipotent power we appeared to be in 2003', though he was quick to add that 'nor are we the impotent power we sometimes appear to be today'. What Hamilton counsels is that: 'Instead of demanding American hegemony, we should try to shape *a multipolar international system* to serve our interests' by being 'idealists without illusions and pragmatists with a vision' (italics added). To the extent that Obama gravitates in this direction, what may be witnessed is an attempt to rethink the foreign policy-national security calculus along more definitive lines of sustainable security, building on Obama's clearly stated preference for talking to adversaries like Iran, Cuba and Venezuela instead of maintaining confrontational postures.

The question is, how will this play out in the Middle East and South West Asia, which has to assume top priority in resolving America's foreign policy crisis of credibility and statecraft. Iraq and Afghanistan will, without a doubt, become the litmus test for whomever is elected in November. Here, given Obama's anti-war stance from the very outset, a number of questions and speculations emerge.

An Iraqi settlement

The problem is that debate in sections of the policy media, such as *The New Republic*, focuses less on the politics of an Iraqi settlement and what this might look like and more on such issues as 'a withdrawal schedule', whether or not withdrawal leaves a 'bloody froth of violence in its wake', evaluating 'conditions on the ground' in consultations with US commanders or 'how best we can leverage our phased redeployment from Iraq to push them in a direction we want them to go'. This last consideration, in fact, begs the question of an Iraqi-US political settlement that would present an Obama administration with that fundamental challenge no American administration has competently come to terms with: how and whether or not the US can accommodate militant Third World nationalism that forgoes an avowedly pro-American outcome.

The invasion itself was a blatant example of a post-Vietnam war Western recolonisation in a non-Western country in defiance of nationalist self-determination in the South. In any case, there is a possible political settlement that could facilitate an American withdrawal from Iraq. But it would revolve around accommodating Muqtada al Sadr and his Mahdi Army in coalition with Sunni mujahideen forces as the only alternative to what would likely be genuinely unacceptable: an al-Qaeda-backed Islamic state of Iraq. The bottom line is the Iraqi nationalist consensus demanding an end to the occupation (which certainly converges with what Americans also want) and autonomy viz-a-viz neighbouring Iran. That means accommodating the militant anti-imperialist nationalism of Sadrism. Could a President Obama not wedded to the old establishment culture of Cold War-inherited American foreign policy thinking meet this test? In any case, the US may ultimately have little choice in the matter and will have to make the best of the circumstances.

These are questions that have yet to be seriously joined in Washington. These, in turn, are questions that resonate into the broader fraught terrain of Middle Eastern policy, including the penultimate issue of an Israeli-Palestinian settlement. An Obama administration would probably be beter positioned to tackle this challenge than a McCain one, which would be virtually incorporated into the pro-Israel lobby. Tackling the Israel lobby is a precondition to any policy breakthroughs that a US administration might achieve. In this regard, resuscitating the Iraq Study Group and expanding it into a White House advisory panel covering the entire Middle East/South West Asia policy terrain might be the best way to bell this cat by 'depoliticising' options viz-a-viz lobby pressures from the American Israel Public Affairs Committee (AIPAC), on the one hand, and AIPAC's congressional zealots, on the other.

John McCain and fellow Republican George W Bush.
AP Photo/Charles Dharapak

Crossing into the South West Asian terrain of the growing US-NATO quagmire in Afghanistan, it is hard to see how Washington will extricate itself from this predicament without a rapprochement with Russia and Moscow's coalition of forces in the Shanghai Co-operation Organisation (SCO) and the Collective Security Treaty Organisation (CSTO). Here again, this will also mean drawing Iran into an endgame diplomacy involving the stabilisation of Afghanistan, interacting with the strengthening of a post-Musharref dispensation in Pakistan under its new civilian government.

The demilitarisation of Pakistan's politics in favour of a genuine bourgeois democratic revolution is suggestive of the

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The US economic sickness is catchy

The world is likely to be dragged into economic recession by the financial crisis that started in the US – and Southern Africa will not escape the ravages, writes **Seeraj Mohamed**

UNLIKE THE financial crises of the 1990s that affected developing countries, the global financial crisis today started in a developed economy and affected other developed economies first. Yet the global credit crunch, lower levels of developed country consumption and investment and lower levels of trade is likely to affect all developing countries as well. And oil and food prices, projected to remain high over the next few years, could have a significant negative impact on these developing countries.

The developing countries most affected by the global credit crunch and rising inflation will be those, like South Africa, that have had debt-driven, consumption-led growth – similar to that in the United States – over the past few years. The growth in these countries was due to an increased supply of credit to the private sector as a result of greater liquidity – made possible by increased short-term, foreign portfolio capital inflows.

In SA, these inflows and the increased access to credit did not lead to increased investment but rather greater speculation in financial and real estate markets and fast growth in consumption. This consumption growth was accompanied by a large increase in imports that drove up the trade deficit to around 7.5% of gross domestic product (GDP).

Decline in consumption

Developing countries like SA that have a large trade deficit, and are dependent on short-term foreign capital inflows to finance trade deficits, face increased financial vulnerability during the current global credit crunch. Tighter credit markets will also force a huge reduction in available credit and lead to a rapid decline in consumption. The uncertainty thrown up by increased financial vulnerability will drive domestic investment funds into liquid financial markets (many of them outside of SA) and away from illiquid, long-term investments in the real sector.

SA and similar developing countries will have to increase their interest rates to keep attracting short-term foreign flows. However, higher interest rates will further decrease economic growth rates because they stifle investment, increase unemployment and lower aggregate demand. The economic downturn may be somewhat offset by increasing commodities prices but conditions are not good for economic growth and such countries may well fall into recession.

Southern African as a whole could be hit by the downturn, which will reduce demand for exports. Foreign investment, remittances and foreign aid flows to the region might be negatively affected. But many Southern African countries are not as integrated into global financial and trade markets as the South African economy and will be less affected by financial contagion from the US and reduced global trade.

There is a repeated pattern of mania, panics, and crashes associated with unregulated finance

Financial markets are inherently unstable. There is a repeated pattern of mania, panics and crashes associated with unregulated finance. The US debt crisis was not caused by the collapse of the sub-prime market, but was rather part of a sequence of bubbles and crashes induced by inadequately regulated financial markets, of which the sub-prime collapse is but one symptom. The current tightening of global credit markets is the cumulative result of several previous financial crises in which the damage was mopped up but the cause of the crises was left unresolved.

The unresolved problem is that financial markets are left unregulated in their creation of debt and their ability to increase liquidity. The increased liquidity leads to speculation and asset price bubbles. The US government and the country's central bank, the Federal Reserve; the International Monetary Fund; and the Bank for International Settlements have repeatedly bailed out Wall Street and other financial players. They have helped increase liquidity in the financial system to limit the damage of financial crises and set up conditions for the next bubble and crash. The underlying reason for the sub-prime crisis was a huge increase in global liquidity and looser lending standards.

Looser lending standards became more common as global securitised debt markets grew. And the looser lending conditions applied not only to home loans but to other financial markets as well.

The US credit crisis has spread to the 'prime' home loan market, credit card debt, and commercial and public sector borrowers. Hedge and private equity funds, which are highly leveraged, are worst hit by the debt crisis. A number of hedge funds have been forced to close, private equity deals have slowed significantly and default rates on loans by businesses have increased. The crisis has quickly spread to insurers of debt and may spread to credit default swaps (CDS). CDS are derivatives widely used by banks to hedge credit risk on bonds and loans – a type of insurance against bad debt. The outstanding value of CDS was less than $1-trillion in 2001, but had grown to $42.2-trillion in 2007. A collapse of the CDS market will cause much

A looming recession in the US is battering the economies of many other countries with similar and linked credit markets.
AP Photo/Tony Dejak

further damage to financial institutions around the globe.

After the dotcom crash in 2000, money in the US moved from equity markets to housing and securitised mortgage markets. The result was a bubble in these markets. As a result of rising prices in these markets, a large share of US economic investment, job creation and wealth creation over the past few years occurred in areas related to these markets; and, of course, in financial markets. American consumers increased their debt levels enormously and consumption increased. A large portion of the growth in US GDP over the past few years came from housing and consumption. At the same time, household savings turned negative.

US economic growth was based on debt-driven consumption and increased activity in finance and construction. The collapse of the sub-prime markets indicated that a great many US households had too much debt and that the chickens of looser lending standards were coming home to roost. These households can no longer increase their debt, but have to service it. They also face higher costs for fuel, food and many other goods. So they will have to increase saving and make large cuts to their consumption over the next few years. The large contribution made by households and the impact of the housing bubble and growth in construction and finance will be absent from US GDP over the next few years.

Heading for recession

There is a growing consensus that the US economy is headed for recession. Even Alan Greenspan, former chief of the Federal Reserve, has admitted that the country has a huge probability of entering into recession. He said in a May 26 interview with Britain's *Financial Times* newspaper: 'I still believe there is a greater than 50% probability of recession.'

Warren Buffet, Berkshire-Hathaway's famous chief executive and one of the richest men in the world, told German publication *Der Spiegel* in a May 24 interview that he believed the American economy had already entered a recession. He said many people were feeling the effects of the economic downturn, and added: 'It will be deeper and last longer than many think.' Similarly, Gerald Cassidy of RBC Capital Markets predicts that at least 150 US banks will fail during the next two to three years.

There are also fears of the American slowdown developing into a global recession. In an address to staff on April 21, Tony Tan head of Singapore's Government Investment Corporation (a sovereign wealth fund with estimated assets of more than $300bn), warned that, 'We could be facing a recession which is longer, deeper and wider than any recession that we have encountered in the last 30 years.'

A recession in the US threatens the world economy because of the global integration of financial markets and that country's dominance within them. The US is the largest economy and the largest consumer in the world; it has the most powerful financial institutions, and is the home base of most of the world's top 10 financial institutions. Its dominance has been entrenched by unprecedented merger and acquisition activity that has created giant international institutions and a high level of concentration within financial markets.

The worldwide integration of markets has increased the risk of contagion. The creation of new financial instruments which are globally traded, especially different kinds of derivatives and securitised debt, increases the speed at which crises spread through the system and often exacerbates their intensity.

Also, many economies have followed the US style of financial liberalisation that has led to looser lending standards, housing market bubbles, and debt-driven consumption. Growth of GDP in SA in recent

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Searching for sovereign debt default fixes

The world is in urgent need of a mechanism to better manage the crises that develop when debtor countries find they cannot repay their international debts, write **Regina Bernhard** and **Christian Kellermann**

A DOMINANT CHARACTERISTIC of globalisation has been the rapid expansion of international capital flows. While highly beneficial for some participants in the market, speculative attacks have caused considerable economic and social damage to several countries. The last decade saw a remarkable number of financial crises affecting mostly emerging market economies. Sovereign debt and corresponding financial crises came to the fore with the debt crisis in Latin America in the 1980s; followed by the Asian crisis in the late 1990s. The issue was put on the official agenda after spectacular sovereign defaults, such as that in Argentina at the beginning of the century.

In almost all domestic insolvency legislation creditors bear part of the risk of debtor default. However, there is no international mechanism to involve creditors in crisis resolution in the global credit market – so debtors bear the main risks. The lack of a climate of responsibility encourages reckless creditor behaviour; a dangerous procyclicality in global credit markets. Emerging market countries are typically more prone to sovereign defaults since they offer a seemingly attractive environment for investment due to increasing economic activity.

Rush-to-the-exit problems

A number of 'collective action' problems arise and pose systemic headaches in modern financial affairs. Firstly, investors tend to lose confidence in the sustainability of a debtor economy and try to withdraw their investments all at once, leading the country from a financial crisis into a default situation (the rush-to-the-exit problem). Secondly, in cases where a state has to negotiate debt restructuring with its creditors, counterproductive strategies on the part of single investors may arise due to the individual rationality of 'free riding' (the free-rider problem). Moreover, individual investors tend to sue the debtor for not servicing his debt, and in a macro-perspective this can also be counterproductive (the rush-to-the-courthouse problem).

The rational behaviour of individual members of the diffuse and diversified creditor community may hinder a fast, just and orderly debt restructuring, which would be the case under a national insolvency procedure. The population in the troubled country is usually heavily affected by the swings of capital flows for the simple reason that the state ends up financially broke.

