liberal matters

Liberal Matters is a publication of Liberal International
September 2009.

The global economic crisis

liberal calendar
liberal events from around the world

September

2-6.
CALD 6th Communications workshop

5.
Folkpartiet: "Women Will Win" conference, Stockholm, Sweden

Partido Movimiento Libertario: Encuentro de mujeres libertarias
Tres Rios, Costa Rica

Mouvement Réformateur: Les Estivales
Transinne, Belgium

11.
Democratic Alliance: Association of Democratic Alliance Councillors (ADAC) Congress - Bloemfontein, Free State, South Africa

Liberal International Bureau meeting
Belfast, Northern Ireland

14.
Parliamentary elections in Norway

19-23
LibDems Federal Conference in Bournemouth, UK

26.
Partido Movimineto Libertario: Encuentro de juventud libertaria
Tres Rios, Costa Rica

27.
Parliamentary elections in Germany

28.
DPP's 23rd anniversary, Taiwan

October

2.
Treaty of Lisbon referendum, Ireland

11.
Moscow city Duma elections, Russia

21-22.
LIBSEEN Leaders meeting, Zagreb, Croatia

25.
Presidential and Parliamentary elections in Tunisia

29.
ELDR Prime Ministers lunch (EU informal summit)

29.
Liberal International Executive committee in Alexandria, Egypt

30-31.
Liberal International 56th congress
Cairo, Egypt

November

12-14.
IFLRY: Executive Committee/ General Assembly
The Hague, the Netherlands

16-21.
IFLRY: Seminar: "I am not for sale"
Amsterdam, the Netherlands

17.
Local elections in Denmark

19-20.
ELDR Congress in Barcelona

20-22.
Folkpartiet Liberalerna National Congress
Växjö, Sweden

21-22.
Venstre's (Liberal Party of Denmark) annual congress
Odense, Denmark

28.
VVD 127th assembly

29.
Presidential elections in Côte d'Ivoire

Presidential and Parliamentary elections in Honduras

December

5.
Local elections for county magistrates, city mayors, county and city councillors in Taiwan

13.
Presidential elections in Guinea (1st round)

17.
ELDR Leaders meeting, Brussels.

27.
Presidential elections in Guinea (2nd round if necessary)

Content

The global economic crisis

liberal matters
September 2009.

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ISSN No: 0968-1884.

Subscriptions
Liberal Matters is published 4 times a year.

For ordering information, claims and any enquiry concerning your subscription please contact us.

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Dear Liberal Friends,

With this latest edition of Liberal Matters, we are continuing to focus our attention on an issue that continues to have a profound effect all across the world - the global economic crisis. This publication comes shortly after Liberal International's Vice President Juli Minoves Triquell presented his highly acclaimed report - The World Economic Crisis - at the last LI Executive Committee in Vancouver, Canada. The economic crisis has created a climate of uncertainty for all of us, and in such times of fear there is a real danger of people turning to old failed economic and political responses, less out of rational consideration of how to resolve the problem than from a search for reassurance.

It is important for us to promote liberal economic principles at this critical time for economic freedom. We should not forget that our founding document, the Oxford Manifesto, was written in 1947, just after two World Wars and the Great Depression. Liberals then were not afraid to say that "the suppression of economic freedom must lead to the disappearance of political freedom. We oppose such suppression, whether brought about by State ownership or control or by private monopolies, cartels and trusts. We admit State ownership only for those undertakings which are beyond the scope of private enterprise or in which competition no longer plays its part". Such temporary state intervention has been necessary in a number of cases, not only with liberal support but actually on our proposal. We are not doctrinaire, but we do know that only a liberal approach to the economy can save us in the long-term.

In this issue of Liberal Matters prominent contributors from South Africa, Thailand, Chile, Sweden, and Russia among others look at different approaches to the challenges and discuss the impacts of the financial crisis and possible outcomes from a liberal perspective. I hope you will enjoy this edition of Liberal Matters, and look forward to hearing from you in response to the articles.
Ever,

John, Lord Alderdice
President of Liberal International

LI's 182nd Executive Committee in Canada

Delegates representing LI member parties from across the world convened in Vancouver, Canada from 1-3 May to attend the 182nd Executive Committee of the Liberal International that was hosted by the Liberal Party of Canada's during its Biennial Convention. At the meeting, LI Vice-president on the Bureau Juli Minoves-Triquell presented his Report on the World Economic Crisis that was warmly received by the delegates, and led to an in-depth debate.

The Executive Committee unanimously accepted three resolutions: supporting the recognition of independent Kosovo, asking for improved democratic elections in Moldova, and in support of women's rights that worsened in Afghanistan as warned about by the International Network of Liberal Women (INLW).

The applications of four new observer member parties to the Liberal International were endorsed: El Ghad party from Egypt, the Singapore Democratic Party (SDP) from Singapore, the Liberal Democratic Party (LDS) from Bosnia and Herzegovina, and the National League for Democracy — Liberated Areas (NLD-LA) from Burma. Full documentation of the event can be found on the LI website. Further information or documentation is available from the LI secretariat.

RELIAL's Congress in Venezuela resists pressure from Chavez

The Liberal Network of Latin America (Red Liberal de America Latina - RELIAL) made a brave step by massively uniting in Caracas, Venezuela for its 4th Congress and the celebration of the 25th anniversary of its member CEDICE-Libertad at the end of May this year.

'Proposals of social liberal politics for Latin America' were the core of the discussions on how liberalism can solve poverty problems in the region. Issues discussed were private property, private initiative, social liberal politics, the health system, education, subsidies, and social security. At the opening speech, Dr. Wolfgang Gerhardt, LI Vice President on the Bureau and President of the Friedrich Naumann Foundation for Liberty (FNF) focused on education, the theme of the LI Congress 2009: 'The future of the world is in education.

Education is the decisive sustainable factor at an economic, cultural, social and political level. What matters are the abilities. What matters is the culture of learning and the disposition to learn. Those are the characteristics of solidarity.' Otto Guevara, the President of RELIAL, reiterated that 'the future of the region is in liberalism'. Emil Kirjas, LI Secretary General addressed the opening of the event.

LI Secretary General met with VP of Paraguay

A year after the LI's full member from Paraguay, Partido Liberal Radical Autentica (PLRA), became part of the government LI Secretary General Emil Kirjas visited the country and held discussions with the highest party and state officials in the capital city of Asuncion.

At separate meetings with the President of the Congress Enrique Gonzales Quintana and the President of the Chamber of Deputies Enrique Salyn Busarkis, particular attention was paid to the need for further strengthening of liberal democracy, transparency and rule of law in the country, endangered by the populist tendencies throughout Latin America.

A number of rural schools were visited together with the Vice President of the Republic Federico Franco, where the 'Laptop for Every Child' project was promoted. Vice President Franco expressed his "determination to work on the liberal agenda", where "education plays crucial role for fighting poverty and building a better future".

Michael Ignatieff delivered 2009 Isaiah Berlin Lecture

Addressing an audience of more than 200 guests, Michael Ignatieff MP, the leader of LI Full Member the Liberal Party of Canada and leader of the Canadian opposition, delivered the 2009 Liberal International Isaiah Berlin Lecture in London's historic National Liberal Club on 8th of July. In his lecture "Liberal Values in Tough Times", Ignatieff reminded liberals that "[l]iberalism should never lose its founding association with generosity of heart and openness of mind. These are the habits of heart that we need to keep to save our beliefs from curdling into political correctness or ideological dogmatism." Guests at the dinner gala event included liberal politicians from all continents, as well as Canadian, British and international business leaders and members of society. The event, described by former LI President and LI Patron Lord Steel as "the most successful episode yet in LI's Isaiah Berlin lecture series", was co-organised by the Liberal International secretariat and the Canada Club of London, and drew widespread attention from national and international news media.

Lord Avebury awarded 2009 LI Prize for Freedom

At a reception held in conjunction with the 2009 Isaiah Berlin Lecture the 8th of July 2009, LI President Lord Alderdice presented the 2009 LI Prize for Freedom to Eric, Lord Avebury, a member of the House of Lords for LI Full Member party the Liberal Democrats from the United Kingdom. Lord Alderdice praised Lord Avebury for his "inspiring dedication and awareness of human rights issues in countries all around the world, and his ability to have members of parliament flock back to the chamber when speaking about them in parliament for knowing that he always has something enormously interesting to say." Upon receiving the Prize, Lord Avebury said he was "humbled to be a recipient of an award that had been presented to so many presidents and distinguished liberal leaders from around the world". He has campaigned for the protection of human rights in many regions and countries across the globe, including Iran, Egypt, Peru, Indonesia, Cameroon and Tibet.

LI Deputy President Hans van Baalen met with Thai PM and Taiwan's President

LI Deputy President Hans van Baalen visited Taiwan at the end of July and met with both the ruling Koumingtan Party and the opposition Democratic Progressive Party (LI Member). In his meeting with Taiwan's President Ma Ying-jeou, Mr van Baalen debated the new policy of better relations between Taiwan and China on the basis of status quo, as well as the position of former President Chen Shui-bian who is facing a trial for alleged corruption.

Mr van Baalen stressed that Chen should get a fair and independent trail without political interference and that he should receive all necessary medical attention and the freedom to write and read. Mr van Baalen continued on to Thailand and met with Prime Minister Abhisit Vejjajiva, also leader of LI Member the Democrat Party, and Foreign Minister Kasit Piromya on Wednesday in Bangkok. Mr van Baalen praised the government's efforts in bringing stability back to the nation and putting political freedom, clean government, education and restoring the economy as priority. He also stressed the importance of the cooperation agreement and a Free Trade Agreement with the European Union.

Egyptian Liberals gear up for LI's 56th Congress

The final steps are falling into place for the pre-eminent liberal event of the year, the 56th Congress of Liberal International, hosted in Cairo, Egypt by LI member Democratic Front Party. The event will take place from the 28th of October to the 1st of November and will focus on the theme "education in the 21st century". The Executive committee will take place in the renowned Alexandria Library. The Congress will gather hundreds of politicians from liberal parties, institutions, and think tanks, and will offer a unique opportunity to reflect on many issues related to the main theme. The leader of the DFP Osama Ghazali Harb is pleased to host this outstanding event and is focused on the development of liberalism in Egypt.

IN MEMORIAM
Lord Ralf Dahrendorf & Corazon Aquino

Lord Ralf Dahrendorf

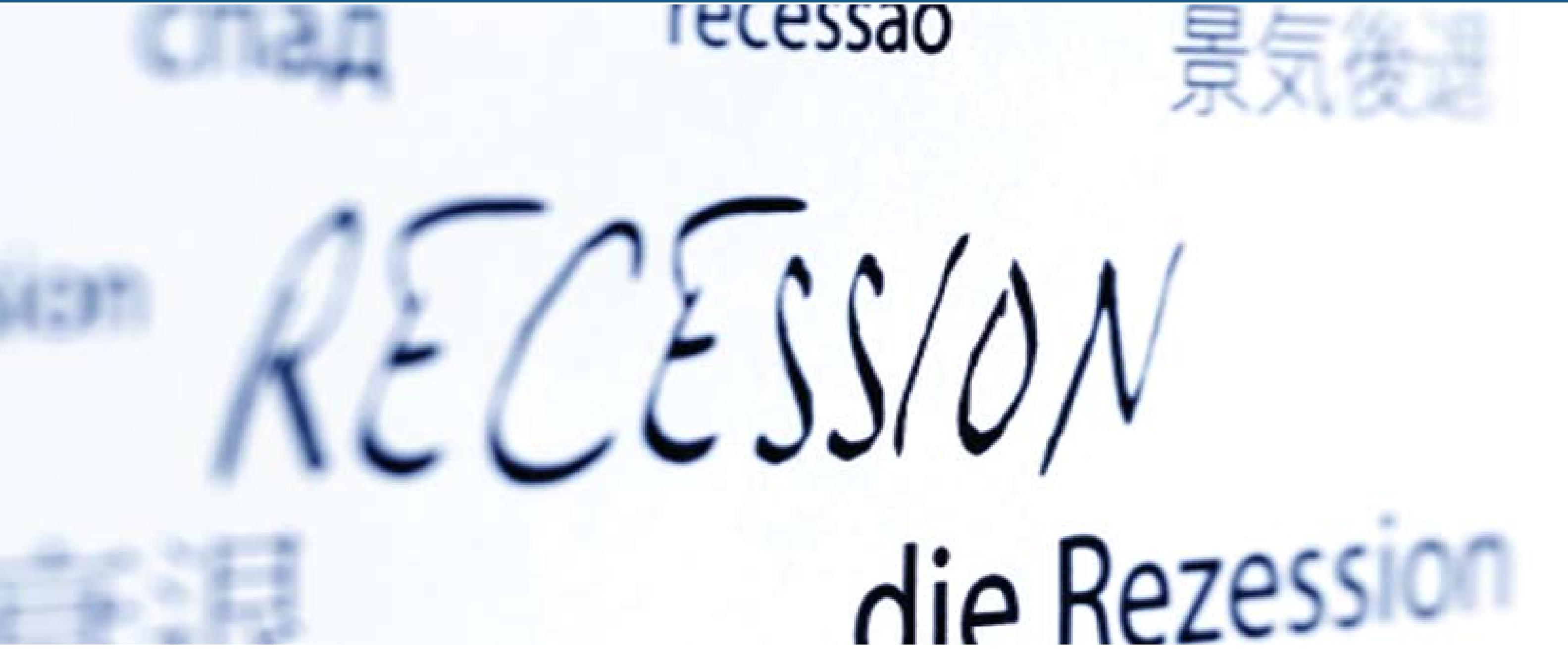
Ralf, Lord Dahrendorf (1929-2009) Patron of Liberal International was a German-British sociologist, philosopher, political scientist and a liberal politician. During his political career, he was a Member of the German Parliament, Parliamentary Secretary of State in the German Ministry of Foreign Affairs, European Commissioner for External Relations and Trade, European Commissioner for Research, Science and Education.

