

# Focus on Trade

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## **IN THIS ISSUE**

Another one bites the dust: collateral damage in the battle for the Bank  
by Nicola Bullard

Asian Monetary Fund revival?  
by Kristen Nordhaug

The Sledgehammer and the Nut  
by Harrison George

China: the country everyone loves to hate  
by Nicola Bullard

“Blowback:” A Review Essay on an Academic Defector’s Guide to America’s Asia Policy  
by Walden Bello

A Response from Bill Jordan to Peter Waterman

## Introduction

In this issue resignation of Dr Ravi Kanbur, lead author of this year's World Development Report, will be interpreted by many as a parable of the virtuous struggle between reformers and hard-liners inside the Bank. In reality, his departure will be counted by those who do the counting as little more than a public relations problem and collateral damage in the Bank's battle for survival. In this issue of Focus on Trade Nicola Bullard tries to unravel what's going on in Washington.

It's now three years since the financial crisis tore through Thailand, and in that time several small communities in the rural Northeast have been working towards a community currency system which they hope will make them less dependent on the cash economy. However, some officials in the Bank of Thailand are very nervous about the 'alternative' currency. Harris George tells the story. And moving from the micro to the macro - but staying in the region - Kirsten Nordhaug looks at the proposal to establish a Asian regional currency swap system and speculates on whether this might be a revival of the Asian Monetary Fund. He also suggests that the real reason the US stymied the proposal in the first place were fears that massive sales of US Treasury Bills to finance the fund would push up US interest rates and slow the great god growth.

And on the topic of US self-interest, Walden Bello reviews Chalmers Johnson's book 'Blowback: the Costs and Consequences of American Empire.' The book is a chilling reminder of the stretch (some would say overstretch) of US influence. It is also timely, given the US response to last week's historical talks between North and South Korea (announcing they have no intention of reducing their presence on the peninsula even if there is reunification) and presidential candidate Bush's enthusiasm for massive re-armament. Both will guarantee that the 'blowback' reverberates for a long time.

Also in this issue, Nicola Bullard examines the West's schizophrenic attitude to China, and ICFTU secretary general Bill Jordan replies to Peter Waterman.

# Another one bites the dust: collateral damage in the battle for the Bank

by Nicola Bullard

THE reputation of the World Bank lies in tatters this week following news that Dr Ravi Kanbur, team leader and principal author of this year's World Development Report, had resigned in protest at attempts by the US treasury to 'water down' his message.

While Kanbur's resignation did not become public until 14 June, the events that forced his departure occurred several weeks ago when the World Development Report was presented to the Bank's board. At this meeting, both the Bank's president James Wolfensohn and its managing director Jeff Goldstein (recruited for the job from Wolfensohn's old investment banking firm on Wall Street) pushed for more emphasis on 'growth' as opposed to 'poverty reduction'. Soon after, on 23 May, there was a meeting between Kanbur and Goldstein (and possibly some US Treasury officials). After the meeting the Kanbur went home and has not returned to the Bank. He resigned on 25 May.

Kanbur's exit follows hard on the heels of former chief economist Joseph Stiglitz's premature departure. It seems that the Bank, despite its re-packaging as a 'listening' institution is having difficulty listening to its senior staff, especially when they express views that deviate even slightly from the hard-line "Growth is Good" faction inside and outside the Bank.

Bank on the ropes The Bank is in crisis, partly of its own making and partly because of the particular constellation of political events swirling around Washington at the moment.

The debate on the Meltzer Commission's recommendations to radically downsize both the Bank and the IMF (see Focus on Trade #48) has reached a stalemate in the Congress. Treasury Secretary Larry Summers – speaking for the administration – has rejected the commission's proposals saying that they would "weaken the IMF, the World Bank and other regional development banks to the point where vital US interests would be compromised because of the reduction in their capacity to respond effectively to promote market-oriented development in the world." You have to agree, there's something about Larry. His frankness is disarming and his shameless pairing of US interests and market-oriented development leaves no room for doubt about where the administration sees its interests.

On the other, the Republicans don't like either the IMF or the World Bank for a ragbag of reasons (everything from being tainted by the same leftist brush as the UN to interfering in the free market) and the Meltzer recommendations tally well with their neo-isolationist tendencies. And it seems they are willing to block budget appropriations for debt relief and AIDS programmes in the Third World (both dear to the Democrats' bleeding heart) to force concessions from the Democrats.

So the equation is something like this. Both the Bank and Summers want to close the Meltzer debate before the election because they know that a Republican administration would be much more sympathetic to the commission's proposals and might even mount a full-scale assault on the Bank.

The Democrats want to squeeze the last drop of political mileage out of the system to increase their own electoral chances, and if this means striking a deal with the Republicans to get through some more populist budget items, they might just do it.

And of course the Republicans are feeling confident that "Dubya" will be in the Oval Office by Christmas and can probably hold the line on Meltzer until the terms are right.

Murky waters indeed, but all relevant to what has been going on at the Bank in the past weeks.

Powerful friends are better than ideas There is no doubt that president Wolfensohn must be worried about what a Republican administration would do to the Bank. After all he's got almost another five years to go and he doesn't want to spend it at the helm of a sinking ship. To keep the ship afloat he has to walk the line between two major constituencies. The first are the critics (and even though Wolfensohn may feel personally "betrayed" by the April 16 protests after all he had done to "open the Bank and listen to his critics"

they will not go away). The second is the US Treasury. You don't need to be a World Bank economist to do the cost benefit analysis.

To save the Bank, and his own reputation (Wolfensohn has always approached his work at the Bank as a personal 'mission' or in his own words 'the work of God') it is essential that the Bank's policies and public pronouncements do not err too far from its main shareholder and political protector, the US Treasury.

While Larry Summers must also be wondering about his post election future and counting his friends in Congress, he also knows first hand that tame multilateral institutions give the US foreign policy and economic leverage on the cheap, something which the isolationist Republicans do not fully understand. And Summers has his own history in the Bank, and no doubt wants to preserve his intellectual heritage (exemplified by his now legendary memo on the impeccable market logic of dumping toxic waste in the Third World). Pretenders to the throne, and especially those who want to introduce heretical ideas such as redistribution, need to be brought into line.

The issue at the heart of the debate is growth versus poverty reduction. In this sense, Kanbur's challenge to the system is far greater than that of Stiglitz. Although Stiglitz did stir up the system, he also believed in the benefits of an open and globalised economy. What he argued was that the market on its own cannot achieve this and so it's necessary to include non-economic factors such as social capital, participation and democracy. Kanbur's reported emphasis on 'empowerment' (code for redistribution) is a much more lethal attack on the orthodoxy. And of course, translating this into the US context we can understand why Summers is so nervous: the growth figures for the US are impressive, but the cleavages between rich and poor are deepening. The US cannot afford to support a critique of growth and globalisation that would have such dramatic implications for its own economic policies.