The lack of a climate of responsibility encourages reckless creditor behaviour

While these problems are well known in the financial community (among officials as well as private actors), there is no international consensus on how to establish an orderly and transparent restructuring mechanism. Systemic vulnerability to debt overhangs and corresponding crises show that a solution is urgently required. The tricky question is: when sovereign debt restructuring becomes necessary and unavoidable, what regime will provide orderly restructuring, while safeguarding the balance of rights of both the creditor and the debtor?

There are a number of competing concepts for collective action in a default situation. After the Argentina default, the International Monetary Fund (IMF) launched an initiative called the Sovereign Debt Restructuring Mechanism (SDRM), but lost the ensuing political battle against powerful interests deeply institutionalised in the US Treasury and in emerging-market elites. The IMF sought a new statutory framework for a universal debt resolution mechanism that would have applied to all types of sovereign debt. Paradoxically, both groups – market actors, which are the main creditors, and emerging markets, which are the main debtors – were supposed to benefit from such a mechanism. However, the status quo of an anarchic system of market failure – with a comfortable bail-out mechanism in the form of the IMF – proved more attractive than the new idea.

So there is still no formal mechanism to address sovereign debt crises and break the vicious circle of procyclical incentives for creditors and debtors.

To counter the SDRM, the business community launched the idea of Collective Action Clauses (CACs), which proved highly successful. CACs appeared to be an elegant solution, since they were designed to solve collective action problems of single bond issues. However, they do have several shortcomings. Above all, they do not address the massive stock of pre-existing debts, the main source of the insolvency problem.

Proposals from non-governmental organisations are more far-reaching in terms of a regulatory approach, but have not yet entered the political debate. Nonetheless, since a universal mechanism is still absent, they could yet be influential.

One of these, a non-statutory approach propounded by Kunibert Raffer, is analogous to the principles of US municipal insolvency. It tries to resolve the conflict between two fundamental legal principles, the right of creditors to interest and repayments and the general understanding that one must not be forced to fulfil contracts if it leads to distress, endangers life or health, or violates human dignity. It suggests that risk and liability must be reintroduced into international credit relations.

This Fair and Transparent Arbitration Process (FTAP) proposes an ad hoc arbitration panel with members nominated by creditors and debtors. The conflicting parties agree on a framework of rules. The FTAP strongly emphasises the debtor's sovereignty. The court may not interfere with political or governmental powers without the debtor's consent. The principle of debtor protection demands that money to service a country's debt must not be raised at the expense of its economic future, and the debtor is allowed to maintain basic social services.

In order to be protected from its creditors, the sovereign country can petition for a standstill, which operates as a stay of claim enforcement against the debtor. Arbitrators have the task of mediating between debtors and creditors. Civil society representatives have the right to be heard. Arbitrators decide only if and when debtors and creditors cannot reach an agreement or if representative organisations show that an agreement would impose too heavy a burden on the population.

Debt relief has to be negotiated within the arbitration panel. Irrevocable and/or so-called odious debt must be excluded from the amount of debt to be restructured. Inter-creditor equity requires that international financial institutions, especially the IMF, must be financially responsible for their advice and bear the risk of losses.

Another suggestion is the International Debt Framework (IDF), the main objective of which is the creation of an environment in which the debtor government can negotiate in good faith with all creditors. This approach, by Kathrin Berensmann and Frank Schroeder, concentrates on crisis prevention *and* crisis resolution. It constitutes a middle ground between a legally binding insolvency procedure and a voluntary code of conduct.

For crisis prevention, an IDF secretariat, comprising a small group of experts on debt and economic development, would be closely associated with the Group of 20 (G20) nations. It would be a forum for regular dialogue between debtors, creditors, and financial-market experts preparing and analysing information on emerging countries' debt markets and risk assessments.

Crisis resolution

For crisis resolution, an IDF commission would be established as an ad hoc mediation body. Besides assuring good-faith negotiations, this body would guarantee fair treatment. The debtor would initiate the restructuring mechanism if its debt became unsustainable, following which the commission would be set up, comprising representatives of the debtor, private creditors, multilateral lenders, and sovereign creditors. A stay on litigation would be bound to certain conditions. The outcome of the ensuing mediation process would lay down the amount of necessary financial support, an economic adjustment path to promote long-term debt sustainability, and (if necessary) the level of debt relief.

FTAP and IDF representatives say they want to address the shortcomings of the current system. But what makes a proposal a 'better' solution?

We believe it would have to be inclusive, engaging a broad range of stakeholders, and equitable, in the sense of a more equitable burden-sharing of the monetary costs between debtors and creditors. Furthermore, the proposals must offer an effective solution for the collective action problem.

Sound concepts for sovereign debt restructuring have been gathering dust on the shelves of the IMF and NGOs. It is time they were dusted off

In terms of inclusiveness, we put the focus on institutional representation. The IDF would be established within the G20, but the inclusiveness of the G20 as a global forum for dealing with unsustainable debt is questionable. While there are no formal criteria for G20 membership, members are countries of systemic significance for the international financial system. Hence, a significant proportion of countries are not represented. The IDF secretariat is designed, above all, for G20 members. And the design of the crisis resolution body (the IDF commission) would shift the main decision-making power to the G20.

With the FTAP, all states would have access to the mechanism and would be treated equally. Regarding debtors and creditors, it foresees involvement to the same degree. It gives other affected entities (eg civil society) a right to be heard. The FTAP develops a mechanism that ensures the involvement of as many stakeholders as possible.

An indicator of the level of equitable burden-sharing embodied in the proposals is the issue of debt relief. The IDF proposal does not go into detail on this issue. If necessary, the IDF commission would define the level of debt relief required for long-term sustainability. The current lack of a more concrete mechanism is a weakness of the concept. The FTAP foresees the cancellation of all debts that are 'uncollectable'. Odious debts are also not included in debt negotiations. The FTAP thus shifts the risks of lending to those creditors that do not properly check the debtor's liquidity or the purpose of the debt. A more equitable distribution of the monetary costs of indebtedness would also be achieved.

Mediation versus arbitration

Regarding the concepts' effectiveness, there are also major differences. The IDF proposes mediation, the FTAP arbitration. Mediation is normally a satisfactory solution since the agreement offers a high degree of compliance and ownership. However, if one of the parties or a number of creditors ultimately do not agree, or decide not to implement the final decision, no mechanism beyond mediation is provided to solve the critical situation. This is especially problematic as the IDF proposal does not foresee any sanction mechanism.

With the FTAP, an arbitration panel with jurisdictional powers comes into operation if an agreement cannot be achieved. The final award of the arbitration panel is binding on all parties and a sanction mechanism to enforce final awards is provided. The outcome of

Former Nigerian president Olusegun Obasanjo, left, former United Nations secretary-general Kofi Annan, centre, and Bono, from the Irish band U2, have been ardent campaigners for debt relief for highly indebted countries. Agreement on an international system for managing sovereign debt default crises is proving elusive. AP Photo/Marty Lederhandler

arbitration is potentially more effective than the outcome of mediation.

Qualitative differences also exist in terms of solving the collective action problem. To address the free-rider problem, the IDF suggests 'exit consents' to deal with pre-existing debt stock. Exit consents allow a simple majority and the issuers to agree on an amendment of the terms of a bond contract, making the old issue less attractive than a new one. This provides an incentive for creditors to participate in restructuring. Within the FTAP, the binding character of the final award would solve this problem.

Both proposals advocate a stay on enforcement to address the rush-to-the-exit problem. With the IDF, debt servicing would be suspended for 90 days, whereas the stay on litigation is only an additional option. The FTAP proposes an unlimited stay that would contain not only a suspension of debt payment but also a stay on litigation. A stay on enforcement is a helpful feature to combat a 'rush to the exits' since it is more difficult to sell the bonds under a stay. It gives the debtor time to co-ordinate its creditors and acquire new financing. It makes immediate debt restructuring possible, providing creditors with an incentive to participate. Thus, both proposals suggest a suitable solution to the rush-to-the-exit problem.

However, the lack of an automatic stay on litigation within the IDF might promote the rush-to-the-courthouse problem. The temporal limitation of the stay might well end up in creditor litigation if there is no regulation on the time after its expiration. The litigation risk within the FTAP is limited since the stay on enforcement also contains a stay on litigation.

In summary, the IDF's current weakness lies in the lack of a fully inclusive and equitable mechanism, while the FTAP provides such an inclusive mechanism with equitable regulations. The FTAP's arbitration process, in combination with the sanction mechanism, would potentially be more effective than a mediation process without enforcement. The IDF solves the free-rider and the rush-to-the-exit problems very well. But the rush-to-the-courthouse problem remains unresolved. The FTAP solves all dimensions of the collective action problem.

Optimum solution

As a result, the FTAP is the best ideal-type solution available. Useful features of the IDF, such as the integration of exit consents, could be incorporated. To achieve an optimum solution, the approach would have to be universal in order to make the framework binding on all creditors and to enforce the results. But, as explained, this would require international consensus, for which there has not been an obvious window of opportunity in recent years.

Whenever a default happens, calls arise for (i) a better preventive regulation and/or (ii) better crisis settlement mechanisms. We have taken a closer look at the latter, focusing on the problems associated with a sovereign debt default.

With the spread of CACs, there is currently one instrument at work that facilitates the co-ordination of the creditors of single bonds in a default situation. The other three mechanisms discussed here provide more comprehensive solutions. While the IMF's SDRM and the IDF are more pragmatically oriented, the FTAP is more of an ideal-type solution – in the sense that it is more inclusive, equitable, and ultimately effective, than the other approaches. However, it faces significant obstacles in implementation. Vested interests have blocked any instrument that goes beyond the CAC approach.

Both proposals that we have discussed in detail would lead to a more orderly and transparent insolvency procedure. But any mechanism establishing an insolvency procedure inevitably shifts some of the risk of sovereign default in the direction of creditors – hence the fierce opposition to any change in the 'regulatory framework'.

However, a global debt framework is urgently needed, as it would lead to more cautious creditor behaviour and reduce the propensity to overshoot in the international credit market. More immediately, such a framework is needed to handle the next crisis, wherever and whenever it happens. The global political will has to go beyond the interests of the international financial community in order to change the current financial 'rules'.

Sound concepts for sovereign debt restructuring have been gathering dust on the shelves of the IMF and NGOs for the some years. It is time they were dusted off. ■

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Rocky courtship to an African marriage

Engineering the interface between the AU, NEPAD and the African Peer Review Mechanism is proving very tricky. Sometimes it seems like an endless work in progress, but we can nonetheless draw insights from the ongoing wrangle, writes **Francis Nguendi Ikome**

One of the biggest challenges that faced the New Partnership for Africa's Development (NEPAD) after its official adoption in July 2002 as the African Union (AU) socioeconomic programme was the ambiguity of its relationship with broader AU processes.

The difficult interface between the AU and NEPAD emerged as the centrepiece of inter-African diplomacy in the early 2000s. Two currents of opinion animated discourse on this interface: one that argued for the integration of NEPAD into mainstream AU processes (integrationists), and the other that stood for keeping it separate and apart from the AU (separatists).

Separatists argued that there was a need to shield NEPAD from the legacy of inefficiency and ineffectiveness that the AU was perceived to have inherited from its predecessor, the Organisation of African Unity; and also that some NEPAD programmes needed to be speeded up and could not wait for the nascent AU to become fully functional. On the other hand, integrationists argued that any attempt to separate NEPAD from mainstream AU processes was a misreading and a misunderstanding of its place in the overall AU architecture.

Smacking of imperialism

Calls for a separate NEPAD were presented as the counter-productive handiwork of a small, essentially South African, staff complement at the NEPAD secretariat that was intent on entrenching itself as a permanent bureaucracy. Additionally, the attempt to label the AU as inefficient was described as smacking of imperialism and as concealing foreign divisive agendas.

Nearly seven years later, the debate on integration of NEPAD into AU processes rages on. This in spite of a number of decisions and declarations by African leaders intended to resolve the tenuous relationship between the two. As if this was not enough, relations between the NEPAD secretariat and one of its core implementation programmes, the African Peer Review Mechanism (APRM), seem to be caught in a similar kind of inter-institutional struggle for prominence. As with the difficult NEPAD-AU interface, two currents have emerged on the linkage between the NEPAD secretariat and the APRM process: one that argues for them to be kept apart and the other that insists on integration.