After obtaining British nationality in 1988, he joined Britain's Liberal Democrats. He sat in the House of Lords after recieving a life peerage in 1993. He was appointed Chairman of the Lords' Select Committee on Delegated Power. He was also a former chairman of the Friedrich Naumann Foundation for Liberty. He contributed significantly to the scientific community with his books and for having served as Governor of the London School of Economics and Warden of St. Anthony's College of the University of Oxford. Lord Dahrendorf also worked as a professor and lecturer at other prestigious universities in the United Kingdom, Germany and the United States. He has been described as one of the most influential thinkers of his generation.

According to LI President Lord Alderdice "'Ralf was a towering liberal intellect; an inspiring figure. When he spoke in the House of Lords, people from all parties would filter back into the Chamber knowing that whatever he was speaking about would be worth listening to, not only for the enlightenment his thinking always shed on a subject, but also because of the elegant way in which he would say it. A man of deep liberal conviction, great charm, and unfailing courtesy his death has robbed me of a friend and colleague. Liberals everywhere will miss him as I do, but he has left us a marvellous legacy of liberal thought, and writings which will continue to inspire liberals today and for the generations to come."

Corazon Aquino

Corazon Aquino (1933-2009) was the 11th President of the Philippines and a laureate of the Liberal International Prize for Freedom. She was considered the "Icon of Philippine Democracy". Mrs Aquino. was awarded the 1987 LI Prize for Freedom for her peaceful fight for the democratization of the Philippines. As President, she promulgated a provisional "Freedom Constitution" to replace Martial Law, appointing a Constitutional Commission to the task of drafting a new constitution In 1991, she signed the Local Government Code that increased the power of local governments. She resigned the Presidency in 1992 even though she was eligible for a second term. Since then, Mrs. Aquino remained an active political figure, protesting against the Arroyo government and demanded that the president step down, and through her work in the Benigno S. Aquino Foundation, the EDSA People Power Commission and the People Power Movement. She has widely been described as one of the most influential women in Asia.LI President Lord Alderdice said: "Mrs Aquino was a courageous and inspiring figure and an icon of democracy. Having courageously led the peaceful People Power Revolutions against the dictatorship in 1986 and successfully brought democracy back to the Philippines, her non-violent approach inspired many other democratic movements around the world. Liberal International was privileged to honour Mrs Aquino's contribution and achievements in advocating democracy and peace with the LI Prize for Freedom in 1987. Mrs Aquino was a much loved and respected leader who will be truly missed and proudly remembered not only by her family and her nation but by her friends in Liberal International all around the world".



WHAT THE CRISIS MEANS FOR LIBERALISM

Juli Minoves-Triquell, Minister, Government of Andorra,
Vice-President in the Bureau of Liberal International

With hindsight, we can tally up the causes of the crisis. They include unparalleled expansion, unbridled optimism, lack of perspective in the economic profession, blind belief in the unbreakable strength of large financial and economic institutions, the failure of regulatory supervision, unwillingness to assess real risks, and accumulation of debt (both public and private) in an environment of expanding optimism. Failures, in other words, of stewardship.

In this context, the core liberal belief in the benefit of open markets requires examination into the extent to which the culture of always wanting more contributed to this crisis, for stewardship is incompatible with sacrificing the environment either for the sake of exceptional profits in industries that depend on the aggressive consumption of natural resources or to feed the desire to preserve (or emulate) increasingly affluent lifestyles. That is not the same as saying that the concept of markets is outdated or that protectionism offers a magic solution to our problems. In fact, competition stimulates the innovation that can lead out of the crisis. On the other hand, it seems inevitable that banks must deleverage and be subject to stricter governance and compensation arrangements in the future.

Some may object to the idea of more regulation, but perhaps the essential question is whether governments possess the political will to collaborate in order to achieve a solution.

Let us look first at the strength of political will in the United States. In effect, the US administration appears ready to shower benefits on everyone who made the mistake of buying the banks' so-called "toxic assets." It's true that some benefits would trickle down to shore up the balance sheets of key financial institutions. But most would go to people who don't need or deserve to be rescued. Not only is the plan to unfreeze the credit markets vague and potentially inadequate, laying out trillions of dollars to bring the financial system back to health adds to already serious concerns about the deficit. Officials appear to have seized on this solution because it's very hard to rescue an insolvent bank without taking it over, and politically, even temporary nationalization appears unthinkable. Another danger is that once the economy begins to recover, the urgency for financial reform will be lost and those making easy money again will lobby against anything that interferes with their interests. Nor were politicians and economic officials approving the stimulus plan able to transcend the conventional prejudices against deficit spending and making significant changes. Stimulus packages with short-term benefits in stimulating demand can be put into effect immediately (the "shovel-ready" initiatives, for example, built into the US stimulus package) also need to project a long-term effect on improving infrastructure and the environment. The EU's Enterprise Directorate is looking to identify types of innovation in which short-term investment has a long-term benefit. Extending IT network capability would be one example. In Britain, the London School of Economics and the Treasury have been working on green aspects of stimulus packages with long-term benefits in improving the environment and tackling climate change. In the US, stimulus plans including infrastructure and "green jobs" acknowledge this necessity for long term investment.

Most economists agree the plan that emerged from Congressional compromise was weaker and contained more tax cuts than it should have (and even so failed to gain broad bipartisan support). On the other hand, President Obama's proposed budget would set America on a fundamentally new course in terms of stewardship. It represents a huge break with policy trends over the past 30 years by allocating $634 billion over the next decade for health reform (paid for in part by halting the privatization of Medicare and eliminating overpayments to insurance companies) and it projects $645 billion in revenues from the sale of emission allowances (signalling that after years of delay and denial, this administration is ready to address the problem of climate change). Although Europe's problems are equally grave, the political will is equally fragile and the focus of debate is somewhat different. For example, politicians will not admit to protectionist policies. Instead they present them under better colours, for example, as the need to use national money to protect national jobs.

Strong leadership is essential to avoid the temptation to offer "buy European" or "buy Dutch" as a solution. The liberal position would hold to the principle that despite radically different market conditions, the single market must be guarded like the jewel of the EU family. That implies a refusal to bail out structurally inefficient companies and thus place a massive tax burden on future generations. Here is evidence for the contrast between American and European liberalism. European governments have begun to improve interbank lending with bank guarantees and recapitalisation. The need for a consistent and coordinated approach among the EU countries is non-negotiable, but member states must be resolute to reduce uncertainty. Otherwise the risk is the perpetuation of failed business models, ruin of public finances, and entrenchment of competitive distortions, an imperilled single market, and the loss of a viable banking market after the crisis is resolved. Although implementation involves difficult questions, for actions must be timely, targeted, and transparent as well as sustainable from a budgetary perspective, the demand for transparency and a willingness to restructure seems more evident in Europe than in the United States. If American economists argue that the Obama administration's stimulus plan was too small to address the depth of the crisis, European actions have been proportionately smaller, in part because officials remain complacent. Paul Krugman, with typical candor, excoriates this lack of fiscal action, blaming structural weaknesses inherent in the absence of any government in a position to take responsibility for the European economy as a whole or take political risks for the benefit of another country and the lack of unitary support for the European Central Bank, which owes allegiance to sixteen countries that disagree among themselves. The International Monetary Fund, which has a leadership mandate, near universal membership, and a blend of macroeconomic and financial expertise, is instituting steps to increase global coordination. A new warning exercise, for example, will bring together scattered macrofinancial expertise, piecing together macroeconomic and financial sector developments into a big picture that takes into account cross-country spill over effects and can drill down on key threats.

It is also reviewing its lending framework to make sure it is well-suited to members' needs. However, the bureaucratic ways and rigid power structures that characterize the IMF have shifted the policy debate towards smaller, more flexible groups, including to the G-20 and the FSF. Yet these smaller groups have their own problems of legitimacy and capacity for follow-up. Making decision-making more accurately reflect today's global economic landscape would require a further rebalancing of voice and representation among IMF members. The extent to which financial regulation can be made both international and binding remains in question. Clearly, a common currency requires stronger common rules than a looser association, but while recognizing the need for international cooperation the desirability (or even the possibility) of over-riding national control of regulation with pan-national structures undoubtedly is an issue that will cause debate. Such structures may be more efficacious when combined with national and, particularly in the EU case, trading bloc regulation. The world will not be the same at the end of the current crisis. Important changes will reflect new attitudes toward stewardship, including a new industrial revolution impelled by ecologically sustainable development. In many countries, research for new production systems, conservation, and the thrifty use of energy are already expected to be a means for creating new jobs. As one example, the world's fifth exporter of petroleum, the United Arab Emirates, has commenced a multi-billion dollar project to make their capital, Abu Dhabi, the international centre for renewable energies. The fundamental stages of human economic development have always coincided with the ability to capture new sources of energy: fire, wind, water, sun, natural gas, petroleum. Acceleration of development in the last two centuries was made possible through a parallel acceleration of energy production, using new sources and applying more advanced technologies. But solutions cannot rest on technology alone; in many ways heightened financial technologies abetted the current monetary crisis and a variety of biological innovations have the potential to alter the world's commodity markets. And a rapid return to the rate of economic growth of the past decades—the aim of many policy makers around the globe—would increase the emissions of greenhouse gases that are altering the climate. Moreover, in this urgent crisis, political pressures run the danger of restarting economic growth by any available means. But returning to the levels of consumption that characterized the recent past will run up an environmental bill that the planet will surely collect. This is why liberalism, in the sense not only of economics but of the classical regard for economic and social progress for all, will become a crucial force in the process of solving the crisis. To rebuild a new economic system, it will not be enough to control the banks, make balance sheets more transparent, regulate speculative funds, and refurbish the economy through public spending. We must remind ourselves that the market is not a dogma; it is merely an instrument in the service of economic progress. Liberals put liberty in first place as a creative force that multiplies opportunities for everyone. A return to those classical principles—principles that call for responsible stewardship of both human and natural resources—must become part of our future.

Part of the Essay "The World Economic Crisis – An essay on its origins, characteristics and possible outcomes from a liberal perspective", for the whole essay please refer to the Liberal International webpage,

NO TIME FOR WRONG ANSWERS – THE FINANCIAL CRISIS IN EASTERN EUROPE

Ulrich Niemann, regional director of the Southeast and East European office at the
Friedrich Naumann Foundation for Freedom

"Tumbling exchange rates, gaping current-account deficits, fearsome foreign-currency borrowings and nasty recessions"; are according to the Economist[1] the ingredients of the current crisis in Eastern European countries, many of them now members of the European Union. Some time ago there was still hope that East European economies could escape the financial turmoil as their banks refrained from acquiring so-called "toxic" derivatives. However, the events of the last 9 months have revealed the true extent of globalisation. Rising international economic activity since World War II - through trade, investment flows and migration - has bound the world´s 195 countries ever closer. A financial crisis that began on Wall Street spread to "Main Street" and is now affecting every economy, regardless of its size, shape or location. Commodity exporters, manufacturers, sophisticated service economies - all have experienced sharp falls in output, for many the largest in decades. Between June and November 2008 alone, the volume of trade between OECD members and major emerging economies fell by 30%.[2] The sudden economic downturn comes to the ex-communist societies and their leaders as an unexpected, painful experience, especially as they worked hard to bring their countries into the European and global system of an unimpeded flow of capital and goods. But the integration into an increasing borderless world also has its bright side: it triggered continuous high growth rates in the Central and Eastern European (CEE) countries and gave a welcome stimulus to sluggish western economies.

