

# The UN: failing the Rohingyas?

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*More than 500,000 Rohingya have fled Myanmar*

“The government knows how to use us and to manipulate us and they keep on doing it – we never learn. And we can never stand up to them because we can’t upset the government.” The parallels between the UN’s performance in Myanmar and Sri Lanka (not to mention Syria) have struck me for some time. This damning BBC report simply made them more explicit.

A leaked internal report on the UN’s performance in Myanmar, quoted here, gets to the nub of the problem when it concludes: “The UN strategy with respect to human rights focuses too heavily on the over-simplified hope that development

investment itself will reduce tensions, failing to take into account that investing in a discriminatory structure run by discriminatory state actors is more likely to reinforce discrimination than change it.”

## Rohingya Muslims fear the UN failed them

By Jonah Fisher, BBC News, Yangon, 28 September 2017

The UN leadership in Myanmar tried to stop the Rohingya rights issue being raised with the government, sources in the UN and aid community told the BBC.

One former UN official said the head of the UN in Myanmar (Burma) tried to prevent human rights advocates from visiting sensitive Rohingya areas.

More than 500,000 Rohingya have [fled an offensive by the military](#), with many now sheltering in camps in Bangladesh.

The UN in Myanmar “strongly disagreed” with the BBC findings.

In the month since Rohingya Muslims began flowing into Bangladesh, the UN has been at the forefront of the response. It has delivered aid and made robust statements condemning the Burmese authorities.

But sources within the UN and the aid community both in Myanmar and outside have told the BBC that, in the four years before the current crisis, the head of the United Nations Country Team (UNCT), a Canadian called Renata Lok-Dessallien:

- tried to stop human rights activists travelling to Rohingya areas
- attempted to shut down public advocacy on the subject
- isolated staff who tried to warn that ethnic cleansing might be on the way.

One aid worker, Caroline Vandenabeele, had seen the warning

signs before. She worked in Rwanda in the run-up to the genocide in late 1993 and early 1994 and says when she first arrived in Myanmar she noticed worrying similarities.

- [‘Mass Hindu grave’ found in Rakhine state](#)
- [Truth, lies and Aung San Suu Kyi](#)
- [Reality Check: Fake photos of Myanmar violence](#)

“I was with a group of expats and Burmese business people talking about Rakhine and Rohingya and one of the Burmese people just said ‘we should kill them all as if they are just dogs’. For me, this level of dehumanisation of humans is one sign that you have reached a level of acceptance in society that this is normal.”

For more than a year I have been corresponding with Ms Vandenaabeele, who has served in conflict areas such as Afghanistan, Pakistan, Sri Lanka, Rwanda and Nepal.

Between 2013 and 2015 she had a crucial job in the UNCT in Myanmar. She was head of office for what is known as the resident co-ordinator, the top UN official in the country, currently Ms Dessallien.

The job gave Ms Vandenaabeele a front-row seat as the UN grappled with how to respond to rising tensions in Rakhine state.

Back in 2012, clashes between Rohingya Muslims and Rakhine Buddhists left more than 100 dead and more than 100,000 Rohingya Muslims in camps around the state capital, Sittwe.

Since then, there have been periodic flare-ups and, in the past year, the emergence of a Rohingya militant group. Attempts to deliver aid to the Rohingya have been complicated by Rakhine Buddhists who resent the supply of aid for the Rohingya, at times blocking it and even attacking aid vehicles.

It presented a complex emergency for the UN and aid agencies, who needed the co-operation of the government and the Buddhist community to get basic aid to the Rohingya.

At the same time they knew that speaking up about the human rights and statelessness of the Rohingya would upset many Buddhists.

So the decision was made to focus on a long-term strategy. The UN and the international community prioritised long-term development in Rakhine in the hope that eventually increased prosperity would lead to reduced tensions between the Rohingya and the Buddhists.

- [‘Torture’ of Myanmar Muslim minority – UN](#)
- [Top UN official in Myanmar to be changed](#)
- [UN demands access amid Myanmar ‘nightmare’](#)

For UN staff it meant that publicly talking about the Rohingya became almost taboo. Many UN press releases about Rakhine avoided using the word completely. The Burmese government does not even use the word Rohingya or recognise them as a distinct group, preferring to call them “Bengalis”.

During my years reporting from Myanmar, very few UN staff were willing to speak frankly on the record about the Rohingya. Now an investigation into the internal workings of the UN in Myanmar has revealed that even behind closed doors the Rohingyas’ problems were put to one side.

## **Where have the Rohingya fled to**

Multiple sources in Myanmar’s aid community have told the BBC that at high-level UN meetings in Myanmar any question of asking the Burmese authorities to respect the Rohingyas’ human rights became almost impossible.

- [Who will help Myanmar’s Rohingya?](#)

Ms Vandenabeele said it soon became clear to everyone that raising the Rohingyas' problems, or warning of ethnic cleansing in senior UN meetings, was simply not acceptable.

"Well you could do it but it had consequences," she said. "And it had negative consequences, like you were no longer invited to meetings and your travel authorisations were not cleared. Other staff were taken off jobs – and being humiliated in meetings. An atmosphere was created that talking about these issues was simply not on."

Repeat offenders, like the head of the UN's Office for the Co-ordination for Humanitarian Assistance (UNOCHA) were deliberately excluded from discussions.

Ms Vandenabeele told me she was often instructed to find out when the UNOCHA representative was out of town so meetings could be held at those times. The head of UNOCHA declined to speak to the BBC but it has been confirmed by several other UN sources inside Myanmar.

Ms Vandenabeele said she was labelled a troublemaker and frozen out of her job for repeatedly warning about the possibility of Rohingya ethnic cleansing. This version of events has not been challenged by the UN.

Attempts to restrict those talking about the Rohingya extended to UN officials visiting Myanmar. Tomas Quintana is now the UN special rapporteur for human rights in North Korea but for six years, until 2014, held that same role for Myanmar.

Speaking from Argentina, he told me about being met at Yangon airport by Ms Dessallien.

"I received this advice from her – saying you should not go to northern Rakhine state – please don't go there. So I asked why and there was not an answer in any respect, there was just the stance of not trying to bring trouble with the authorities, basically," he said.

“This is just one story, but it demonstrates what was the strategy of the UN Country Team in regards to the issue of the Rohingya.”

Mr Quintana still went to northern Rakhine but said Ms Dessallien “disassociated” herself from his mission and he didn’t see her again.

One senior UN staffer told me: “We’ve been pandering to the Rakhine community at the expense of the Rohingya.

“The government knows how to use us and to manipulate us and they keep on doing it – we never learn. And we can never stand up to them because we can’t upset the government.”

The UN’s priorities in Rakhine were examined in a report commissioned by the UN in 2015 entitled “Slippery Slope: Helping Victims or Supporting Systems of Abuse”.

Leaked to the BBC, it is damning of the UNCT approach.

“The UNCT strategy with respect to human rights focuses too heavily on the over-simplified hope that development investment itself will reduce tensions, failing to take into account that investing in a discriminatory structure run by discriminatory state actors is more likely to reinforce discrimination than change it.”

There have been other documents with similar conclusions. With António Guterres as the new secretary general in New York, a former senior member of the UN was asked to write a memo for his team in April.

Titled “Repositioning the UN” the two-page document was damning in its assessment, calling the UN in Myanmar “glaringly dysfunctional”.

In the weeks that followed the memo, [the UN confirmed that Ms Dessallien was being “rotated”](#) but stressed it was nothing to do with her performance. Three months on Ms Dessallien is

still the UN's top official there after the Burmese government rejected her proposed successor.

"She has a fair view and is not biased," Shwe Mann, a former senior general and close ally of Myanmar's de facto leader Aung San Suu Kyi, told me. "Whoever is biased towards the Rohingyas, they won't like her and they will criticise her."

Ms Dessallien declined to give an interview to the BBC to respond to this article.

The UN in Myanmar said its approach was to be "fully inclusive" and ensure the participation of all relevant experts.

"We strongly disagree with the accusations that the resident co-ordinator 'prevented' internal discussions. The resident co-ordinator regularly convenes all UN agencies in Myanmar to discuss how to support peace and security, human rights, development and humanitarian assistance in Rakhine state," a statement from a UN spokesperson in Yangon said.

On Tomas Quintana's visits to Rakhine, the spokesperson said Ms Dessallien had "provided full support" in terms of personnel, logistics and security.

Ten ambassadors, including from Britain and the United States, wrote unsolicited emails to the BBC when they heard we were working on this report, expressing their support for Ms Dessallien.

There are those who see similarities between the UN's much-criticised role in Sri Lanka and what has happened in Myanmar. Charles Petrie wrote a damning report into the UN and Sri Lanka, and also served as the UN's top official in Myanmar (before being expelled in 2007).