According to Larry Summers "discussions of poverty reduction that do not lay primary emphasis on economic growth are like Hamlet without the prince." Perhaps the analogy is better than Summers imagines if we recall the story of Hamlet. The setting is Elsinore (Washington, or the World Bank perhaps) a hotbed of political plotting, steeped in corruption and intrigue. The Good King is murdered by his conniving wife and friend, while the hero, Prince Hamlet, stalks the ramparts, talking to ghosts, growing more paranoid, and eventually succumbing to his own delusions. As the hero said, there is something rotten in the state of Denmark.

# Asian Monetary Fund revival?

by Kristen Nordhaug

In the last issue of Focus on Trade (#50) Walden Bello reported on the Asian Development Bank's proposal to establish a system of currency swap arrangements to protect regional currencies against financial crises. This system would include the ASEAN countries, Japan, South Korea and China. Put in context, the Chiang Mai proposal may be seen as watered-down versions of the 1997 Japanese proposal for an Asian Monetary Fund (AMF), with a US\$ 100 billion funding. In contrast, the currency swap arrangement would require US\$ 20-40 billion dollar.

The previous effort to establish an AMF in the middle of the Asian financial crisis was effectively thwarted by the US Treasury, which favoured the exclusive control by the IMF over emergency funds to the region. Again the US Treasury appears to be less than happy about the present discussion, yet the IMF's new managing director Horst Koehler gave a cautiously sympathetic response to the proposal, sprinkled with reservations about moving too fast.

Something is brewing, but what? It is useful to re-cap the previous struggle over the AMF in 1997, and its backdrop in terms of long-term economic interdependencies to see if that can shed some light on current events. A good starting point would then be the situation of US-Japanese economic interdependence, which emerged in the 1980s.

The US-Japanese alliance During the Reagan period (1981-9) growing military spending and tax cuts pushed up the US budget deficit to record heights. This went along with enormous trade and current account deficits, while Japan became a major capital surplus country, with huge trade surpluses, especially with the United States. Large proportions of the Japanese capital surplus were invested in US assets, especially in long-term US Treasury bonds (hereafter referred to as Treasuries). The main investors were Japanese insurance companies. These investments helped to finance the US budget deficit, kept down the US interest rates and brought a sizeable part of the US current account dollar deficit back home. They also benefited Japanese trading interests, as the US administration became more willing to accept Japan's trade surpluses and protectionism, albeit grudgingly. Furthermore, the Japanese dollar demand which resulted from the purchases of Treasuries helped to hold down the yen/dollar exchange rate somewhat.

Nevertheless, huge current account deficits in the United States, and huge current account surpluses in Japan pushed up the yen exchange rate relative to the dollar during most of the period 1985-95. The industrialisation of Japan's East Asian neighbours benefited from the strong yen as Japanese producers responded to declining export competitiveness by relocating core manufacturing to East Asia. But by mid-1995 the economic weaknesses of Japan led to a sharp realignment of yen-dollar exchange rates.

In the early 1990s the Japanese financial system was caught in a bad debt trap. There was no full-blown crisis as liberal accounting standards allowed the banks to refinance de facto insolvent borrowers. Instead Japan experienced a protracted economic stagnation. The crisis in Japan also influenced the US economy as Japanese purchases of long-term Treasury Bonds declined. As a result, long-term US interest rates were pushed up.

In 1993 the new Clinton administration began to attack these problems by attempting to reduce the US budget and trade deficits. The latter included a "result-oriented trade strategy" towards Japan, and allowing the dollar to weaken relative to the yen. By 1995 Japanese exporters were suffering from the strength of the yen and Japan's bad debt problem was resurfacing with a series of bankruptcies among medium-sized financial institutions.

US policy makers now feared a Japanese financial collapse with ensuing large-scale panic selling of Japanese holdings of US Treasuries with severe consequences to the US economy. During spring 1995 the US and Japanese central banks and ministries of finance co-operated to prevent a financial meltdown. The Bank of Japan lowered its interest rate to boost the Japanese stock market, weaken the yen and allow the banks to use cheap money to purchase safe government bonds. The discount rate was cut from 1.75 in March 1995 to 0.50 per cent in August. The Bank of Japan began to purchase large amounts of Treasury Bonds. As financial institutions became convinced that the yen would fall,

they also began to purchase Treasury bonds. The international dollar demand resulting from these purchases pushed up the dollar exchange rate relative to the yen. From April 1995 to May 1997 the yen declined nearly 40 per cent. It was also agreed on a broad truce on trade conflicts between the two countries to sustain Japanese exports.

By 1996 the Japanese economy appeared to revive from its troubles. In the United States low interest rates helped by large-scale Japanese purchases of Treasuries boosted the economy at the right time for Clinton's 1996 re-election. The US-Japanese alliance had become reinforced, but it had serious side effects in East Asia.

**Exporting Japan's bubble** Most East Asian currencies were pegged to the dollar, the dollar appreciation therefore reduced East Asian export competitiveness in Japan and vis-à-vis Japanese competition in third markets. Japan's loose post-bubble monetary policies also created surplus liquidity which "leaked out" to East Asia. Japanese banks lent large amounts of money to the region at a low interest rate, both to Japanese subsidiaries and to locally owned firms. While foreign direct investment and lending to East Asia were dominated by Japanese, most foreign portfolio investments came from the United States and Europe. Yet a large proportion of the funding of these portfolio investment came from Japan. Investors borrowed at low interest rates in Japan, changed yen into dollar and re-invested those dollars throughout the world. A large amount of the funds went to the East Asian high-growth area. Most East Asian countries (with exceptions such as China and Taiwan) undertook significant capital account liberalisation to attract these funds from the early 1990s.

East Asian foreign debt soared as a result of the inflow of loans. A large proportion of these loans were short-term (one year maturity or less) which were used to finance long-term investment and renewed on a regular base. Most of the loans were not hedged against exchange rate changes. The defence lines of foreign reserves were becoming increasingly thin. In Indonesia, Thailand and South Korea, which eventually would receive "rescue packages" from the IMF, the amount of short-term debt exceeded foreign reserves. Their economic stability came to rely on the willingness of foreign lenders to renew short-term loans. Furthermore, domestic bank lending was expanding at a fast pace and much of this lending was financed by offshore borrowing. A foreign debt crisis would therefore have strong domestic repercussions.

The declining yen from mid-1995 and the devaluation of the Mexican peso after the 1994/5 Mexican crisis reduced the export competitiveness of the region. This may have reduced the investors' confidence, especially in the case of Thailand, which had negative export growth in 1996.

It is significant that the crisis was triggered in May 1997 when Japanese officials hinted at an increase of the Japanese discount rate. The threat never materialised, but it induced global investors who had been capitalising on the interest rate margins between the yen and regional currencies to sell Southeast Asian currencies. During May and June a number of major Thai financial institutions failed. By 2 July the Bank of Thailand floated the baht.