The track record on integrating into EU economic structures also clearly shows that this was the best substitute for a Marshall Plan for Eastern Europe, which was debated in the mid-1990s. All CEE countries have registered substantial prosperity gains in the course of their assimilation. What is more, those that have achieved broadly based economic integration and adopted the EU culture of stability are finding themselves far less hard hit by the financial and economic crisis than their CEE peers.[3] Among the fears connected to the 2004 enlargement such as competition on the labour markets through migration ("social dumping"), job loss through delocalizations, budgetary burdens through financial transfers in EU agriculture and cohesion funds, none of these fears has materialized. In fact, overall economic growth in the period 2004-2008, before the global financial and economic crisis hit, is among the most spectacular in recent EU history.That goes for both the 12 new member states with annual GDP growth rates of often over 5%, sometimes even over 10% and old member states (EU-15), with still positive growth despite weaknesses in global competitiveness in economies like Germany, France and Italy.[4] Germany´s trade volume with the new members in the East tripled during the past decade to an impressive 193 billion Euro exceeding its trade with China, the U.S. and even its major trade partner France[5] However, there is the other side of the coin. Compared with the West, central and East European nations are still in a much weaker position to respond. Worse, growth is set to fall in 2009 for the first time since the new democracies switched to open market economies, making it more difficult for them, to respond to the crisis (see Table: Growth rate of GDP volume in EU countries). Their central banks and governments are simply not able to muster the financial power now being deployed in the big economies in the West, which eventually could be a blessing as the hastily introduced demand oriented stimulus packages will mostly have dubious benefits. The core of the problem lies in the gaping current-account deficits - the counterpart of a huge flow of foreign investment into these countries that fuelled the boom[6]. A big vulnerability arises from this huge debt. Western banks have invested and lent heavily in the region, Austria alone about 230 billion Euro, in total, liabilities amounting 500 billion Euro have been accumulated[7] The current-account deficits are no longer sustainable in the current environment. Dramatically falling currency exchange rates and higher interest rates are negative consequences. As the lending western banks are in trouble themselves, the much needed flow of credit to the private sector via their subsidiaries in the East came to halt. Furthermore, as exports to crisis shaken Western Europe are faltering because of dropping demand, companies are scaling back and unemployment is starting to rise.[8] In better times, 20% of Slovakia´s exports went to Germany. In the Czech Republic, the car industry makes up 20% of GDP and 70% of the exports are directed to west European countries. But the biggest casualty of the crisis could be the model of open market economy. For countries that have been told that privatisation, liberalisation and open markets are the sure path to prosperity, the crisis brings "an implosion in the idea of normality" (Ivan Krastev). As western leaders respond to the crisis by putting national interests first, notably over state aid for finance and industry, their East European counterparts may feel betrayed.[9] As a political fall out populist parties enjoyed growing support in the East and West during the recent European elections, which were preceded by mass protests in the streets and the collapse of governments in Latvia, Hungary and in the Czech Republic. Surely every country in the region is different and different countries are likely to go through the crisis with differing results (please read the following CEE countries analysis by FNF´s Representatives in the region). Worst hit were countries which avoided needed reforms and wasted borrowed billions on construction and consumption booms - in such an environment political pressure to make difficult decisions is low. Also narrowly structured economies proved to be much more vulnerable to the external shocks. Other countries showed more stability, even in politics, when governments were strengthened as in Poland. Hence, the solution lies in the ability to find the right policy mix to minimize the effects of the crisis. Rejecting the ideas of a fast introduction of the Euro as well as the creation of a massive European financial stability fund, government leaders agreed to triple IMF resources to support the CEE countries. In addition the credit line available to EU countries that do not benefit from the shelter of using the Euro was substantially increased. These acts of solidarity and first aid will not be enough. To stop further currency collapse and to help banks with loans going bad, the leaders must point out that the recent failings in financial markets do not invalidate the huge advantages provided by the free movement of goods, capital and labour.[10] But they should not just propagate it, they must also act accordingly. Unfortunately, the leaders still have their doubts. The ongoing recession also reveals the cost of halted reforms in the past. Now more than ever CEE countries need to restart structural reforms such as public-finance reform, especially of pensions; raising labour-market participation, particularly by reducing the numbers of early retirees; and improving productivity by modernizing education. Many countries still have bad road systems. Government choke business; corruption is virulent.[11] In countries where corrupt and incompetent political elites rule the chances that the effects of the crisis will speed up reforms are rather dim. This is regretful as there are many examples of successful liberal market reforms in the region.[12] Non-Keynesian "survival tactics" may offer a better way out.[13] At least, serious Euro candidates will have no other choice than to consolidate public finances in order to meet the Maastricht criteria - unless the EU´s big spenders such as Germany and France will soften them. Efficient remedies seem to be politically unpalatable.[14] The European Commission, guardian of the Treaties, is no longer an exception. On the contrary, Brussels pushes the members to run even higher debts, currently 200 billion Euro, to stimulate the economy. In the long run nobody will benefit from the violation of stability criteria and the distortion of free competition. The recovery, particularly in the CEE countries, will be even prolonged. That is definitely not the solidarity the CEE countries need and want.

Current account balance 2009* % of GDP (Estimated, April 2009) - Source Economist

Estonia(-3.0), Russia(-0,6), Latvia(-2.0), Lithuania (-3.0), Poland (-5.7), Czech Republic (-2.0), Slovakia (-7.0), Hungary (-2,7), Slovenia(-2.8), Romania(-9,3), Bulgaria(-13,3)

Growth rate of GDP volume in EU countries- percentage change on previous year - Source Eurostat

	2006	2007	2008	2009[1]	2010[1]
EU (27 countries)	3.1	2.9	0.9	-4.0	-0.1
EU (25 countries)	3.1	2.9	0.8	-4.0	-0.1
Bulgaria	6.3	6.2	6.0	-1.6	-0.1
Czech Republic	6.8	6.0	3.2	-2.7	0.3
Estonia	10.4	6.3	-3.6	-10.3	-0.8
Ireland	5.7	6.0	-2.3	-9.0	-2.6
Greece	4.5	4.0	2.9	-0.9	0.1
Latvia	12.2	10.0	-4.6	-13.1	-3.2
Lithuania	7.8	8.9	3.0	-11.0	-4.7
Hungary	4.0	1.2	0.6	-6.3	-0.3
Poland	6.2	6.6	5.0	-1.4	0.8
Romania	7.9	6.2	7.1	-4.0	0.0
Slovenia	5.9	6.8	3.5	-3.4	0.7
Slovakia	8.5	10.4	6.4	-2.6	0.7

[1]Forecast

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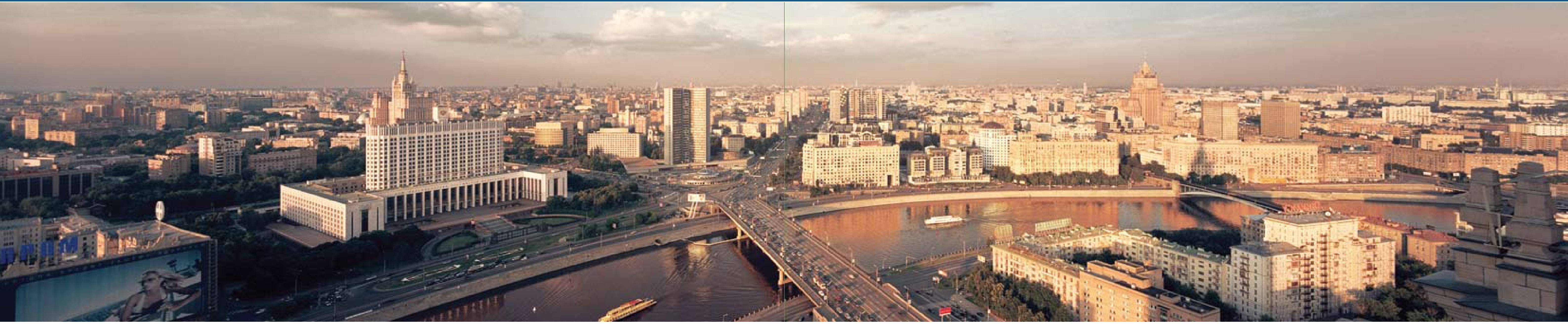

ECONOMIC CRISIS IN RUSSIA – A LACK OF DIVERSIFICATION COMPLICATES THE SITUATION

Sascha Tamm, Head of the central, Southeast and Eastern Europe department of the Friedrich Naumann Foundation for Freedom

Russia is undergoing a deep economic crisis. The IMF predicts that GDP will shrink 6% in 2009. Some Russian estimates are even worse. Industrial output may decrease 20%, in some sectors like engineering it may reach 50%. The Russian Ruble has lost about one third of its value against the Euro and even more against the US Dollar. The inflation rate is 13-14%. Unemployment is rising dramatically; the official figure of 8.5% seems to be too low.

Russia was affected by two external factors at the same time: the decrease in commodity prices and the drying-up of global credit markets because of the financial crisis. Russia´s economy depends on commodity exports to a huge extent. However, the country´s earnings from exports have nearly halved since the beginning of 2008. Russian companies and investors are deeply indebted, and their loans are mostly from foreign banks, usually with a short maturity. The collapse of commodity prices and the credit crunch have fueled the current recession in Russia.

However, the global financial crisis and its effects on the credit and commodity markets aren´t the only things driving the Russian crisis. Industrial output began to contract as early as January 2008. After a short recovery from April through June, the contraction, the shrinkage resumed and has continued until now. Therefore it is obvious that the only driver of economic growth in Russia were high commodity prices, which peaked in mid-2008. The capital that could help grow the Russian economy is scarce and overly concentrated in the oil and gas industry. The Russian banking sector is still very weak and ineffective. Foreign banks are focused on construction projects and the oil and gas industry, which had seemed resistant to crises. The Russian government´s policy to require diversification has not worked. These are additional reasons for the Russian crisis.

The Russian government has finally reversed its long held public renounciation of macroeconomic stabilisation measures and taken decisive action to defend the ruble. The Russian Central Bank´s policy of “controlled devaluation” has proven very costly. Russian financial reserves are now approximately US$ 200bn, or one third lower than at the start of the crisis. The stabilisation fund, which was stocked with money from oil and gas exports, is now used extensively for investment and social purposes. Russian experts estimate that under current conditions, the fund will only last until the end of 2009. So far, the Russian government has failed to slow inflation. Inflation is now at 13-14% and seems to be accelerating. However, by their careful and rational financial policy, the Russian authorities do still have room to maneuver which many other governments in Eastern Europe don´t have.

The most obvious symbol of the crisis in Moscow is that nearly all major construction projects are at a standstill. They lack capital. However, much more dangerous is the dramatic rise in unemployment. Its impact is much more noticeable in the regions of Russia other than Moscow. In Moscow, in most cases, it is immigrant workers who lose their jobs.

In many smaller industrial towns, those with an industrial monoculture, the bankruptcy of one big company causes serious, widespread unemployment. In the course of one day, a significant part of the population, up to a half, may lose their jobs. This has lead to social protests and a decline in approval rates for the government. Until now, the government has been able to finance social programs to help citizens affected by the crisis. Only a significant and sustained rise of commodity prices could fuel a fast recovery of the Russian economy. Otherwise, social tension will become more intensive. In the long run, only a broad diversification of the economy, driven by private investment, will make Russia less vulnerable to economic crises.

Global Financial Crisis grips Central Asia

The Global Financial crisis has finally caught up with the countries of Central Asia. Along with the general negative effects of harder to get foreign loans, declining FDI rates and sinking levels of raw material exports to the West and to Russia, there is an additional problem: the drop in remittances from Central Asian citizens working in Russia which constitute an essential part of GDP, more than 20% according to some analysts, in Tadzhikistan and Kyrgyzstan.

At present, the serious economic crisis gripping Russia has had two substantial effects on Central Asia: Russia pumps less oil and gas and thus migrant workers are able to send less money abroad to support their families. This has had a considerable impact on private consumption. The government of Central Asia, hemmed in by their lack of monetary resources, are totally unable to combat the present financial crisis.

They can only hope for an improvement of the global, and especially Russian, economic situation.

