

## **What can ASEM deliver in response to the current crises in the world economy?**

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- a) Reflections from the just concluded AEPF in Beijing on the crisis;
- b) What are the causes of the crisis;
- c) Recommendations for ASEM.

I bring you greetings of peace and solidarity from the Asia-Europe Peoples' Forum (AEPF).

About 500 people from Asia and Europe participated at the 7<sup>th</sup> AEPF entitled 'For Social and Ecological Justice'. The forum took place earlier this week in Beijing for a period of three days. The discussions were organised around three main clusters: Peace and Security, Social and Economic Rights and Environmental Justice and 'Participatory Democracy and Human Rights'.

Let me share with you excerpts of the Final Declaration of the 7<sup>th</sup> AEPF, which sums up the thinking of the AEPF on the current financial crisis:

"What is currently being presented as a 'financial crisis' is in reality the latest in a series of interlinked crisis – food, energy, climate, human security and environmental degradation – that are already devastating the lives and compounding the poverty and exclusion faced on a daily basis by billions of women, men and children.

There is a strong consensus across Asia and Europe that the dominant approach over the last decades – based around deregulations of markets, increasing power of multinational corporations, unaccountable multilateral institutions and trade liberalisation – has failed in its aims to meet the needs and rights of citizens. We need to go beyond analysis and responses that focuses solely on short term measures benefiting a few financial institutions.

We therefore call upon the ASEM to implement people centred responses to the current financial crisis, in an effective and responsible manner. Urgent need must be given to poor, excluded and marginalised people and governments must work with citizens to develop and implement policies that will lead to a just, equal and sustainable world, and more accountable and democratic institutions – based on respect for gender equality, our environment and fundamental human rights".

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Chairperson and Friends –

It is ten years since many of us met in London in one of the earliest ASEM meetings. Our solemn mood then was shaped very much by the fall-out of what was called the Asian economic crisis. In that context, one economy after another – Thailand, Indonesia, South Korea, the Philippines – went belly-up. And the once-praised developmental model fell into disrepute.

Ten years fast forward - the high priest of free market ideology Alan Greenspan the former Chairman of the US Federal Reserve of 18 years in his book *Age of Turbulence* heaped praise on the magic of financial markets and criticized as foolishness those who called for greater regulation of the financial markets. In fact he asked "why do we wish to inhibit the pollinating bees of Wall Street".

One year into the publication of the book world financial markets have been gripped with panic. Financial uncertainty and fragility is the buzz word. Global stock markets have hit rock bottom and are in a free fall. Wall Street lost its top five investment banks. The US congress passed a USD 700 billion rescue package fearing that the US financial system might collapse, and it constitutes the biggest US government intervention in history.

Similarly the British government announced a 500 billion pounds bail-out package to save its financial institutions. French President Sarkozy has called for a major European bail-out. Workers have lost their life savings. Fears of a global recession or a depression are being predicted, one worse than in the 1930's.

The present Chairman of the Federal Reserve Ben Bernanke admitted, "we have no control any more". The world changed in September 2008.

The crisis shows no signs of abating despite concerted interest rate cuts and massive liquidity injection by governments and central banks worldwide.

Just as in 1997, the cause of the financial crisis was unfettered liberalization of financial markets. Just as in 1997, the governments subsidized the rich, including their plunder and recklessness through bail out and rescue packages.

The Chairmen of the failed Lehman Brothers is reported to have received about USD 484 million in various kind of compensation even when the company was in trouble. In fact, the captains of industry continue to cheat, and plunder because they do not pay for the crisis. The victims are workers who might be out of a job and who might have lost all savings. This is your classic socialism for the rich and free market poverty for the poor.

What is peculiar about the 2008 financial crisis is that it is taking place along-side a food, energy and an ecological crisis. Furthermore, it humbled the world's economic super powers. They are asking developing countries like China to help solve the credit crisis through coordinated interest rate cuts.

Back in 1998, it was already clear to activists from the social movements and civil societies of both Asia and Europe that far-reaching, progressive responses were needed to address both the causes of the crises and their bitter consequences. The writing was on the wall.

We in the AEPF called for a radical new policy agenda – one which addressed the impact of economic policies on ordinary people, human rights and the environment. In short, we demanded that ASEM should broaden its agenda to include governance and human rights issues, environmental sustainability and people-centred development.

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Did the governments of Asia and Europe listen to the calls for a different model of development? Did they put into place the kinds of responsive and accountable governance mechanisms that could anticipate and deal effectively with periodic crises?

The answer should be clear enough. In their collective wisdom, the political leaders, policymakers, corporate captains, and media and academic supporters ignored in almost every detail what had gone so drastically wrong in 1997 and 1998. Instead of reflecting critically on the dangers of rapid liberalization, deregulation and privatization, these neoliberal ideologues actually launched an even more intensive and extensive assault, driven by the motor of market-led politics.

