



# Trade News Bulletin

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## INSIDE THIS ISSUE

- 1** G20 Communiqué from the London Summit
- 6** Castro could help Obama to end Cuba embargo
- 9** Be bold
- 10** OECD: 'International Trade in Freefall'
- 11** Politics versus the law—South Africa

## G20 Communiqué from the London Summit

2<sup>nd</sup> April 2009 | From The London Summit

*The official communiqué issued at the close of the G20 London Summit.*

1. We, the Leaders of the Group of Twenty, met in London on 2 April 2009.
2. We face the greatest challenge to the world economy in modern times; a crisis which has deepened since we last met, which affects the lives of women, men, and children in every country, and which all countries must join together to resolve. A global crisis requires a global solution.
3. We start from the belief that prosperity is indivisible; that growth, to be sustained, has to be shared; and that our global plan for recovery must have at its heart the needs and jobs of hard-working families, not just in developed countries but in emerging markets and the poorest countries of the world too; and must reflect the interests, not just of today's population, but of future generations too. We believe that the only sure foundation for sustainable globalisation and rising prosperity for all is an open world economy based on market principles, effective regulation, and strong global institutions.
4. We have today therefore pledged to do whatever is necessary to:
  - restore confidence, growth, and jobs;
  - repair the financial system to restore lending;
  - strengthen financial regulation to rebuild trust;
  - fund and reform our international financial institutions to overcome this crisis and prevent future ones;
  - promote global trade and investment and reject protectionism, to underpin prosperity; and
  - build an inclusive, green, and sustainable recovery.

By acting together to fulfil these pledges we will bring the world economy out of recession and prevent a crisis like this from recurring in the future.

5. The agreements we have reached today, to treble resources available to the IMF to \$750 billion, to support a new SDR allocation of \$250 billion, to support at least \$100 billion of additional lending by the MDBs, to ensure \$250 billion of support for trade finance, and to use the additional resources from agreed IMF gold sales for concessional finance for the poorest countries, constitute an additional \$1.1 trillion programme of support to restore credit, growth and jobs in the world economy. Together with the measures we have each taken nationally, this constitutes a global plan for recovery on an unprecedented scale.



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### **Restoring growth and jobs**

**6.** We are undertaking an unprecedented and concerted fiscal expansion, which will save or create millions of jobs which would otherwise have been destroyed, and that will, by the end of next year, amount to \$5 trillion, raise output by 4 per cent, and accelerate the transition to a green economy. We are committed to deliver the scale of sustained fiscal effort necessary to restore growth.

**7.** Our central banks have also taken exceptional action. Interest rates have been cut aggressively in most countries, and our central banks have pledged to maintain expansionary policies for as long as needed and to use the full range of monetary policy instruments, including unconventional instruments, consistent with price stability.

**8.** Our actions to restore growth cannot be effective until we restore domestic lending and international capital flows. We have provided significant and comprehensive support to our banking systems to provide liquidity, recapitalise financial institutions, and address decisively the problem of impaired assets. We are committed to take all necessary actions to restore the normal flow of credit through the financial system and ensure the soundness of systemically important institutions, implementing our policies in line with the agreed G20 framework for restoring lending and repairing the financial sector.

**9.** Taken together, these actions will constitute the largest fiscal and monetary stimulus and the most comprehensive support programme for the financial sector in modern times. Acting together strengthens the impact and the exceptional policy actions announced so far must be implemented without delay. Today, we have further agreed over \$1 trillion of additional resources for the world economy through our international financial institutions and trade finance.

**10.** Last month the IMF estimated that world growth in real terms would resume and rise to over 2 percent by the end of 2010. We are confident that the actions we have agreed today, and our unshakeable commitment to work together to restore growth and jobs, while preserving long-term fiscal sustainability, will accelerate the return to trend growth. We commit today to taking whatever action is necessary to secure that outcome, and we call on the IMF to assess regularly the actions taken and the global actions required.

**11.** We are resolved to ensure long-term fiscal sustainability and price stability and will put in place credible exit strategies from the measures that need to be taken now to support the financial sector and restore global demand. We are convinced that by implementing our agreed policies we will limit the longer-term costs to our economies, thereby reducing the scale of the fiscal consolidation necessary over the longer term.