Dynamics of industrial output decrease in Russia, 2008 - 2009

Months	Index of industrial output (Dec 2007 = 100 %)	Decrease of industrial output compared to the peak in December 2007, %
Jan 2007	100,0	0,0
Jan 2008	99,5	-0,5
Feb 2008	98,2	-1,8
Mar 2008	97,4	-2,6
Apr 2008	97,6	-2,4
May 2008	98,3	-1,7
Jun 2008	98,7	-1,3
Jul 2008	98,6	-1,4
Aug 2008	97,7	-2,3
Sep 2008	95,3	-4,7
Oct 2008	91,1	-8,9
Nov 2008	85,8	-14,2
Dec 2008	80,7	-19,3
Jan 2009	77,3	-22,7
Feb 2009	76,6	-23,4
Ma 2009	78,9	- 21,1

Source: Institue for Economic Analysis in Russia

International Reserves of the Russian Federation, 2008 - 2009 (Billions of dollars)

Official reserves

Monthly values as of the beginning of accounting date

01.01.2008	479
01.02.2008	488
01.03.2008	495
01.04.2008	513
01.05.2008	532
01.06.2008	546
01.07.2008	569
01.08.2008	597
01.09.2008	582
01.10.2008	557
01.11.2008	485
01.12.2008	456
01.01.2009	427
01.02.2009	387
01.03.2009	384
01.04.2009	384
01.05.2009	384
01.06.2009	404

Source: Central Bank of Russian Federation

LE LIBÉRALISME ET LA CRISE: UNE IDÉOLOGIE AUX ASSISES ENCORE BIEN SOLIDE

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Le libéralisme est en crise, entend-on ces jours-ci. Certains semblent même pressés de nous annoncer sa mort. Il faut bien entendu se méfier. Les annonces concernant le décès du capitalisme et de la démocratie sont déjà légion! Il serait plutôt malvenu d'ajouter trop rapidement une nouvelle nécrologie, celle du libéralisme. D'abord, il faut savoir de quoi on parle. Le libéralisme, comme toutes les grandes idéologies, est à la fois vaste et diversifié. Il y a le libéralisme politique, celui qui privilégie la liberté de conscience, de religion et d'expression. Dans ce cadre, il peut facilement être avancé que nos sociétés sont profondément libérales, et s'empresser d'ajouter que peu seraient enclins à laisser aller ces acquis.

Le libéralisme qui fâche, et que certains souhaitent voir affaibli grâce à la crise économique et financière actuelle, c'est le libéralisme économique. Celui que l'on qualifie également de néolibéralisme. Les instigateurs intellectuels de son renouveau au XXe siècle sont des individus comme Friedrich Von Hayek et Milton Friedman. Ses plus grands promoteurs politiques auront été Margaret Thatcher et Ronald Reagan. On revendique l'indépendance des marchés par rapport au politique. De plus, on réclame l'extension du modèle économique à l'ensemble des sphères de la société. L'influence néolibérale a été largement diffusée dans les dernières décennies. Des politiques néolibérales sont depuis appliquées même par des partis politiques qui se disent «de gauche».

Rejet de la voie libérale ?

Ce néolibéralisme domine donc depuis plus d'une génération. L'application de ses préceptes nous a conduits là où nous en sommes aujourd'hui. Au-delà de la crise financière, c'est à une crise profonde du modèle que nous assistons. L'utopie financière de croissance toujours soutenue et continue a du plomb dans l'aile. On réalise enfin que l'idée qui a dominé les marchés jusqu'à tout récemment, celle selon laquelle il est possible de prendre des risques tout en évitant d'en supporter les conséquences, est un non-sens. Nous nous retrouvons face à une extrême complexité des produits financiers, à une grande fragilité des fonds spéculatifs, à un marché monétaire sans règles réelles et à une opacité des paradis fiscaux.

Devant cette situation, on en vient à prédire le rejet de la voie libérale. C'est aller un peu vite en affaire. C'est d'abord négliger les capacités d'adaptation du libéralisme, qui pourtant ont été importantes en ce qui a trait à la «menace communiste» au XXe siècle. Mais c'est aussi — et peut-être surtout — ne pas prendre en compte certaines données fondamentales concernant nos sociétés contemporaines.

Sans chercher à avancer un propos éristique, il peut être avancé que, loin d'être en crise, le libéralisme économique se porte plutôt bien. Ce qui est en crise actuellement, ce sont les marchés financiers (et par ricochet l'économie réelle). Par contre, les bases de légitimité du libéralisme économique apparaissent toujours aussi solides, n'en déplaise à ses contempteurs. Trois éléments viennent accréditer la thèse: le rôle de l'État, la centralité de la concurrence sociale et, enfin, le règne de la société de crédit.

Crédits illimités pour la finance

On ne cesse de nous prévenir depuis de nombreuses années: nous avons vécu au-dessus de nos moyens pendant trop longtemps. D'où les coupes en santé, le sous-investissement en éducation et les budgets amputés dans l'ensemble des autres services à la population (accès à la justice, protection du consommateur, etc.). Les coffres étant désormais vides, on nous a appliqué la politique du «aucune autre solution n'est envisageable». Or, quelle n'est pas notre surprise de voir les gouvernements courir au chevet du monde de la finance, déployant des centaines de milliards de dollars afin de s'assurer de son bon rétablissement. Bref, il n'y a plus d'argent pour soigner, éduquer et protéger les citoyens. La sphère sociale doit se débrouiller par elle-même.

Par contre, les crédits sont presque illimités pour la sphère financière. Banques, compagnies d'assurance et constructeurs automobiles (qui sera le prochain?) se voient offrir des largesses impensables quand il s'agit de soigner et d'éduquer les êtres humains. L'État providence se transforme en État protecteur du marché et de la finance. Nous sommes bien loin d'un recul du libéralisme. Plus que jamais, l'acteur étatique est à son service.

Il ne faudrait pas non plus sous-estimer à quel point l'idéologie néolibérale de la concurrence est profondément ancrée dans nos sociétés. Le devenir de l'individu repose désormais uniquement sur lui-même. On ne cesse de le lui marteler. Il doit poursuivre une formation qui lui sera utile à très court terme. Et s'il perd son emploi? Alors, ce sera à lui de faire la preuve qu'il peut s'adapter. Il aura l'«occasion» de se renouveler, c'est-à-dire de prendre à sa charge une nouvelle formation.

Inégalités sociales

Il se doit donc d'être compétitif, car il est en concurrence. S'il échoue, personne sauf lui n'en sera responsable. Ce discours dominant trouve ses origines directement dans le néolibéralisme. Il a aussi pour effet de justifier les inégalités sociales: «Vous êtes pauvre? C'est que vous n'avez pas fait les bons choix.» Il fallait plutôt viser un emploi comme gestionnaire en finance!

Ce même discours néolibéral est tout aussi puissant dans le domaine du libre-échange. Avec la crise, nous avons pourtant peu entendu parler de retour au protectionnisme. Pourtant, on ne cesse de nous répéter qu'il existe quelque part des gens qui prônent un retour à des politiques protectionnistes. Ceux-ci sont accusés d'avoir une vision à court terme (ce que les banquiers, financiers et gestionnaires n'ont pas, eux!), et surtout de causer une baisse des niveaux de vie. Une fois passé l'étonnement de voir des gestionnaires et des économistes néolibéraux se préoccuper de nos niveaux de vie, il est nécessaire de rappeler certains faits.

Solidité du libéralisme

On nous affirme que le retour du protectionnisme, c'est le retour des nationalismes exacerbés et d'une crise économique encore pire. On n'a qu'à regarder l'Histoire pour s'en apercevoir, proclame-t-on. Quelle histoire? Quel moment? L'époque avant les accords de libre-échange élaborés dans les années 1980? Celle des Trente Glorieuses? Ou encore le protectionnisme qui a présidé à l'envolée industrielle des États-Unis dans la deuxième moitié du XVIIIe siècle?

Les époques de protectionnisme ont plutôt permis un développement social plus juste et moins sauvage. Bien que le discours libre-échangiste soit truffé de faussetés, reconnaissons qu'il domine. Dernier élément à venir consolider la thèse de la solidité du libéralisme économique: les solutions de sortie de crise envisagées. Les taux d'endettement individuel n'ont jamais été aussi élevés, bien que les familles n'aient jamais eu aussi peu d'enfants. Il existe des différences nationales; néanmoins, nous avons affaire à la même dynamique partout: l'endettement est en hausse et atteint des records.

Maladie du système

Que propose-t-on pour sortir de la crise? Mis à part les centaines de milliards en fonds publics, on nous annonce qu'il faut débloquer le crédit. Pour quoi faire? Pour que les gens encore plus endettés contribuent à faire fonctionner le système. Ce système est bel et bien malade, il préside à la destructuration de nos sociétés. Néanmoins, l'idéologie qui le légitime se porte plutôt bien. C'est pourquoi on tente de résoudre la crise actuelle à partir de recettes économiques libérales.

C'est une erreur de penser que, parce que la finance et l'économie sont affaiblies, le libéralisme l'est tout autant.

La crise nous révèle, au contraire, toute sa puissance. Il demeure un horizon de pensée, qui pour l'instant encore, donne l'impression d'être indépassable.

A LOOK BEHIND THE RHETORIC OF MARKET FAILURE

Christoph Eisenring, Correspondent for the Neue Züricher Zeitung in Frankfurt

"Under the lense of freedom a market economy would be preferable even if its economic results were inferior to the ones of a centrally planned economy." Alfred Müller-Armack, 1946.

According to the G-20-summit all important financial institutions, markets, and financial instruments should be subject to regulation and oversight. Such an all-encompassing regulation is not only presumptuous but also incompatible with demands that managers should live up to high moral standards. If everything is regulated there will be no room left for moral acts. We remember Lenin´s "trust is good, but control is better", before he extinguished the entrepreneurs and replaced them with functionaries. Currently the debate is dominated by apologists who see "market failure" everywhere. However, behind all the rhetoric there is just one noteworthy argument that deserves attention: the violation of the principle of liability. Think of asymmetric salary systems: Managers were rewarded for high profits, often with stock options, but were not held accountable for mistakes. It is interesting to know why stock options became so popular. In 1993 the Clinton administration capped the maximum deductibility of manager´s salaries at 1 million $. Stock options were not subject to this cap and hence such programs boomed. Shareholders liked them too because they offered one way to better align the interests of managers with those of the owners.

Meanwhile shareholders had to learn that stock options may lead managers into too risky endeavours. Therefore banks are changing remuneration systems to bring in more long-term elements. State intervention is not needed here as the market will find better solutions. The only regulation which could be useful in this respect is to make the salary system more transparent for shareholders. The annual general meeting could then be given the right to vote on fundamental characteristics of management compensation.

However, the violation of the principle of liability is not easy to fix and should not be seen as the main culprit of the crisis. Only when the owner and the manager are the same person the incentives will be perfectly aligned. Compare this with the situation of health insurance. If somebody has a health insurance there will be "moral hazard", i.e. this person tends to consume too many health services because she has to pay nothing or only a part of the bill. If we want to eliminate moral hazard completely we would have to eliminate health insurance altogether. If we think delegation is useful, and there is no doubt that this is the case in a society based on the division of labour, then we will always be confronted with a principal-agent situation where the shareholders cannot perfectly monitor the managers.

The other school of thought attributes the crisis not to "market failure" but to wrong perceptions and misjudgements. According to this view we are not confronted with "failing markets" but with individuals who have taken wrong decisions. What has caused such errors? To package loans, transform them into tradable goods and sell these products to investors around the globe is a rather recent phenomenon.

Investment bankers experimented, packaged and repackaged loans until some of the products became very complicated. Investors then relied too heavily on the judgment of rating agencies when buying these assets. Banks, on the other hand, introduced new statistical tools for risk management. However, these models were calibrated using a short and benign time period and could not cope with structural breaks. It was financial deregulation in the 1990's of the last century that initiated a push of innovation. Not all of the new products will survive. Rather, at the moment we witness a dramatic selection process. At the end we will probably see simpler and perhaps more standardized products. The current events remind us that innovation is not a smooth process without any setbacks. If we want to benefit from the market dynamics we have to accept swings and sometimes even a crisis. It is by "trial and error" that markets operate - and individuals as well as societies develop.

Advocates of "market failure" should also be reminded that it is only a necessary but not a sufficient condition for government action. Government should only intervene if the probability of improving the situation is very high. Unfortunately, humbleness is usually not in the nature of politicians. A look at the German Landesbanken is sobering.

These banks are owned by the Bundesländer and the local savings banks. In Europe they were among the first which failed. Most of them simply have no business model. Instead, they relied heavily on the "borrowed rating" from their respective Bundesland. They issued a lot of debt and put the money into credit derivatives - or lent it to Icelandic banks. Funnily enough German banks were exposed to Icelandic counterparts with a sum that amounted to the gross domestic product of this Nordic country (according to the Bank for International Settlements).