He said the UN's response to the Rohingya over the past few years had been confused and that Ms Dessallien hadn't been

given the mandate to bring all of the key areas together.

“I think the key lesson for Myanmar from Sri Lanka is the lack of a focal point. A senior level focal point addressing the situation in Myanmar in its totality – the political, the human rights, the humanitarian and the development. It remains diffuse. And that means over the last few years there have been almost competing agendas.”

So might a different approach from the UN and the international community have averted the humanitarian disaster we are seeing now? It’s hard to see how it might have deterred the Burmese army’s massive response following the 25 August Rohingya militant attack.

Ms Vandenabeele said she at least believed an early warning system she proposed might have provided some indications of what was about to unfold.

“It’s hard to say which action would have been able to prevent this,” she told me. “But what I know for sure is that the way it was done was never going to prevent it. The way it was done was simply ignoring the issue.”

Mr Quintana said he wished the international community had pushed harder for some sort of transitional justice system as part of the move to a hybrid democratic government.

One source said the UN now appeared to be preparing itself for an inquiry into its response to Rakhine, and this could be similar to the inquiry that came after the controversial end to Sri Lanka’s civil war – and which found it wanting.

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# (Another) Sri Lanka Book Review

# (Another) Sri Lanka Book Review

Here's a new – and as it happens, rather complimentary – review of my Sri Lanka book by noted academic and South Asian regional specialist Neil De Votta, originally published in the *Asian Security* journal and now reproduced in the *Colombo Telegraph*. All in all an informative read.

[Colombo Telegraph, September 26, 2017](#)

# Civil War & The Quest For Transitional Justice In Sri Lanka

By [Neil DeVotta](#)

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Ahmed S. Hashim, *When Counterinsurgency Wins: Sri Lanka's Defeat of the Tamil Tigers* (Philadelphia: University of Pennsylvania Press, 2013). 280 pages.

Samanth Subramanian, *This Divided Island: Stories from the Sri Lankan Civil War* (Gurgaon: Penguin Books, 2014). 336 pages.

In May 2009, Sri Lanka's armed forces comprehensively defeated the separatist Liberation Tigers of Tamil Eelam ([LTTE](#)). The day after the war ended, Sri Lanka's then President [Mahinda Rajapaksa](#) told parliament that his soldiers achieved victory by "carrying a gun in one hand, the Human Rights Charter in the other, hostages on their shoulders, and the love of their children in their hearts."[\[1\]](#) The LTTE had used the very Tamils it claimed to protect as human shields, and the nearly three-decades-long conflict ended with over 300,000 people fleeing the LTTE-controlled area to government-controlled areas. The military did assist these fleeing Tamils, and some, no doubt, were carried to safety on some soldiers' shoulders.

But this was no humanitarian operation. If anything, it was akin to what happened in Grozny when the Russian army flattened that city while combating Chechnya's rebels and to what is now [October 2016] taking place in Aleppo, Syria. For Sri Lanka's military wiped out the LTTE without differentiating between combatants and innocent civilians, going so far as to deliberately shell hospitals and the government's designated No Fire Zones.[\[2\]](#) And it thereafter killed and disappeared numerous LTTE personnel and supporters who had surrendered even as it sent over 10,000 LTTE cadres into rehabilitation programs. The consequences of such

scorched earth counterterrorism are now playing out, with a new government claiming to pursue reconciliation and accountability with the Tamil minority even as it fends off allegations of war crimes from the international community.

## **The Failure to Secure Peace**

Sinhalese politicians have long failed to accommodate legitimate Tamil grievances, thanks to demographics, political opportunism, and a strident Sinhalese Buddhist nationalism. Starting in the mid-1950s, Sinhalese politicians belonging to the two main parties, the United National Party (UNP) and Sri Lanka Freedom Party (SLFP), took turns trying to outdo each other on who could best protect and promote the interest of the [Sinhalese Buddhists](#).<sup>[3]</sup> With Sinhalese numbering nearly 75 percent and Buddhists being around 70 percent, such ethnic outbidding became a sad feature of the island's politics. The majoritarian mindset was—and is—also helped by a Sinhalese Buddhist nationalist ideology, which claimed that Sri Lanka is the island of the Sinhalese and chosen repository of Buddhism; Sinhalese Buddhists have been ennobled to preserve and propagate Buddhism; minorities live there thanks to Sinhalese Buddhist sufferance; and they must, therefore, respect the majoritarian ethos. Within this context those who promoted a political settlement with the LTTE or advocated for devolution were branded traitors.<sup>[4]</sup>

The LTTE leadership understandably believed that no Sri Lankan government was going to deliver on its promises. That said, the LTTE was not genuinely interested in a negotiated settlement either, and its leader, [Velupillai Prabhakaran](#), was enamored with securing *eelam* (a separate Tamil state) through military means. The LTTE had used previous ceasefires to regroup and rearm. In short, the group blatantly manipulated ceasefires to pursue war, not peace.

Prabhakaran may have been a superb military strategist early on, but throughout the conflict he appears to have had little

understanding of geopolitics. At the very end, whatever acumen he possessed of military strategy also seems to have deserted him; for he not only misgauged the Sri Lankan military's buildup and capabilities, he also cavalierly exposed tens of thousands of Tamils to death while hoping for an international intervention that was not forthcoming.

The quest and failure for peace is what Mark Salter's book focuses on, and it is a most useful account that has been compiled using the views and recollections of the major players (Sri Lankan, Indian, Norwegian and to a lesser extent American and other politicians and diplomats). Whether Salter's goal was to exonerate the Norwegians—who were derogatorily called “salmon-eating busy-bodies” by Sri Lankans who felt they were biased towards the LTTE—is debatable; but it is indisputable that ultimately the Norwegian-led peace process failed because Sri Lanka's two combatants were unable and unwilling to compromise on a political settlement.

Salter's account shows how the Mahinda Rajapaksa government encouraged the Norwegians, who were merely facilitators and were therefore limited in what they could orchestrate, to stay on even as it vilified their role so as to appease Sinhalese Buddhist sentiment. Prior to becoming president, Rajapaksa had also told the Norwegians that he was not averse to reaching an agreement with Prabhakaran.

Many forget that Mahinda Rajapaksa was initially reluctant to restart a full-scale war with the rebel group, although his government began reinforcing the military and encouraged soldiers to assert themselves immediately after it came to power. The initial hesitance to take on the LTTE at a time when the rebels were violating the ceasefire more often than Sri Lankan forces may have partly been due to the secret agreement Rajapaksa's campaign reached with the rebels, which prevented Tamils in the areas they controlled from voting in exchange for a large payment. Since Tamils mainly vote for the UNP during presidential elections, their being barred from the

polls allowed Rajapaksa to win narrowly.

Salter's interviews also suggest that the LTTE leadership was looking for a way to cooperate during the height of the conflict, and this no doubt had to do with the massive losses the group was facing. Prabhakaran was on record saying that his cadres could shoot him if he ever settled for an arrangement short of *eelam*. He did not settle, but neither was he capable of using the LTTE's military prowess to deliver an advantageous political arrangement for the long-suffering Tamils. Today Tamils are a broken, bitter, and hagridden people who are worse off because Prabhakaran dared to pick up a gun.

One of Samanth Subramanian's interviewees claims that during the last days of the war Prabhakaran distributed copies of the Hollywood movie *300*, which depicts a group of Spartans fighting to their deaths against the Persians. If true, this was to prepare his cadres for the certain death that awaited them. Such fanaticism ultimately led to between 40,000 and 70,000 Tamils killed during the latter phase of the war (although these numbers are highly disputed by the Sri Lankan government) and that included Prabhakaran, his wife, and three children.

Subramanian's book, simply put, is a splendid read. Well-crafted and balanced in its praise and criticism of both the Sinhalese and Tamils, it runs the gamut of recent Sri Lankan ethno-politics in a manner the uninitiated especially can appreciate. With over 98 percent of the Sri Lankan army being Sinhalese, it is hard today to fathom that around the 1950s and 1960s nearly 40 percent of the armed forces were Tamil. Subramanian's interviews with a few Tamil military personnel who served during the civil war are therefore fascinating. A military (and bureaucracy) that is not representative of the population is a major sign of a country's ethnic disparities. From that standpoint, Sri Lanka has a long way to go before Tamils (and Muslims too) can feel they are equal citizens.