**12.** We will conduct all our economic policies cooperatively and responsibly with regard to the impact on other countries and will refrain from competitive devaluation of our currencies and promote a stable and well-functioning international monetary system. We will support, now and in the future, to candid, even-handed, and independent IMF surveillance of our economies and financial sectors, of the impact of our policies on others, and of risks facing the global economy.

### **Strengthening financial supervision and regulation**

**13.** Major failures in the financial sector and in financial regulation and supervision were fundamental causes of the crisis. Confidence will not be restored until we rebuild trust in our financial system. We will take action to build a stronger, more globally consistent, supervisory and regulatory framework for the future financial sector, which will support sustainable global growth and serve the needs of business and citizens.



**14.** We each agree to ensure our domestic regulatory systems are strong. But we also agree to establish the much greater consistency and systematic cooperation between countries, and the framework of internationally agreed high standards, that a global financial system requires. Strengthened regulation and supervision must promote propriety, integrity and transparency; guard against risk across the financial system; dampen rather than amplify the financial and economic cycle; reduce reliance on inappropriately risky sources of financing; and discourage excessive risk-taking. Regulators and supervisors must protect consumers and investors, support market discipline, avoid adverse impacts on other countries, reduce the scope for regulatory arbitrage, support competition and dynamism, and keep pace with innovation in the marketplace.

**15.** To this end we are implementing the Action Plan agreed at our last meeting, as set out in the attached progress report. We have today also issued a Declaration, Strengthening the Financial System. In particular we agree:

- to establish a new Financial Stability Board (FSB) with a strengthened mandate, as a successor to the Financial Stability Forum (FSF), including all G20 countries, FSF members, Spain, and the European Commission;
- that the FSB should collaborate with the IMF to provide early warning of macroeconomic and financial risks and the actions needed to address them;
- to reshape our regulatory systems so that our authorities are able to identify and take account of macro-prudential risks;
- to extend regulation and oversight to all systemically important financial institutions, instruments and markets. This will include, for the first time, systemically important hedge funds;
- to endorse and implement the FSF's tough new principles on pay and compensation and to support sustainable compensation schemes and the corporate social responsibility of all firms;
- to take action, once recovery is assured, to improve the quality, quantity, and international consistency of capital in the banking system. In future, regulation must prevent excessive leverage and require buffers of resources to be built up in good times;
- to take action against non-cooperative jurisdictions, including tax havens. We stand ready to deploy sanctions to protect our public finances and financial systems. The era of banking secrecy is over. We note that the OECD has today published a list of countries assessed by the Global Forum against the international standard for exchange of tax information;
- to call on the accounting standard setters to work urgently with supervisors and regulators to improve standards on valuation and provisioning and achieve a single set of high-quality global accounting standards; and
- to extend regulatory oversight and registration to Credit Rating Agencies to ensure they meet the international code of good practice, particularly to prevent unacceptable conflicts of interest.

**16.** We instruct our Finance Ministers to complete the implementation of these decisions in line with the timetable set out in the Action Plan. We have asked the FSB and the IMF to monitor progress, working with the Financial Action Taskforce and other relevant bodies, and to provide a report to the next meeting of our Finance Ministers in Scotland in November.

### **Strengthening our global financial institutions**

**17.** Emerging markets and developing countries, which have been the engine of recent world growth, are also now facing challenges which are adding to the current downturn in the global economy. It is imperative for global confidence and economic recovery that capital continues to flow to them. This will require a substantial



strengthening of the international financial institutions, particularly the IMF. We have therefore agreed today to make available an additional \$850 billion of resources through the global financial institutions to support growth in emerging market and developing countries by helping to finance counter-cyclical spending, bank recapitalisation, infrastructure, trade finance, balance of payments support, debt rollover, and social support. To this end:

- we have agreed to increase the resources available to the IMF through immediate financing from members of \$250 billion, subsequently incorporated into an expanded and more flexible New Arrangements to Borrow, increased by up to \$500 billion, and to consider market borrowing if necessary; and
- we support a substantial increase in lending of at least \$100 billion by the Multilateral Development Banks (MDBs), including to low income countries, and ensure that all MDBs, including have the appropriate capital.