So it is naïve to think that the crisis can be cured by more government involvement in the banking sector or the economy in general. The case of development aid comes into mind. Nobody would argue against food aid to fight a famine. But classical liberals are sceptical towards unconditional development aid which rather hinders than spurs growth. Coming back to the banking system it follows that the state has a role to play in avoiding a collapse. So it was important that Chancellor Angela Merkel reassured the German people that their money is safe.

But a long-time public engagement in the sector would be detrimental as the experience with the Landesbanken shows.

Instead, new regulation should be kept simple, without intervening in the daily business of banks. The crisis has shown that banks need larger capital cushions to absorb shocks. Before the crisis broke out, capital in relation to total assets had diminished to 2% to 3% for a lot of banks. So equity has almost disappeared from banks` balance sheets. At the same time one should question the tendency towards a highly centralized system of oversight, possibly on a world level. Decentralised systems are more fault-tolerant – and therefore better protect us from big mistakes.

If the advocates of "market failure" have the last word regulation will become so tight that it will stifle competition. But it will not be possible to overcome the current crisis without

relying on market forces. Without competition there is no competitive pressure, without pressure there is no innovation, without innovation there will not be new products or solutions which could pave the way out of the crisis.

Rather, weakening or oppressing markets will be followed by a lack of goods, of welfare and of liberty. This is a real danger even though the G-20-leaders have promised they will not repeat the historic mistakes of protectionism of previous eras. The World Bank knows better. It has recently pointed out that 17 out of the G-20 member countries have implemented measures that restrict trade at the expense of other countries. It is not enough if classical liberals confront advocates of "market failure" with "government failure" – e.g. with a monetary ethnical policy that was too expansionist or with the political support of US-homeowners via Freddie Mac and Fannie Mae which was at the root of the subprime disaster. Rather, one should promote the ethical merits of a market economy.

A society that relies on the market as a coordination mechanism is the contrary to a dog-eat-dog society. Each transaction in the marketplace is settled voluntarily by the consent of all participants. After such a transaction the involved individuals are better off. It is in the interest of the members of such a society to do no harm to each other because everybody is in constant search and need for partners with whom to exchange goods and ideas. It is this "double voluntariness" which gives a market economy its appeal. Therefore the German economist Alfred Müller-Armack wrote (Wirtschaftslenkung und Marktwirtschaft, 1946): "Under the lense of freedom a market economy would be preferable even if its economic results were inferior to the ones of a centrally planned economy.

The last criterion for an economic order rests not only on economic but also on spiritual grounds." We need free citizens who are ready to take initiatives, who put their capital at stake, who assume risks. Instead, a society where the state sees itself responsible for everything - for stimulating the economy, for helping the industry, for regulating banks and for protecting people from immoral or stupid decisions – will suffocate any entrepreneurial spirit.

GREENING THE DEBT

Jakob von Weizsäcker, Resident Scholar at the Bruegel Think Tank

It is still possible to stop climate change in this current economic environment. Governments should "green the debt" from their fiscal stimulus packages by repaying it with proceeds from higher carbon taxes and cap and trade systems, improving both economic and environmental sustainability. The global economic crisis and climate change are probably the two signature challenges of our time. Luckily, there are ways to make our responses to these challenges mutually reinforcing.

One approach is to green the expenditures of the fiscal stimulus packages, as called for by the final communiqué of the G20 summit. But manoeuvring room is limited. An estimated 15 percent of the stimulus packages are already green. And because it is the primary objective of the fiscal stimulus to support the economy in the short run, it is not possible to devote a much larger proportion to the longer term objective of fighting climate change. However, there is another way to green the stimulus: greening the enormous additional debt due to deficit spending. In 2009 alone, European Union countries will pile up a stimulus debt of around €115 billion, or 0.9 percent of GDP, with the United States adding twice as much - an estimated €220 billon, or 2 percent of GDP. These debts could be "greened" by a firm international commitment to repay them exclusively with additional revenues from CO2 taxes and emissions cap and trade schemes. This is what I propose should be done. The additional green revenues would be raised as soon as economies recover enough to repay the stimulus debts. The time line of debt repayment could be explicitly linked to the timing of the economic recovery. And once the stimulus debt has been repaid, the green revenues would be used to reduce the fiscal burden on labour. Such a shift from taxation that reduces desirable employment to taxation that reduces undesirable pollution will lead to welfare gains. The envisaged increase in green revenues is ambitious, but not utopian. In the European Union, green taxes already make up 2.6 percent of GDP - substantially more than the annual size of the stimulus packages to date. Green tax revenues in the United States are far lower, but the Obama administration is already working on a cap-and-trade scheme that could generate the required revenues. Repaying stimulus debt through green taxes has a number of advantages:

First, there are efficiency reasons to complement the carrot of green subsidies with the stick of green taxes. The latter clearly addresses the underlying problem, namely that private agents do not fully take into account the negative climate externality of CO2 emissions. By contrast, the carrot of green subsidies is better suited to dealing with a narrower and positive externality - the spill-over effects of technological innovation aimed at reducing CO2 emissions. Second, green revenues not only improve environmental but also fiscal sustainability. A credible commitment by countries under fiscal pressure on how they will repay their debts could serve to reassure financial markets. Even countries like Ireland without the fiscal room for maneuver for discretionary fiscal measures might be tempted to participate in the greening of part of its debt. Third, green debt makes the case for coordination of fiscal stimuli even more compelling. Such coordination could address fiscal and environmental free-riding at the same time: All countries that commit to a fiscal stimulus would thereby automatically commit to increase their CO2 taxes at a later stage to service their green debt. Only a couple of years ago, this proposal would have been completely unrealistic. Ironically, the threat to fiscal sustainability during this economic crisis may be decisive in helping our economies to move toward environmental sustainability.

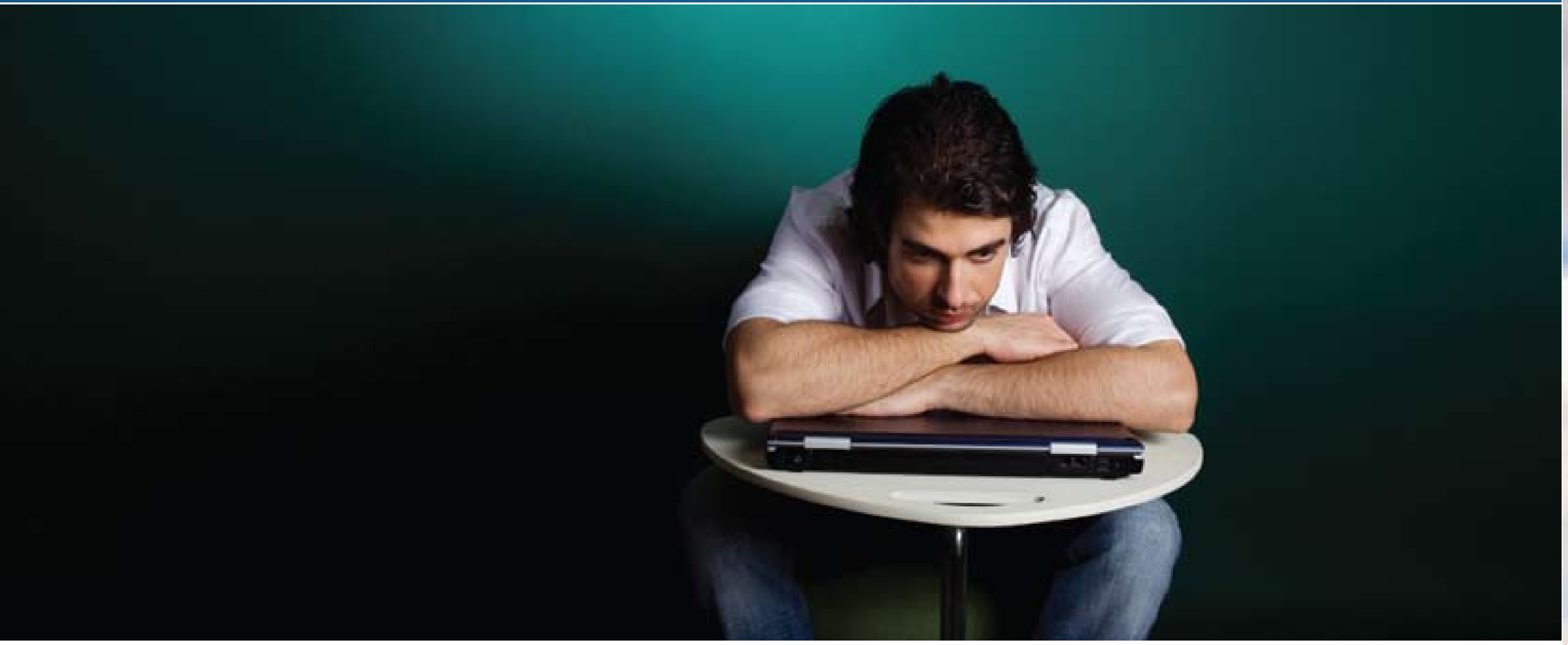
AN ECO-EFFICIENT ECONOMY

Maud Olofsson, Deputy Prime Minister of Sweden, Minister for Enterprise and Energy,
Leader of the Centre Party of Sweden

Europe's citizens have understood that the climate threat is a reality, and made it clear that they are ready to take action to halt it. Concern for our environment and climate has led to strong grassroot movements across Europe and internationally. Setting the famous 20-20-20 targets last year the EU has demonstrated the potential of international cooperation. We now have an unique opportunity to reach a global agreement in Copenhagen on reducing greenhouse gas emissions in December this year. The climate crisis is happening at the same time as the world economy is undergoing its deepest recession since the Great Depression and Europe is suffering from loss of jobs and a declining economy. These crises force us to reconsider the ways in which we generate growth and what future sources of prosperity might be. It is clear that businesses, citizens and governments will all have to adapt and adjust if we are to meet the formidable challenges we face. But we should not be put off by need to make these adjustments. Rather we should see the opportunities that these challenges present and seize them. Europe should take the lead in the transformation into an Eco-efficient economy, but to make it possible we need leadership and courage. I can understand that people are afraid to start investing in environmentally friendly technologies if it implies imposing greater burdens and costs on our industry and consumers. But reality is different: there is actually a lot of money to be made from shifting to an Eco-efficient economy. The logic of business is to swiftly adapt to new realities and demands, and to go where there is money to be made. The global demand for natural resources will continue to grow with present-day global patterns of growth. Business leaders have already realised that if they start adapting at an early stage, they will gain an important advantage and retain a competitive edge for years to come.

At the Copenhagen Conference it will be imperative to show that change is possible. For this, we need an integrated policy response that goes across policy areas. By choosing the Eco-efficient economic model as one of the themes for the Swedish EU Presidency, we hope to inspire policy makers to adopt a holistic approach rather than a 'silo' mentality in future EU work. It is time for policy makers to follow the consumers' demands and the lead of business. It is also time to make sure that new environmental technologies are affordable and accessible in poor parts of the world. We need to identify the many "low hanging fruits", tried and proven policies and technologies, where investments give quick and substantial payoffs. But it is also crucial to gear our long-term policy instruments to the future.

The sectors and markets for green products and services, such as renewable energy, environmental technology, ICT, spatial planning and construction; sustainable transport, tourism and agriculture, are where the jobs of tomorrow will be created. The EU holds the tools to promote such developments. Not least the successor to the EU Lisbon strategy for competitiveness and growth, a future transport policy, future ICT policy and Energy efficiency action plan. We are undergoing what could be a pivotal phase for Europe and the rest of the world. We can either seize the opportunity for future prosperity and a healthy environment by leading the transition to an Eco-Efficient economy, or we can stubbornly stick to our old ways and pay the price of lower growth and a deteriorating environment in a future which is closer than one might think. One thing is certain, the world won't wait. If Europe does not seize the golden opportunities that follow in the foot paths of the climate and economical crises, someone else will. By leading the way in to an Eco-efficient Economy we will lay the groundwork for prosperity and green future.



EFFECTS OF FINANCIAL CRISIS OVER YOUTH

Paola Silva, President of the International Federation of International Youth

The full extent of the effects of the financial crisis over youth is discouraging. After all measures taken, the facts show that current youth and future generations have to not only take into their hands the recovery of the economy, but also pay for over expenditures and debts accumulated by governments to overcome the financial crisis. The current young generation has the highest potential to contribute to a lasting recovery from the crisis. It is the best educated generation ever, familiar with new technologies, more mobile and open to new opportunities.