As the Thai crisis evolved, foreign investors "discovered" that many countries in the region had huge amounts of outstanding debt and modest currency reserves. Hedge funds speculated against regional currencies and stocks, while smaller "security seekers" fled the region. Lenders refused to renew loans falling due. Large-scale dumping of assets and currencies pushed down asset values and forced the central banks to let their currencies float. A 1996 net inflow of private capital to South Korea, Thailand, Malaysia, Indonesia of US\$ 93.0 billion changed to a US\$ 12.1 billion net outflow in 1997. The countries were caught in vicious circles of currency depreciation, increased foreign debt and ensuing collapse of the domestic financial system. They then had to go to the IMF to ask for emergency credits. Stand-by agreements were signed by Thailand (5 August), Indonesia (31 October) and South Korea (4 December).

**Wrong medicine** The IMF stabilisation programmes were based on the premise that institutional structures were flawed and that wide-ranging institutional reform was needed. Accordingly, the IMF insisted on closing financial institutions and enforcing strict regulatory standards. These policies enhanced the investor panic as seen in Indonesia where the abrupt closing of sixteen commercial banks caused panic run on the whole banking system.

The IMF was also demanding policies of fiscal contraction and discount rate increases in a failed attempt to stabilise East Asian currencies. Zealous demands for budget surpluses, which the countries failed to meet, did not enhance investor confidence. High interest rates made investors fear growing domestic debt problems.

Rather than organising the re-negotiation of debt, the IMF attempted to be an international lender of last resort, but it failed to deliver on its promise. The 'bail-out' loan was sliced into tranches to be disbursed over the programme period, pending adjustment performance. However, these tranches were too small compared to the debt falling due to stem the panic, and disbursement was delayed by drawn-out and complicated negotiations.

The IMF was backed by the Clinton administration, which had developed a more pro-active, systematic and coherent foreign economic policy than its predecessors. The newly established National Economic Council (consciously modeled around the Cold War agency, the National Security Council) co-ordinated US foreign economic policy-making. A number of "emerging markets", mainly in East Asia, were targeted for an offensive with increased emphasis on US foreign investment interests. The administration actively supported multilateral agencies such as the IMF, OECD, WTO and APEC to promote international financial liberalisation. As these policy instruments, alliances and the strategy of targeting East Asian markets were in place, the US Treasury was in a strong position to use the IMF to take advantage of the financial crisis through demands for financial liberalisation. This would allow for cheap US take-over in a region in desperate need of capital supplies.

AMF vs. IMF Some East Asian countries, notably China, Taiwan, Hong Kong and Singapore had huge balance of payment surpluses and foreign exchange reserves. Like Japan, they had invested much of this surplus in Treasuries, especially in the 1990s. Regional central banks were major purchasers of Treasuries. By the autumn of 1997 the Hong Kong central bank alone held about 60 billion of its foreign exchange reserves in US securities, mainly in US Treasuries, while the Bank of Japan held a 170 billion dollars worth of US Treasuries.

But what would happen if East Asian central banks changed the rule of the game, and invested their reserves elsewhere? In August 1997 the ASEAN countries proposed a permanent regional Asian Monetary Fund (AMF) financed by the East Asian countries. The real initiative, though, came from Japan's Ministry of Finance. The idea was that the AMF should operate at the regional level to maintain monetary stability. Its total funding would be about US\$ 100 billion with Japan as the main contributor.

Tokyo had a strong interest in stabilising the financial systems of the region. In 1996 Japanese banks had US\$ 265 billion in outstanding loans to East Asian countries, and US\$ 83.9 billion to the three countries which eventually would have to be bailed out, Thailand, Indonesia and South Korea. A regional financial collapse would enhance Japan's bad debt problem. Tokyo did apparently not trust the IMF to solve these problems. The AMF proposal also demonstrated Japanese willingness to take on regional leadership, and perhaps even to move towards a regional "yen zone". The initiator was Japan's powerful Vice Finance Minister of International Affairs, Eisuke Sakakibara. He had earlier argued that the "Asian model" was more favourable to developing countries than the liberal Anglo-Saxon model advocated by the IMF and the World Bank. The AMF would defend this "Asian model" as it would provide swift emergency credits without strict demands for reform.

Japan floated the AMF idea during a G7 meeting in Hong Kong in September 1997. The EU countries and the IMF immediately objected to the proposal. During the annual meeting of the IMF and the World Bank in Hong Kong in September/October, the then US Vice Secretary of the Treasury, Larry Summers, strongly resisted the initiative. During the meeting Japan's Sakakibara was summoning a number of East Asian top officials to discuss the AMF proposal without informing the Americans. When Summers found out that the naughty Asians had sneaked away to conspire on their own, he immediately left his own meeting and went into their room, sat down by their table and said "Now, where were we?" One should have been a fly on those walls.

The IMF, Summers and others argued that two rivalling monetary funds would create «moral hazard problems» by allowing countries access to emergency funds even if they failed to adopt tough economic reform. From the US Treasury's viewpoint the AMF was likely to reduce its influence on the adjustment processes and impede liberalisation of trade and finance. Concern about the US reliance on East Asian holdings of Treasuries may have been equally important. If regional central banks led by the Bank of Japan had sold out from their huge holdings of Treasuries to finance this costly operation, the interest rates on Treasuries and US long-term interest rates would probably have soared and halted the US economic upturn.

Treasury attempted to accommodate the East Asian countries by assuming a greater responsibility for the emergency funds in return for an abandonment of the AMF plans. Japan responded by withdrawing from the AMF proposal and the other East Asian countries gradually followed suit. The AMF initiative was abandoned in November 1997. APEC's meeting in Vancouver 23-24 November backed IMF's leadership in the financial rescue operation. Shortly afterwards Tokyo announced that its contribution to the regional emergency fund "only" would be about US\$ 20 billion.

But the cost of blocking of the AMF initiative was high. The "contagion" from the financial crisis in Thailand might have been significantly reduced if the AMF agreement had been in place by September/October 1997. The foreign investors' knowledge of a US\$ 100 billion defence line ready to be issued on short notice might have calmed down the market in a period when regional currencies, excepting the Thai baht, still were relatively stable. Instead, the Asian financial crisis reinforced the Japanese crisis in late 1997, and Japan became preoccupied with its own shaky financial system once again.

A backdoor AMF? Despite the defeat of the 1997 AMF proposal there has been some new low-key efforts from autumn 1998. In October 1998 Japan's authorities launched a plan drawn up by Finance Minister Kiichi Miyazawa for a US\$30 billion aid initiative at a G7 meeting of central bankers and finance ministers in Washington. The countries earmarked as recipients were Indonesia, Malaysia, the Philippines, Thailand and South Korea. Tokyo attempted to minimise resistance from Washington and the IMF by carefully couching the idea in the context of a broader aid effort involving the G-7 industrialised countries, as well as the IMF and the World Bank. The timing was favourable, since the IMF was running out of funds and the US Congress had still not approved the US\$ 14.5 billion replenish of the IMF's funds. The Japanese initiative was even supported by the IMF. The US side was less positive, but this time Washington did not attempt to shoot down the proposal.