Subramanian is Indian, and in that light one glaring lacuna in his book is the lack of focus on the Indian Peace Keeping Force ([IPKF](#)), which Rajiv Gandhi dispatched to Sri Lanka in 1987 as part of the Indo-Lanka Peace Accord and which ended up fighting the LTTE. The IPKF gets a mention here and there, but it is surprising that its activities are not discussed in any detail. Was this because the Tamils Subramanian interviewed were unwilling to offend him by recalling the IPKF's malpractices? No doubt, the Indian military paid a stiff price by fighting India's longest war against the LTTE, which at the time was a guerrilla organization. It is with good reason this Indian military fiasco is branded "India's Vietnam."

Given a few more months the Indian military might have defeated the LTTE, yet in the end it was the Indians who left in March 1990 (mainly because a new Sri Lankan government demanded the IPKF's withdrawal). But the fact remains that up to that point, the worst atrocities Tamil civilians suffered were at the hands of undisciplined elements in the IPKF. [\[5\]](#) Many Sri Lankan Tamils continue to recall the IPKF within the context of the rapes and depredations they endured, unfair as that may sound to the upright and valiant Indian personnel who served and lost their lives in the island. This is why the LTTE claimed, truly or falsely, that by killing [Rajiv Gandhi](#) his assassin, Dhanu, was merely avenging her rape by IPKF personnel. This important aspect of the island's history and Tamil experience merits better coverage.

The three books reviewed here note that one of the biggest mistakes the LTTE made was killing Rajiv Gandhi. No Indian government could thereafter deal with the organization and the Congress Party especially had ample reason to want the LTTE defeated. The Indians may have armed and trained some Tamil rebels in the early 1980s, but they even then were against a separate Tamil state in Sri Lanka, lest that emboldened separatist forces within India. Yet geographic proximity and Tamil Nadu's reaction to their ethnic cousins' plight in Sri

Lanka forced India to stay engaged and to be kept informed, [\[6\]](#) so that most foreign powers took no major initiatives regarding Sri Lanka's ethnic conflict without first briefing India.

It appears the LTTE leadership was led to believe that the Congress Party would lose the April-May 2009 general election in India and that a Bharatiya Janata Party (BJP) government would pressure Sri Lanka to cease its military operations. The BJP did not win the 2009 general election, but Salter's book shows how that possibility goaded Sri Lanka's decision makers to try to defeat the LTTE before a new Indian government was installed. The ruthless tactics such timing dictated led to thousands of innocent Tamils getting killed.

### **Extirpation as Counterterror Strategy**

In seeking to strengthen the military and improve its morale, the Rajapaksa government not only built on the narrative of the soldier being a war hero (*ranawiriva*), it also made clear that criticizing the military was not to be tolerated. Indeed, a number of journalists were attacked because they reported on the military negatively. This together with the glossy advertisement campaigns the government mounted led to military personnel even at the lower levels being feted in obsequious ways. [\[7\]](#)

The regime also increased the number of military personnel being recruited, which allowed the armed forces to hold on to territory captured from the LTTE (something it was not able to do previously). Furthermore, the government went shopping for sophisticated military hardware. That the Defense Secretary was the president's brother helped in this regard, because armament costs and fear of an overly powerful military likely hindered such purchases in the past.

Many Sinhalese Buddhist nationalists and many in the military sincerely believe that the so-called *eelam* mindset threatens



Sri Lankan sovereignty, and that fully eradicating it is *sine qua non* for the island's security. This also meant eliminating the LTTE leadership without regard to human and material costs. Salter's interviewees note that the order to liquidate LTTE leaders had to come from high up in the government. If so, the military carried out orders smacking of war crimes and thereby committed war crimes. This no holds barred, scorched earth strategy is also evidenced in Ahmed Hashim's book. His is a commendable account of the politics associated with civil war.

Hashim is less interested in discussing the causes of the war (although he notes the scholarship of those whose work has sought to attribute causation) and more interested in trying to explain the nature of the LTTE and why it ultimately lost so badly. He says the LTTE best exemplified an outfit capable of waging *hybrid war*, given its capacity to combine terrorism, insurgency, and conventional war. He, however, does not emphasize how Prabhakaran's infatuation with the latter ultimately undermined his strategizing.

Controlling territory and population helped with the LTTE's conventional capabilities, for it allowed for voluntary and forcible recruitment and claims of de facto statehood status. Many were the Tamils ensconced abroad who pointed to the governing institutions the LTTE had set up and argued that *eelam* already existed; the international community merely had to recognize it. But the LTTE's dedication to its de facto state and conventional warfare let the military know where exactly to target the group. And once the military had sufficient personnel, superior weaponry, and orders to disregard human casualties (irrespective of what was trumpeted in public), the LTTE's days were numbered.

As Hashim points out, the main focus of the Sri Lankan military was to kill as many of the enemy as possible. Even before the endgame, there were reports that the Sri Lankan military was systematically bumping off Tamils suspected of

being LTTE sympathizers.[\[8\]](#) It is, therefore, hardly surprising that the military went about eliminating hardcore LTTE cadres after they surrendered. Indeed, a U. S. State Department report to Congress that was released a few months after the conflict ended noted that thousands who were placed in Sri Lankan government-run camps following the war were “disappeared.”[\[9\]](#)

This was in addition to rape being “used as a tactic of war”[\[10\]](#) and military personnel burying alive Tamils who had sought shelter in makeshift bunkers. Killing off the leaders of a liberation movement or terrorism outfit is one of the best ways to extirpate it. And Sri Lanka’s politicians and military were determined to make the LTTE militarily acephalous. It was the reason they (based on credible evidence gathered thus far) also executed [Balachandran](#), Prabhakaran’s twelve year old son after he was captured alive. No heirs—and, hopefully, no future fires.

The new Sri Lankan government headed by President Maithripala Sirisena has promised to pursue ethnic reconciliation and accountability, but all indications are that it will fall short of ensuring especially the latter. For doing so would force it to implicate many who headed the government during the time of the LTTE’s defeat, and these include President Mahinda Rajapaksa, his brother and the then Defense Secretary [Gotabaya Rajapaksa](#), and former Army Commander [Sarath Fonseka](#). Indeed, even President Maithripala Sirisena has been implicated since he on numerous occasions served as Acting Defense Minister.

An issue that complicates achieving transitional justice is the demise of nearly all LTTE personnel who engaged in war crimes. Their misdeeds can be documented further, but they cannot be punished. Thus the pursuit of accountability will end up being a one-sided affair, and there is simply no support for this among Sri Lanka’s majority Sinhalese. Neither

is there support for the domestic-international hybrid courts the Office of the United Nations High Commissioner for Human Rights has called for. Indeed, any politician who pushes for leading military personnel to be held accountable will get branded a traitor and be committing political suicide.

In this quest for reconciliation and accountability, certain Tamil politicians have not helped, given how their unrealistic demands have further hardened Sinhalese opinion. The upshot is that Sri Lanka's accountability process is unlikely to lead to trials that threaten war crimes perpetrators with jail. Instead, it will most likely unfold in a manner similar to South Africa's Truth and Reconciliation process sans retribution.

The rapid rise of China and India, and the Obama Administration's so-called Pivot to Asia, have made Sri Lanka much more important from a geostrategic standpoint. During his tenure as president, Rajapaksa was happy to embrace China, because that country looked askance as he and his family unduly benefitted from Chinese-funded projects. Close ties with China also ensured that it shielded Sri Lanka at international forums on human rights even as Rajapaksa pursued authoritarian politics geared towards creating a political dynasty. [\[11\]](#)

Maithripala Sirisena's victory has led to India, the United States, and the West enjoying closer ties with Sri Lanka even as the island pursues a more nonaligned foreign policy. Rajapaksa, however, continues to project himself as the military's ultimate defender and wants to manipulate the transitional justice issue to recapture power. Aversion to such an outcome plus their geostrategic interests may push the West to settle for less on the accountability front.

Maithripala Sirisena's government has moved the island away from the authoritarianism Rajapaksa sought to institute, but it too continues to appease the military at the expense of

pursuing transitional justice. Since its independence in 1948, Sri Lanka's politicians have missed numerous opportunities to salve the island's ethnic wounds. The ongoing discourse and politicking surrounding transitional justice suggests it may be in the process of missing yet another opportunity.

### **Conflict Redux?**

Of the three books reviewed, Subramanian's is the only one that discusses how Sinhalese Buddhist nationalists have begun to target the island's Muslims. The Muslims, who were depicted as the "good minority" due to their opposition to *eelam* and for generally siding with Sinhalese Buddhist preferences, have now been turned into the new "other." During this author's research in Sri Lanka in 2012, an interviewee said that right after the LTTE was defeated Mahinda Rajapaksa told some confidants that "now it was the turn of the Muslims."