Concerning, however the elephantine size of the aggregated stimulus packages developed throughout the world, and, while it is important to recognize that these measures can boost short-term demand and production capacity, we stress that in the long run only structural, market-oriented reforms in the economy can ensure stable and positive growth levels.

The financial crisis may possibly trigger a social crisis in the long run. Since the possibility to exchange goods and services in a free market economy is determined by the opportunity to build capital, and this opportunity is being hindered as a consequence of the financial crisis, this situation constitutes an obstacle for young people to be fully and efficiently integrated into society and it increases the risk of the financial crisis becoming a social crisis.

What is the prospective liberal solution?

- The investment in education must continue being the priority as a key long term strategy. The adequate qualification of young people also plays a pivotal role as a medium term strategy towards recovery.

Since educational standards in the emerging economies continue to fall, a significant effort must be made in this field in order to overcome the current crises and to face new challenges in the future.

- The investment in research and new technology must provide the adequate incentives to promote the productive use of TIC's as a useful tool to save transaction costs.

- In a globalized context, the diversity and the possibility to exchange not only goods and services but also knowledge and information, constitute an advantage that should be embraced in order to shape collective solutions to overcome the crisis.

- Policymakers, lawmakers and regulators must look forward to provide an adequate framework that encour ages innovation and supports youth entrepreneurship.

Besides economic stimulus currently in place, governments should focus on long-term structural improvements of the economy, of which the most important one is the development of alternative energy sources and energy-saving technologies.

- Since personal and economic freedoms go hand in hand, the policies adopted in order to overcome the ongoing crisis should emphasize that market and personal freedom complement each other and must be exercised within reasonable limits. Those limits are aimed to allow all members of society to fully enjoy their rights in fair and equal conditions.

- Debt minimization should at any time be a priority for governments if they take financial sustainability (and thus the future of today's youth) seriously.

Debt reduction policies should therefore already now be developed in order to not compromise the capital of the current youth not the future coming generations.

Liberal International 56th Congress
Education in the 21st Century

29 October – 1 November 2009, Cairo, Egypt

PROTECTING THE WORLD'S POOR FROM THE RAVAGES OF RECESSION

Pär Stenbäck, Finland's former Foreign Affairs minister and former leader of the Swedish Peoples Party.

One thing we can be sure of is that the worldwide economic slump is going to have unforeseen foreign policy and security consequence. These may well change the international landscape and profoundly affect policymaking.

The first and most obvious result of the recession is that many donor governments have been trimming their 2009 foreign aid programmes. Not all, of course, as some will stay loyal to their earlier promises, Norway this year will even reach the 1% of gross national income (GNI) mark. IIn the U.S., before taking office, President Barack Obama promised a doubling of foreign assistance from $25bn to $50bn, but since then Vice-President Joe Biden warned that this commitment will probably be achieved more slowly in light of the economic downturn.

In Finland, our aid decreased by 62% during the severe economic crisis we encountered in the early 1990s; it was so severe that Finns still call it "The Depression". And Japan's overseas aid declined by 44% when the country hit hard times. The signs are, then, that the worldwide nature of the present slump could bring with it a cut in official development aid (ODA) of 30%. This is the prediction of a Washington think-tank.

The second challenge to world security and stability is one that could render useless years of strenuous effort that have been devoted to building-up UN peacekeeping operations. It is easy to predict that donor governments will be taking a careful look at the ever-growing expenditure on UN's 14 peacekeeping operations around the world.

The total bill for all UN operations in the 12 months up to mid-2008 amounted to $6,7bn, about twice the yearly figure 15 years ago. Will governments stay loyal to their commitments for the next few years? One can only imagine the consequences when operations that are already spread thin are cut in sensitive areas. It is important as well to keep in mind that the Rwandan genocide was preceded by a similar lack of enthusiasm for giving financial support to the UN mission there. Recent events in Congo and elsewhere would suggest there is no room for complacency.

The third and probably most threatening challenge comes from the private sector, and indeed from private citizens. By far the biggest transfer of assets from rich countries to the developing world takes place through the remittances home of migrant workers.

Yet surprisingly few decision-makers are aware of this. In 2006, around 150m migrants sent home some $300bn to their families in developing countries (IFAD study). The number of transactions is huge, with 1,5bn remittances estimated in a single year. Most remittances are for sums of only $100-$300, and they normally go towards immediate household consumption.

The value of all official development assistance (ODA) in 2006 was $126bn, less than half the value of private remittances, even though it includes assistance from OECD and non-OECD countries as well as from China.

If the global remittances network is seriously hurt by the recession, it will throw millions of already poor people into greater poverty. That's what will happen if migrants lose their jobs in richer host countries and are forced to return home to their country of origin.

The possible impact can be gauged by looking at where the total $300bn, in remittances are distributed. In 2006, poorer countries in Europe benefitted to the tune of about $50bn, Africa gets $38bn, Latin America and the Caribbean $68 billion, the near East $24 billion and Asia is the major beneficiary with $113bn.

All in all, 57 countries each received $1bn or more in remittances, with some countries dependent on this income flow for economic survival. Cape Verde received 34% of its GDP this way, Eritrea 38% and Burundi 23%. In Asia, Afghanistan 30% and Tajikistan 38%, while in Europe Moldova received 31% of its GDP from external sources.

A number of these countries are either in conflict ones or are fragile states, so a diminishing flow of remittances will aggravate their instability, and may well increase the flow of migration to other countries.

The reality is that many third world countries are dependent on income from their citizens abroad, so what needs to be done if the recession starts to hit migrant workers?. An estimated 10% of the world's population are reckoned to benefit from remittances, so ensuring that they continue should be of real concern to the aid community in donor countries.

To some it may seem a shadowy subterranean world that is not a part of the official aid machinery, but the livelihoods of around 150m migrant workers around the world are now totally dependent on market forces. Governments in Europe and elsewhere should take a careful look at what other forces will be at work if and when migrant workers are sent home.

These are the same governments that are already spending tax money on direct foreign aid. Should they consider tax breaks that could entice employers to keep their workers on the payroll, as this would probably be a much more efficient way to support these poor countries.

A second look should also be taken at the monetary transactions that take place between wealthy and poor countries. Transaction costs often cut away a considerable proportion of remittances that are already small. Governments might well be able to intervene here as the political atmosphere is increasingly conducive to intervention in the banking sector. Aid mechanisms could also be used to create safe and cheap channels for financial remittances, especially in cases where private money can not easily reach remote rural areas in Africa or Asia where a migrant worker's family may find itself in dire straits.

A look should also be taken at the restrictive regulations introduced after 9/11. These demands for more effective control mechanisms placed an extra burden on remittance operators. They were introduced in the name of fighting terror, and while it's hard to say if this has actually prevented acts of terrorism, it has certainly pushed remittance costs higher. If nothing else, the fight against terror and its financing means that governments and financial institutions have extensive data on the flow of money across borders, and this data should be put to good use, by helping people send money to their relatives more easily.

More positively, other countries have taken steps to make remittance transfers possible via mobile phones. The sheer size of these remittances, and their importance in keeping so many millions of people above the poverty line, means there is a strong case for institutions like the European Union to take a careful look at the remittance system.

In these times of financial and economic downturn, an improved system could help alleviate the burdens heaped on innocent victims of the slump. A review could look into restrictive practices that the EU could abolish, and ask whether EU assistance should be adapted to the needs of this informal yet crucially important aid network.

Sending money to some countries is now allowed only through formal banking channels, and this has created virtual monopolies while also preventing remittance money from reaching rural areas where banks don't operate. In West Africa, a simple money transfer operator now handles 70% of official payments and also imposes exclusivity on the banks.

Allowing more informal financial institutions to channel foreign payments would ease the money flow to remote regions. Cooperatives, credit unions and new forms of microfinancing could form networks that would ensure greater accessibility. Restrictive legal practices are in force in some countries that exclude migrants from using official banking systems unless they have the necessary legal status.

Perhaps the EU already has a policy in place; if so, it should let the member states know more about it, and ask them to contribute to funding it. Maintaining a flow of private investment towards developing countries will clearly be important once the recession begins to bite, and these investments will inevitably slow down during the next few years. So ensuring that employment of migrant workers does not suffer disproportionately will be even more important: Europe's migrant workers are vital to the well-being of hundreds of millions of people in some of the world's poorest countries. Protecting their livelihoods should be a policy priority for the aid community.

This article was originally ordered by Europe's World in Brussels.

SOUTH AFRICA AND THE GLOBAL FINANCIAL CRISIS

Tim Harris, MP is a Parliamentarian with the Democratic Alliance, South Africa's Official Opposition. He sits on the Select Committee for Finance and Appropriations and serves as the party's International Liaison.

The Global Financial Crisis has exposed the best and the worst of the South African economy. When the collapse of the sub-prime market in the US triggered the liquidity crisis that brought Western banks to their knees, South African financial institutions were hardly affected - leading some analysts to predict that the longer-term effects on our economy would be minimal. The resultant global downturn, however, has left our deep, structural economic problems exposed, as we have entered a painful and prolonged recession.

Domestic employment, economic growth, and industrial output are all dramatically down in recent months, and each of these measures points to fundamental weaknesses in the South African economy. But before analysing where we have gone wrong - and what reform is required - it is worthwhile considering the genesis of the financial crisis in the South African context.

The global crisis was precipitated by the collapse of an asset-pricing bubble, linked to the US housing market and obscured by the sophisticated repackaging of assets by under-regulated banks. Because of this, there is a growing consensus that globally, the regulation of banks and the financial system in general clearly needs to be overhauled, but we at the Democratic Alliance (DA) have cautioned against a new over-reliance on regulators. Transparency and the intelligent use of market incentives should be central to any new regulatory frameworks.

In many ways the South African example could be instructive in this regard seeing as the sound management of our banks deserves much of the credit for our insulation from the bad investments that have compromised much of the rest of the global financial system. Our legislators in the third South African Parliament are also due praise for timely interventions like the National Credit Act of 2007 that established a new regulator and better protects consumers.

The strength of our banking sector is highlighted in the World Economic Forum's Global Competitiveness Report, published last year that ranks South Africa's as the 15th most sound and healthy banking system worldwide. We rank above France, the UK and Germany and even Switzerland in this regard.

The robustness of the South African banking system, and the regulation thereof, as well as the fact that domestic banks had very little exposure to the US sub-prime market, shielded us from the initial confidence and liquidity crisis in world financial markets. The recession triggered by this crisis, however, is taking a disproportionate toll on our economy which remains vulnerable after reform efforts stalled under Thabo Mbeki's government.

African growth, which has averaged five percent in the past five years, together with high commodity prices and fair global economic winds, allowed previous Finance Minister Trevor Manual a relatively easy ride in terms of the economic management of South Africa over the past ten years.

It must be said, however, that he did put the fat years to good use: drawing down the Apartheid national debt he inherited and building the capacity of the tax authority and the National Treasury.

But the bugbear of the South African economy remains our chronically high unemployment rate which remained stubbornly above 20%, even during the growth phase of the past 15 years. Recent figures show that the recession has already cost us 400 000 jobs, despite President Jacob Zuma's impossible commitment to create half a million jobs this year.

The crux of the issue is that the labour market needs to be reformed to make it cheaper for small businesses to hire workers and reduce the burden of onerous labour regulations. Currently a unionised "labour aristocracy", represented by the largest labour union in a governing alliance with the ANC, is protected at the expense of eight million unemployed job seekers.

Alarmingly, if a South African is between the ages of 20 and 24, the odds that he or she is included in that eight million rise to fifty percent. It is not hard to imagine which demographic has been central to the recent "service delivery protests" in informal settlements around the country.

The above-mentioned reforms were required fifteen years ago, but they are even more urgent in an economy that shrunk 1,8% in the last quarter of 2008 and 6,4% and 3% respectively in the first two quarters of this year. The most direct cost of this contraction is seen in the tax take – projected to be R60bn (US$7,7bn) lower than forecast in the last budget – despite cost increases of more than 30%.

A large portion of these increases can be attributed to bail outs for parastatals that dominate several sectors of the economy, reduce competitiveness and impose a huge burden on the taxpayer. In recent years South African Airways, the state broadcaster and numerous other state-owned enterprises have required billions of rands of bailouts. Plans to privatise many of them were shelved by the previous administration, as were initiatives to introduce numerous Public Private Partnerships.

Instead of implementing market reforms, the ANC government has committed itself to what it calls a "developmental state" – supposedly inspired by the East Asian Tiger economies. Unfortunately, this model presupposes an efficient and effective state, not one already crippled by capacity constraints.

The DA's position is that the private sector should be the primary creator of jobs, and the driver of economic growth. We believe this because it is pragmatic and because it has been central to every economic success story of the past century.