Ironically, NEPAD finds itself on the receiving end of the sort of bitter treatment it gladly administered to the AU in the early 2000s. Like the AU then, NEPAD is increasingly perceived as being irrelevant, with various stakeholders more inclined to engage with the APRM processes than with the broader NEPAD programme. NEPAD is often said to lack focus, and is accused of being unable to roll out concrete projects – deliverables that are part of its core mandate of engendering development and social well-being on the continent. Indeed, some have concluded that NEPAD is dead and only requires a requiem mass ahead of burial.

In an international system where Africa is marginalised, the continent needs to speak with a single persuasive voice

Analyses of the relationship between the AU and NEPAD have presented the integration agenda largely in terms of a power struggle and the resolve of the AU to take control and ownership of the process – with the only supporting argument being that the establishment of a separate NEPAD secretariat in SA was a temporary and expedient measure. Although the power game story cannot be discounted, there are actually important arguments for the integration of NEPAD into AU processes. They include: NEPAD's loss of focus and the extension of its activities to almost all spheres, which means it is encroaching on and duplicating programmes of other AU organs; and parallel engagement with Africa's external partners without regard for ongoing similar engagements by the AU.

Integration could be seen as intended to rationalise and harmonise the activities of NEPAD with those of the broader AU for greater efficiency and cost effectiveness. Parallel institutions, rather than promoting Africa's development agenda, are more likely to impede it. Moreover, in an international system where Africa is still marginalised, the continent needs to speak with a single, persuasive voice – with simple and clear lines of communication to its development partners. Although the AU and NEPAD have common objectives, the lack of complementarity in their activities and the absence of clear institutional and activity boundaries have been sources of tension and confusion.

African leaders of NEPAD were apprised of these challenges as early as in March 2002. A meeting of the Heads of State and Government Implementation Committee (HSGIC) directed the NEPAD secretariat and the AU's Council for Security, Stability, Development and Co-operation in Africa to work together to align activities. This directive was hardly heeded, and tensions between the AU commission and the NEPAD secretariat continued – and were deepened by the attitude of Africa's external partners, who conducted themselves in ways that suggested that the AU and NEPAD were two parallel institutions.

The birth of NEPAD was heralded at a World Economic Forum meeting in Durban in 2002. NEPAD's subsequent interface with the AU has been less transparent.
AP Photo/Themba Hadebe

An exchange of correspondence between former Canadian Prime Minister Jean Chretien and SA's President Thabo Mbeki, alongside declarations by the NEPAD HSGIC in November 2002, helped to clarify the relationship between the AU and NEPAD, as well as the transitional nature of the NEPAD secretariat in SA. However, this did not lead to any integration action and confusion over status and roles persisted until an African leaders' summit in Maputo, Mozambique, in July 2003.

Establishing appropriate linkages

The summit adopted the Maputo Declaration on implementation of NEPAD that envisaged, among other things, gradual integration of NEPAD into AU structures and processes. This would be through, for example, establishing appropriate linkages between the NEPAD steering committee and relevant AU organs; and formalising working relations between the AU commission and the NEPAD secretariat, especially with regard to programme co-ordination and harmonisation. The decision also empowered the chairperson of the AU commission, in consultation with the chairperson of the HSGIC, to appoint the chief executive officer of the NEPAD secretariat.

The Maputo transitional arrangement was for three years, but by the end of this period little progress had been made. As a result, during its summit in the Gambia in July 2006, the AU made another plan to integrate NEPAD into union structures and processes. It set up a committee comprising the union chairperson, the HSGIC chairperson and his two deputies, SA's Mbeki, the AU commission chairman and the NEPAD secretariat's chief executive officer. This committee was charged with finalising the proposal to integrate NEPAD into the AU, to conduct an evaluation of NEPAD, and to propose a realignment of NEPAD with its original objectives, mandate and philosophy.

While some member states feel there is an urgent need to integrate NEPAD into AU processes, others urge caution. As a result, even the Gambian decisions are yet to be implemented. The committee set up to facilitate the process is still in consultation, moving from one preparatory meeting to another without providing the requisite sense of direction for the integration process.

It seems that the integration of NEPAD into mainstream AU processes is an endless work in progress.

The APRM has been rightly projected as the most distinctive element of NEPAD – one that arguably contributed most to the initial enthusiasm towards NEPAD, particularly from Africa's external partners. Yet, initial interest in the APRM was based on scant and rather speculative interpretations of its objectives and operational principles. Moreover, aside from the lack of clarity on how the APRM process was to function, another major challenge that faced the process was determining the location of its secretariat and defining its place in the overall AU-NEPAD architecture – particularly against the backdrop of the ongoing wrangles.

Two important issues

Back in 2002, amid the struggle for relevance between the AU and NEPAD, two important issues needed to be addressed with regard to the APRM process:

- responsibility for housing the APRM, especially with regard to the location of its secretariat – within or outside the AU headquarters; and
- the need to demarcate roles and define responsibilities and relations among various stakeholders in the peer review process, particularly the AU, the UN Economic Commission for Africa (UNECA), the African Development Bank (ADB), and the NEPAD secretariat.

To enable the APRM process to benefit from the financial resources, experience and expertise offered by UNECA's governance programme – one that had actually inspired most of the governance elements of NEPAD, including the APRM – some leading architects of NEPAD were initially inclined to have the APRM secretariat located at the headquarters of UNECA in Addis Ababa, Ethiopia. However, political considerations (particularly the claim that

UNECA was not sufficiently African and too close to neo-liberal financial institutions and ideas) deflected this suggestion and installed a preference for location within the secretariat at AU headquarters. Further politicking resulted in it being finally located in SA, the trump card being the presence of the NEPAD secretariat in the country. Yet, although the APRM secretariat was located close to the NEPAD secretariat, it has remained separate from it, with an autonomous governance structure.

With installation of the APRM secretariat in SA and the effective commencement of the peer review process, the politics of its location appeared to have been settled. But two things remained unresolved. Firstly, there was the question of whether the APRM's location in SA was a temporary arrangement – as was the case with the NEPAD secretariat – or whether it was intended to be permanent. Secondly, issues of definition and demarcation of roles and responsibilities among key institutional stakeholders, particularly the AU commission and the NEPAD secretariat, were not adequately clarified.

As much independence as possible

A careful reading of the cycle of the APRM review process reveals that it is deliberately structured to give the process as much independence as possible from various stakeholders, including the NEPAD secretariat and the AU commission.

The five phases of the process consist of:

- preparation of background documents on democratic, political, economic, corporate and social conditions in the country under review – by the country itself with the assistance of the NEPAD secretariat;
- an APR team visit, with the country in question being responsible for facilitating the task of the team;
- preparation and drafting of a country report based on both the findings of the APRM secretariat and in those of the APR visiting team;
- submission of the report to an APR panel, which reviews it and submits both report and its own recommendations to an APR forum (apparently the highest decision-making body of the APRM process, composed of participating heads of state, and empowered to decide on appropriate further actions); and
- making public the country report, alongside recommendations of the APR panel considered appropriate by the APR forum. The report is also tabled formally and publicly at all regional and continental organisations, such as the Pan-African Parliament, the African Commission on Human and Peoples' Rights, the AU's Peace and Security Council and the regional economic community of which the reviewed country is a member.

Although the fifth and final phase of the peer review process requires formal presentation of the report to important AU organs and key regional structures, these organs are not given any mandate to formally influence the content and direction of the review process. It would, therefore, be trite to argue that the presentation exercise, though not limited to mere diplomatic courtesy, is largely for information purposes and, most importantly, to broaden the scope of requisite public scrutiny of the reviewed country. Public scrutiny, it should be recalled, is a core element in enhancing the effectiveness of the non-adversarial and non-sanctioning APRM process.

All of this suggests that the APRM, while ostensibly an AU-NEPAD process, was crafted to keep it separate from both of them. If this is the case, the question arises as to the future of the APRM and its secretariat in the ongoing negotiations for integration of NEPAD into mainstream AU institutions.

It is emerging that NEPAD was over-rated and the initial enthusiasm it generated is beginning to wane

The APRM is seen in AU circles as NEPAD's implementation mechanism for a continent-wide governance reform agenda. While this is the case, it is also useful to be cognizant of the voluntary accession principle that underpins the process and that sets it apart from many AU programmes and processes that are characteristically all-inclusive. Within this context, the challenge facing the NEPAD-AU integration agenda, particularly with regard to the APRM, is that of reconciling the inclusivity that underpins NEPAD and AU processes, on the one hand, and the selectivity and voluntarism that characterise the APRM process on the other hand. Although membership of the APRM is open to all AU member states, it is contingent on member states subscribing to and effectively signing up to NEPAD governance norms and standards. Hence the notion of the APRM being a 'club of the willing'.

While the broader NEPAD programme is amenable to the integration logic, the APRM might not be – at least not at the present stage, where less than half the AU member countries have subscribed to the review process.

Political sensitivities

The complexity of the issue derives from political sensitivities surrounding the peer review exercise, and the lack of logic in having sovereign national issues of some states subject to the scrutiny of the entire membership of the AU – including states that have chosen to stay out of the process because of its intrusive character. Also, AU processes and institutions are run by financial contributions from member states and it is uncertain that contributing member states will be willing to approve of their resources being used for a process they do not subscribe to.

The birth of NEPAD inspired hope and created high expectations from within and outside the continent. The APRM was seen as the most innovative element of the NEPAD framework, with potential to resolve the governance crisis that had contributed to the continent's underdevelopment. Almost a decade later, it is emerging that NEPAD was over-rated and the initial enthusiasm it generated is beginning to wane. Stakeholders are shifting attention and interest to the APRM – at the expense of the parent NEPAD and in a manner akin to their attitude to the AU in the early 2000s that caused disquiet

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'Xenophobia' and the neighbourhood watch

Violent attacks on foreigners in SA have brought calls for a regional response to the phenomenon. **Michele Ruiters** reports on a crisis meeting that debated what should be done.

In light of the recent attacks on African foreign nationals in South Africa, participants at a civil society meeting in Maputo discussed possible responses to human security crises in the Southern African region. Madam Graça Machel championed the meeting and requested the assistance of the Southern African Trust, the Open Society Initiative for Southern Africa, and the Foundation for Community Development. According to a concept note prepared by organisers, objectives of the meeting were threefold: to review and assess root causes of the crisis, to define appropriate regional civil responses, and to agree on practical action by regional civil society organisations to address the situation.

The meeting met those objectives within the framework of the management of responses to human security emergencies. SA has done much to manage aid provided by various international aid bodies, civil society organisations and individuals. However, it has not effectively brought in other Southern African regional partners. SA's response has entailed moving victims of the attacks into temporary camps of safety; providing shelter, food, and healthcare to those affected; and attempting to prevent attacks in other areas. A regional approach to human security has not been visible in this instance, which is why Machel deemed it imperative that the Maputo meeting be called.

A man salvages an armchair during anti-foreigner violence riots in the Reiger Park informal settlement outside Johannesburg. AP Photo/Jerome Delay

Root causes

Attacks on black foreigners in SA, labelled 'xenophobic' by the media, politicians and the general public, came about as a result of gross inequality and poverty within the South African economic system and the region as a whole. By limiting our analysis of the phenomenon to an outbreak of 'xenophobia', we ignore some of the root causes of the violence, which include issues of criminality, national and regional inequalities, poverty, and national and regional identities.

The region, like the rest of the world, is experiencing an unprecedented economic crisis as food and fuel prices soar. Wages increase at a much slower rate than that of escalating prices of consumer goods and services; national budgets are perceived to be insufficient to meet the needs of increasing numbers of poor people; and tensions within and between communities arise as economic inequality increases.

SA has the highest inequality in the world, with a Gini co-efficient of 0.8%. The introduction of the Growth, Employment and Redistribution (GEAR) strategy has led to jobless growth and the loss of about a million jobs since 1994. Social spending has increased since 1994, but still provides inadequate safety nets for people living in poverty – thereby worsening their quality of life. If the South African economy continues downward and more jobs are lost, and the social security system falls short of meeting the needs of poor people, tensions between South Africans and African foreign nationals could become untenable.