**18.** It is essential that these resources can be used effectively and flexibly to support growth. We welcome in this respect the progress made by the IMF with its new Flexible Credit Line (FCL) and its reformed lending and conditionality framework which will enable the IMF to ensure that its facilities address effectively the underlying causes of countries' balance of payments financing needs, particularly the withdrawal of external capital flows to the banking and corporate sectors. We support Mexico's decision to seek an FCL arrangement.

**19.** We have agreed to support a general SDR allocation which will inject \$250 billion into the world economy and increase global liquidity, and urgent ratification of the Fourth Amendment.

**20.** In order for our financial institutions to help manage the crisis and prevent future crises we must strengthen their longer term relevance, effectiveness and legitimacy. So alongside the significant increase in resources agreed today we are determined to reform and modernise the international financial institutions to ensure they can assist members and shareholders effectively in the new challenges they face. We economy and the new challenges of globalisation, and that emerging and developing economies, including the poorest, must have greater voice and representation. This must be accompanied by action to increase the credibility and accountability of the institutions through better strategic oversight and decision making. To this end:

- we commit to implementing the package of IMF quota and voice reforms agreed in April 2008 and call on the IMF to complete the next review of quotas by January 2011;
- we agree that, alongside this, consideration should be given to greater involvement of the Fund's Governors in providing strategic direction to the IMF and increasing its accountability;
- we commit to implementing the World Bank reforms agreed in October 2008. We look forward to further recommendations, at the next meetings, on voice and representation reforms on an accelerated timescale, to be agreed by the 2010 Spring Meetings;
- we agree that the heads and senior leadership of the international financial institutions should be appointed through an open, transparent, and merit-based selection process; and
- building on the current reviews of the IMF and World Bank we asked the Chairman, working with the G20 Finance Ministers, to consult widely in an inclusive process and report back to the next meeting with proposals for further reforms to improve the responsiveness and adaptability of the IFIs.

**21.** In addition to reforming our international financial institutions for the new challenges of globalisation we agreed on the desirability of a new global consensus on the key values and principles that will promote sustainable economic activity. We support discussion on such a charter for sustainable economic activity with a view to further discussion at our next meeting. We take note of the work started in other fora



in this regard and look forward to further discussion of this charter for sustainable economic activity.

### **Resisting protectionism and promoting global trade and investment**

**22.** World trade growth has underpinned rising prosperity for half a century. But it is now falling for the first time in 25 years. Falling demand is exacerbated by growing protectionist pressures and a withdrawal of trade credit. Reinvigorating world trade and investment is essential for restoring global growth. We will not repeat the historic mistakes of protectionism of previous eras. To this end:

- we reaffirm the commitment made in Washington: to refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organisation (WTO) inconsistent measures to stimulate exports. In addition we will rectify promptly any such measures. We extend this pledge to the end of 2010;
- we will minimise any negative impact on trade and investment of our domestic policy actions including fiscal policy and action in support of the financial sector. We will not retreat into financial protectionism, particularly measures that constrain worldwide capital flows, especially to developing countries;
- we will notify promptly the WTO of any such measures and we call on the WTO, together with other international bodies, within their respective mandates, to monitor and report publicly on our adherence to these undertakings on a quarterly basis;
- we will take, at the same time, whatever steps we can to promote and facilitate trade and investment; and
- we will ensure availability of at least \$250 billion over the next two years to support trade finance through our export credit and investment agencies and through the MDBs. We also ask our regulators to make use of available flexibility in capital requirements for trade finance.

**23.** We remain committed to reaching an ambitious and balanced conclusion to the Doha Development Round, which is urgently needed. This could boost the global economy by at least \$150 billion per annum. To achieve this we are committed to building on the progress already made, including with regard to modalities.

**24.** We will give renewed focus and political attention to this critical issue in the coming period and will use our continuing work and all international meetings that are relevant to drive progress.