Rajapaksa and his government certainly colluded with anti-Muslim forces that sprang up once the civil war ended. These forces resorted to exaggerated and factitious accusations and operated with impunity as they attacked mosques, Muslim businesses, and certain homes (mainly in an enclave called Dharga Town, south of Colombo).

Nationalists obsess over demographics, and this is also the case with Sinhalese Buddhist nationalists. Subramanian's account shows how Sinhalese nationalists claim that their community is "the fastest vanishing race on the face of this earth," [12] despite the Sinhalese population having risen from 66.1 percent in 1911 to 74.9 percent in 2012 and Buddhist numbers having likewise gone up from 60 percent to 70.2 percent during the same period. [13] Pamphlets passed around by Sinhalese Buddhist extremists also claim that the Muslim are "breeding like pigs," [14] which is part of a demonizing process that the Tamils too were subjected to during the period that led to the civil war.

There has long been an eddy of anti-Muslim sentiment on the island that the ethnic conflict helped mask. Mahinda Rajapaksa, who wrongly assumed he could win elections with only Sinhalese support, was eager to exploit this sentiment. Sri Lanka's Muslims would most likely be in dire straits today had Rajapaksa not lost the presidential election in January 2015. For instance, one of the monks who led the anti-Muslim agitprop recently bemoaned that politicians were putting party ahead of country and "if these politicians only gave us a little backing we can end the rise of the Muslims." [15]

Many in Sri Lanka are being influenced by the Islamophobia now trending globally. This suits Sinhalese Buddhist nationalists who thrive by harping against potential threats to nation and religion. The LTTE's defeat has further emboldened them. Within this context, only a Pollyanna would bet against more ethno-religious strife in the island.

*\* Neil DeVotta is Professor of Politics and International Affairs at Wake Forest University. This review essay, which first appeared in Asian Security (March 2017), is reproduced with the publisher's permission.*

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## Notes

[1] Mahinda Rajapaksa, "This Victory Belongs to the People Lined Up Behind the National Flag," *The Island*, May 20, 2019, at <http://www.island.lk/2009/05/20/features4.html>. Accessed October 15, 2016.

[2] All three books reviewed make reference to this and other war crimes perpetrated by the government and LTTE during the latter stages of the conflict. See also Gordon Weiss, *The Cage: The Fight for Sri Lanka and the Last Days of the Tamil Tigers* (London: The Bodley Head, 2011).

[3] Neil DeVotta, *Blowback: Linguistic Nationalism*,

*Institutional Decay, and Ethnic Conflict in Sri Lanka* (Stanford, CA: Stanford University Press, 2004).

[4] Stanley J. Tambiah, *Buddhism Betrayed?: Religion, Politics, and Violence in Sri Lanka* (Chicago: University of Chicago Press, 1992); H. L. Seneviratne, *The Work of Kings: The New Buddhism in Sri Lanka* (Chicago: University of Chicago Press, 1999); Neil DeVotta, *Sinhalese Buddhist Nationalist Ideology: Implications for Politics and Conflict Resolution in Sri Lanka*, Policy Studies 40 (Washington, D.C.: East-West Center, 2007).

[5] See especially the details tabulated in Rajan Hoole, Daya Somasundaram, K. Sritharan, and Rajani Thiranagama, *The Broken Palmyra: The Tamil Crisis in Sri Lanka—An Inside Account* (Claremont, CA: The Sri Lanka Studies Institute, 1990).

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[7] Neloufer de Mel, *Militarizing Sri Lanka: Popular Culture, Memory and Narrative in the Sri Lankan Armed Conflict* (Los Angeles: Sage Publications, 2007); Sandya Hewamanne, "Duty Bound: Militarization, Romances, and New Forms of Violence among Sri Lanka's Free Trade Zone Factory Workers, *Cultural Dynamics*, Vol. 21, no. 2 (July 2009): 153-84.

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[Civil War & The Quest For Transitional Justice In Sri Lanka](#)

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# Brexit's murky underbelly: increasing arms sales to repressive regimes

# Brexit's murky underbelly: increasing arms sales to repressive regimes



*An exploded shell in Sana'a. The UN estimates that more than 1,000 children have been killed in Yemen during the three-year conflict, most in airstrikes by the Saudi military coalition. Photograph: Mohamed Al-Sayaghi/Reuters*

On the back of Brexit, new research by the Campaign Against The Arms Trade (CAAT) points to the fact the UK government is working hard to boost arms sales. And to anyone and everyone – dictators and ruthless regimes such as Saudi Arabia included. An article detailing CAAT's findings, published in yesterday's (10 Sept 2017) UK *Observer*, suggests that:

“The UK has consistently armed many of the most brutal and authoritarian regimes in the world, and a number have been invited to London to buy weapons,” said Andrew Smith of Campaign Against Arms Trade. “These arms sales aren't morally



neutral, they are a clear sign of political and military support for the regimes they are being sold to. The government has played an absolutely central role, and has consistently put arms exports to despots and dictators ahead of human rights.”

## **British arms sales to repressive regimes soar to £5bn since election**

Campaigners claim that government is putting ‘exports to despots ahead of human rights’

[Jamie Doward, The Observer](#), 10 September 2017

UK arms manufacturers have exported almost £5bn worth of weapons to countries that are judged to have repressive regimes in the 22 months since the Conservative party won the last election.

The huge rise is largely down to a rise in orders from [Saudi Arabia](#), but many other countries with controversial human rights records – including Azerbaijan, Kazakhstan, Venezuela and China – have also been major buyers.

The revelation comes before the Defence and Security Equipment International arms fair at the Excel centre in east London, one of the largest shows of its kind in the world. Among countries invited to attend by the British government are Egypt, Qatar, Kenya, Bahrain and Saudi Arabia.

Campaigners called on the government to end arms sales to the United Arab Emirates in light of its record on human rights. They accused the government of negotiating trade deals to sell the Gulf state cyber surveillance technology which the UAE government uses to spy on its citizens, and weaponry which, they allege, has been used to commit war crimes in [Yemen](#).

The Saudis have historically been a major buyer of British-

made weapons, but the rise in sales to other countries signals a shift in emphasis on the part of the government, which is keen to support the defence industry, which employs more than 55,000 people.

Following the [referendum on leaving the European Union](#), the Defence & Security Organisation, the government body that promotes arms manufacturers to overseas buyers, was moved from UK Trade & Investment to the Department for International Trade. Shortly afterwards, it was announced that the international trade secretary, Liam Fox, would spearhead the push to promote the country's military and security industries exports.



*Activists protest against the Defence and Security Equipment international arms fair at the Excel centre in London. Photograph: Ollie Millington/Getty Images*

But charities and other organisations that campaign against the arms trade fear that a post-Brexit Britain will see an increase in weapons sold to countries with poor human rights records.

Last week [Labour MP Helen Goodman questioned why the UK had](#) exported £80,000 worth of arms – believed to be components for submarine systems – to the Maduro government of Venezuela in the past year. Goodman asked: “In light of the Maduro government’s refusal to cooperate with the ongoing UN-led investigation into human rights abuses, will the government suspend any further arms sales until those concerns are resolved?”

[Campaign Against the Arms Trade](#) has found that of the 49 countries that are classed as “not free” by Freedom House, the independent organisation that promotes democracy, 36 have bought British-made weapons under the current government.

Since 2015, Saudi Arabia has agreed orders for more than £3.75bn worth of British defence equipment – mainly bombs and fighter aircraft – up from £160m in the 22 months leading up to the election. Even when Saudi’s massive order book is stripped out, arms exports to repressive regimes have almost doubled since the Tory government was elected: orders to such countries, excluding Saudi, amount to almost £1.2bn, compared with £680m in the 22 months before the election.

Among the major buyers were: Algeria, which agreed a military helicopter deal in September 2015, worth £195m; Qatar, which is buying military support aircraft worth £120m; and China, which is subject to an arms embargo. Despite the embargo, the UK agreed a £16m deal to export components for military radar. One notable new customer is Azerbaijan, which bought £500,000 of “targeting equipment”.

“The UK has consistently armed many of the most brutal and authoritarian regimes in the world, and a number have been invited to London to buy weapons,” said Andrew Smith of Campaign Against Arms Trade. “These arms sales aren’t morally neutral, they are a clear sign of political and military support for the regimes they are being sold to. The government has played an absolutely central role, and has consistently put arms exports to despots and dictators ahead of human rights.”

The government insists that its arms export licensing systems is subject to stringent rules. Foreign Office minister Alan Duncan told parliament last week: “The government take their export control responsibilities very seriously and operate one of the most robust defence export control regimes in the world. We rigorously examine every application case by case

against consolidated EU and national arms export licensing criteria.”

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## Rohingya Resources

## Rohingya Resources

My publisher Hurst released this book on Myanmar's [#Rohingya](#) Muslim minority a year back. In the light of current developments it appears to be increasingly required reading.