Loans made under the plan would be denominated in yen and tied to projects involving Japanese companies. By building up the amount of debt denominated in yen, Japan also hoped to internationalise its currency. Recently it has also been discussed in Japan to use yen aid loans to promote yen-denominated exports from poor East Asian countries to Japan. This would shield these countries from uncertainties relating to sharp changes of the yen exchange rate relative to the dollar, while also promoting the role of the yen in regional trade. These may be seen as cautious moves in the direction of an East Asian yen bloc, and the new proposal for currency swaps and emergency funds can be seen as steps in the same direction.

However, there are many stumbling blocs on the road. Much greater amounts of capital than those proposed so far will be required if the objective really is to establish a yen bloc, and it seems unlikely that the heavily indebted Japanese government is able to muster these funds. Japan's rival for regional hegemony, the People's Republic of China would not be very happy about a yen bloc. Tokyo itself may also be ambiguous, as it is concerned about its relationship with the United States. The US power to go against any form of regional economic integration which is contrary to its interests is as strong as ever. This strength is underpinned by the region's reliance on exports of finished goods to the United States, which is mirrored by a relatively low level of interregional trade. A yen bloc would require increased interregional trade based on increased consumption of finished goods in the region, while Japan would have to take on the role as the region's locomotive. All of this appears extremely remote for the time being, although the picture may change if the US financial bubble bursts.

Finally, it should be noted that there is at least one counter-argument to my discussion of the AMF events in 1997. Merrill Lynch economist Ron Bevacqua argues that the Japanese AMF proposal was not sincere in the first place. Japanese authorities anticipated that the AMF initiative would be blocked by the United States, and that the United States then would be forced to assume a greater financial responsibility in the crisis. I would be grateful for any information which supports or refutes his claim.

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# The Sledgehammer and the Nut

by Harrison George

Reports of a community currency in a remote northeastern village have rung alarm bells at the Bank of Thailand. 'Bia Kudchum', in the form of notes carrying drawings by schoolchildren, are for trading locally-produced goods and services. Although valid only in the community, and designed to be used alongside the baht rather than replace it, government economists see dire consequences.

The Kudchum Community Bank has so far issued about 9,000 'bia', which carry a value equal to the baht, but cannot be exchanged for it. In comparison with NPLs totaling billions and billions of baht and government debt of billions of dollars, this may seem so small as to be negligible, but government regulators are not so sure, saying that the scheme poses a 'threat to national financial security'.

Bank of Thailand officials point to a law that may make the bia notes illegal. This says that no one can use any material or symbol as money without the permission of the Minister of Finance. Even now, officials cannot explain the process of getting this permission, and have refused to say if the 'Bia Kudchum' actually break the law. Privately, some government and bank officers say they do not think that the villagers are law-breakers and that the scheme is clearly well-intentioned and for the benefit of the community. The Bank of Thailand, however, has demanded that the currency be withdrawn while they consider the matter.

Some commentators have pointed out that discount coupons, gift vouchers, and department store cards all seem to fall foul of the same law, but the Bank of Thailand has never questioned these. Obviously, if a large company uses coupons as a way of maximising their profits, this is no threat to financial law and order. But a small community working together to improve their own economy must be viewed with suspicion.

Bank of Thailand officials have also pointed to a law which allows only officially registered banks to use the word 'bank' in their name. Villagers say they were not aware of this. They had seen government agencies promote rice banks, buffalo banks, fertilizer banks, medicine banks, etc in hundreds of villages. All openly use the word 'bank'. Of course, the government is above the law, and poses no threat to public order. It is only when well-intentioned community groups inadvertently copy the government that danger arises.

The Bia Kudchum project was opened in March and a few days later the Minister Attached to the Prime Minister's Office Khunying Supatra Masdit gave it her blessing. Newly-elected senators, academics, community development workers and newspaper columnists have noted that community currencies have many benefits - they stimulate local production for self-reliance; they encourage community cooperation; they help curb consumerism; they support Buddhist principles (bia notes are signed by the local abbot); and perhaps most importantly, because bia are interest-free, villagers can borrow and start trading without fear of falling into the debt trap.

Perhaps surprisingly, government officials agree with this. They accept that the villagers have acted with the best of intentions and they readily admit that the project will bring many benefits to the community. But despite this, they have demanded that officials have the right to make decisions about what a community can do with its own resources and have demanded that the Kudchum Community Bank close down while they make this decision.

Villagers are quick to point out that there is one group who will not benefit from the community currency - moneylenders. So in temporarily closing down the Kudchum Community Bank, the government is protecting people who lend illegally at usurious rates.

Officials from the government's Bank for Agriculture and Agricultural Cooperatives who visited the village to investigate the community currency, were primarily interested in the amount of bia being loaned. When they discovered that the community itself has imposed a limit of 500 bia per member, they were relieved. Such small loans do not threaten the BAAC's own credit programmes, they noted. Had the community in any way threatened to offer a superior service to a government agency, then of course they could expect the full weight of the bureaucracy to stop them.

Government investigators are clearly concerned at a possible contagion effect. If the 'Bia Kudchum' become popular, they say, then they could spread and challenge the baht. Villagers point out that the currency is valid only in the community and is backed by nothing more than villagers' trust in each other. They don't believe that the currency can spread. But of course, other communities might decide to copy the Kudchum example, and rural Thailand could see hundreds of community currencies springing up, all helping to revitalize local economies.

But government officials can be relied on to prevent any such thing happening. Thanks to the alert actions of government officials, we can all rest safely, secure in the knowledge that the 9,000 Bia Kudchum have been taken out of circulation in order to protect national financial security. The villagers' intentions may be only for the best, but good intentions must not be allowed to stand in the way of global capitalism.

\*\*\*\*\* China: the country the West loves to hate by Nicola Bullard\*

When the philosopher Kierkegaard wrote "if you marry, you will regret it and if you fail to marry, you will regret it" he may well have been describing the West's attitude to China. While the US has for many years been trapped in its own schizophrenia of containment or engagement, Europe now seems to be suffering from the same malaise.

Less than one month after the EU's "mice-catching" deal with China (don't worry about the details, it does the job) European trade commissioner Pascal Lamy told the Transatlantic Business Council that he wanted an "early start" to the next round of WTO negotiations because "a round with China in is going to be much more difficult than a round without China in."

So why is the trade commissioner - last seen celebrating a deal that will almost certainly clinch China's early entry to the WTO — now hurrying to get on with business before China joins? There are several explanations. The most likely is that Mr Lamy knows China is a tough negotiator, and he wants to make sure that the agenda for the much-desired new trade round is agreed and moving before China joins. At the same time, he is using the spectre of China to force others, especially the US, to agree on an agenda before China can put a spoke in the wheel.

The trade commissioner may also be taking a longer view and is nervous that other developing countries, especially the outspoken "like minded group" which includes India, Pakistan, Malaysia, Egypt, Dominican Republic and Uganda, will take courage from China's presence in the WTO. Even though they stand to lose a great deal with China's entry (much more, for example, than the US) the political strategy of using China as the ice-breaker to crack the EU-US frontline may open up new negotiating spaces which could benefit everyone. That is, a revived Third World team, with China in the line-up, could start winning a few more matches.