But we are also aware that the state has an important role to play. It needs to regulate the market to ensure competition and fairness, it needs to provide goods and services when the market is unable to do so - especially in the case of bulk infrastructure - and it should use counter-cyclical fiscal policy to lessen the negative impact of the business cycle.

In cyclical terms, there is light at the end of the tunnel for the South African economy, although the above-mentioned tax shortfall will introduce a real risk around the budget deficit. Improvements in commodity prices have helped the mining sector to return to growth after it shrunk by a third in the first quarter of the year, construction too has shown growth, buoyed by building associated with the 2010 Football World Cup.

So far, the South Africa business cycle appears to have lagged the developed world by about three months. If the "green shoots" reported in the world economy turn into a real turnaround, then our economy could return to growth early next year. Without the required labour market reforms, however, this is likely to be more of the "jobless growth" of the past 15 years. It is also scant relief for South African companies facing closure due to this year's drop-off in domestic demand.

Such companies were promised "industry-level rescue packages" in February this year, but six months later the state has only just announced plans for a training layoff scheme that will give employers a subsidised alternative to retrenchments.

While this is an admirable initiative (and, indeed, it is one the Democratic Alliance campaigned on in the 2009 election campaign) it has taken too long to be implemented, mainly because it is being driven by the notoriously bureaucratic and ineffective Department of Trade and Industry.

Instead of focussing on State-driven interventions, South Africa needs to be implementing market reforms – within an appropriate regulatory framework. This is why the DA's economic policy focussed on promoting opportunity, spurring private investment and supporting small business.

We know that state investment and counter-cyclical fiscal policy can support these objectives and are an integral part of driving growth, but the focus must always be on giving people the most choice and the most opportunity - together these are the best means to help get South Africa out of recession and onto a labour-absorbing growth path.

EL PANORAMA ECONÓMICO DE AMÉRICA LATINA Y CHILE EN EL CONTEXTO DE LA CRISIS INTERNACIONAL

Francisco Garcés, el Director del Centro de Economía Internacional del Instituto Libertad y Desarrollo de Chile

Fue, sin duda, una buena época mientras duró. Entre el 2004 y el 2008, América Latina creció en promedio más de un 5% al año, la inflación se mantuvo en la mayoría de los países por debajo de los dos dígitos, los mercados de crédito se expandieron y las exportaciones tuvieron un boom gatillado por el alto precio que alcanzaron los commodities, pilar fundamental de muchas de las economías del continente.

Según cifras de la CEPAL, la pobreza en América Latina se redujo desde un 44% a un 33% entre 2002 y 2008, lo que debe ser un motivo de orgullo para los países de la región.

Sin embargo, el actual escenario internacional implica una serie de amenazas para la región, las que se relacionan principalmente con las tendencias descendentes en los precios de los commodities, el restringido acceso al crédito en los mercados internacionales y el énfasis intervencionista y hostil al mercado que han impuesto varios gobiernos en sus respectivas economías.

Hasta el tercer trimestre de 2008, la situación en Latinoamérica parecía aún estar bajo control. Por ejemplo, Brasil creció un 6,8% y Perú un 10% respecto a igual período del 2007.

En los meses siguientes, sin embargo, el crédito sufrió una fuerte contracción, las monedas locales comenzaron a tambalearse y las bolsas empezaron a experimentar importantes caídas fruto de la incertidumbre respecto a las reales dimensiones de la crisis.

Fue en ese contexto en que las exportaciones comenzaron a caer tanto en volumen de carga como en los ingresos que reportaban para los países. Esta ha sido la principal vía a través de la cual se ha transmitido la crisis financiera internacional en Latinoamérica, afectando fuertemente los saldos de cuenta corriente, la balanza comercial y la inversión.

Como consecuencia indirecta, los gobiernos han comenzado a implementar planes fiscales con el objetivo de mitigar el impacto de la crisis en las economías locales. En ese sentido, el principal problema radicó en el tipo de medidas que han llevado adelante algunos gobiernos.

La crisis económica y financiera encontró a muchos países de América Latina en una fuerte posición fiscal y un equilibrio en los saldos de cuenta corriente. Tal es el caso de países como Chile, Perú, Uruguay y Brasil. Los países han aprendido las lecciones de las crisis pasadas y de esta forma, han pasado gran parte de su deuda externa a moneda local, con lo que la depreciación de las monedas de la región frente al dólar, al menos no significa hoy un aumento exponencial en la deuda de los países.

Sin embargo, países como Venezuela o Ecuador, que persisten en mantener severos e ineficientes controles en la economía, se verán afectados en mayor medida.

En definitiva, este será un año complejo para América Latina. Transcurrida ya la mitad del 2009, la región ha sufrido más de lo diagnosticado por los gobiernos y lo proyectado por los analistas. Aunque está mejor que Europa Central y Oriental, está peor que Asia en su conjunto, incluyendo China.

Respecto a las proyecciones de enero pasado, Latinoamérica se ha deteriorado bastante más y las proyecciones de junio así lo recogen respecto al PGB 2009: la inflación y las finanzas públicas ha caído más de lo previsto; el déficit en la cuenta corriente de la balanza de pagos ha empeorado aún más mientras las tasas de interés de referencia tuvieron que bajarse mucho más de lo proyectado. Chile no se escapa de esta situación y todo indica que la recuperación económica será mucho más lenta de lo presupuestado. El impacto de la crisis es superior a lo previsto y probablemente en el tercer cuarto del año veremos una caída en el PIB cercana al 2%. Estos negativos resultados han cambiado la mirada para el año y así, la encuesta realizada mensualmente por el Banco Central proyecta que el resultado del 2009 bordeará el -1,5%, siendo muy probable que el resultado final sea más negativo aún.

Esto ha generado inquietud en la sustentabilidad de la recuperación que esperamos para fin de año. En la actualidad, hay en marcha un sustancial impulso fiscal que se traducirá en que la posición del gobierno central pasará de un superávit de 5,2% del PIB a un déficit que bordeará el 4% del PIB. Este cambio de 9 puntos del PIB representa un sustancial cambio en la influencia del gobierno en la actividad económica, en particular si parte de esos recursos se están transfiriendo a las personas en regalos de dinero y especies.

De esta manera, la fuerte expansión fiscal y monetaria, con el consiguiente retroceso del tipo de cambio real, constituye el mix de política económica que están utilizando las autoridades para forzar una reactivación que se ha dificultado.

Los riesgos son importantes, ya que la presión inflacionaria puede volver con fuerza el próximo año, obligando a subir las tasas de interés y moderar el gasto público, lo que unido al daño generado al sector transable debido al bajo tipo de cambio real, hará muy difícil los años consiguientes, tal como ocurrió post crisis asiática.

Hay sin embargo otro camino, en donde el gasto público retrocede, se bajan los impuestos que afectan a la inversión, se fomenta la incorporación de capital fresco a sectores productivos monopolizados por el Estado y en donde el alto tipo de cambio real promueve la industria exportadora.

Ese camino lo recorrió Chile, de la mano de Hernán Büchi, durante la segunda mitad de los ochenta y logró recuperar una economía destruida por la crisis y la convirtió en la más competitiva de la región.

TAIWAN'S ECONOMY AND GOVERNMENT ACTIONS IN CRISIS MODE

Dr. Jun-ji Shih, Research Fellow of Academia Sinica, and former Chairman of the Financial Supervisory Commission, Taiwan.

The impacts of this global crisis on Asian countries are more economic than financial in nature. The Four Asian Tigers, as well as Thailand, have registered their first negative growth in the fourth quarter in 2008 since the Asian Financial Crisis in 1997-98 and the Internet Bust in 2000. Fortunately, Asian currencies have remained relatively stable. South Korean won and Indonesian rupiah are two currencies that have experienced sharper depreciation. As for the rest Asian currencies, depreciation is less than 20%. So far, we haven't seen signs of a financial crisis similar to that in 1997-98 yet.

Which economy in Asia has been hit hardest by the global slump? The answer to this question is not hard to locate. Based on the results of industrial production, Taiwan has suffered the biggest shock among Asian countries. As phrased by The Economist, Taiwan is "the worst-hit victim."

Taiwan's economy suffered a lot with the global economic downturn. In the first quarter of 2009, Taiwan's GDP dropped by 10.2%, which was one of the worst scenarios in Asia. On the outlook side, Taiwan's GDP growth in 2009, according to The Economist magazine's forecast, is -6.5%. It is better than Singapore (-8.6%), while worse than all the other Asian countries. Apparently, Taiwan is facing an unprecedented economic downturn. Taiwan is one of the world's most export-dependent economies. 63% of Taiwan's GDP comes from exports since it specializes in making all kinds of high-tech gadgets for western consumers.

No wonder it has been battered hard by the slump in global demand. In January 2009, export was down by 44%, and import by 57%. The decline in import was greater than that in export, resulting in a still trade surplus. And current account balance has been continuing to rise, with the foreign exchange reserve reaching $321 bn, which ranks 4th in the world, falling behind only China, Japan and Russia.

What's worse, Taiwan's mainstay exports, such as flat-screen monitors and semiconductors, had already been in oversupply even before the global financial crisis arose. Taiwan Semiconductor Manufacturing Company, the world's biggest contract chipmaker, is running at around only 35% of its capacity.

As a result, an all-time high unemployment rate of 5.9% is inevitable. A considerable amount of people, blue and white-collar alike, are forced to take non-payed leave, leading to a sharp shrinkage in income, and consequently thwarting domestic demand. Only with the recovery of the global economic situation will Taiwan's economy start to improve.

To prop up the economy, the KMT administration in Taiwan (since May 2008, with DPP as the opposition party) has taken the following actions.

(i) Banking: Deposit insurance covering the full amount of deposit in bank accounts.

(ii) Tax cut: Giving tax benefits for the purchase of specific goods, such as automobiles and motorcycles.

(iii) Bailouts: Extending or granting loans to big companies.

(iv)Expanded public investment: Increasing the government expenditures to $15 bn for the coming four years.

(v) Consumption Voucher: To boost consumer spending, the government has given each citizen a voucher worth $106. Many economists, however, are skeptical about its effects in stimulating new spending, while a similar cash-handout scheme in Japan resulted in only 30% of recipients spending more than what they had already planned to spend.The above "crisis mode" actions taken by KMT basically follow Keynesian economics and IMF suggestions since IMF urges the world to stabilize the financial sector and stimulate the aggregate demand, while the Keynesian economics advocate the use of monetary and financial policies in tackling downturn.

Now, the questions are: "Will these measures help Taiwan to struggle with rising unemployment? Is it possible to strike a balance between political pressure and good economic principles?" Apparently, it takes careful investigation to answer these questions.

First of all, a lot of Western countries raised the insurance cap on bank deposits, yet few of them provided full deposit insurance coverage (like Taiwan). Complete deposit insurance tends to induce banks to pursue excessive risk-taking.

They are easily tempted to transfer the risks and the burden of liabilities to the national treasury and all taxpayers. Such moral hazards are very difficult to prevent. Consequently, Taiwan's financial regulatory agency should pay great attention to overseeing the banks' behaviors under full deposit insurance.

Secondly, during the Asian Financial Crisis in 1997-98, the KMT government forced banks to bail out the manufacturing industry. As a result, the amount of banks' bad debt increased rapidly to $60 bn and the default rate to 12% (currently it is 1.5%). Looking into the KMT government's bailout program, we see no principles for industry bailouts.

No planning or details were given in terms of the legal status, sources of financing, selection of beneficiaries, procedures, management, termination and supervision. Without proper control and management, the bailout program can very easily repeat the failure in the Asian Financial Crisis.

Third, the successful execution of expanded public work program depends on the administrative efficiency of the government. Poor execution is certainly fruitless. However, successful execution may very well be of no avail. Ricardian Equivalence often weakens the effect of government's expanded expenses to stimulate economy.

Currently, the general public shares a sense of poverty, which urges them to reduce or to delay consumption. In that case, the effect of expanded government expenses will easily be cancelled out by suppressed consumption. The government, however, has to issue tremendous bonds to fund the expanded public investment.

Fourth, the national saving rate in Taiwan is high, and the contribution of interest to disposable income is far above Western countries. Therefore, the decline in interest rate results in the decrease in interest income and consequently the national income. It immediately leads to contractions of consumption in Taiwan, to a greater degree than any other countries.

The Central Bank of Taiwan has lowered the short-term interest rate seven successive times to 0.85%. This means a loss of interest income of $500 per person if evenly distributed to all Taiwan nationals. The amount of loss is five times to the value of consumption vouchers.