[\*The Rohingyas\*](#)

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## New Sri Lanka Book Review

## New Sri Lanka Book Review

This just in from Shweta Singh, Assistant Professor at the South Asian University, Delhi:

For those of you interested in the politics of Sri Lanka, here is my take on Mark Salter's book 'To End A Civil War: Norway's Peace Engagement with Sri Lanka' in the Asian Studies Review!

# **To end a civil war; Norway's peace engagement in Sri Lanka**

**by Mark Salter, London, C. Hurst & Co. Ltd., 2015, 531 pp., £25.00 (paperback)**

Mark Salter's *To End a Civil War; Norway's Peace Engagement in Sri Lanka* brings to the fore the "story of the Norwegian effort to facilitate an end to the Sri Lankan Conflict – in the first instance as seen by the Norwegian facilitation team, but also as perceived by others involved in the process" (p. 9). While Salter writes the "story" of the Norwegian effort, beginning in 2000, he also walks the reader through the complex maze of domestic politics in Sri Lanka, and sheds valuable light on why the Norwegian effort failed to end the Sri Lankan conflict.

The book is also a strategically written narrative that in many ways argues that the peace effort failed not because there were critical pitfalls that Norway committed, but because at the domestic level in Sri Lanka, the key actors, whether the state or the Liberation Tigers of Tamil Eelam (LTTE), were not committed enough to the peace process.

The strength of the book lies in the effort to weave through the complex details of this story in 12 systematically organised chapters. Chapter 1 traces the pre-2000 origins of the Norwegian engagement in Sri Lanka, and provides context for the remainder of the analysis. The sections on the kidney saga (which involved getting Balasingham, political strategist and chief negotiator of the LTTE, out of Vanni for treatment through secret high-level discussions with Colombo) and Norwegian facilitator Eric Solheim's first meeting with Balasingham (pp. 32–40) are particularly interesting, and provide great insight into how and why Norway as the facilitating country was able to build trust with the LTTE in

the initial phase of its engagement.

From Chapter 3 to Chapter 7, the book traces the process of Norwegian facilitation. Through the strategic voices of the Norwegian facilitators, the author clearly makes an effort to set the record straight concerning Norway's engagement, be it on critical questions related to the issue of the neutrality of Solheim as the facilitator (pp. 70–71, pp. 88–89, pp. 101–106), the issue of federalism at the Oslo round of talks (pp. 111–120), the reactions to the LTTE's withdrawal (pp. 142–144), the critical issue of the Interim Self Governing Authority (ISGA) (pp. 156–164) or the tsunami and the politics of the Post Tsunami Operational Management Structure (PTOMS) (pp. 212–215), to highlight a few. Given that it was precisely on these issues that Norway faced severe criticisms, the book goes a long way in clarifying the story from a Norwegian perspective. However, there is clear bias, which tilts the narrative towards the Norwegian point of view on most of these issues.

The last four chapters of the book are intriguing. While they provide an insight into the challenges that Norway faced from both the Sri Lankan state and the LTTE, they also push the reader to question some of the critical arguments provided by many who were part of the Norwegian team (including Eric Solheim, Vidar Helgesen and Jon Hanseen-Bauer; p. 383) in defence of Norway's actions in the final stages of facilitation. It needs to be stated that there is no doubt the facilitators were constrained by the limited mandate Norway had; yet a critical question that remains unanswered in the discussion on facilitation and its ambiguities (pp. 400–402) is: did Norway in some ways not overstep its role as a facilitator, given the ambiguities? Although one would agree with Salter's story that the lack of political bipartisanship in Sri Lanka was a key factor leading to the failure of Norwegian efforts, the effort by the author to classify it as the only key factor is subject to debate.

There is also veiled criticism vis-à-vis India's role in the final stages of Norwegian facilitation, but the nuances of that side of the story have not been addressed in detail. For instance, recalling events in 2000 in Chapter 2, on the first meeting with Indian government representatives, Solheim recounts: "We travelled to Delhi to meet Foreign Secretary Lalit Mansingh [...] He asked us to sit down and then began a third degree interrogation [...] There was no protocol, [it was] like a police interrogation..." (p. 51).

It would have been useful for the reader to have more information on Norway's engagement with India on Sri Lanka, given that India is an important regional player. In all, the book is definitely a useful account of the Norwegian story of facilitating the peace process in Sri Lanka, but it falls short of providing a comprehensive view of the factors that led to the failure of the peace engagement in Sri Lanka, in which Norway cannot be given a clean chit.

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## **Should Aung San Suu Kyi keep her Nobel peace prize?**

# Should Aung San Suu Kyi keep her Nobel peace prize?

Strong argument from the UK *Guardian* columnist [George Monbiot](#) for a move that would definitely prove anathema among many both in Myanmar and abroad. Strip Aung San Suu Kyi of her Nobel Prize on account of her signal failure to take a stand against the persecution of the Rohingya in Myanmar today. And even worse, as some see it, her implicit endorsement of Buddhist nationalist anti-Rohingya prejudices and alleged complicity in the crimes against humanity being visited on hapless Rohingya civilians.



Aung San Suu Kyi: 'It is hard to think of any recent political leader by whom such high hopes have been so cruelly betrayed.'

Photograph: Edgar Su/ Reuters

[George Monbiot, Guardian, 5 Sept. 2017](#)

Few of us expect much from political leaders: to do otherwise is to invite despair. But to [Aung San Suu Kyi](#) we entrusted our hopes. To mention her name was to invoke patience and resilience in the face of suffering, courage and determination in the unyielding struggle for freedom. She was an inspiration to us all.

Friends of mine devoted their working lives to the campaign for her release from the many years of detention imposed by the military dictatorship of Myanmar, and for the restoration of democracy. We celebrated when she was awarded the [Nobel](#)



[peace prize](#) in 1991; when she was finally released from house arrest in 2010; and when she won the general election in 2015.

None of this is forgotten. Nor are the many cruelties she suffered, including isolation, physical attacks and the junta's curtailment of her family life. But it is hard to think of any recent political leader by whom such high hopes have been so cruelly betrayed.

By any standards, the [treatment of the Rohingya people](#), a Muslim minority in Myanmar, is repugnant. By the standards Aung San Suu Kyi came to symbolise, it is grotesque. They have been described by the UN as ["the world's most persecuted minority"](#), a status that has not changed since she took office.

*She has denied the very identity of the people being attacked, asking the US ambassador not to use the term Rohingya*

The [Convention on the Prevention and Punishment of Genocide](#) describes five acts, any one of which, when "committed with intent to destroy, in whole or in part, a national, ethnical, racial or religious group", amounts to genocide. With the obvious and often explicit purpose of destroying this group, four of them have been practised more or less continuously by Myanmar's armed forces since Aung San Suu Kyi became de facto political leader.

I recognise that the armed forces retain great power in Myanmar, and that Aung San Suu Kyi does not exercise effective control over them. I recognise that the scope of her actions is limited. But, as well as a number of practical and legal measures that she could use directly to restrain these atrocities, she possesses one power in abundance: the power to speak out. Rather than deploying it, her response amounts to a mixture of silence, the [denial of well-documented evidence](#), and the [obstruction of humanitarian aid](#).

I doubt she has read the [UN human rights report](#) on the

treatment of the Rohingyas, released in February. The crimes it revealed were horrific.

It documents the mass rape of women and girls, some of whom died as a result of the sexual injuries they suffered. It shows how children and adults had their throats slit in front of their families.

It reports the summary executions of teachers, elders and community leaders; helicopter gunships randomly spraying villages with gunfire; people shut in their homes and burnt alive; a woman in labour beaten by soldiers, her baby stamped to death as it was born.

It details the deliberate destruction of crops and the burning of villages to drive entire populations out of their homes; people trying to flee gunned down in their boats.



Rohingya refugees from Myanmar's Rakhine state arrive in Bangla-desh:120,000 people have been forced to flee in the past fortnight. Photograph: KM Asad/AFP/Getty Images

And this is just one report. Amnesty International published a [similar dossier](#) last year. There is a mountain of evidence suggesting that these actions are an attempt to eliminate this ethnic group from Myanmar.

Hard as it is to imagine, this campaign of terror has [escalated in recent days](#). Refugees arriving in Bangladesh report widespread massacres. Malnutrition ravages the Rohingya, [afflicting 80,000 children](#).

In response Aung San Suu Kyi has [blamed these atrocities, in a](#)

[chillingly remote interview, on insurgents](#), and expressed astonishment that anyone would wish to fight the army when the government has done so much for them. Perhaps this astonishment comes easily to someone who has [never visited northern Rakhine state](#), where most of this is happening.