In the same speech to the Transatlantic Business Council Mr Lamy confided that "the unsung part of the deals we have done with China is the extent of EU-US co-operation to avoid Chinese divide and rule tactics." He went on to warn that the challenge ahead is to "[ensure] that China implements its commitments in full." But almost in the next breath Mr Lamy described the post-Seattle situation at the WTO as a "confidence building phase" which is "notably important for developing countries. We have to regain their confidence." It's clear that Mr Lamy thinks some countries have a little too much confidence and need to be kept in check by EU-US "co-operation".

Whether China is even remotely interested in assuming a leadership role in the WTO remains to be seen.

China does not have an expansionist tradition, and there is no indication that it would chose to take on US hegemony (if, indeed, China's trade negotiators believe in such things) through the WTO.

Labour linkages will deepen divisions but not solve the problem But China is not yet the biggest spanner in the WTO works. Most commentators agree that the breakdown of the WTO talks in Seattle and the present stalemate in Geneva are due largely to disagreements between the US and Europe. Their recent joint "Statement on a New Round" (31 May) is just three short paragraphs: a precise measure of how little agreement there is across the Atlantic these days.

One point, though, on which there is unity is that "the WTO agenda should include the social issues of labour and environment, not as a matter of protectionism but as a matter of social justice and sustainability."

Linking trade to labour and environmental standards is strongly opposed by many Third World countries, who see it as thinly veiled protectionism and beyond the mandate of the WTO. The EU-US insistence on keeping it on the agenda is guaranteed to deepen these divisions. In fact, so obvious is this conclusion that one wonders if it is a deliberate strategy by the EU and US to turn up the heat in the WTO, or is it simply a sop to the trade unions and environmentalists who support Al Gore but lost the China trade vote?

It is also obvious that once China joins the WTO the "linkages" debate will take on almost hysterical proportions. Although China's Permanent Normal Trading Relations (PNRT) was comprehensively endorsed by the US Congress, the human rights groups, the trade unions and the anti-China reactionaries will not sit down. Every glitch in the US economy, any hint of American job losses or dumped Chinese goods, reports of workers' rights violations or mass unemployment in China, or even signs of recalcitrance (let alone downright assertiveness) on the part of China, will unleash a new wave of China bashing.

And this will be the case so long as these groups continue to set their sights on the wrong target.

It is not China that is the main threat to workers, the environment and American jobs, but the economic system itself, of which the WTO is a central pillar. The inescapable logic of the WTO-enforced trade liberalisation regime is that workers are pitted against each other in an increasingly competitive and unstable global economy. Adding labour standards to a system which is already biased and unfair and where the rules are set by the few for the many, will not solve the problems but simply paper-over them. Even worse, extending the mandate to labour and environmental issues would lend legitimacy and even more power to an institution whose very existence should be under examination.

Once China joins the WTO there will undoubtedly be an upsurge of concern about Chinese workers' rights (which is unlikely to extend to all workers because, one assumes, it's better to be exploited by capitalists than by communists). But the WTO cannot solve the problem because it is part of the problem.

We must be concerned about workers, wherever they are. But the best way to materially, rather than rhetorically, improve conditions for all workers is by challenging the institutions (such as the WTO and the IMF) and the ideologies (such as free trade and financial liberalisation) which by provide the rationale for putting the rights of the market above the rights of people.

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# “Blowback:” A Review Essay on an Academic Defector’s Guide to America’s Asia Policy

by Walden Bello\*

In his 4th of July speech in 1821, US President John Quincy Adams cautioned the young republic not to “go abroad in search of monsters to destroy.” Such a trajectory, he said, would involve Washington “beyond the power of extrication, in all the wars and interest and intrigue, of individual avarice, envy, and ambition.” As a result, “she might become dictatress of the world. She would be no longer the ruler of her own spirit.” (1)

My recollection of Adams’ warning was triggered while reading *Blowback: The Costs and Consequences of American Empire* (New York: Henry Holt and Co., 2000). For this excellent piece of engaged scholarship documents how the United States, by ignoring the advice of a long and distinguished line of American thinkers, from Adams to Mark Twain to Senator J. William Fulbright, has indeed become “dictatress of the world,” one that is spinning out of control and is no longer even “the ruler of her own spirit.” This book, one of the most significant works on US-Asia relations to see print in recent years, is important not only for what it says but for who says it. Chalmers Johnson is one of the United States’ preeminent experts on Asia. His *Peasant Nationalism and Communist Power* was one of the most insightful works on the social bases of the Chinese Revolution. His work *MITI and the Japanese Miracle* institutionalized the model of Japan as a capitalist economy sui generis whose rise could not be understood using the paradigm of standard neoclassical economics, without reference to the central role of an activist, interventionist state.

And yet, earlier in his career, Johnson and his work were embedded in the American political science establishment, which had very close links to official Washington and for whom the role of scholarship was not just to understand the world but to understand the world so that the US could control events globally. While a professor at the University of California at Berkeley, the hotbed of student activism in the 1960’s, Johnson was convinced that “the United States could not afford to lose in Vietnam.” Now, he believes that that was “a disastrously wrong position,” and, in retrospect, “I wish I had stood with the antiwar protest movement.”

In this volte-face, Johnson follows George Kennan, the formulator of the strategy of Containment, and Robert McNamara, the former Secretary of Defense, in adopting a more critical view of US policy upon their retirement from public service. But Johnson goes beyond both Kennan and McNamara to characterize US behavior both during the Cold War and the post-Cold War period not so much as mistaken as “imperial.” This sea change he attributes to the greater knowledge he has gained in the last few years of the real workings of the US government, particularly its Department of Defense.

**America’s Asia** The picture he paints of America in Asia and the world is unremittingly negative. Why does the US maintain 39 bases in Okinawa, a small island the size of Los Angeles? To protect Japan? To contain Japan? Neither. The real reasons range from the mundane-Okinawa affords US military personnel a luxury lifestyle that would be unaffordable in the United States-to the transcendental: “to project American power throughout Asia in the service of a de facto US grand strategy to perpetuate or increase American hegemonic power in this crucial region.”

Why is the US in Korea? To achieve the Pentagon’s trinitarian formula of securing stability, promoting the peace, and protecting democracy? Hardly, since the massive US military presence actually promotes instability, ensures that the peninsula is constantly on the knife-edge of war, and – having helped bring to power and main authoritarian regimes in the last 50 years-and certainly has nothing to do with protecting democracy. Washington is in Korea for the same reasons it remains entrenched in Okinawa, and a North Korea that is portrayed as an unpredictable rogue regime provides an important rationale for keeping 30,000 troops on the peninsula. Keeping Korea structurally divided, Johnson implies, is part of the Pentagon’s game plan for perpetuating its half-century-old toehold in mainland Asia.

A military establishment that is out of control is today the determining force behind US foreign policy in Asia. And not only in Asia: witness, says Johnson, the way the Pentagon scuppered Washington’s support for an international criminal court to bring to justice soldiers and political leaders charged with crimes against humanity and vetoed the US’s signing the landmark December 1997 treaty banning land mines. The Defense Department also runs a semi-clandestine military training operation that gives it close operational ties with armies throughout the world-including the notorious Kopassus unit of the Indonesian military that was responsible for numerous human rights abuses during Suharto’s rule. And the Pentagon stands at the apex of an extremely profitable military industrial complex, one of whose activities-massive arms sales-is one of the great forces of destabilization in the post-Cold War era.