The Southern African Development Community (SADC) region is characterised by high poverty levels, with more than 50% of the population living on less than $2 a day. In 2008, the region has unequal economic development – ranging from a phenomenal 16.3% GDP growth projected for Angola to an estimated minus 6% for Zimbabwe. As a result of stagnant or little economic growth, weak states and state institutions struggle to provide social welfare programmes to support people living in poverty – especially those affected and infected by HIV/AIDS, with the Southern African region bearing the brunt of the pandemic worldwide. Fragile social networks and floundering economies present significant problems to the sovereignty of African states because people migrate to better performing economies in search of a better quality of life. For these reasons, legal and illegal migration between countries increases and states are forced to deal with an increased number of foreign nationals within their borders. In the recent South African context, these influxes resulted in contested identity politics that violently destabilised low-income areas.

The attacks during May 2008 were directed against a vulnerable community perceived as 'not belonging' to SA. National identities in post-colonial Africa are ubiquitously contested. As a result, states vainly attempt to create cohesion between citizens who do not inherently share a common identity. The state attempts to build unity through common symbols, shared experiences, and a shared commitment to ideals entrenched in the national constitution.

Nation building

SA went through a nation-building exercise in 1994, with limited success. As the Human Rights Commission's Jody Kollapen argued at the Maputo meeting, South Africans have an 'inability to deal with difference'. For many people, the past 14 years have not healed the wounds inflicted by apartheid legislation. Reasons for continued racial tensions include the economy predominantly still being in the hands of white business, poverty being mainly a black pathology, affirmative action that excludes whites, and a South African identity constructed on a limited understanding of 'blackness'. These fissures still exist in South African society and are punctuated from time to time by the eruption of social tensions. Questions concerning national identity have been complicated by SA's position on the continent as a political and economic leader.

Shared continental and regional identities were constructed initially through pan-Africanism and the struggle against colonialism, and the then Organisation for African Unity and now the African Union (AU), and, more recently, the New Partnership for Africa's Development (NEPAD) and regional economic communities. These bodies and ideologies argue that by virtue of sharing a continent and a similar position within the global political economy, Africans share an identity. Undoubtedly there are geographic continental and regional identities, but the similarities end there as regions, such as the Southern African region, consist of diverse economic and social experiences and realities.

In the SADC region, for example, Zimbabwe suffers from an inflation rate of more than two million percent, while countries such as Angola, Botswana, SA, Mauritius, and Zambia have consistently registered economic growth over the past 10 years.

How do Africans and Southern Africans deal with the regional inequalities and ensure that hubs of excellence and growth do not create tensions within those areas that are not being developed? How do we deal with porous borders that threaten national sovereignty; how do we provide sufficient social programmes that provide for all who reside within those borders and balance that with a responsibility to share the wealth of the region equitably among all who live in it?

The 1884 Berlin Conference's arbitrary placement of borders still has serious ramifications for African states and their ability to work together on a social level. Yes, there are initiatives and protocols to collaborate and cohere in the political and in economic sectors, but borders still pose a barrier to the sharing of human capital within regions.

Do the displaced communities and individuals wish to return to those areas where they first experienced fear and trauma?

The meeting in Maputo did not discuss the role that criminal elements played in the violence against black foreigners in SA. Xenophobia was deemed to be more newsworthy than the criminal nature of some of the attacks. Foreign nationals, whether legal or undocumented, comprise a vulnerable community that is often isolated in terms of language and culture. Refugees and some foreign nationals complain that they have not received assistance from the relevant state institutions that issue work permits, refugee documents, and policing services. Many foreign nationals from other African countries can only afford to live in low-income areas such as Alexandra in Johannesburg and Khayelitsha in the Western Cape, and their vulnerability and identity as the 'other' has exposed them to attacks by opportunistic criminals. Poverty does not inherently breed criminality but it makes people more vulnerable to criminals who exploit those communities.

Public hearings have been proposed for affected communities in SA – to allow them to see justice being done. But public hearings do not remove hatred, or provide retribution to people who have suffered personal and material losses.

Reintegration has been suggested as a possible way forward, but do the displaced communities and individuals wish to return to those areas where they first experienced fear and trauma? From another perspective, and more importantly, will their countries and communities of origin reintegrate and welcome them when they return from SA?

What should be done?

In the short-term, SA has provided aid to those who need it most. It has not, however, addressed issues of internal and regional economic inequality and perceptions of the poor in relation to a limited social welfare basket that has to be shared with people who do not 'belong'. The latter issue is most important, because it will never be resolved if economic development is not spread throughout the region and if SA continues to be a regional labour magnet. Regional and international protocols are meant to protect citizens; for example, the 1951 UN Convention and 1967 Protocol for the Protection of Refugees and other migration-related treaties. But these are not translated into programmes

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How to kill Zimbabwe's hyperinflation

Poor political policies force the Reserve Bank of Zimbabwe to print money. So, a quick solution to the country's runaway inflation might be simply to get rid of the bank – and replace it with systems that worked well many years ago, writes **Steve H Hanke**

WHEN PROPERLY applied, the rule of law guarantees freedoms in the economic, political, intellectual, and moral spheres. In the economic sphere, money constitutes an important element. Ludwig von Mises, one of the most important economists of the 20th century, dealt at length with this issue in his treatise *The Theory of Money and Credit*, published originally in 1912:

'It is impossible to grasp the meaning of the idea of sound money if one does not realise that it was devised as an instrument for the protection of civil liberties against despotic inroads on the part of governments. Ideologically it belongs in the same class with political constitutions and bills of rights. The demand for constitutional guarantees and for bills of rights was a reaction against arbitrary rule and the non-observance of old customs by kings. The postulate of sound money was first brought up as a response to the princely practice of debasing the coinage. It was later carefully elaborated and perfected in the age which – through the experience of the American Continental Currency, the paper money of the French Revolution, and the British Restriction period – had learned what a government can do to a nation's currency system.'

Destroying the economy

Since March 2007, Zimbabwe has had hyperinflation – defined as a rate of inflation per month that exceeds 50%. Hyperinflation is rare: there have only been 29 other cases in history, the most recent in Bulgaria in 1997.

Zimbabwe's hyperinflation is destroying the economy, pushing more of its inhabitants into poverty and forcing millions of Zimbabweans to emigrate. In the 1997-2007 period, cumulative inflation was nearly 3.8 billion percent, while living standards – as measured by real gross domestic product (GDP) per capita – fell by 38% (see Table 1). In addition, hyperinflation has robbed people of their savings and financial institutions of their capital through real (inflation-adjusted) interest rates that are negative (see Table 1). This form of theft occurs, in large part, because the laws and regulations governing financial institutions (pension funds, insurance companies, building societies, and banks) force them to either purchase government treasury bills that yield only a small fraction of the current inflation rate or make deposits at the Reserve Bank of Zimbabwe (RBZ) that pay no interest.

The value of the Zimbabwe dollar has been wiped out. Figure 1 tells the devastating story – one that is ominously following the same plot as that followed by the German mark during the great German hyperinflation of the 1920s.

Worse is yet to come. Most private observers of the Zimbabwean economy believe that data reported by the IMF (see Table 1) are too conservative. Moreover,

Table 1. Zimbabwe Economic Data (Percent)

Year	Real GDP per capita growth	Consumer price inflation	Lending rate[1]	Real interest rate[2]
1990	3.7	15.5	11.7	–5.6
1991	3.8	46.5	15.5	–8.5
1992	–11.2	46.3	19.7	–21.8
1993	–1.4	18.6	36.3	8.1
1994	2.3	21.1	34.8	12.6
1995	–3.1	25.8	34.7	12.2
1996	6.2	16.4	34.2	12.6
1997	2.4	20.1	32.5	13.7
1998	0.4	46.7	42.0	10.7
1999	–3.3	56.9	55.3	–2.6
2000	–7.0	55.2	68.2	12.6
2001	–2.4	112.1	38.0	–35.3
2002	–4.1	198.9	36.4	–96.7
2003	–11.3	598.7	97.2	–267.7
2004	–3.3	132.7	278.9	–71.0
2005	–4.0	585.8	235.6	–2.1
2006	–5.4	1,281.1	496.4	–520.2
2007	–6.1	108,844.1	N/A	N/A

Sources: International Monetary Fund, *World Economic Outlook* database, April 2008, http://www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx; *International Financial Statistics* database, May 2008; and author's calculations.

[1]: Rate charged by commercial banks on loans (*International Financial Statistics* database).

[2]: Lending rate adjusted for inflation.

Note: Consumer price inflation, the lending rate and the real interest rate are reported on an end-of-year basis. The 2007 data fail to accurately reflect inflation pressures because the government mandated sharp reductions in administered prices. In addition, most observers believe that real GDP per capita declined by more than the –6.1% reported by the IMF for 2007.

they believe that in the run-up to the March elections and the June presidential runoff the government forced the RBZ to accelerate the printing presses.

The root cause of the hyperinflation is government policies that have forced the RBZ to print money. From January 2005 to May 2007, the RBZ issued currency at a rate that even exceeded that of Germany's central bank from January 1921 to May 1923, the ramp-up phase of the great German hyperinflation (Figure 2).

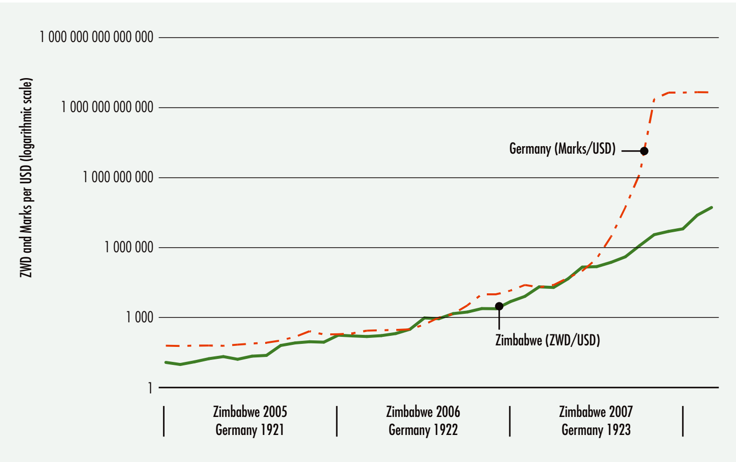
Hyperinflation isn't the only thing produced by the RBZ. It is also a proficient producer of jobs, funded at the expense of every Zimbabwean who uses money. In the 2001–2007 period, the RBZ's staff more than doubled, from 618 to 1 360 employees. The RBZ's staff increase of 120% was the largest of any central bank in the world during this period. Despite the increase, one thing the staff is not producing is accurate and timely data. The RBZ has fallen months, if not years, behind in reporting even the most standard economic and financial statistics.

The most rapid and reliable way to stop hyperinflation in Zimbabwe is to replace central banking with a new monetary regime. That would signal a clean break with the practices that have created hyperinflation and would give Zimbabweans reliable assurance that inflation will henceforth be controlled.

Some may wonder whether it is necessary to replace central banking with another monetary system in Zimbabwe. After all, other countries with inflation in the hundreds or thousands of percent a year – including Angola, Mozambique, the Democratic Republic of the Congo, and Zambia – have checked high inflations without replacing their central banks. Instead, they changed their policies. Why couldn't Zimbabwe do likewise?

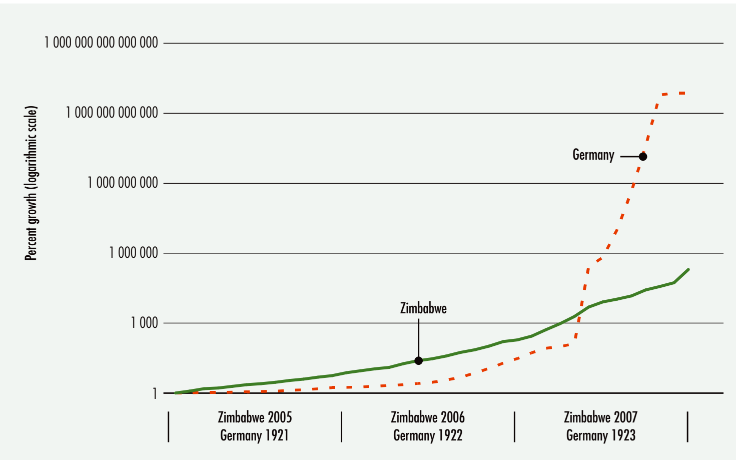
It could, but so far it has not. In Zimbabwe's historical experience with a variety of monetary systems, only central banking has produced hyperinflation. Similarly, throughout the world, hyperinflation has been a phenomenon linked to central banking or its close cousin, the direct issue of currency by a government's treasury.