### **Ensuring a fair and sustainable recovery for all**

**25.** We are determined not only to restore growth but to lay the foundation for a fair and sustainable world economy. We recognise that the current crisis has a disproportionate impact on the vulnerable in the poorest countries and recognise our collective responsibility to mitigate the social impact of the crisis to minimise long-lasting damage to global potential. To this end:

- we reaffirm our historic commitment to meeting the Millennium Development Goals and to achieving our respective ODA pledges, including commitments on Aid for Trade, debt relief, and the Gleneagles commitments, especially to sub-Saharan Africa;
- the actions and decisions we have taken today will provide \$50 billion to support social protection, boost trade and safeguard development in low income countries, as part of the significant increase in crisis support for these and other developing countries and emerging markets;
- we are making available resources for social protection for the poorest countries, including through investing in long-term food security and through voluntary



bilateral contributions to the World Bank's Vulnerability Framework, including the Infrastructure Crisis Facility, and the Rapid Social Response Fund;

- we have committed, consistent with the new income model, that additional resources from agreed sales of IMF gold will be used, together with surplus income, to provide \$6 billion additional concessional and flexible finance for the poorest countries over the next 2 to 3 years. We call on the IMF to come forward with concrete proposals at the Spring Meetings;
- we have agreed to review the flexibility of the Debt Sustainability Framework and call on the IMF and World Bank to report to the IMFC and Development Committee at the Annual Meetings; and
- we call on the UN, working with other global institutions, to establish an effective mechanism to monitor the impact of the crisis on the poorest and most vulnerable.

**26.** We recognise the human dimension to the crisis. We commit to support those affected by the crisis by creating employment opportunities and through income support measures. We will build a fair and family-friendly labour market for both women and men. We therefore welcome the reports of the London Jobs Conference and the Rome Social Summit and the key principles they proposed. We will support employment by stimulating growth, investing in education and training, and through active labour market policies, focusing on the most vulnerable. We call upon the those required for the future.

**27.** We agreed to make the best possible use of investment funded by fiscal stimulus programmes towards the goal of building a resilient, sustainable, and green recovery. We will make the transition towards clean, innovative, resource efficient, low carbon technologies and infrastructure. We encourage the MDBs to contribute fully to the achievement of this objective. We will identify and work together on further measures to build sustainable economies.



**28.** We reaffirm our commitment to address the threat of irreversible climate change, based on the principle of common but differentiated responsibilities, and to reach agreement at the UN Climate Change conference in Copenhagen in December 2009.

#### **Delivering our commitments**

**29.** We have committed ourselves to work together with urgency and determination to translate these words into action. We agreed to meet again before the end of this year to review progress on our commitments.

#### **Annexes [PDFs] to G20 Communique:**

- [Declaration on delivering resources through the international financial institutions](#)
- [Declaration on strengthening the financial system](#)

## Castro could help Obama to end Cuba embargo

2<sup>nd</sup> April 2009 | By Sir Ronald Sanders\*

Cuba's President Raul Castro could help US President Barack Obama to end the 49-year old trade embargo that the US has imposed on Cuba and to normalise relations between the two countries. To do so, he will have to implement measures to address human rights issues in Cuba particularly the release of persons detained for their political views or actions.

Reforming its approach to human rights would be difficult for Raul Castro's government and the required political will, as well as the dangers, should not be underestimated. But the problem should not be insurmountable. While in the past, the Cuban government has been able to argue that political dissidents in Cuba were being organised and supported by US government agencies to overthrow the government, such arguments are now a thing of the past. They are as anachronistic as any arguments by anti-Castro groups in the US that Cuba's communism is a threat to the US or that Cuba is a terrorist state.

These latter claims have long been debunked by the US military who do not regard present-day Cuba as a threat to US security. Similarly, it should be pretty clear to the Cuban government that the US today poses no security threat to Cuba.

Other governments in Latin America and the Caribbean recognise political dissent as an essential ingredient in their democracies. Opposing political views and action to further such views have kept many Latin American and Caribbean countries from remaining or becoming authoritarian States.

During last year's campaign for the US Presidency, Obama said he would "grant Cuban Americans unrestricted rights to visit family and send remittances", but that he would maintain the embargo as a whole until "a post-Fidel [Castro] government begins opening Cuba to democratic change". Over the last few weeks he tried to make good on his pledge by including these measures in the 2009 spending bill. Basically, the bill cut-off funding for the enforcement of restrictions on family travel and remittances.