It is true that some Rohingya people have taken up arms, and that the latest massacres were triggered by the [killing of 12 members of the security forces](#) last month, attributed to a group that calls itself the [Arakan Rohingya Salvation Army](#). But the military response has been to attack entire populations, regardless of any possible involvement in the insurgency, and to spread such terror that [120,000 people have been forced to flee](#) in the past fortnight.

In her [Nobel lecture](#), Aung San Suu Kyi remarked: “Wherever suffering is ignored, there will be the seeds of conflict, for suffering degrades and embitters and enrages.” The rage of those Rohingya people who have taken up arms has been used as an excuse to accelerate an existing programme of ethnic cleansing.

She has not only denied the atrocities, attempting to shield the armed forces from criticism; she has also denied the very identity of the people being attacked, asking the US ambassador [not to use the term Rohingya](#). This is in line with the government’s policy of disavowing their existence as an ethnic group, and classifying them – though they have lived in Myanmar for centuries – as interlopers. She has upheld the [1982 Citizenship Law](#), which denies these people their rights.

When a Rohingya woman provided detailed allegations about her gang rape and associated injuries by Myanmar soldiers, Aung San Suu Kyi’s office posted a [banner on its Facebook page reading “Fake Rape”](#). Given her [reputation for micromanagement](#), it seems unlikely that such action would have been taken without her approval.

Not only has she [snubbed and obstructed UN officials](#) who have sought to investigate the treatment of the Rohingya, but her government has [prevented aid agencies](#) from distributing food, water and medicines to people displaced or isolated by the violence. Her office has [accused aid workers of helping “terrorists”](#), putting them at risk of attack, further impeding their attempts to help people who face starvation.



## **Aung San Suu Kyi: Myanmar's great hope fails to live up to expectations**

So far Aung San Suu Kyi has been insulated by the apologetics of those who refuse to believe she could so radically abandon the principles to which she once appealed. A list of excuses is proffered: that she didn't want to jeopardise her prospects of election; that she doesn't want to offer the armed forces a pretext to tighten their grip on power; that she [has to keep China happy](#).

[None of them stand up.](#) As a great democracy campaigner once remarked: “It is not power that corrupts, but fear. Fear of losing power corrupts those who wield it.” Who was this

person? [Aung San Suu Kyi](#). But now, whether out of prejudice or out of fear, she denies to others the freedoms she rightly claimed for herself. Her regime excludes – and in some cases seeks to silence – the [very activists](#) who helped to ensure her own rights were recognised.

This week, to my own astonishment, I found myself [signing a petition](#) for the revocation of her Nobel peace prize. I believe the Nobel committee should retain responsibility for the prizes it awards, and withdraw them if its laureates later violate the principles for which they were recognised. There are two cases in which this appears to be appropriate. One is Barack Obama, who, bafflingly, was given the prize before he was tested in office. His programme of drone strikes, which [slaughtered large numbers of civilians](#), should disqualify him from this honour. The other is Aung San Suu Kyi.

Please sign this petition. Why? Because we now contemplate an extraordinary situation: a Nobel peace laureate complicit in crimes against humanity.

- George Monbiot is a Guardian columnist

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## **The Secret History of the Banking Crisis**

## **The Secret History of the**

# Banking Crisis

Riveting, accessible account of the 2008 financial crisis and the hush-hush 'swapline' system between the US Fed and a select coterie of European central banks put in place to contain it (remains with us today). Will Trump get round to disrupting it? And just as importantly, will it ever become the subject of political, ideally democratic scrutiny and discussion?

Published in the August 2017 edition of *Prospect*.



A broker looks at his screens at Frankfurt's stock exchange on September 15, 2008, as the German stock exchange went down 4.6 percent in the afternoon in the wake of US investment banking giant Lehman Brothers filing for bankruptcy. AFP PHOTO DDP/ THOMAS LOHNES GERMANY OUT (Photo credit should read THOMAS LOHNES/AFP/Getty Images)

# The secret history of the banking crisis

Accounts of the financial crisis leave out the story of the secretive deals between banks that kept the show on the road. How long can the system be propped up for?

by Adam Tooze. Published in [August 2017](#) issue of Prospect Magazine

It is a decade since the first tremors of what would become the Great Financial Crisis began to convulse global markets. Across the world from China and South Korea, to Ukraine, Greece, Brexit Britain and Trump's America it has shaken our economy, our society and latterly our politics. Indeed, it has thrown into question who "we" are. It has triggered both a remarkable wave of nationalism and a deep questioning of social and economic inequalities. Politicians promise their voters that they will "take back control." But the basic framework of globalisation remains intact, so far at least. And to keep the show on the road, networks of financial and monetary co-operation have been pulled tighter than ever before.

In Britain the beginning of the crisis was straight out of economic history's cabinet of horrors. Early in the morning of Monday 14th September 2007, queues of panicked savers gathered outside branches of the mortgage lender Northern Rock on high streets across Britain. It was—or at least so it seemed—a classic bank run. Within the year the crisis had circled the world. Wall Street was shaking, as was the City of London. The banks of South Korea, Russia, Germany, France, Belgium, the Netherlands, Ireland and Iceland were all in trouble. We had

seen nothing like it since 1929. Soon enough Ben Bernanke, then chairman of the US Federal Reserve and an expert on the Great Depression, said that this time it was worse.

But the fact that the tumult assumed such spectacular, globe-straddling dimensions had initially taken Bernanke by surprise. In May 2007 he reassured the public that he didn't think American subprime mortgages could bring down the house. Clearly he underestimated the crisis. But was he actually wrong? For it certainly wasn't subprime that brought down Northern Rock. The British bank didn't have any exposure in the United States. So what was going on?

The familiar associations evoked by the Northern Rock crisis were deceptive. It wasn't panicking pensioners all scrambling to withdraw their savings at once that killed the bank. It wasn't even the Rock's giant portfolio of mortgages. The narrative of Michael Lewis's *The Big Short*, of securitisation, pooling and tranching, the lugubrious details of trashy mortgage dealing, the alphabet soup of securitised loans and associated derivatives (MBS, CDO, CDS, CDO-squared) tell only one part of the story. What really did for banks like Northern Rock and for all the others that would follow—Bear Stearns, Merrill Lynch, Lehman, Hypo Real State, Dexia and many more—and what made this downturn different—so sharp, so sudden and so systemic, not just a recession but the Great Recession—was the implosion of a new system not just of bank lending, but of bank funding.

It is only when we examine both sides of the balance sheet—the liabilities as well as the assets—that we can appreciate how the crisis was propagated, and then how it was ultimately contained at a global level. It is a story that the crisis-fighters have chosen not to celebrate or publicise. Ten years on, the story is worth revisiting, not only to get the history right, but because the global fix that began to be put in place in the autumn of 2007 is in many ways the most significant legacy of the crisis. It is still with us today



and remains largely out of sight. The hidden rewiring of the global monetary system provides reassurance to those in the know, but it has no public or political standing, no resources with which to fight back if attacked. And this matters because it is increasingly out of kilter with the nationalist turn of politics.

In the wake of the crash and its austere aftermath, voters in many countries have pointed the finger at globalisation. The monetary authorities, however, have quietly entwined themselves more closely than ever before—and they have done so in order to provide life support to that bank funding model which caused such trouble a decade ago. Ten years on, the question of whether this fix is sustainable, or indeed wise, is a question of more than historical interest.

*“To keep the show on the road, networks of financial and monetary co-operation have been pulled tighter than ever before”*

In 2007 economists were expecting a crisis. Not, however, the crisis they got. The standard crisis scenario through to autumn that year involved a sudden loss of confidence in American government debt and the dollar. In the Bush era, the Republicans had cut taxes and spent heavily on the War on Terror, borrowing from China. So what would happen, it was asked anxiously, if the Chinese pulled the plug? The great fear was that the dollar would plunge, interest rates would soar and both the US economy and the Chinese export sector would crash land. It was what Larry Summers termed a balance of financial terror. America's currency seemed so doomed that in autumn 2007, the US-based supermodel Gisele Bündchen asked to be paid in euros for a Pantene campaign, and Jay-Z dissed the dollar on MTV.

But somewhat surprisingly, like the nuclear stand-off in the Cold War, the financial balance of terror has become the basis

for a precarious stability. Crucially, both Beijing and Washington understand the risks involved, or at least they seemed to until the advent of President Donald Trump. Certainly during the most worrying moments in 2008 Hank Paulson, Bush's last Treasury Secretary, made sure that Beijing understood that its interests would be protected. Beijing reciprocated by increasing its commitment to dollar assets.