Figure 1: German & Zimbabwean exchange rates



Sources: Thomas J Sargent, *Rational Expectations and Inflation, 2nd edition* (New York: Harper Collins College Publishers, 1993); 01 May 2008, Imara Asset Management Zimbabwe; and author's calculations.
Note: A logarithmic scale is used so that the chart can fit on one page.

Figure 2: German & Zimbabwean currency in circulation



Sources: Thomas J Sargent, *Rational Expectations and Inflation, 2nd edition* (New York: Harper Collins College Publishers, 1993); Reserve Bank of Zimbabwe, http://www.rbz.co.zw, Statistics, Monthly Review (Feb 2008), page 26; and author's calculations.
Note: A logarithmic scale is used so that the chart can fit on one page.

Replace central bank

Central banks can put a stop to inflation as fast as they can fuel it. All they have to do is stop the printing presses. Unfortunately, they can switch course with ease. So, under central banking, inflation can return as easily as it was snuffed out. Many countries, including the African countries mentioned above, have had prolonged double-digit inflation or multiple bouts of very high inflation under central banking.

Central banks that have made a seemingly permanent transition to low inflation have usually required a long transition period in which to establish their credibility as inflation fighters. During the transition, real interest rates have often been punishingly high and long-term loans in local currency have been difficult to obtain. As a result, economic growth has been relatively slow, general living standards have remained stagnant, and the scourge of poverty has spread.

Given the current state of affairs in

Zimbabwe and the dramatic hyperinflation, the only way for Zimbabwe to make a credible commitment to stop the hyperinflation rapidly and avoid high transition costs is to replace central banking with a different type of monetary regime.

Three options exist for quickly replacing the RBZ, ending hyperinflation, and providing monetary stability:

- official 'dollarisation',
- free banking, and
- a currency board.

These options are not mutually exclusive. For example, a currency board system could be combined with official dollarisation, as in the monetary systems of Lesotho, Namibia, and Swaziland.

A fourth option – formal membership in the South African rand's Common Monetary Area – is not dealt with explicitly here simply because it would probably involve protracted political negotiations and time, which Zimbabwe can ill afford.

A man carries piles of devalued local banknotes while shopping for groceries in the Zimbabwean capital of Harare.
AP Photo/Tsvangirayi Mukwazhi

Dollarisation, free banking or a currency board

Dollarisation occurs when residents of a country extensively use the US dollar or another foreign currency alongside, or instead of, the domestic currency. Unofficial dollarisation occurs when individuals hold foreign-currency bank deposits or notes (paper money) to protect against high inflation in the domestic currency. Zimbabwe is already unofficially dollarised to the extent that Zimbabweans hold SA rand, US dollars, pounds sterling, and other foreign currencies as stores of value. Official dollarisation occurs when a country uses a foreign currency as the main, or only, component of the monetary base. (The monetary base is the medium accepted for final settlement of payments in the local financial system; in other words, it is what banks typically use for clearing.)

For Zimbabwe, official dollarisation could, for example, take the form of using the SA rand, US dollar, or the euro. If Zimbabwe used the rand, it could negotiate a profit-sharing agreement, such as Lesotho and Namibia now have, and which Botswana and Swaziland formerly had. Under the agreement, SA shares the profit (seigniorage) it derives from issuing currency, according to estimates of how many rand notes and coins are in circulation in the partner country. In the late 1920s, when Zimbabwe (then called Southern Rhodesia) used South African coins, it apparently had such a profit-sharing arrangement with SA. The agreement applied to coins in circulation alone, since Zimbabwe had its own notes.

The notes were issued under 'free banking', a system of competitive issuance by private commercial banks of notes and other liabilities with minimal regulation. A completely free banking system has no central bank, no lender of last resort, no reserve requirements, and no legal restrictions on bank portfolios, interest rates, or branch banking. Free banking systems existed in nearly 60 countries during the 1800s and early 1900s. In general, these systems were relatively stable, issued currencies convertible into gold or silver at fixed exchange rates, and were not purveyors of inflation.

Zimbabwe had free banking from the time its first bank was established in 1892 until the government replaced free banking with a currency board in 1940. That free banking system was among the least restricted that ever existed. Reflecting the limited use of modern money and credit among the population at the time, the country had only two commercial banks, the Standard Bank of South Africa and the Bank of Africa (later part of Barclays Bank). They issued notes denominated in pounds, and kept their privately issued pounds equal to the pound sterling – except during the First World War and for a few years afterwards, when the local pound floated along with the South African pound (the predecessor to the rand) against the pound sterling. Free banking ended in Southern Rhodesia not because it performed poorly, but because the government desired the profits from issuing notes.

Currency boards or central banks replaced free banking systems because intellectual and political fashions favoured monopolising the issuance of notes and coins by a government body. Today, no free banking systems exist. In the last 30 years, economists' interest in free banking has revived because of dissatisfaction with the performance of central banks. More recently, the possibility that

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Climate change clouds keep gathering

The gulf between developed and developing countries is vividly underscored by the challenges of climate change – as demonstrated by a recent top-level meeting on sustainable development. By **Michelle Pressend**.

CLIMATE CHANGE was the theme of this year's Summit on Sustainable Development, an annual event organised by The Energy Research Institute. The gathering in New Delhi in February was the first international meeting on climate change since the UN's major conference on the subject in Bali last year.

The speakers in India included many eminent persons: former and current heads of state, chief executives of multinational companies, heads of UN organisations, Nobel laureates, international policy advisors, and representatives of major media houses. The inaugural session was attended by the prime minister of India, along with the prime ministers of Norway, Finland and Denmark, and the president of Iceland. The president of the Maldives, Maumoon Abdul Gayoom, was awarded a sustainable development leadership award for his pioneering work as an advocate of small island states.

Indian Prime Minister Manmohan Singh stressed the importance of 'climate justice' to address climate change. In his words, 'We mean a fair, equitable and a transparent global regime for technology transfers. It is in the interests of people living in developed and developing countries to facilitate such transfers.' His European counterparts generally agreed and recognised their responsibility as historical contributors to climate change. Moreover, they supported the need to assist developing countries in energy-efficient technologies.

Coverage in the media

A wide range of topics was presented and discussed under the rubric of climate change and sustainable development. These included equity and the ethical dimensions of burden-sharing, long-term targets and strategies, technology and enabling policies in the energy sector, adaptation and mitigation, expectations for the next UN Climate Change Conference of Parties meeting in Copenhagen 2009, and climate change coverage in the media.

The discussion on burden-sharing underscored that those countries responsible for climate change have a moral obligation to assist with its present and future impact. Mary Chinery-Hesse, chief advisor to the president of Ghana, pointed out the necessity for developed countries to change their lifestyles and for the international debate on the matter to be transparent. Brice Lalonde, a former French minister of environment and ambassador for climate change, emphasised the importance of responsible leadership to address the crisis and concurred that developed countries must lead the way on equity. He elaborated on various ethical and moral principles, including the need for collective global action.

The voicing of environmental concerns is often seen to be 'preaching' and would be more relevant if it were linked to politics

With regard to long-term targets and strategies, developing countries were encouraged to take a low-carbon development path, to reduce their future costs. Furthermore, to meet their reduction requirements, developed countries should help developing countries by transferring clean technologies and financing their adaptation activities.

The session on technology and enabling policies focused on investment in state-of-the-art technology to improve competitiveness. It was described how current investment in the demand and supply side in the energy sector has improved companies' competitiveness. A World Business Council for Sustainable Development report suggested the need for the right investment incentives, simultaneously using control-and-command regulation and economic instruments with long-run visibility and consistency.

The Nobel laureates Carlo Rubbia and F Sherwood Rowland presented their views on the magnitude of the climate crisis. Rubbia was concerned about the lack of public awareness of the long-term effects of anthropogenic carbon dioxide (CO_2) release into the earth's atmosphere, which might affect climate for hundreds of thousands of years. As a nuclear scientist, he felt that the magnitude of fossil fuel CO_2 release had not reached the same level of public awareness as had production of long-lived nuclear waste. His suggested 'a future of energy production without greenhouse emissions' through the adoption of concentrated solar power (CSP) and exploring nuclear fission energy using uranium-238 or thorium-232. CSP is currently in large-scale production in Spain and natural thorium is being advanced in India. Rowland concentrated more on policy instruments and said changes in regulation and fiscal policy could make a difference.

Regarding adaptation strategies, funding, technology, the building of local capacities, and greater civil society and public-private partnerships were identified as important elements. Such strategies included early warning mapping, enhanced coastal defences, intensified afforestation, and the building of multi-sectoral disaster responses.

Business representatives emphasised the need for the right framework conditions for investments to be made in developing countries. Björn Stigson, president of the World Business Council for Sustainable Development, argued that developing countries were unrealistic to simply request technology – because they 'don't own it'. Multinationals like General Electric indicated they were investing large amounts of money in technology research and development and would therefore want to own such technology.

A goal of the 2009 Copenhagen conference is a global treaty on climate change in the context of sustainable development. Bali hailed an agreement by all countries to launch negotiations on a new international climate agreement by the end of 2009. As a result, the US has a key role to play in ensuring that a positive agreement evolves from negotiations at Copenhagen.

Indonesian environmental activists roll a giant globe down a highway during a demonstration calling for action to reduce carbon emissions in the capital Jakarta.
AP Photo/Dita Alangkara

A keynote address by Massoumeh Ebtekar, former vice-president of Iran, took a very different angle to much of the New Delhi discussion. She criticised a corporate profit-driven approach as a solution to climate change. She argued that current solutions were selfish and short-sighted and ignored the needs of the poor who faced immediate crises of hunger, security, health, employment, and education.

Ebtekar continued: 'We have understood the scientific evidence, we are looking for economic incentives and scientific and technological means to confront this dreadful trend.' She also criticised the corporate media for not communicating a commitment to conservation or sustainability and felt that consumerist policy still played little attention to sustainable policies. Lastly, she doubted whether world leaders had the necessary qualities to 'guide the world out of the current quagmire it has fallen into'.

Debate on media coverage of climate change highlighted some of the challenges the media faces. In Indian mainstream media, for example, 80% of coverage is of sport and crime – and no environment category really exists. The voicing of environmental concerns is often seen to be 'preaching' and would be more relevant if it were linked to politics, it was suggested. It was also pointed out that most media houses are corporate owned and depend on advertising for revenue – and therefore do not question 'what is wrong with the macro-economic policy or why is the world this way?' It was suggested that increased coverage of climate change would need to come from public broadcasters not dependent on advertising.

Jeffery Sachs, Earth Institute director and special advisor to the UN secretary-general, remarked that climate change policy had to be a part of sustainable development objectives. Moreover, sustainable development and environmental stewardship needed to be seen in the context of real economic development. He suggested technology change and a price on carbon as solutions. Specific approaches he mentioned were carbon capture and sequestration technology, clean energy and electric cars – and even supported nuclear energy as part of the solution. He recommended that Africa tap into solar energy at lower costs.

Emission reduction

One key message from the conference was that the North bears a responsibility for developing technology for use by the South. In some ways, this entrenches the status quo of the South's dependence on the North.

Another clear theme was that developing countries need to make emission reduction commitments and adopt a low-carbon development path as part of collective action to build the world's energy future.

Yet another point of discussion was that climate change solutions are primarily technology driven, prioritising market mechanisms. However, the market only responds to 'effective demand'. The ability to pay for a good at prevailing prices effectively excludes the majority of the world's population that lacks a 'market-based entitlement'. So the market system only benefits consumers who can afford to purchase environmentally friendly technologies.

Also, market-based initiatives alone will not be sufficient to reduce emissions. A range of steps needs to be taken to improve public transport systems, adapt urban design, encourage sustainable agriculture methods, reduce industrial pollution, tax carbon emissions etc. Market-driven approaches also ignore the value of traditional and indigenous knowledge of applying low-technology solutions.

The conference revealed how Europe is strategically improving its global competitiveness in environmentally friendly technology and energy efficiency, which could lead to it setting global standards in production process and end products.

By contrast, developing countries like SA that continue to rely on coal for energy consumption could face non-tariff trade barriers on their carbon intensive products. This will have a huge impact on jobs and industrial development because such countries will face severe challenges in competing in the global economy. ■

Michelle Pressend is a senior researcher in the IGD's multilateral programme.