It did not pass easily. The US Treasury Secretary, Timothy Geithner, had to assure two hard-line Senators, Florida Democratic Bill Nelson and New Jersey Democratic Bob Menendez, that the government would interpret the new law so strictly that it will be ineffective.

What this indicates is that the U.S.-Cuba relations look set to remain a domestic issue rather than a foreign policy concern despite a universal mood to end the anachronistic US embargo against Cuba that has included prohibiting Americans from visiting Cuba and restricting business that US companies and their subsidiaries in other countries could do there. Apart from the US, Israel and Palau, every other country voted against the embargo or abstained when a vote on the issue was taken last October at the United Nations.

But, battle lines are beginning to be drawn in the US between the die-hard, anti-Castro groups and those who regard the embargo as a failed effort and who want access to the Cuban market for US goods and services. A bipartisan group of U.S. senators and interest groups is backing a bill that seeks to end all travel restrictions to the island.



The 'Freedom to Travel to Cuba Act' was introduced by Senators Byron Dorgan, a North Dakota Democrat, and Michael Enzi, a Republican from Wyoming. They were joined by 20 co-sponsors, the American Farm Bureau Federation, the U.S. Chamber of Commerce and Human Rights Watch. A similar measure has been introduced in the House of Representatives. What is clearly driving the sponsors of the Bill is recognition of the economic opportunities that Americans have lost and are continuing to lose in Cuba.

Despite the embargo, the value of US agricultural sales to Cuba in 2008 under a humanitarian sales provision was \$710 million, a 61% increase over 2007. The US International Trade Commission estimates that US agricultural sales would double if the embargo is dropped. An economy in deep recession, such as the US, can hardly afford to ignore the opportunity that open sales to the Cuban market presents for creating employment and earning revenues. Thirty-eight States of the US have long since recognised the value of the Cuban market and they have used the loophole of humanitarian assistance in the embargo to sign agreements with Cuba.

A large number of US businesses – many of them the symbols of capitalism – have an estimated 5,000 products trademarked in Cuba waiting for the embargo to be lifted. Among them are products such as Nike, Visa, Starbucks and that most American of all American symbols – McDonalds.

US businesses have been champing at the bit to get into Cuba for some time, especially as they had to sit-by while Canadian and European companies – and now Brazilian, Chinese and Indian ones – grab the opportunities created by the departure of Russia after the demise of the Soviet Union in 1991.

Oil companies are reportedly also concerned that Cuba's state-run oil concern has signed joint operating agreements with companies from several countries (including Russia) to explore waters that Cuban scientists claim could contain reserves of up to 20 billion barrels of oil.

The introduction of the Bills in the US Congress is hardly likely to have started without a quiet nod and wink from Obama's staff who would be well aware that the embargo has not worked and another initiative needs to be pursued. However, no one should expect these bills to survive in anything like their original state – the anti-Castro groups remain strong.

I place little store in a March 30<sup>th</sup> letter written to President Obama by Senator Richard G. Lugar, the ranking Republican on the US Senate Foreign Relations Committee, in which he called on Obama to appoint a special envoy to initiate direct talks with the Cuban government on a limited range of subjects such as migration and drug interdiction, and in which he stressed "reform of our approach towards Cuba is a means to an end: the advancement of US security and foreign policy interests in the Western Hemisphere". A Special Envoy with a wider mandate to normalise relations with Cuba is what is needed.

The appointment of an Envoy with such a mandate would be widely supported and could make many things possible. Raul Castro could strengthen Obama's hand by showing willingness to address the human rights issues that do require attention and are an obstacle to progress.

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## Be bold

2<sup>nd</sup> April 2009 | From *The Economist* print edition



RARELY has a gathering of the world's most important politicians been surrounded by so much hype. The leaders of the G20 group of rich and emerging economies—who were meeting in London on April 2nd as *The Economist* went to press—came with lofty aspirations to rewrite the rules of global finance and reshape the world's financial institutions. The summit marked Barack Obama's international debut and, for added tension, was accompanied by loud and colourful anti-capitalist protests. But, for all the political drama, the posturing, the preening and the outsize ambitions, history will judge the G20 leaders by a cruder criterion. Are these people, who between them run around 90% of the world economy, doing what it takes to combat the worst global recession in 80 years?