One important outcome of the assault is that transnational finance increased its control over all the major circuits of the global economy. The result has been an unprecedented concentration and centralization of economic power, dominated more and more by giant conglomerates.

The results are clear for all to see. Today, a decade on, we can feel the aftershocks of yet another capitalist crisis. The masters of the market have been forced to eat humble pie for their own recklessness. They are consumed by fear.

At the same time, ordinary people around the world – working people, marginalised groups, developing countries – brace themselves to pay the price – already running into trillions of dollars – not only for the greed of the super-rich but the structural failings of an economic system.

As has become abundantly clear there is no hiding place from the markets' ring of fire.

While today everyone is obsessed with the sickness of the banks and other financial institutions, only a few months ago the world's attention turned (at least for a while) to the most acute food crisis in decades – with "routine" hunger transforming into what has been called "the great hunger of 2008".

And of course the circuits of finance capital and the food crisis including the energy crisis are intimately related. The rapid and simultaneous rise in the world prices for all basic food crops – corn, wheat, rice, soybeans and cooking oils – has not been because of a lack of production. Rather it lies in the way that food has become just another item in global commodity chains, subjected to the same irrationalities of the markets as other commodities.

The food crisis has led to massive food riots the world over.

In fact, there is something wrong with our food system. Agri-business has transformed food into a speculative commodity as opposed to ensuring people right to food and livelihoods. In fact at the heart of the food crisis are neoliberal policies that focus on free trade as opposed to self sufficiency.

It appears that agricultural policy has been detached from the aim of feeding people. Thus it comes as no surprise that the UN World Food Programme warns that about 100 million people will go hungry as a result of the recent price hikes.

Speculation in the futures market has become endemic as the massive food conglomerates and financiers make common cause. Hedge Funds

and other speculative and investment funds control about 50-60 per cent of the wheat traded on the global commodity markets.

One estimate shows that the amount of speculative money in commodities futures – markets where investors do not buy or sell a physical commodity, like rice or soya or wheat, but merely bet on price changes – has ballooned from US\$5 billion in 2000 to US\$175 billion in 2007. This is the new face of profit amidst hunger.

And then there is speculation in oil. Goldman Sachs speculative money in oil amounts to USD 80 billion. Since 2005 Morgan Stanley has been accumulating warehouse space in the Netherlands to store its hottest property oil. The once investment bank (now a deposit taking bank) use to supply fuel to United Airlines.

In fact speculative investment demand in commodities increased from USD 70 billion in 2006 to \$215 billion in 2008, about 300 percent increase in a short two year period. Much of the trading by hedge funds is driven by sophisticated computer-trading models. The models, known as black boxes, use complicated formulas to determine trades for a hedge fund.

Since the advent of oil futures trading and the two major London and New York oil futures contracts, control of oil prices has left OPEC and gone to Wall Street, Nymex in New York and the ICE (Intercontinental Exchange) Futures in London.

In addition, there is the longer term horizon of the ecological catastrophe – in a year when leading scientists have predicted the environmental problems facing humanity have reached an irrevocable “tipping point”.

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So, once again we stand at an historical moment ten years on in a sombre mood – surveying the wreckage of crises that are both long-term and of immediate consequence; of crises that demand not cosmetic reforms but a deep-rooted and sustainable transformation of how we shape the global order

In 1998, the ASEM meeting in London established the ASEM Trust Fund involving USD 43 million and was administered by the World Bank. What would ASEM governments do in 2008 (in about less than 2 weeks)? Should ASEM extend similar support as in 1998? Or should ASEM change track?

John Eatwell and Lance Taylor inform us that “the history of the modern world economy teaches us that the disadvantages of the spread of liberal financial markets can be offset by sensible public intervention”. They further note that “in recent years indiscriminate deregulation has dominated domestic and international economic policy”.

In calling for an alternative financial architecture is not to undermine the need for a financial system. It is necessary to sustain world trade and investment and the organisation of production of distribution.

The question is how does the financial architecture work in the interests of people, promote sustainable livelihoods and job security, protects the environment, creates sustainable business, ensure food security for all people.

The AEPF’s view would be that ASEM should begin the process of looking at alternative financial architecture but as a first step to stop speculative funds from betting and speculating on food and energy. This is because speculations on food and oil have led to loss in jobs, more hunger and loss of livelihoods of millions.

A new architecture could look into the following possibilities: a) regulation of the financial markets, b) imposing necessary conditions on capital flows, c) industries and sectors to which funds can flow and cannot flow, and d) ensuring government are in a position to control the opening of their capital markets.