In other words, if the issue of consumption vouchers is to boost domestic demand, the seven successive cuts in the interest rate by the Central Bank have slashed the demand to a greater extent. The Central Bank of Taiwan needs to assess the results of its decisions.

Fifth, the collapse in export demand is too serious to be made up by financial expenses. Continual increases in government expenditures will accelerate the growth of national debt, which ultimately diminishes the strength of the economy and its ability to recovery from downturn. The most updated trade statistics show that export in January 2009 plunged by $12.6 bn or a record 44% from the same period last year.

Taiwan government has thus planned to increase budget for government expenditures to $15 bn, which, however, can only cover one month the decline in export. There are 12 months in one year, so even the government expands the budget ten times, it will not help much. The government should seriously evaluate the effect of this policy.

Sixth, IMF encourages governments to increase expenditures, yet it also admits that a policy effective in one country may not always work for another. That is to say, expanding expenditures is not the key to stimulate economy—the budget must be well spent by focusing on the right targets. At the moment, the most serious threat in Taiwan is unemployment.

To more directly solve this problem, spending should be focused on providing job opportunities as well as assisting families suffering from unemployment. It will be much more effective than indirect solutions. Therefore, the additional budget should be used towards this direction.

Last but not least, the scale, strength and aftermath of this financial tsunami have shocked the whole world. It is no doubt the most serious downturn since World War II, and many have compared it to the 1930's Great Depression. If the Western countries have lapsed into long-term depression, it will be difficult for Taiwan to revive its export and to restore aggregate demand.

People in Taiwan should be prepared for the worst scenario, and the government should guard against the most hazardous threat—massive unemployment. Only sound preparation can help mitigating unexpected impact.

THE EFFECT OF THE US FINANCIAL CRISIS ON THAILAND'S EXPORT

Dr Kriengsak Chareonwongsak, Senior Fellow, Harvard Kennedy School , Harvard University

Over a thousand people have already been killed since H1N1's identification in April 2009 and the worldwide spread of this virus. We could perhaps, say that this year H1N1 has been rivaled in its contagious, destructive power by one foe only - the US financial crisis.

Surprisingly, H1N1 and the US financial crisis share another critical feature: their effects were initially underestimated by the authorities. Thailand's government did not take the 2009 flu pandemic issue seriously until a report showed that 700 people in Pattaya were H1N1 infected.

The government had also been expecting positive or at least 0% national GDP growth when First Quarter GDP growth for 2009 showed in at -7.1%. Besides blaming this poor score on attempts to shape private sector expectations, in my opinion, the underestimation may also be attributed to the concept of Economic Decoupling.

The effect of US recession on the rest of the world: Mainstream economic concepts versus "Economic Decoupling"

According to mainstream International Economics and Macroeconomics, every open economy is profoundly interdependent due to its channels of export and import. When a country faces an economic slump, defined by shrinking GDP, it will import less.

The effect of an import decrease on other economies will depend on the size of the importer country. In the case where "THE" country which is the biggest export market for many countries faces an economic crisis and therefore cuts its import, its partner countries will therefore have no export or GDP growth. Ultimately, the global economy will come into recession.

Thai history not only proves the economic effect of global recession on Thailand, but also traces its effect on our society and politics. The Great Depression of the 1930s very greatly affected the wealth of Thailand's treasury, followed as it was by the revolution and democratization by a group of civil servants and young military Turks in 1932. Surprisingly, even in today's frenzied age of globalization, the notion of Economic Decoupling is now rising to the fore, with its understanding that the US economy affects the rest of the world less than it did in the past.

The idea of Economic Decoupling is supported by the fact that intraregional trade is now becoming more important due to large emerging economies, such as China, India, Brazil and Russia at present playing a bigger role in the global economy. Since every country has a greater variety of trade partners today, no one depends solely on the USA, leaving Uncle Sam no longer "Big Brother" in the global arena. This of course also implies that the US economic crisis may therefore not affect Thailand's economy.

However, the Economic Decoupling theory is still of doubtful accuracy. Although the United States is now a less important importer for many countries, including Thailand, it is still the last destination for consumer goods export where intermediate goods exported to trade partners are utilized to produce end-product consumer goods for US consumers and are eventually exported indirectly to the United States. Hence, though Thailand does not directly export goods to the United States, if Thailand exports intermediate goods used to produce end-products for US consumers, the slow down of US import will also affect Thailand's export.

What does Thailand's data say?

At first glance, Economic Decoupling may seem true for Thailand where statistics show that export to the United States has taken a decreasing share in total Thailand's export.

According to Table 1, over the past decade the United States has become a less significant export market for Thailand, the US share in Thailand's total export having decreased from 22.27% in 1998 to a mere 11.41% in 2008. This implies that the US financial crisis may not impact Thailand so severely, as Thailand can export to other countries when the United States tightens its belt.

Other big economies that are deeply interdependent on the US economy are also less important for Thailand in terms of the export market. The shares of Japan and the EU in Thailand's total export decreased, respectively, from 13.72% and 18.38% in 1998 to 11.30% and 13.15% in 2008.

On the other hand, Thailand's export to emerging markets has grown rapidly. For instance, Thailand's export to China has jumped eight times in value over the past decade, with China's share in Thailand's total export having increased from 3.24% in 1998 to 9.09% in 2008. Australia, South Korea, India and countries in the Middle East are also becoming a significant export market for Thailand.

However, although the change in Thailand's export structure seems to support the theory of Economic Decoupling, the idea can be easily refuted considering Thailand's increasingly heavier dependence on export. According to Table 2, the percentage ratio of total exports to GDP increased from 58.88% in 1998, to 73.61% in 2006 - one year before the US financial crisis took place.

Consequently, the percentage ratio of export-to-the-US to GDP had not decreased significantly before the US financial crisis, from just 13.11% in 1998, to 11.04% in 2006. Besides Thailand's export dependence, the United States is still the world's biggest importer, taking 16.5% as its share of total global import in 2005. Since 36.8% of US import is from Asia and approximately 20% from EU, these regions have been definitely affected by the US economic crisis. Thus, since more than half of Thailand's export lies in Asia and Europe, .Thailand's economy is inevitably susceptible to the Hamburger crisis. There is still correlation between the US economy and Thailand's export. Consideration Bureau of Economic Analysis data shows quite obviously that the US GDP growth rate and Thailand's export growth rate move in the same direction. Shortly after the 9/11 attack, the US economy slowed down, while Thailand's export busted. However, a few years later, they boomed together.Statistics show that Thailand's economy still follows the mainstream theory, rather than the Economic Decoupling theory. Though Thailand's export grew very rapidly in the first three quarters of 2008, when the US economy suffered a credit crunch, Thailand's subsequent negative growth proved that the crisis actually had affected the economy – only the effect had been delayed for a year.

The government reaction

After realizing the effect of the US economic crisis, the Thai government launched a huge stimulus package to mitigate the consequences, running its fiscal plans on deficit budget balance for two consecutive years. To support every project in the stimulus package, the government planned to issue THB 800 billion (US$ 23.5 billion) in government bonds after seeking loans amounting to THB 70 billion (US$ 2.058 billion) from the World Bank, JICA and ADB. The government hopes that their stimulus package will help Thailand's GDP to rise above zero in the third quarter of 2009. Though not with confidence, all Thai people hope that that will happen too!

Table 1: The structure of Thailand's export market, 1998 - 2008

Country	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
US	22.27	21.64	21.33	20.26	19.80	16.99	16.07	15.33	15.00	12.63	11.41
EU	18.38	17.27	16.30	16.72	15.54	15.27	14.96	13.59	13.88	14.02	13.15
Japan	13.72	14.12	14.72	15.25	14.60	14.19	13.98	13.58	12.64	11.83	11.30
ASEAN	18.19	18.58	19.38	19.34	19.91	20.60	22.01	21.99	20.84	21.34	22.54
China	3.24	3.19	4.08	4.41	5.22	7.10	7.38	8.28	9.03	9.73	9.09
Others	24.20	25.19	24.19	24.02	24.92	25.85	25.61	27.24	28.61	30.44	32.50
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Thailand

Table2: Percentage ratio of Thailand's export to Thailand's GDP, 1998 - 2008

Year	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
US share in total Thailand's export	**22.27**	**21.64**	**21.33**	**20.26**	**19.8**	**16.99**	**16.07**	**15.33**	**15.00**	**12.63**	**11.41**
Percentage ratio of total export to GDP	**58.88**	**58.30**	**66.78**	**65.86**	**64.19**	**65.68**	**70.7**	**73.71**	**73.61**	**68.05**	**64.29**
Percentage ratio of export to US to GDP	**13.11**	**12.62**	**14.24**	**13.34**	**12.71**	**11.16**	**11.36**	**11.30**	**11.04**	**8.59**	**7.33**

Source: Bank of Thailand

ENGENDER GROWTH WITH GENDER EQUALITY

Nyamko Sabuni, Swedish Minister of Integration and Gender Equality,
Member of Folkpartiet Liberalerna of Sweden

The world has experienced the fastest financial slowdown in modern history. It has spread like a wildfire from Wall Street to Stockholm's financial district. From Asian industries to African farmers. The crisis is global, yet local at the same time.

The economic challenge is unpredictable and can change dramatically over night, or by the hour. My vision during the Swedish presidency of the European Union is that 2009 will be remembered, not only for its successful management of the financial crisis, but also for being the year when EU's leadership realized that we need to involve women in the solutions to our challenges.

Currently in the EU, women's unemployment rates are about 15 percentage points below those of men. Will the crisis make the situation worse, or might it even create necessary space for improvement? Unfortunately, it is too early to draw any conclusions. We know too little about what it is and entails – some say it is about to pass, while others claim that we need deeper structural changes before it will be over. Its effects will probably be clearer to my grand children than to myself. Having said this, I am convinced of one thing, and that is that our chances of fixing the world economy will be much poorer if we don't integrate gender perspecive in our solutions.

When talking about gender issues and economic growth there is sometimes a tendency to treat the two issues as different phenomena, but I am convinced that this way of thinking might counteract both the attempt to enhance growth and to create a more equal society.

This is based on a simple equation: the bigger the labour force, the greater the economic turnover. The increase in female employment has been the main driving force of growth in the past couple of decades. Indeed, women have contributed more to global GDP-growth than new technology or the new giants, China and India. Women constitute more than half of the world's population and by maintaing today's system and structures, we miss out on half the world's creativity, potential, experience and competence.

This cannot, and must not, go on for much longer. Therefore, we have to create a labour market that realizes and profits from the potential of each individual's abilities. Except for the fact that the crisis may create new gender-related problems, it highlights the already existing weaknesses. It should not come as news to anybody that women often find it more difficult than men to combine career and family life. 58 percent of the women in the EU are employed, compared to 73 percent of the men, and it is therefore urgent to make sure that a society offers affordable childcare and has a tax system that favours labour market entry. Another important step is to combat the problems that many women face once they have entered the labour market. Firstly, it might be hard to find a full-time job. Many women find themselves with part-time contracts, which also make the prospects of advancing and getting promoted weaker than if they had been working full-time. In addition to this, part-time jobs pay less, which in turn becomes an obstacle to achieving full economic independence.

Secondly, many women are discriminated against when it comes to issues relating to equal pay for equal work. Men and women are not always judged on the same grounds, and this is a problem that civil rights movements have been highlighting for decades. Yet, the problem remains. Effective and comprehensive anti-discrimination legislation is therefore needed in order to prevent actions that directly or indirectly result in an unjust treatment of people based on their gender.

In order to overcome the inequalities in society, we also need to invest more in education. According to the OECD employment outlook from 2008, the education of women is by far the most important factor responsible for narrowing the gender gap in employment and wages.

If men and women all over the world had the same opportunities to get a good education, the world would look very different from what it does today. Giving people the chance to lead their lives independently and as they wish, is crucial when it comes to creating a more equal society. There is a strong link between education, economic independence and autonomy.

Lastly, I want to mention the issue which I believe is the most severe – violence against women. A woman who gets beaten and abused is thereby denied her freedom and independence. Violence and oppression in the name of honour is a wide-spread phenomenon and it constitutes a big obstacle for women's participation in public life and the labour market all over the world.

Combating men's violence against women, and violence and oppression in the name of honour is a responsibility and challenge for all nations. For me, this is a question of guaranteeing basic human rights and protecting democracy.

These issues are all visible in Sweden's priorities during our presidency of the EU. The economic recession might sometimes be used as an excuse not to talk about gender issues and women's position in the labour market. However, as I have argued in this article, times of crisis highlight the importance of linking these issues together and the necessity to start working on how we can create a labour market that releases from the unfulfilled potential of women, not only in Europe, but throughtout the world.

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