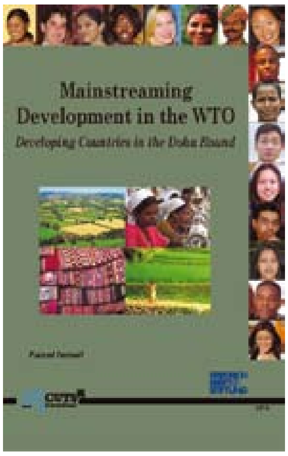
The Doha Round

Not many people have the slightest grasp of the intricacies of a drawn-out – and currently stalled – development round of international trade negotiations. But help is at hand, writes **Rob Davies**

FAIZEL ISMAIL, for those who may not know him, has been South Africa's representative in the World Trade Organisation since 2002. Not only has he been a highly effective and efficient leader and co-ordinator of the South African delegation to the WTO, he has also gained great respect and credibility among the membership of the WTO, particularly among developing countries. This led to his selection as chair of the special session of the WTO Committee on Trade and Development from 2004 to 2006. More recently, he has played a pivotal role in co-ordinating the work of the NAMA 11, a grouping of developing countries, and has also contributed significantly in the drawing together of larger alliances of developing countries in support of a call for a fair and developmental outcome to the current WTO negotiations.

The publication of this book is most timely. The Doha Round negotiations of the WTO are at a point where missing deadlines has become so common that there is now a reluctance to set any further deadlines for the conclusion of processes which, the membership agreed, should have been completed long ago. We are awaiting new drafts of negotiating papers from the chairs of the various negotiating groups, to see whether indeed there will be any window of opportunity to move the process forward in the near future. Meanwhile, we are all well aware of the potential impact of the electoral process in the United States, which may yet mean that no deal is possible in the near future.

This raises a fundamental question; why is it that the Doha Round has failed to conclude despite the fact that almost all members, not to mention several important summits, have repeatedly expressed commitment and determination to secure an agreement. Faizel's book offers us an important insight into this reality. The fundamental issue is one of the angels being found in the generalities, whereas the devils are in the details.



Mainstreaming Development in the WTO: Developing Countries in the Doha Round
Faizel Ismail
published by Friedrich Ebert Stiftung and CUTS International October 2007

Lofty sentiments

All members agreed in the declaratory text adopted at the WTO ministerial conference in Doha in 2001 that the round would be developmental in character. The Doha declaration proclaimed that the 'needs and interests of developing countries' would be placed 'at the heart of the work programme' mandated at Doha. It has become evident that we are facing a crisis arising from the inability to translate such lofty and progressive sentiments into concrete positions taken in the detailed negotiation processes. This crisis, in turn, can be traced back to a fundamental reality that the membership does not have a common understanding of development.

Faizel's book begins by drawing on the work of two Nobel economics laureates, Amartya Sen and Joseph Stiglitz, to make the point that development must contribute to the removal of 'unfreedoms' affecting many people in the developing world. These 'unfreedoms' include those arising from the denial of economic opportunities, from the deprivation of basic capabilities, from systems not guided by values of social justice, and from denial of opportunity to participate in decision-making.

A developmental approach to trade liberalisation must also be based on recognition of the reality that developing countries need policy space and sufficient flexibilities to support developmental programmes in all sectors. Trade liberalisation must therefore occur in a manner that is informed and guided by developmental processes. From these principles, Faizel makes the point that was in fact, at least implicitly, acknowledged in the Doha declaration – namely that all previous rounds of both and WTO trade agreements and the General Agreement on Tariffs and Trade (GATT) had left intact, and some would even say had exacerbated, vast imbalances and inequities to the disadvantage of developing countries.

A development round would need to focus on corrective action aimed at bringing about a significant rebalancing of the global trading system, as well as addressing a number of the capacity constraints and adjustment costs that prevent developing countries taking advantage of market access opportunities.

Nowhere is this need for corrective re-balancing more essential than in agriculture. Agriculture and agro-industries represent the main comparative and potential competitive advantage of most developing countries. Yet agriculture is the area where protective measures to benefit a tiny minority of economic actors in the developed world are most evident and most clearly impede developing countries' efforts to realise those comparative and competitive advantages.

Subsidies both on exports and production, high tariffs and restrictive technical barriers to trade are all condoned by current rules on agricultural trade, despite an overwhelming body of research demonstrating that these have very detrimental effects on producers in developing countries.

Special treatment

In the area of non-agricultural market access, or NAMA, the fundamental distortions affecting developing countries arise from tariff peaks, tariff escalations and non-tariff barriers imposed on industrial products, where developing countries are potentially competitive. Fundamental principles, reiterated in Doha, hold that there should be less than full reciprocity in reduction commitments, meaning that developed countries should take bigger cuts, implying more adjustment effort, than developing countries. It was also agreed that developing countries should enjoy special and differential treatment and that least developed countries should make no commitments in what should be, for them, a round for free.

It was also agreed that there was a need for what has come to be called an 'aid for trade' package to address both adjustment costs, which would arise in developing countries as a result of them undergoing liberalisation, and supply capacity constraints in a way that would empower developing countries, and the least developed among them in particular, to develop the real economy capacities to participate in the global trading system.

Faizel takes us through the various contours of the processes that followed the adoption of the Doha declaration. He takes us through the abortive WTO ministerial conference in Cancun, Mexico, in 2003, to the 2004 July Framework agreement, which put in place the broad outlines of an agreement. From the July Framework, we move to the 2005 Hong Kong ministerial, where developing countries secured an important victory in having inserted a paragraph stating that the level of ambition in agriculture and NAMA should be 'comparably high'. Faizel then takes us through the torturous path from Hong Kong to the suspension of the formal negotiations in mid 2006. As well as offering us a narrative of processes, the book also provides a wealth of information on the issues at stake in each of the main subject areas: agriculture, NAMA, services, rules, and aid for trade.

What emerges from all this rich material is a very clear picture of extremely modest proposals from the majors on agriculture in particular, but also on aid for trade, coupled with highly ambitious demands in NAMA, directed in particular to so-called advanced industrialised countries.

In terms of proposals currently on the table, the best-case scenario for cuts in 'overall trade distorting support' by the US, would still leave the maximum allowed amount that could be deployed above the current levels of deployment of what are acknowledged to be trade distorting subsidies. The European Union continues to demand flexibilities for itself in the designation of sensitive products that could sharply offset the impact of tariff reductions in the band of agricultural products currently attracting the highest tariffs.

At the same time, both the US and the European Union continue to demand, as a price for making these modest reforms, deep cuts on the part of so-called advanced developing countries in industrial tariffs that would cut into applied and not just bound rates. If the demands of the majors, encapsulated in the current draft of the text of the chair of NAMA, were to be applied to SA and the Southern African Customs Union (SACU), we could find ourselves in a position where between a fifth and a quarter of our industrial tariff lines would have to take cuts of 30% or more at applied rates. While there is some provision in the proposals of the majors for flexibilities for developing countries taking formula cuts, these are much less than the majors are demanding for themselves in agricultural market access, and much less than we need in SACU to accord us adequate policy space to support strategic or sensitive sectors.

Underlining all of this is a fundamental point that runs throughout Faizel's book. The crisis currently being confronted by the Doha Round negotiations, arises in the first instance from the lack of common understanding of the meaning of development, and the inability, therefore, to translate apparently agreed sentiments about development into concrete positions in the detailed negotiations. The imbalances between the offers of the majors on agriculture, and their demands on NAMA, at the end of the day, amount to no more or no less than an attempt to place the commercial interests of vested interests in the rich world on a par with, and even above, the developmental needs of millions in the developing world.

This has seen an effective attempt to redefine the Doha Round as a 'market access for developed countries in advanced developing countries round', rather than what it should be – a developmental round.

Force to be reckoned with

But Faizel reaches a very important conclusion: 'The current impasse in the WTO is a reflection of the strength of developing countries, not their indifference.' Compared to earlier rounds, 'Today developing countries are a force to be reckoned with. They can negotiate, are technically competent, and they are organised.'

The consequences and implications of the processes analysed in Faizel's book are, in my view, too little understood by our general public in SA, as indeed in other developing countries. We want a successful, development-orientated outcome to the Doha Round, but we may not achieve it in the near future. How things turn out will have major implications for the prospects of development, poverty alleviation and the raising of living standards in this country and elsewhere in the developing world.

Faizel's book is prefaced with a foreword by Supachai Panitchpakdi, the secretary-general of the UN Conference on Trade and Development and a former director general of the WTO. This is testimony to the quality of the scholarship and the analysis, which is reflected in an eminently readable book that I have no hesitation in commending to a wide public. ■

Rob Davies is SA's deputy minister of trade and industry.

Do South Africans Exist?

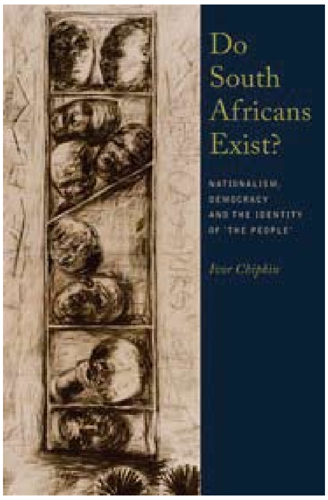
A broad African nationalism was forged in resistance to colonialism, but in post-apartheid SA a definition of who 'the people' really are remains hazy, writes **Sindre Bangstad**

IN HIS work *Diary of a Bad Year*, author JM Coetzee lets the narrator conduct an illuminating thought experiment. What if we, as citizens, decided that we no longer wanted to be governed by a state, and withdrew our nominal consent (nominal since no one ever asked us) to being governed by a state? Coetzee's thought experiment is a highly hypothetical one, but all the more illuminating for it. For part of the reason that very few of us as citizens ask such questions is that we have been born into societies in which governance by the state is seen as the natural order of things. It is beyond our imaginative capacities to transcend the imaginaries of the state. It is a given that no state would willingly pose questions which affected the very core of its legitimacy to its citizens. And we can no more *un*think the existence of the state than our own existence in the world. The state, any state, calls certain modes of being a citizen into existence and imposes certain restrictions on the practice of citizenship.

One of the most challenging and prolific intellectuals to emerge out of post-apartheid South African academia is Ivor Chipkin, whose polemically titled *Do South Africans Exist?* addresses similar vexing questions about citizenship and nationhood as Coetzee's novelistic essay, but does so with a view to the particularities of the South African apartheid and post-apartheid contexts.

Uncomfortable questions

The title, by Chipkin's own admission, paraphrases the American sociologist Immanuel Wallerstein's famous 1991 question 'Does India exist?' Chipkin knows that to be a critical intellectual in post-apartheid SA is to raise critical and uncomfortable questions to the powers that be, and he does so, especially with



Do South Africans Exist? Nationalism, Democracy and the Identity of 'the People'
Ivor Chipkin
Wits University Press (2007)

regard to the Africanist paradigms that have framed state discourses and policies in the post-apartheid era. For the discourse of black consciousness in SA has, as Chipkin rightly points out, 'strongly informed the nationalist imaginary'.

Chipkin's intelligent and persuasive analysis of post-apartheid SA and the categories and understandings through which the state has attempted to establish its hegemony over an unruly, divided and plural population, as well as his deconstruction of a number of academic texts purporting to analyse the South African post-colonial case, make this book one of the most important contributions to social science and historical analysis in recent years. Social scientists, historians and Africanists alike will find his critical – and pertinent – comments on the work of scholars such as professors Achille Mbembe and Mahmood Mamdani of particular interest.

Chipkin argues that Mbembe's plea for a mode of writing that acknowledges African agency dissolves in Mbembe's own texts inasmuch as Mbembe himself reduces African agency to an effect of colonial power. Mamdani is taken to task for suggesting that the failures of the modern state in Africa have more to do with the colonial legacy of the 'bifurcated' state than with the qualities (or lack thereof) of post-colonial African elites, an argument which in a manner reminiscent of Mbembe reduces African agency to a mere effect of colonial power.