It is hard to overstate what is at stake. Since the G20 leaders had their inaugural gathering in Washington, DC, last November, the global economy has fallen off a cliff. Consumers have cut back their spending. Companies have slashed production, postponed investment and laid off workers in their millions. The financial system remains dysfunctional. Trade flows are shrinking at the fastest rates since the Second World War, felling export-dependent economies from Germany to Japan. Private capital flows are collapsing, devastating those emerging economies, especially in Eastern Europe, that rely on foreign borrowing.

The scale and suddenness of the slump has left economic forecasters scrambling to keep up. In the latest and darkest official forecast, the OECD said this week that it expected the world economy to shrink by 2.7% in 2009. It thinks that its mainly rich member countries will see their output fall by more than 4%. That would be by far the deepest synchronised downturn since the 1930s.

### Specks of gold amid the ashes

Some recent statistics, it is true, offer glimmers of hope. The latest manufacturing figures, particularly in Asia, hint at an end to the implosion of global industrial production. In America consumer spending is no longer in free fall and the housing market, where the trouble first broke out, shows some signs of stabilising. In Britain mortgage lending may have hit the bottom, consumers are a little less gloomy and manufacturing looks a little less terrible. These slivers of good news have helped stockmarkets recover from their recent nadirs. But they should not be exaggerated. Plainly, the risks lie on the downside, as rising unemployment leads to a new round of spending weakness and corporate defaults create new problems in the credit markets.

Worse, the recovery, when it comes, will be feeble, as the over indebted rebuild their balance-sheets and export-dependent countries reorient their economies towards domestic spending. The OECD expects growth to stay well below its trend rate in 2010, widening the rich world's output gap—the distance between the economy's actual and potential performance—to an extraordinary 8.5% of GDP. That would push jobless rates into double digits in much of the rich world and leave many countries perilously close to deflation.

Faced with this cataclysm, policymakers have been fighting back with the biggest and most synchronised macroeconomic stimulus since the Second World War. Short-term interest rates have been slashed, with several big central banks in the uncharted territory of "quantitative easing". Virtually every rich country, and many emerging ones, have put together fiscal stimulus packages. Add in the automatic

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*"Despite unprecedented stimulus, the biggest risk is still that governments overall do too little."*

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impact of lower tax revenues and higher jobless payments, and the rich world's budget deficits will jump by about six percentage points of GDP. The firepower of international financial institutions, especially the IMF, is being boosted to help those emerging economies with no room to help themselves. Governments have vowed to resist a descent into protectionism. There has been some backsliding, but no sign of a repeat of the beggar-thy-neighbour lunacy of the 1930s.

### **Deflation is still the greater worry**

Two questions spring to the fore. Are these responses, however extraordinary, adequate? And if in doubt, should prudent policymakers err towards doing too much or too little?

At a global level, the answer is surely that boldness beats timidity. Of course there are risks in soaring government debt and swelling central-bank balance-sheets. But scaling back monetary and fiscal stimulus will be easier than digging the world economy out of a deflationary hole which, if the OECD's forecast is right, remains an uncomfortably large risk. The lesson of every big banking crisis in recent history is that rapid and decisive government action to clean up balance-sheets results in a quicker recovery and smaller long-term damage to the public purse. That is all the more pertinent this time, because the usual route out of big banking busts—recovery on the back of strong global growth—seems closed.

For individual countries, however, the calculus is often different, particularly on fiscal policy. From widening spreads on many countries' sovereign bonds to Britain's failure to sell all the gilts it wanted to at a recent auction, there are signs that stimulus has its limits for some. Gordon Brown has run out of room; Ireland is having to tighten fiscal policy. For all the efforts to bolster the IMF, some emerging-market borrowers look even worse off. Today's situation is grim, but currency crises and sovereign defaults would only make the mess worse.