In 2007, it was not the American state that lost credibility: it was the American housing market. What unfolded was a fiasco of the American dream: 8.7m homes were lost to foreclosure. But the real estate bust wasn't limited to the US. Ireland, Spain, the UK and the Netherlands all had huge credit booms and suffered shattering busts. As homeowners defaulted some lenders went under. This is what happened early on to predatory lenders such as New Century and Countrywide. Bankruptcy also came to the Anglo Irish Bank and Spain's notorious regional mortgage lenders, the *cajas*. In the fullness of time, it was—perhaps, though not necessarily—the fate that might well have befallen Northern Rock too. But before it could suffer death by a thousand foreclosures, Northern Rock was felled by a more fast-acting kind of crisis, a crisis of “maturity mismatch.”

Banks borrow money short-term at low interest and lend long at marginally higher rates. It may sound precarious, but it is how they earn their living. In the conventional model, however, the short-term funding comes from deposits, from ordinary savers. Ordinarily, in a well-run bank, their withdrawals and deposits tend to cancel each other out. Fits of uncertainty and mass withdrawals are always possible, and perhaps even inevitable once in a while. So to prevent them turning into bank runs, governments offer guarantees up to a reasonable amount.

Most of the Northern Rock depositors had little to fear. Their deposits were, like all other ordinary savers, guaranteed by

then Chancellor Alistair Darling. The investors who weren't covered by government backing were those who had provided Northern Rock with funding through a new and different channel—the wholesale money market. They had tens of billions at stake, and every reason to panic. It was the sudden withdrawal of this funding that actually killed Northern Rock.

As well as taking in money from savers, banks can also borrow from other banks and other institutional investors. The money markets offer funds overnight, or for a matter of weeks or months. It is a fiercely competitive market with financial professionals on both sides of every trade. Margins are slim, but if the volumes are large there are profits to be made. For generations this was the preserve of investment bankers—the ultimate insiders of the financial community. They didn't bother with savers' deposits. They borrowed in the money markets. From the 1990s commercial banks and mortgage lenders began to operate on a similar model. It was this new form of "market-based" banking combined with the famous securitisation of mortgages that enabled the huge expansion of European and US banking that began to crash in 2007.



## **Run for the hills: Northern Rock depositors rush to start taking out their money.**

By the summer of 2007 only 23 per cent of Northern Rock's funding came from regular deposits. More than three quarters of its operation was sustained by borrowing in capital and money markets.

For these funds there were no guarantees. For a run to develop in the money market, the mortgages did not need to default. All that needed to happen was for the probability of some of them defaulting to increase. That was enough for interbank lending and money market funding to come abruptly to a halt. The European money markets seized up on 9th August. Within a matter of days Northern Rock was in trouble, struggling to repay short-term loans with no new source of funding in prospect. And it was through the same funding channel that the crisis went global.

The attraction of money market funding was that it freed you from the cumbersome bricks-and-mortar branch network traditionally used to attract deposits. Using the markets, banks could source funding all over the world. South Korean banks borrowed dollars on the cheap to lend in Won. American banks operating out of London borrowed Yen in depressed Japan, flipped them into dollars and then lent them to booming Brazil. The biggest business of all was the "round tripping" of dollars between America and Europe. Funds were raised in America, which for reasons of history and the nation's sheer scale, is the richest money market in the world.

Those dollars were exported to institutions and banks in Europe, who then reinvested them in the US, very often in American mortgages. The largest inflow of funds to the US came not from the reinvestment of China's trade surplus, but through this recycling of dollars by way of Europe's banks. Barclays didn't need a branch in Kansas any more than Lehman did. Both simply borrowed money in the New York money markets.

From the 1990s onwards, Europe's banks, both great and small, British, Dutch, Belgian, French, Swiss and German, made themselves into a gigantic trans-Atlantic annex of the American banking system.

All was well so long as the economy was buoyant, house and other asset prices continued to go up, money markets remained confident and the dollar moved predictably in the direction that everyone expected, that is gently downwards. If you were borrowing dollars to fund a lending business the three things that you did not want to have happen were: for your own loans to go bad; money markets to lose confidence; or for dollars to suddenly become scarce, or, what amounts to the same thing, unexpectedly expensive. While the headlines were about sub-prime, the true catastrophe of the late summer of 2007 was that all three of these assumptions were collapsing, all at once, all around the world.

*"The Fed effectively established itself as a lender of last resort to the entire global financial system"*

The real estate market turned down. Large losses were in the pipeline, over years to come. But as soon as Bear Stearns and Banque Nationale de Paris (BNP) shut their first real estate funds, the money markets shut down too. Given the global nature of bank funding this produced an acute shortage of dollar funding across the European and Asian banking system. It was the opposite of what the best and brightest in macroeconomics had expected: strong currencies are, after all, meant to be built on thrift and industry, not shopping splurges and speculative debts. But rather than the world being glutted with dollars, quite suddenly banks both in Europe and Asia began to suffer periodic and panic-inducing dollar shortages.

The paradigmatic case of this counterintuitive crisis would eventually be South Korea. How could South Korea, a champion

exporter with huge exchange reserves be short of dollars? The answer is that in the years of the recovery from the 1997 East Asian crisis, while Korean companies Hyundai and Samsung had conquered the world, Korea's banks had been borrowing dollars at relatively low interest rates to lend out back home in Won to the booming home economy. Not only was there an attractive interest rate margin, but thanks to South Korea's buoyant exports, the Won was steadily appreciating. Loans taken out in dollars were easier to repay in Won. As such these loans cushioned the losses suffered by South Korean firms on their dollar export-earnings.

By the late summer of 2008 the South Korean banks operating this system owed \$130bn in short-term loans. Normally this was no problem, you rolled over the loan, taking out a new short-term dollar credit to pay off the last one. But when the inter-bank market ground to a halt the South Koreans were painfully exposed. Barring emergency help, all they could do was to throw Won at the exchange markets to buy the dollars they needed, which had the effect of spectacularly devaluing their own currency and making their dollar obligations even more unpayable. South Korea, a country with a huge trade surplus and a large official dollar reserve, faced a plunging currency and a collapsing banking system.

In Europe the likes of RBS, Barclays, UBS and Deutsche had even larger dollar liabilities than their South Korean counterparts. The BIS, the central bankers' bank, estimated that Europe's mega-banks needed to roll over \$1-1.2 trillion dollars in short-term funding. The margin that desperate European banks were willing to pay to borrow in sterling and euro and to swap into dollars surged. Huge losses threatened—and both the Bank of England and the European Central Bank (ECB) could not do much to help. Unlike their East Asian counterparts, they had totally inadequate reserves.

The one advantage that the Europeans did have over the Koreans, was that the dollars they had borrowed had largely

been invested in the US, the so-called “round-tripping” again. The huge portfolios of American assets they had accumulated were of uncertain value, but they amounted to trillions of dollars and somewhere between 20 and 25 per cent of the total volume of asset- and mortgage-backed securities. In extremis the Europeans could have auctioned them off. This would have closed the dollar-funding gap, but in the resulting fire sales the European banks would have been forced to take huge write downs. And most significantly, the efforts by the Fed and the US Treasury to stabilise the American mortgage market would have been fatally undercut.

*“In the 60s, swaps were about stabilising exchange rates. Now they’re all about stabilising oversized banks”*

This was the catastrophic causal chain that began to emerge in August 2007. How could the central banks address it? The answer they found was three-pronged. The most public face of crisis-fighting was the effort to boost the faltering value of the mortgage bonds on the banks’ books (typically securitised versions of other banks’ mortgage loans, which were becoming less reliable in the downturn), and to provide the banks with enough capital to absorb those losses that they would inevitably suffer. This was the saga of America’s Troubled Asset Relief Programme, which played out on Capitol Hill. In the case of Northern Rock this prong involved outright nationalisation. Others took government stakes of varying sizes. Warren Buffett made a lucrative investment in Goldman Sachs. Barclays has now been charged by the Serious Fraud Office with fraudulently organising its own bailout, by—allegedly—lending money to Qatar, which that state is then said to have reinvested in Barclays. Without the bailout, you ended up with Lehman: bewildered bankers standing on the pavements of the City and Wall Street carrying boxes of their belongings. The masters of the universe plunged to earth. It half-satisfied the public’s desire for revenge. But it did nothing for business confidence.

With enough capital a bank could absorb losses and stay afloat. But to actually operate, to make loans and thus to sustain demand and avert a downward spiral of prices and more bankruptcies, the banks needed liquidity. So, secondly, the central banks stepped in, taking over the function, which the money market had only relatively recently assumed but was now suddenly stepping back from, of being the short-term lenders. The ECB started as early as August 2007. The Bank of England came in late, but on a large scale. The Fed became the greatest liquidity pump, with all of Europe's banks benefiting from its largesse. The New York branches of Barclays, Deutsche, BNP, UBS and Credit Suisse were all provided with short-term dollar funding on the same basis as Citi, Bank of America, JP Morgan and the rest.