Political scientist Robert Mattes some years ago asked whether SA could be described as a 'democracy without the people'. What he had in mind was that in post-apartheid SA, in spite of enormous sacrifices made by many black South Africans to bring about a democratic society, the very institutions and practices which embody a secular and liberal democracy seem to be viewed by ordinary South Africans with ambivalence, indifference if not outright resentment. In a highly unequal society, it could at the outset not be expected that ordinary citizens should share the same appraisal of the Constitution, the Constitutional Court and of Parliament as sections of the established and aspiring technocratic elites. But where Mattes's question pre-supposes the existence of such an entity as 'the people of SA' – invocation of which was a staple of South African liberationist discourse throughout the apartheid era (1948-1990/4) (recall the Freedom Charter of 1955) – Chipkin wants to pose an altogether more radical question, namely, through what specific processes and in which contexts did the notion of a 'South African people' emerge? In doing so, Chipkin wants to address what he sees as a gap in contemporary studies of nationalism and the nation. African nationalism, he argues, was forged in the context of resistance to colonialism, yet not all forms of resistance to colonialism took a nationalist form. In

SA, the Bullhoek massacre in the 1920s is an examplary illustration of this point, even though Chipkin does not refer to it, as he ought to have done.

The problem with much scholarly literature on African nationalism, according to Chipkin, has been that one has taken organisations' and persons' claims of being nationalist at face value in a post hoc manner. Chipkin is, by his own assertion, 'especially interested in nationalism as a specific form of democratic imaginary'. Drawing on the work of the British political scientist Chantal Mouffe, Chipkin argues that democracy always entails relations of inclusion and exclusion. 'Nationalist politics is driven to exclude and ultimately even repress those that defy its terms.' Chipkin traces the exclusions inherent in South African discourses on 'the people' from the Freedom Charter, via Steven Bantu Biko and black consciousness, the Truth and Reconciliation Commission (TRC), to Thabo Mbeki's famous 'I am an African' speech of 1998.

Atavistic and inappropriate

Chipkin notes the exclusion of any references to class struggle in the Freedom Charter, and suggests that in spite of all the references to 'the people' in the charter, the extent of popular consultation in preparing the document was in practice extremely limited. Some popular demands that had been raised, for instance for recognition of polygyny and for the restoration of chieftainship based on primogeniture, were deemed atavistic and inappropriate by the drafters of the charter. Chipkin sees in the Freedom Charter the imprint of the Marxist Rusty Bernstein, whom he refers to as 'the document's principal author', and suggests that it signals 'the entry into South African politics of a Leninist vocabulary whose source is the Communist International'. The implication is that this vocabulary was premised on particular exclusions: among those so excluded were anti-colonialists with a black African 'traditionalist' agenda.

When it comes to black consciousness in SA, and its articulation in the writings of Biko, Chipkin demonstrates a crucial distinction between Biko's approach and that of the 'Third Worldist' Franz Fanon, whose works Biko often invoked. As in the case of *Negritude*, the path to the resurrection of the black African male in SA, who under the demeaning white colonial gaze has become a 'defeated man', for Biko lies in the reconstruction of a noble African past. However, Fanon opposed any kind of determinism ('I will not make myself the man of *any* past,' he famously asserted), and thought his freedom lay in the assertion of the right to 'be what he willed'. This is where Biko's and Fanon's paths to freedom diverge. Chipkin sees this tension between Biko's and Fanon's version of what it means to be free as being played out in the politics of Mbeki: 'On the one hand, the nation is composed of Fanonian beings: those who are South African merely by choosing to be so; on the other, it is composed of black African men'. In the process, the woman 'is forsaken to patriarchy'.

Chipkin claims that Mbeki in his 'I am an African' speech is profoundly ambivalent about the precise identity of 'the people'. There is a continuous shifting between two registers: one which acknowledges that the perpetrators of crimes against humanity under apartheid must also be a part of 'the people'; another which makes inclusion in and among 'the people' conditional on being 'authentically' African, which is to say, to be an individual who was not part of part of the perpetration of apartheid repression and who is able to refuse apartheid and colonial social taxonomies. Such an ambiguous definition does, needless to say, exclude quite a number of contemporary South Africans.

A similar definitional problem was encountered by the TRC. For as Chipkin notes, 'the South African people lacked national marks. It was only really clear who they were not.' The TRC, which had a strong presence of Christian pastors, attempted to resolve this problem by declaring that the minimal common denominator of 'the people' of SA was that they were religious, or in Desmond Tutu's famous formulation 'rainbow people of God', and by infusing the TRC proceedings with religiously inflected spiritualism. This clearly does not resolve the question though. For are South Africans who refuse to be 'people of God' (such as atheists or animists) or who refuse to submit to the religious parameters of forgiveness through which the TRC processes functioned and were legitimated (which the Biko family and the poet Breyten Breytenbach did) then to be excluded from our definition of 'the people'? Are they really 'matters out of place in the nation', to paraphrase the anthropologist Mary Douglas?

Predicament of Moslems

Even though Chipkin's text is quite short on comments and analysis on the predicament of Muslims in post-apartheid SA, it is worthwhile to attempt to read his analysis in light of contemporary debates on Muslim citizenship. If, as Chipkin argues, the public space is a domain of normative action, and a democratic state is premised on relations of exclusion and inclusion, as Mouffe does, it is also clear that there are certain articulations or modes of being and acting which will be declared as anathema to modern citizenship, in SA as elsewhere. In post-apartheid SA, this was dramatically illustrated by state responses to the Muslim-dominated and Western Cape-centred vigilante group People Against Gangsterism and Drugs (PAGAD) between 1996 and 2000. Though Chipkin does not mention the group, PAGAD may well serve as an illustration of what Chipkin refers to as 'the democratic limit'. At the height of the urban terror unleashed by PAGAD in 1998, an ANC MP declared in a parliamentary session that the group represented 'scum' that would be 'crushed' by the security apparatus of the state. The terms used were interesting. They revealed a view of PAGAD vigilantes and sympathisers as belonging to another societal realm than that of 'the people' or 'the nation' (even though they were very much part of 'the people' on the Cape Flats); they were declared akin to vermin or animals.

As we have had overwhelming evidence of in Western secular and liberal societies in recent years, the modern state has an enormous tragic and repressive potential when unleashed against individuals whose mode of being and acting is perceived not to conform to that of those who form part of 'the people' or 'the nation.' Chipkin's book is a poignant reminder of the need to be extremely vigilant about processes of exclusion in a nascent and fragile democracy.

Sindre Bangstad is a Norwegian social anthropology academic who obtained his PhD from Radboud University in the Netherlands. In the period 2003-07 he was a PhD Fellow at The International Institute For The Study Of Islam In The Modern World in Leiden, the Netherlands. His PhD work, Global Flows, Local Appropriations: Facets of Secularisation and Re-Islamisation Among Contemporary Cape Muslims was published by Amsterdam University Press in 2007. Bangstad has been involved in research on Muslims in Cape Town since 2000. He is currently based in Oslo, Norway, where he works as an associate professor in social sciences at the Oslo University College.

No 'sleeping walking' in Africa – *continued from page 5*

- share experiences and capacity building on policy and regulatory frameworks in the financial sector, including the microfinance sector,
- support Africa's regional integration programme through the provision of financial support on mutually agreed integration projects carried out by the AU and the regional communities, and
- enhance science and technology, research and development, and trade through technical assistance and capacity-building programmes.

With these measures in place, the presence of India Inc will deepen across Africa. Investment in Africa by India's private sector companies – dubbed 'global industry shapers' – totals about $5bn and is led by the Tata Group, Ranbaxy Laboratories, and Kirloskar Brothers. These have mainly focused on markets in South Africa, Nigeria, Egypt, and Kenya, but there are other players in the African market who have captured important spaces in power generation, telecommunications, chemicals, infrastructure (road and railways) rehabilitation, irrigation, cut flowers, and healthcare.

According to a 2007 UNCTAD report, between 2002 and 2005 Indian firms topped the list of greenfield foreign direct investment projects in Africa at 48 – compared with 32 from China. And with India being one of the 24 non-African members of the African Development Bank, Indian firms have the green light to bid for the bank's $4.6bn spending on infrastructure development projects.

India's strength and value lies in its technical assistance and capacity-building prowess. Under its Indian Technical and Economic Co-operation (ITEC) programme, set up in 1964, it has provided more than $1bn-worth of technical assistance and training. Moreover, in 2005 India became the first Asian country to become a full member of the African Capacity Building Foundation (ACBF) and pledged $1m to the foundation's sustainable development and poverty alleviation capacity building initiative. In line with this, it was agreed at the summit that India would:

- establish an India-Africa peace corps aimed at development, especially in the area of public health, and
- increase educational scholarships and technical training programmes for African students.

In 2006, an Indian newspaper published an editorial suggesting that India was 'sleeping walking' and missing out on important opportunities in Africa. The India-Africa summit put this assertion to rest as it heralded a new phase in Indo-Africa relations. While the past relationship might be seen by some to have been driven by ideological and geo-political considerations, the current engagement is characterised by more pragmatic deliberations.

One official noted: 'The summit will showcase the brand image of an economically resurgent India in Africa…' Therefore it would be naïve to suggest that this engagement is not fuelled by trade, investment, and aid opportunities – or for that matter by the need for resource security. With India's economy predicted to grow by an average of more than 5% for the next 25 years, and the country set to become the world's third largest consumer of energy products by 2030, its national oil companies like Oil and Natural Gas Corporation, Indian Oil Corporation, Oil India, Essar Oil, and Reliance have chalked up significant investments across the continent. This trend will grow.

Given that India's development-centric approach found praise amongst the African participants, it is noteworthy that the African delegates emphasised at the summit that India should be a stakeholder and not a shareholder in the continent's development. Hopefully such signs indicate that Africa will not remain a passive agent in India's engagement and that Prime Minister Manmohan Singh's wish 'to see the 21st century as the century of Asia and Africa with the people of the two continents working together to promote inclusive globalisation' will be realised. ■

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American foreign policy: quo vadis? – *continued from page 12*

type of policy direction that will have to take hold in Washington in order to undermine that country's explosive jihadist threat to internal and regional stability. Meanwhile, Pakistani sentiment is militantly against external military intervention in a 'war on terror' on its territory and prefers a political to a military solution to the terror threat. Here, Washington will also have to factor in Islamabad's observer status in the Sino-Russian SCO, along with India and Iran. It is one more incentive for the US to pursue a NATO-SCO/CSTO accommodation in central Eurasia as part of a wider understanding between Euro-American transatlanticism and its expansion into Russia's sphere of influence and Moscow's energy security geopolitical-economic offensive aimed at influencing the shape of Europe's and Asia's evolving energy grids.

Family roots in Africa

Which brings us to Africa, which is also experiencing a new global scramble for its minerals and energy resources.

Africa has risen as a priority in Washington's strategic calculus, both from the standpoint of its 'war on terror' security interests in North Africa and the Horn of Africa and in terms of its access to the continent's hydrocarbons. Thus, the heightened interest shown by the Bush administration will be no less apparent in a McCain or Obama administration. However, given his family roots in Kenya, Obama, as America's first black president, would have a unique comparative advantage (unique compared to any other African-American as well), not to mention incentive, in developing a special relationship between the US and Africa.

Given the fact that a President Obama could very well be viewed as a fellow African leader by Africa's heads of state, his administration would be best positioned, from a confidence-building perspective to revisit such issues as a US military command in Africa from the fresh vantagepoint of a security dialogue; one that, however, might also call for a reassessment of the seemingly no-win anti-terror strategy in the Somali regions of the Horn of Africa. Perhaps a dialogue between an Obama administration and the African Union might benefit a more compelling approach to Somali conflict resolution by shifting focus from Mogadishu to what might be a more rewarding zone of stability to build on in Somaliland.

More broadly, given his Kenyan roots, Obama has an obvious interest in Kenya's stability and progress toward eastern African regional integration, which will necessarily revolve around Kenya. What is particularly intriguing in this regard is that across the Indian Ocean in South East Asia is Obama's other 'home', Indonesia, which provides the outlines of the kind of interregional linkages of South-South co-operation that an Obama administration could support. This would definitely be a new departure for Washington which has shown little interest in global South issues.

This hardly means an Obama administration would be tension-free when it comes to North-South relations. After all, the state of Illinois from which Obama hails is part of that mid-western corn belt that has a new-found interest in biofuels – yet one more factor to pile onto the stubborn issue of agricultural subsidies; a vested interest already represented in support for the Obama campaign.

The food-fuel security conundrum and how it is sorted out in North-South relations, including especially the stalled Doha development round of international trade negotiations, will tell much about where a future administration in Washington is headed in the quest for a new global collective sustainable security order. ■

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Interview: South Africa and Syria *– continued from page 7*

to bring about stability. After the Hariri assassination, they of course withdrew. So they're very reluctant to re-enter Lebanon at any cost. They will always tell you how many soldiers they've lost in the process of trying to stabilise Lebanon.