Strategic Power Johnson's emphasis on the role of the Pentagon is a healthy balance to the views of those analysts who emphasize the primacy of corporate interests in determining US foreign policy. Indeed, even when he examines developments in the regional economy, Johnson finds geostrategic considerations of central importance in explaining US behavior. In the case of the Asian financial crisis, for instance, one can interpret the American policy of promoting free markets and the free flow of capital as stemming either from a naive, indeed utopian, project to remake Asia's economies in America's image. Or alternatively, "one could conclude that having defeated the Fascists and the Communists, the United States now sought to defeat its last remaining rivals for global dominance: the nations of East Asia that had used the conditions of the Cold War to enrich themselves. In the latter view, US interests lay not in globalization but in bringing increasingly self-confident competitors to their knees." This explanation, Johnson indicates, is the more credible one, and as one who has looked at the crisis in more than superficial terms, I would have to agree with him that there is a lot going for it.

Adopting a geostrategic perspective does not have to mean, however, that one holds that the military has the upper-hand in determining US foreign policy in all or most foreign policy debates on Asia, as Johnson appears to imply. Sometimes corporate interests are the leading force, and the agenda of US transnational corporations may sometimes conflict with the military's preferences. The case of the recent battle over permanent trade status for China, for instance, was a tactical victory for corporate forces driven by the illusion (for illusion it is!) of cornering the China market under the umbrella of an "engagement" approach and a setback for those, including key elements at the Pentagon, that are in favor of a "containment" strategy that would limit China's access to the foreign investment and the export markets that are central to strengthening that country's geostrategic position.

Missing Dimension Johnson's obsession with the US military as a foreign policy actor also precludes him from subjecting to more than just superficial analysis the ideological dimension of Washington's global hegemony. The ideological dimension is, in my view, an equally central pillar of empire, for the US is driven not only by the pursuit of military power or economic power but also by a missionary idealism that is out to remake the world in America's image. When geoeconomic goals, like weakening or opening up America's economic competitors in Asia, are justified by invoking free-market ideology, this is not simply instrumental. When "exporting democracy" is invoked as a central consideration in US policy towards Haiti, Burma, Iraq, or Indonesia, it is not simply as a smokescreen for US strategic or corporate interests. The slight attention paid to ideological factors leads Johnson to totally neglect the US move, from the mid-eighties onwards, to shift its support from authoritarian dictatorships to formally democratic regimes from Manila to Santiago. Supporting the establishment of elite democracies modeled procedurally along Westminster or Washington lines performed several objectives: defusing revolutionary movements without changing conservative class structures, creating new and broader bases of local support for the US, and making American foreign policy more in line with the self-image of America as a bastion of democracy.

It is against this ideological dimension, this sense of a global mission, however misguided, that we must interpret Secretary of State Madeleine Albright's statement cited by Johnson: "If we have to use force, it is because we are America. We are the indispensable nation. We stand tall. We see farther into the future." Or sociologist Seymour Martin Lipset's claim that the US remains the "exceptional nation." (2) Or New York Times columnist Thomas Friedman's assertion that the US is the "world's role model" in the era of globalization. (3)

This volatile and sometimes unpredictable interaction of semi-autonomous military, corporate, and ideological drives that oftentimes move together but sometimes conflict is what makes US imperialism so complex, so dynamic, so destabilizing, and so confusing for the rest of the world. When democracy, as a mechanism of manufacturing "consensus" from the dominated, becomes an essential weapon of the empire, we are dealing with a force that is very different from the old imperial powers. This is ultimately an imperialism that is driven not simply by the search for strategic primacy, not only by corporate expansionism, but also by the drive for global ideological hegemony—a feverish complex that ultimately stems from the contradictory origins of America as a relentlessly expansionist settler colony of white Europeans rebelling against the British Empire in the name of achieving and spreading "freedom" and "democracy" understood in 18th century terms.

Pointing out that Johnson's work has limitations in helping us unravel the dynamics of the American empire must not, however, detract from the critical importance of its central message that in the post-Cold War era, Washington has become more unilateral, less constrained by a respect for international law and institutions, more destabilizing, and more out of control.

“Blowback” But although seemingly at the apogee of its power, the US actually finds itself, claims Johnson, in a condition of “imperial overstretch,” a term he borrows from Paul Kennedy. Past deeds and policies are coming home to roost, whether in the form of the bombing of the World Trade Center in New York by Islamic Mujaheddin terrorists that were formerly supported by the CIA in Afghanistan, the export of cocaine to the US by “contras” that had been trained by Washington to overthrow the Sandinistas in Nicaragua, or the debasing of democratic discourse in official Washington’s justification of its foreign policies, which has led to greater citizen distrust of suspicion of government. “Blowback,” a CIA term for the boomerang effect of past policies, is turning the US into a Gulliver that is bleeding from a thousand and one cuts. And more blowback is in store for Wall Street and Washington: “The Americans buying... foreclosed properties in East Asia may believe that they are merely responding to the signals of market forces, but they would be fools to believe that the sellers agree with them.” Indeed, “it is only a matter of time until the small nations of East Asia get rid of this American bullying and find a suitable leader to create an anti-American coalition.”

To prevent the dislocations for Asia and America of the inevitable resistance to US power and Washington’s mailed-fist response to that resistance, Johnson suggests that the US withdraw its land base forces from East Asia, and, in the case of Korea in particular, couple its disengagement with support for the unification of the peninsula. Such an enlightened policy, Johnson says, would actually stabilize the region because a “unified, economically successful Korea would help ensure a genuine balance of power in East Asia rather than the hegemony of either China, Japan, or the United States. Such a policy would also be a more effective way of instilling prudence in the foreign policy of an emerging China than our current pretense that we have the will, money, or patience to ‘contain’ China.”

“Vision 2020” Great. But how much chance does Johnson have of being heeded by Washington? Virtually zero, if we are to believe a recent Washington Post report on the Pentagon’s recent “defense guidance.” In this still unreleased document, titled “Joint Vision 2020,” the Pentagon envisions Asia instead of Europe as the prime focus of US military in the coming decades, identifies China as a “peer competitor,” and projects an indefinite military presence in Korea and Japan, even if the “threat” from North Korea disappears. (4)

There are now more attack submarines deployed to Asia than to Europe and more war games and strategic studies focused on Asia. In addition, the Pentagon has been busy constructing the diplomatic and political framework for the US military’s “reentry in Southeast Asia.” In this connection, notes the Post report, the revamped US military relationship with the Philippines represented by the Voluntary Forces Agreement (VFA) may be a model for Southeast Asia. Instead of building Okinawa-type bases “with bowling alleys and Burger Kings that are off-limits to the locals, US forces will conduct frequent joint exercises to train Americans and Filipinos to operate together in everything from disaster relief to full-scale combat.” (5)

And to what end? As always, to “maintain regional stability,” to use three of the most overused words in the Pentagon lexicon. Chalmers Johnson’s Blowback blows this cover: the reality undergirding “Vision 2020” is that, after over 50 years of being deployed in Asia, America’s legions are loath to go home, and their chiefs will do anything, even create new enemies, to create the illusion of their indispensability.