What is needed, therefore, is a calibrated boldness. America's stimulus package is appropriate to its fiscal position and economic outlook. Countries with scope for more stimulus—especially Germany—should use it. Laggards in other areas must step up as well: America's plan to clean up its banks, for instance, is still inadequate. It is important too that governments do not just spend today but have credible, explicit plans for scaling back tomorrow. Perhaps most important, calibrated boldness implies not that one solution fits all, but that different countries should do different things, for the common good as well as their own. It is a state of mind—one that the G20 leaders must maintain long after this week's meeting.

### **OECD: 'International Trade in Freefall'**

**1<sup>st</sup> April 2009 | Bridges Weekly Trade News Digest**

World trade is in free fall and is likely to drop by 13.2 percent in 2009, according to an interim report released by the Organization for Economic Co-operation and Development on Tuesday just two days before a summit of leaders from the world's 20 largest economies.

"The world economy is in the midst of its deepest and most synchronised recession in our lifetimes, caused by a global financial crisis and deepened by a collapse in world trade," said Klaus Schmidt-Hebbel, the OECD's chief economist, in an editorial that accompanied the report.

The extent of the decline underlines the challenges facing world leaders meeting at the G20 summit in London on Thursday. Measures to combat a rise in trade protectionism are expected figure prominently on the agenda. In its latest set of forecasts for global economic growth, the OECD outbid the WTO's already dark estimate of a 9-percent fall in world trade flows.

"After steady annual growth at around 8 percent over the past half decade, world trade growth started to weaken in early 2008 and collapsed in the last quarter," it said.

"This contraction of world trade is broad-based, and affects all regions and is the worst since comparable data exist."

The report suggests the impacts of the recession will be substantial on all countries. The OECD expects a 4.3 percent fall in gross domestic product across the organisation's 30 rich-country members, as growing unemployment undermines demand for consumer goods.

The jobless rate will rise sharply in all OECD countries and will peak in 2010 or early 2011, the report said. By next year, the number of unemployed in the G7 countries will be almost double what it was in mid-2007.

To stop the ongoing "economic haemorrhaging," world leaders should develop a coherent strategy to tackle problems in the financial markets, boost stimulus spending, and reform the financial system, Schmidt-Hebbel said.

## Politics versus the law — South Africa

2<sup>nd</sup> April 2009 | From *The Economist* print edition

THE National Prosecuting Authority (NPA) looks set to drop all charges of corruption, racketeering, tax evasion, money-laundering and fraud against Jacob Zuma, leader of the ruling African National Congress (ANC). But whether it does or not, he is still pretty sure to become South Africa's next president after this month's general election, when the new parliament then elects the head of state. That may end a legal drama that has captivated the country for the past eight years.

But what would it say about the independence of the criminal-justice system? Some may argue that it will have succumbed to political pressure and that democratic South Africa may go the way of other postcolonial African states dominated by self-serving liberation movements. Others are more hopeful.

From the outset, Mr Zuma, the country's deputy president until he was sacked in 2005 by its then president, Thabo Mbeki, has claimed to be the victim of a political conspiracy aimed at blocking his chances of becoming president. Now the NPA is reported to have received firm evidence of collusion between its former officials and Mr Mbeki in prosecuting a man who was one of his closest friends and colleagues for three decades but whom he had come to regard as his most dangerous rival.

Yet evidence of a plot against Mr Zuma, who has always denied all charges, does not necessarily mean he is innocent. As Louis Harms, deputy chief judge of the Supreme Court of Appeal, said in January when he overturned a lower-court ruling that had quashed charges against Mr Zuma on technical grounds, "a prosecution is not wrongful merely because it is brought for an improper purpose. It will only be

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What Jacob Zuma's tortuous legal battles reveal about the country's courts, judges, politics—and its likely next president.

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wrongful if, in addition, reasonable and probable grounds for prosecuting are absent.” If it is to preserve its integrity and that of the justice system, the NPA has to show that this indeed was the case.

On the face of it, the case against Mr Zuma, who has presided over the ANC since defeating Mr Mbeki for the party post just over a year ago, looks grave. Yet when his friend and financial adviser, Schabir Shaik, was charged in 2003 with corruption and fraud over a \$5 billion government arms deal, the NPA announced oddly that, though it had a “prima facie” case against Mr Zuma, it did not feel it had a “winnable case”, so it would not prefer charges. That prompted immediate suspicions of political interference—at that time in favour of Mr Zuma.