But Lebanon has 14 Christian denominations and two major Muslim sects, Shia and Sunni, with all the variations in between. If you speak to most Lebanese, they'll react by telling you to which sect they belong before they tell you that they are Lebanese. Therefore, the issue of Lebanese national identity is not the primary part of their identity. The confessional identity is the primary identity in Lebanon. Indeed, Lebanon doesn't even have a civil code to this day.

Could you explain, on the basis of what you just said, the source of tension in Lebanon now? Is it a religious divide?

It is a class divide that has taken on confessional overtones. I don't think they are going to resolve the matter. The last time Lebanon had a census was in 1936 and the system of proportional political representation was based on this census, which gave the most seats to the Christian majority at that time. Over the years the demographics changed tremendously with the Muslim Shia growing the fastest and they are arguably in the majority today. The Shia community is also the most impoverished and most of the country's wealth is in Christian and Muslim Sunni hands. Therefore, the political divide is a mixture of class and confession, exacerbated by the fact that the largest class, the Shia, is also the most politically under-represented.

Then there are also the external influences and factors that have an impact. Could you say something about that?

Of course, the regional players have one type of impact on Lebanon. The international players have another type. The Lebanese will always come back and tell you: 'We don't make our own decisions. Our decisions are made externally for us. It depends on what the people outside have decided that will resolve the Lebanese question.'

Let's move on to the Palestinian connection and Syrian support for Hamas and Islamic Jihad, which are movements with their own strong Islamic identities. How is this reconciled with Syria's own secular identity? Why does Syria support these Islamic movements?

Although Hamas was born under the auspices of the Muslim Brotherhood, it must be characterised now as a national liberation movement. It has moved away from its classical roots. The fact of the matter is that it is prepared to go into negotiations, whether publicly or tacitly, with the Israelis. The fact that it recognises the 1967 boundaries or will accept a state within the 1967 boundaries indicates that

Hamas has shifted into *realpolitik* mode. So I don't think Syria supports Islamic Jihad as an Islamic movement or Hamas as an Islamic movement. They have rather given refuge to people who are fighters seeking the liberation of their own countries.

Would you say the same about Hezbollah?

Hezbollah has an ideological linkage to Iran but must also be characterised as a national movement in Lebanon and not only as an appendage of Iran. I don't think they see themselves as an appendage of Iran. They see themselves as having their own unique character, with their own objectives and agendas, trying to fulfill what they need to do. They were born out of the Israeli occupation of southern Lebanon and emerged after the civil war in Lebanon. So their main focus has always been resistance against Israeli occupation and this characterises and defines them.

What do you think Syria would demand as pre-conditions for any dialogue with Israel?

Syria has always stated that the one thing it wants back is the Golan Heights. It's nothing new; this has been stated repeatedly as a fundamental basis for any negotiation with Israel. At the moment, the Syrians and Israelis are engaged in indirect peace talks with Turkish mediation. The Syrians have clearly stated that they support and have always supported the principle of land for peace, which is enshrined in UN Security Council resolution 242 and which was the basis for the Madrid conference in 1991 that sought to pursue peace between Israel and its Arab neighbours, under US patronage. Therefore the Syrian position is very clear.

The Israeli position is far more complicated. While [Israeli Prime Minister Ehud] Olmert has indicated he would be willing to return the Golan Heights to Syria, it does not seem as if he would have the political support to do so. Israeli politicians from both his own ruling alliance and the opposition are not in favour of returning the Golan and public opinion in Israel is also extremely opposed to such a move.

Let's separate the final question into two parts. Speak about Syria's relations with SA. How do you see this, and Syria's relations with Africa and South issues generally? Does it have a position on these issues?

Syria has targeted SA as a focal point for its relationships in Africa in particular. We have approximately eight agreements outstanding that need to be concluded. Of course, I'm the first appointed ambassador to Syria and I've been there for two years. So, on the political front, yes, we've been moving forward. There have been high-level visits to and fro, and the agreements will be signed shortly. That could give another impetus to move forward.

SA is the second largest private sector employer in Syria through the telecoms company MTN – after the oil sector and the government service. But more needs to be done to improve economic diplomacy between the two countries. What is being improved now is people-to-people relationships. There is talk of establishing a Centre for Middle Eastern Studies at a university in SA and, similarly, a Centre for African Studies at a university in Syria.

Interestingly enough, the Syrian foreign minister, on his recent visit, raised the issue of an Afro-Arab summit to be held quite soon. There is strong interest from the Syrians to try and develop a relationship between the Arab world and Africa, championed by Syria on one end and SA on the other. An Afro-Arab summit could be something that could bring about results to end many conflicts. The second leg would be to encourage economic ties between two areas that have historical linkages: half of the Arab world lives in Africa.

Is a state visit by SA's President Thabo Mbeki to Syria being planned before he leaves office?

Well, the invitation has been extended and President Mbeki has accepted the invitation. What needs to be worked out are the dates. ■

The US economic sickness is catchy – *continued from page 14*

years is the result of debt-driven consumption. SA had larger average house price growth than the US between 2002 and 2007. Household debt to disposable income has increased to more than 7%, and consumption as a percentage of GDP has increased. Newspapers carry reports of huge increases in car repossessions and defaults on home loans.

GDP growth cannot increase at the same rate as before now that debt is more difficult to access, interest rates are higher, and fuel and food prices have increased. Tight global credit markets and lower global demand will put even further downward pressure on South African GDP growth.

Countries such as the United Kingdom, Spain and Ireland have also had similar patterns of debt, housing bubbles and debt-driven, consumption-led growth. They also face declining economic growth because this kind of growth is no longer sustainable. But countries such as Italy and Portugal, which had weak growth before the global credit crunch, are also expected to enter recession.

Global imbalance

Other European countries that have had better economic growth rates, such as France and Germany, and some Asian economies, including Japan, have not followed the growth pattern of the US. However, all these countries will face lower growth rates as a result of lower import demand from the US. The global imbalance caused by huge American import consumption – financed by loans from large Asian trade deficits – seems to have reached its limit. Further, these countries' currencies have been appreciating relative to the US dollar, which pushes up the cost of their goods and further reduces demand for them. Demand is also reduced in countries, such as China and many oil producing Middle Eastern countries, that peg their currencies to the dollar.

The global credit crunch and weaker trade will take its toll on global economic growth. The overall impact will be falls in demand, less trade, lower investment rates, and lower economic growth rates. Therefore, even the growing Asian economies, such as China, Vietnam, and Singapore, face declines in economic growth.

SA is likely to be severely affected by a global recession because of the country's high level of integration into global trade and financial markets, the high trade deficit and the recent unsustainable consumption growth. The Southern African region will in turn be affected, with countries dependent on remittances and aid being hardest hit. Those exporting mining commodities might have some growth to offset the impact of the likely global recession. ■

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Rocky courtship to an African marriage – *continued from page 20*

in AU circles. This reflects a tendency of African leaders and other stakeholders to give prominence to new processes at the expense of older ones, which creates inter-institutional rivalry – thereby dissipating energies and resources required for the continent's development.

Integrating NEPAD into the AU has been painfully slow, if not static. Moreover, while the APRM process is an integral part of NEPAD and should constitute a component of the NEPAD-AU integration agenda, it cannot be treated entirely the same as NEPAD. While NEPAD might be readily amenable to integration into AU processes because, like the union, it is all-inclusive, the APRM may not be so amenable because of its selective and discretionary character. Caution is needed. ■

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'Xenophobia' and the neighbourhood watch – *continued from page 22*

that have an impact on people's lives, especially those of the poor.

Regional integration in its present form, which favours economic and political co-operation at the leadership and business levels, does not address the needs of the majority of the region's citizens. What is needed is development that takes place throughout the region in rural and urban areas and that reduces the imperative for people to move from their home country to neighbouring countries for work over long periods of time.

The meeting agreed that pressure should be exerted on governments in the region to review their migration policies. Migration between countries is natural as people's needs change and they search for new spaces where their needs are best met. Hence it should be facilitated, monitored and de-pathologised, especially in regions that wish to share economies and trans-national policies, and view themselves as trans-border communities. SADC's Free Trade Area will facilitate the movement of goods and services across borders in the region. Hopefully it will also highlight the need to support the legal movement of people across borders.

Governments were also requested to learn from each other, especially in relation to disaster management practices. In addition to the political and economic integration that SADC hopes to achieve, it should also ensure that the region's people are involved in decision-making processes that affect their lives, more especially the lives of people who live in poverty. ■

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How to kill Zimbabwe's hyperinflation – *continued from page 25*

electronic money will make notes and coins obsolete, enabling banks to offer full-fledged rivals to government-issued currencies, has generated considerable interest.

The final option for quickly replacing the RBZ is a currency board. Currency boards have existed in more than 70 countries and a number are in operation today. A currency board is a monetary institution that issues notes and coins. Even though some currency boards have accepted deposits, the board proposed for Zimbabwe would be prohibited from doing so. A currency board's monetary liabilities are fully backed by a foreign reserve currency, also called the anchor currency, and are freely convertible into the reserve currency at a fixed rate on demand. The reserve currency is a convertible foreign currency or a commodity chosen for its expected stability. As reserves, a currency board holds low-risk, interest-earning securities and other assets payable in the reserve currency. A currency board holds reserves equal to 100% or slightly more of its notes and coins in circulation, as set by law.

The Southern Rhodesia Currency Board was established in 1940. The board replaced free banking, a system that had experienced no severe problems and had served the country well. In establishing the currency board, the colonial government was acting in accord with the prevailing belief of the time that issuing notes and coins should be a government monopoly. Officials were also aware that a currency board would generate profits and, therefore, revenue for the government.

The notes and coins of the Southern Rhodesia Currency Board were also legal tender in Zambia (then called Northern Rhodesia) and Malawi (then called Nyasaland). The board existed until 1954, when it was replaced by the Central Africa Currency Board. The main feature distinguishing the Central Africa board from its predecessor was that it allowed representation on its governing body by Zambians and Malawians as well as Zimbabweans.

The three governments of the Federation of Rhodesia and Nyasaland then transformed the Central Africa Currency Board into the Bank of Rhodesia and Nyasaland, a central bank, in 1956. The central bank was one of several institutions intended to bind Zimbabwe, Zambia and Malawi into a single economic unit and ultimately perhaps a single political unit. As with the transition from free banking to a currency board, the transition from a currency board to a central bank did not occur because the currency board had experienced any severe problems. Rather, central banking had become the intellectual fashion of the time for countries that were independent or wanted to become independent soon. There was as yet little recognition of the dangers that inept central banking could bring: high inflation, exchange controls, and financial underdevelopment.

When the federation dissolved in 1964, its central bank was divided into three separate central banks for each country that had been a member of the federation. Thus the Reserve Bank of Rhodesia came into being.

Official dollarisation, free banking, and a currency board are all proven systems with records of success in providing reliable, low-inflation currencies in Zimbabwe and elsewhere. Any one of these systems, or a combination of them, could be successfully implemented immediately, without preconditions, and would therefore quickly put an end to hyperinflation and produce stable money. While the differences among the three options are worth pondering, it must be stressed that any one would represent an enormous improvement over the monetary policy that the government has forced the RBZ to produce or that the RBZ is likely to produce in the near future.

Financial liberalisation

Financial liberalisation is a vital companion policy to dollarisation, free banking, or a currency board system. With the elimination of hyperinflation, the rationale for price controls and foreign exchange controls no longer exists. Both should be prohibited. Other forms of 'financial repression', including interest rate ceilings, the forced purchase of government bonds, minimum reserve requirements for financial institutions, and the compulsory allocation of credit to favoured borrowers should also be prohibited. This liberalisation would allow for the free flow of capital in and out of Zimbabwe. It would also increase the return on savings and reduce the cost of capital in Zimbabwe, removing major impediments to economic growth and improved living standards. Such has been the experience of other countries that have ended financial repression.

Financial liberalisation is of critical importance for Zimbabwe's economic recovery. Depreciation of assets has exceeded investment for some time, resulting in capital consumption and the atrophy of the nation's plants and equipment. In addition, the combination of hyperinflation and price controls has wiped out much of the country's stock of working capital. The quickest way to replenish Zimbabwe's capital stock is to import capital. To accomplish this, stable money and a liberal financial regime are important prerequisites. ■

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