## What is a swap line?

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A currency swap line is an agreement between two central banks to exchange currencies. They allow a central bank to obtain foreign currency liquidity from the central bank that issues it—usually because they need to provide this to domestic commercial banks. For example, the swap line with the Federal Reserve System enables the Bank of England to receive US dollars from the Fed in exchange for an equivalent amount of pounds sterling provided to the Federal Reserve. In recent years they have become an important tool for preventing market tension from affecting the real economy.

Source: Edited from ECB website

But it was not enough. The Europeans needed even more dollars. So the Fed's third, final and most radical innovation of the crisis was to devise a system to allow a select group of



central banks to funnel dollars to their banks. To do so the Fed reanimated an almost-forgotten tool called the “swap lines,” agreements between central banks to trade their currencies in a given quantity for a given period of time. They had been used regularly in the 1960s, but had since gone out of use. Back then, the aim was stabilising exchange rates. This time, the aim was different: to stabilise a swollen banking system that was faltering, and yet abjectly too big to fail. At a moment when dollars were hard to come by, the new swap lines enabled the ECB to deposit euros with the Fed in exchange for the dollars that the eurozone banks were craving. The Bank of England benefited from the same privilege.

Not that they were welcome at first. When the Fed first mooted the idea in the autumn of 2007, the ECB resisted. It did not want to be associated with a crisis that was still seen largely as American. If Gisele didn't want to be paid her modelling fees in US dollars, why on earth should the ECB be interested? But as the European bank balance sheets unravelled, it would soon become obvious that Frankfurt needed all the dollars it could get. Initiated in December 2007, the swap lines would rapidly expand. By September all the major European central banks were included.

In October 2008 the network was expanded to include Brazil, Australia, South Korea, Mexico, New Zealand and Singapore. For the inner European core, plus Japan, they were made unrestricted in volume. The sums of liquidity were huge. All told, the Fed would make swap line loans of a total of \$10 trillion to the ECB, the Bank of England the National Bank of Switzerland and other major banking centres. The maximum balance outstanding was \$583bn in December 2008, when they accounted for one quarter of the Fed's balance sheet.

It was a remarkable moment: the Fed had effectively established itself as a lender of last resort to the entire global financial system. But it had done so in a decentralised fashion, issuing dollars on demand both in New York and by

means of a global network of central banks. Not everyone was included. Russia wasn't, which was hardly surprising given that it had come to blows with the west over Georgia's Nato membership application only weeks earlier. Nor did the Fed help China or India.

And though it helped the ECB, it did not provide support to the "new Europe" in the east. The Fed probably imagined that the ECB itself would wish to help Poland, the Baltics and Hungary. But the ECB's president Jean-Claude Trichet was not so generous. Instead, eastern Europe ended up having to rely on the International Monetary Fund (IMF).



**Swapsies? As a scholar of the Great Depression, the Fed's Ben Bernanke knew the importance of swap lines. Photo: MARK WILSON/GETTY IMAGES**

The swap lines were central bank to central bank. But who did they really help? The reality, as all those involved understood, was that the Fed was providing preferential access to liquidity not to the "euro area" or "the Swiss economy" as a whole, but to Deutsche Bank and Credit Suisse. Of course, the justification was "systemic risk." The mantra in

Washington was: you have to help Wall Street to help Main Street. But the immediate beneficiaries were the banks, their staff, especially their highly-remunerated senior staff and their shareholders.

Though what the Fed was doing was stabilising the global banking system, it never acknowledged as much in so many words, certainly not on the record, where it said as little as it decently could about the swap line operation. The Fed's actions have global effects. But it remains an American institution, answerable to Congress. Its mandate is to maintain employment and price stability in the US economy. The justification for the swap lines, therefore, was not global stability, but the need to prevent blowback from Europe's de facto Americanised banks—to avoid a ruinous, multi-trillion dollar fire sale of American assets. Once the worst of the crisis had passed, Bernanke would assist the European banks in liquidating their American assets by way of the Fed's three rounds of asset purchases, known as Quantitative Easing (QE).

The swaps were meticulously accounted for. Every cent was repaid. No losses were incurred—the Fed even earned a modest profit. They were not exactly covert. But given the extraordinary extension of its global influence that the swaps implied, they were never given publicity, nor even properly discussed. Bernanke's name will be forever associated with QE, not swap lines. In his lengthy memoirs, *The Courage to Act*, the swaps merit no more than a few cursory pages, though Bernanke as a scholar of the 1930s knows very well just how crucial these instruments were. Is this an accident? Surely not. In the case of the swap lines, the courage to act was supplemented by an ample measure of discretion.

The Fed did everything it could to avoid disclosing the full extent and range of beneficiaries of its liquidity support operations. They did not want to name and shame the most vulnerable banks, for fear of worsening the panic. But there are politics involved too. Given the rise of the Bernanke-

hating Tea Party in 2009, the likely response in Congress to news headlining the scale of the Fed's global activity was unpredictable to say the least. When asked why no one on Capitol Hill had chosen to make an issue of the swap lines, one central banker remarked to me that it felt as though "the Fed had an angel watching over it."

One other reason for the tight lips is that the story of the swap lines is not yet over. The network was rolled out in 2007 and 2008 as an emergency measure, but since then it has become the under-girding of a new system of global financial crisis management. In October 2013, as the Fed prepared finally to begin the process of normalisation by "tapering" its QE bond purchases, it made another decision which made plain that the new normal would not be like the old. It turned the global dollar swap line system into a standing facility: that is to say, it made its emergency treatment for the crisis into a permanent feature of the global monetary system. On demand, any of the core group of central banks can now activate a swap line with any other member of the group. Most recently the swap line system was readied for activation in the summer of 2016 in case of fallout from the Brexit referendum.

As the original crisis unfolded in 2008, radical voices like Joseph Stiglitz in the west, and central bankers in the big emerging economies called for a new Bretton Woods Conference—the meeting in 1944, which had decided on the post-war currency system and the creation of the IMF and the World Bank. The Great Financial Crisis had demonstrated that the dollar's exorbitant privilege was a recipe for macroeconomic imbalances. The centre of gravity in the world economy was inexorably shifting. It was time for a new grand bargain.

*"Central banks has staged Bretton Woods 2.0. But they had not invited the public or explained their reasons"*

What these visionary suggestions failed to register was that

foundation of the world's de facto currency system were not public institutions like the IMF, but the private, dollar-based global banking system. The introduction of the swap lines gave that system unprecedented state support. The Fed had ensured that the crisis in global banking did not become a crisis of the dollar. It had signalled that global banks could rely on access to dollar liquidity in virtually unlimited amounts, even in the most extreme circumstances. The central banks had, in other words, staged their Bretton Woods 2.0. But they had omitted to invite the cameras or the public, or indeed to explain what they were doing.

The new central bank network created since 2008 is of a piece with the new networks for stress testing and regulating the world's systemically important banks. The international economy they regulate is not one made up of a jigsaw puzzle of national economies, each with its gross national product and national trade flows. Instead they oversee, regulate and act on the interlocking, transnational matrix of bank balance sheets.

This system was put in place without fanfare. It was essential to containing the crisis, and so far it has operated effectively. But to make this technical financial network into the foundation for a new global order is a gamble.

It worked on the well-established trans-Atlantic axis. But will it work as effectively if it is asked to contain the fallout from an East Asian financial crisis? Can it continue to operate below the political radar, and is it acceptable for it to do so? With the Fed in the lead it places the resources, expertise and authority of the world's central banks behind a market-based system of banking that has shown its capacity for over-expansion and catastrophic collapse. For all the talk of "macroprudential" regulation, Basel III and Basel IV, rather than disarming, down-sizing and constraining the global banking system, we have—through the swap lines—embarked on, if you like, a regulatory race to the top, where the authorities

intervene heavily to allow the big banks in some countries to continue what they were doing before the unsustainable ceased to be sustained. And without even the political legitimacy conferred by G20 approval. Not everyone in the G20 is part of the swap line system.

The Fed's safety net for global banking was born at the fag-end of the "great moderation," the era when economies behaved nicely and predictably, and when a "permissive consensus" enabled globalisation. Though a child of crisis, it bore the technocratic, "evidence-based" hall marks of that earlier era. It bears them still.

Can it survive in an age when the United States is being convulsed by a new wave of economic nationalism? Is there still a guardian angel watching over the Fed on Capitol Hill? And with Trump in the White House, how loudly should we even ask the question?