Two years later Mr Shaik, controversially freed last month on medical parole after only two years behind bars, was jailed for 15 years after being found guilty of, among other things, giving Mr Zuma more than 1m rand (then worth \$165,000) in bribes and of negotiating a further payment of 1.5m rand from a French arms company. Mr Zuma was promptly sacked as Mr Mbeki’s deputy before being charged in turn. But even then the NPA did not seem to have enough evidence against him and when, 15 months later, it asked for yet another postponement of the trial, the courts threw the whole case out.

But the matter did not end there. In December 2007, ten days after Mr Mbeki was ousted as the ANC’s leader, new charges were brought against Mr Zuma in relation to alleged bribes totalling more than 4m rand that he was accused of taking between 1995 and 2005 in connection with various business deals, not just the arms contract. Nine months later these charges were thrown out too, on the ground that the NPA had not invited Mr Zuma to give his side of the case before recharging him, thus violating his rights.

### **Zooming into power**

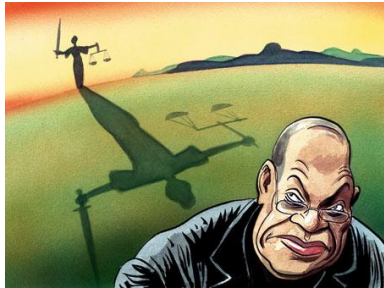
That was not, however, the part of the court ruling that caught the public eye. Rather it was the judge’s electrifying assertion that the whole case appeared to have been subject to a “baleful political influence”. It was a “matter of grave concern”, he said, that such interference in the criminal process had taken place “in the new South Africa, given the ravages it caused under the apartheid order.” Those observations, later condemned by the Supreme Court of Appeal as “inappropriate”, were seized upon by Mr Zuma’s people, now in charge of the ANC’s ruling body, as a reason for dumping Mr Mbeki as South Africa’s president.

Several points emerge from this sorry tale. Whether or not the NPA was nobbled, the judges continued to hand down robust judgments based solidly on the law. Despite ferocious attacks on their integrity, often by Mr Zuma’s supporters, and even death threats, they have stood firm.

Under apartheid, South Africa’s courts were part of a highly repressive system, yet many judges earned a reputation for fairness and intellect. On the eve of the first truly democratic elections in 1994, only three of the 166 judges in the country’s higher courts were black. Today, non-whites account for nearly half the 200-plus judges in those higher courts. Most of the newcomers are doing a good job. South Africa’s judiciary is widely respected.

### **Another friend in need**

But not all the newcomers are held in high regard. Last year John Hlophe, president of the Western Cape’s High Court, was suspended after he was accused of



approaching two judges on the 11-member Constitutional Court in an alleged attempt to influence the outcome of one of the cases pending against Mr Zuma. The court lodged a complaint with the Judicial Services Commission, the judges' independent disciplinary body. Mr Hlophe, who is close to Mr Zuma and has been tipped as a possible replacement for Chief Justice Pius Langa, hit back, accusing the judges of breaching his right to dignity and equality.

On March 31st the Supreme Court of Appeal rejected a case brought by Mr Hlophe against the Constitutional Court judges, finding that they had not acted unlawfully; he is still suspended. This may not, however, stop his elevation to the highest court in the land, when three of its number step down in October. It will be up to Mr Zuma, if elected president, to appoint their replacements from a shortlist provided by the Judicial Services Commission. Despite his supporters' antics, he says he supports an independent judiciary as "one of the pillars of our peaceful, stable and orderly co-existence". But he also calls for an "accelerated transformation of the entire court system".

A recent opinion poll suggests that the stream of accusations and leaks against Mr Zuma has led many South Africans to conclude that he is no angel. He makes whites, who comprise less than a tenth of the electorate, distinctly queasy. But the same poll also suggests that his popularity is undented, at least among blacks, who still seem to support him overwhelmingly. For the poor majority in South Africa it is bread-and-butter issues, such as housing, health and education that matter most, not the niceties of the law.