(1) Cited in Walter McDougall, *Promised Land, Crusader State* (New York: Houghton Mifflin, 1997), p.p. 11-12. (2) Seymour Martin Lipset, “Still the Exceptional Nation?,” *Washington Quarterly*, Winter 2000, pp. 31-45. (3) Thomas Friedman, *The Lexus and the Olive Tree* (New York: Farrar Straus Giroux, 1999), p. 352. (4) Thomas Ricks, “Changing Winds of US Defense Strategy,” *Washington Post Service* reproduced in *International Herald Tribune*. (5) *Ibid.* \*\*\*\*\*

## **A Response from Bill Jordan to the Peter Waterman (See Focus on Trade #49)**

Dear Peter Waterman, I am writing to address some of the points raised in your open letter written to me on the occasion of our recent Congress in Durban, South Africa.

The Struggle of the Trade Union Movement and Engagement: I do not see a contradiction between the trade union struggle and engagement with employers and governments whether it is at the national or international levels. We must be both in the streets and at the bargaining table.

I do not know where you got the impression that the trade union movement was not involved in the demonstrations in Seattle in connection with the WTO ministerial meeting. It is true that trade unionists were not breaking windows and trying to block the meetings. However, the participants in the rally and march at the beginning of the ministerial meeting were overwhelmingly trade unionists.

Our American affiliate, the AFL-CIO, made a major and quite successful effort to mobilise members of their unions in a truly impressive show of dissatisfaction not only with the WTO, but also with an unbalanced and unfair globalisation that serves Capital and not Labour. I spoke at that rally and marched through the streets of Seattle along with trade union representatives from all parts of the globe. In fact, we held our Executive Board meeting in Seattle to help ensure that proper attention was paid in the trade union movement and by governments to the importance of the WTO meeting.

We also, however, met with Mike Moore and with very many government representatives who were sitting around the table in Seattle as well as engaging in a dialogue with other elements of civil society. Seattle is a good example of what we are all about; confrontation, when necessary and engagement, when possible. It is not always easy to take this approach, but it is not impossible. It just takes a certain amount of co-ordination.

On the question of what we in the trade union movement are doing, I would caution you not to accept all you read in the press. They do not always provide full information nor clear and accurate descriptions of trade union motives and actions. In fact, there is much happening in this world, especially in the trade union movement, that they choose not to cover.

MAI is a perfect example. As you know, the Multilateral Agreement on Investment was being negotiated in the OECD over the period from 1995 to 1998. Throughout this period the Trade Union Advisory Committee to the OECD (TUAC) made a major effort to influence the structure and content of discussions on that agreement long before the overwhelming majority of NGOs had even heard of it.

It is with some trepidation that I will try to make a few points about the MAI. I fully realise that for many, it has become evidence that globalisation is a plot and not a process. In fact, there had been a lot of work done to ease the way for multinational companies in investment matters long before the MAI, including in the form of over 1600 bilateral investment agreements. None of these agreements have protections of any rights other than property rights. In addition, there are regional trade agreements like NAFTA that protect the rights of investors.

MAI was neither a counter-revolution nor a secret conspiracy of Capital to control the world. It was an attempt to consolidate these already bad agreements on a larger scale. As such, it was ill conceived, unbalanced and dangerous. TUAC made powerful arguments against this approach. The ICFTU participated in this effort and can attest to the determination and effectiveness of TUAC throughout this long and difficult fight.

Did this mean that we talked with the government representatives who were negotiating the agreement? Yes, we did. Does this mean that TUAC, with the support of the ICFTU, urged affiliated national centres to raise these issues at the highest levels of their governments? Yes, it does. Although the negotiations failed, in the course of the trade union engagement, important progress was made and not just with a couple of words or changes in punctuation.

For the first time, nearly all OECD governments recognised that it was wrong to lower domestic

labour standards to attract investment. And core labour standards were also recognised as linked, not unrelated, to liberalisation. Perhaps to many, this doesn't matter, but to the millions of workers, overwhelmingly women, who work in export processing zones where the violation of their fundamental rights is used as an investment incentive, it was a breakthrough that could have changed their lives.

None of this is intended to belittle the campaign by many NGOs to defeat MAI and the positive effect that campaign had on public opinion, but to show that there is not one exclusive, legitimate way to act on global any more than on national issues. On the WTO, like the MAI and countless other issues, we have chosen to express trade union views in a variety of ways.

I would also like to comment on the interaction between the trade union movement and NGOs that developed over the MAI. NGOs played a valuable role in raising a broader awareness of the issues at stake. Not all NGOs were opposed outright to any form of MAI, and many joined trade unions at the national and international levels in raising the same issues. However, I have lost count of the number of personalities within the NGO movement who've claimed responsibility for the death of the MAI. If it helps them to sell books fine, and why let the truth get in the way of a good story. But at the end of the day the MAI collapsed for a variety of reasons including its internal contradictions. Its death was brought about a combination of enemies including those within Ministries other than Economics and Trade when they became aware of what their colleagues were up to.

For its part, the TUAC secretariat shared information with NGOs and participated in both formal and informal NGO meetings where it provided updates on government negotiating positions and other vital information. This was practical co-operation and it produced good relations that have continued into the current Review of the OECD Guidelines for Multinational Enterprises. Without pre-judging the outcome and the final position that various sides will take, it is my judgement that those NGOs working alongside TUAC from within the tent have had an impact on the direction of the Review far in excess of what would have been achieved had they not chosen to so engage.

There is a fundamental question as to whether the trade union movement should try to engage employers and governments at the international level. It is, in fact, the same legitimate question posed many generations ago as to whether collective bargaining was class collaboration. For some, that philosophical or ideological dilemma has never been resolved. But most trade union members found in collective bargaining not a dilemma but a purpose of collective organisation. Unions could not be aloof and unconnected to the main influences in the lives of their members and workers' demand for real as opposed to abstract rights and benefits. Failing to engage, like the refusal to struggle, was not a luxury that workers could afford.

I believe that globalisation forces a change in our orientation. It may mean, for example, that a worker should begin to see an international trade secretariat in the same way that a national or local union is seen now. If that is the case, there is a compelling case for international campaigns against global companies, but also a case for engaging those companies.

Similarly, to the extent that policy, including national policy, is being influenced or even determined by intergovernmental bodies like the international financial institutions, the WTO and others, it would be irresponsible for us not to engage, to walk away from our members, to refuse to be their voice.

If we could avoid that engagement, it would be a lot easier for a lot of us. Talking exclusively among ourselves is more comfortable and much less stressful. Irrelevance brings with it a certain satisfaction, sometimes even smugness.

Campaigning versus engagement is a false choice. Campaigning needs to bring about changes in habits, practices and institutions. It is not an end in itself. Our task is not to abandon one to embrace the other, but to do both much more effectively.

Social Partnership and Civil Society: Having been born and raised in the United Kingdom, the term "social partnership" does not roll easily off my tongue. That was something for Europe, a continent that we all knew, in those days, was on the other side of the channel. However, the use of the term is not simply surrender to funny, Continental terminology. It can be useful as long as we don't forget reality.

What is "social partnership not?" It is not a situation where employers unilaterally run everything, know

best, do not consult or negotiate. "Partners" means that there is more than one. In far too many countries and parts of the world, there is only one partner and one party around the table.

In addition, a social partnership is social. It is based on a notion that there is more involved in the two sides of industry than economic gain, and that workers are more than costs of production.

Reality is, however, often harsh. We know that "social partnership" is often an aspirational term. Of course, one could also say that "civil society" is not always very "civil."

I have never believed that workers and employers have the same interests. I don't think that is implied in the term social partners. There is a natural and inherent conflict between workers and those who employ them. That is why workers need unions to be the instrument of their will, their voice, and to give them the power to gain their rights, to defend their interests, and to become social partners. In fact, I was never so naive that I believed that in a "workers' state," people would not need to have their own, free and independent trade unions.

I like the old fashioned notion of "industrial democracy". However, regardless of whether one uses social partners, interlocutors or some other term, the essential point is that workers must have a say, must have power and a status that is at least that of Capital. The notion of partners recognises the fact of class conflict. It does not deny it; it flows from it.

Another related issue is the need to strengthen tripartism, not just at the ILO, where one of our top priorities is to increase its role in the world, but at national and regional levels. In recent years, many governments have considered that talking with private business is the same as talking with the private sector. They have virtually ignored workers and their representatives. Social partnership and tripartism is certainly a great improvement over that.

Although it is no longer fashionable to speak of class, it remains fundamental to any useful analysis of the situation in the world today. In remarks to our Congress, I stressed that we should not let all of the discussion of North versus South mask Capital versus Labour. In fact, that is where the line is drawn on the link between social and economic progress, between workers' rights and trade and investment.

A majority of our member organisations are in the South. If you believe the press, they should be against a link between workers' rights and trade because they are from the South. Instead, they are strongly in favour. Similarly, using the same simple-minded approach, I suppose that multinationals, being largely from the North, should be in favour of protecting the fundamental rights of workers and of using trade and investment to push standards up instead of down. But they are opposed. So much for simple North-South arguments.

We have had an enormous influx of members from the South in recent times as well as from transition countries. The ICFTU is currently tackling, more than ever before, the challenge and opportunity of involving in membership and leadership more women trade unionists, and motivating young people to be active in our movement. Much more progress needs to be made to organise all these workers at the national and the international levels. However, one should not conclude that that influx now is because we barred the door in the past. In parts of the Third World, free trade unionism has been long suppressed by dictatorships. Similarly, in what are now referred to as transition countries, workers did not choose to have captive unions. Their rulers imposed that decision. We never forgot, however, our obligation to speak up and to fight for their rights until they were free to speak for themselves and gain the right and opportunity to unite with the workers of the world.

You note that I mention "civil society" and that I also refer to "NGOs". You are wrong however to suggest that I am using two terms to signal a change from "orientation" to "political relations" - whatever you may mean by this. The reason I use two terms is because I am talking about two different things. NGOs are not the only components of civil society - for instance religions and political parties can also be components. I am increasingly concerned that the failure to distinguish NGOs from civil society is making it easy for those who are now attempting to redefine civil society to the detriment of working people. Civil society is not strengthened when democratic governments pass on what ought to be their responsibilities to NGOs that they create, finance and ultimately control. Where NGOs become a means by which government is less accountable, then the chances of achieving a civil society are diminished. Similarly, civil society is not increased where business manufactures "partners" by creating or controlling NGOs.

Without going on at great length about the need to build coalitions inside civil society, the main point that I would like to reaffirm here as I did in my original paper to the “Organised Labour” e-conference is that trade unions are central to civil society, but are, at the same time, different from other elements of civil society. Many groups can advocate workers’ rights, for example, and be in coalition with us, but trade unions must also represent workers and they are accountable to their members. The special nature of trade unions must be understood if effective coalitions are to be built.

Elected trade union leaders are given authority by democracy, but they are also restrained and guided by their members. Their members also largely finance the activities of trade unions. If that was not the case, unions could be wiped out by a simple act of government. The ICFTU’s affiliated national centres pay for the ICFTU. To my knowledge, none of them use any government funds to pay their fees. The ICFTU’s accounts are entirely public for anyone who wants to check those facts; I don’t know what unreliable source told you that one-half of our budget comes from governments.

Trade Union Values: As indicated in my original paper and cited in your letter, trade union principles remain constant in spite of other changes. For example, we have embraced new technology to help us do our work and to spread our message. We have done so with a little delay, but most of our problems relate to the gap in the world when it comes to the availability of information technology. Although the situation is changing, at the time we established our web site and extensive e-mail capacity, a large number of our affiliates in the developing world had no possibility to have access to that information. One of the issues we are looking at is how we can close that technology gap. Of course, that is only one example of a gap that is little discussed in terms of globalisation, the information gap. But, new means of communication does not change the meaning of trade unionism.

Similarly, global capital is emerging as an even greater force. The ITS, with our active co-operation, have been increasingly addressing global capital in the same way as national unions do; with campaigns, engagement and even a significant handful of global, framework agreements.

Human beings have not become another species because of globalisation. The global economy has not eliminated the basic conflict between labour and capital nor has it crushed solidarity or the struggle for social justice. The theme of our Congress was “Globalising Social Justice.” We do not propose replacing the idea of social justice or workers’ rights, just acting smarter and more effectively at a global level to support struggles at the national level.

There can only be a crisis of values in the face of change if one defines oneself in terms of what one is against. If trade unionism is defined as being against colonialism or totalitarianism or other forms of dictatorship and that situation changes, there is a crisis. Similarly, if one defines oneself as simply being against private Capital, one would never defend the rights of employees of the public sector or in State-owned enterprises.

But if trade unionism is a tool for workers, all workers, to liberate themselves, to overcome whatever force oppresses them, to gain rights and dignity, and to build stronger, healthier families and communities, there is no crisis of values. There is also, of course, no reasonable prospect for quick and final victory.

People are not born into this world to serve the economy. The economy is a human creation. It should serve humanity. That has not changed whether that economy is rural, small towns and villages, cities, nation-states, or the global market place.

It is a wonderful feeling for workers to be able to look the boss in the eye and to tell that boss what they think without fear. But today that boss may be in another country. For more and more workers achieving that wonderful feeling will require international solidarity. Creating permanent and democratic organisations will continue to be the highest expression of solidarity by workers and strong, dynamic and free international trade union organisations are essential to give full effect to the principle embodied in the ILO’s Philadelphia Declaration that the labour of a human being is not a commodity to be bought and sold in the open market.

Yours sincerely, Bill Jordan ICFTU General Secretary

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