QUESTION 20

What is the Paris Club?

In 1955, after the military coup that overthrew the Argentinean president, Juan Domingo Perón, the new regime was eager to be recognized by the international community. Thus it quickly tried to be accepted by the IMF and the World Bank. But in order to do so, it had to sort out the problems of its debt and meet the countries to which it owed most. On May 16, 1956, the meeting took place in Paris, at the suggestion of the French Minister of the Economy. The Paris Club was born.

Fifty years later, the Paris Club, alongside the IMF and the World Bank, has become a key instrument in the strategy developed by creditor countries to maintain control of the world economy. The aim of the Paris Club—which still meets in the French Ministry of Finance, rue de Bercy, where its permanent secretary is housed—is to renegotiate the bilateral public debts of those Southern countries experiencing difficulty servicing their debt. Originally made up of eleven countries, it now has nineteen members.[97]

Between 1956 and the end of 1980, only thirty agreements were signed by the Club. Before 1976, the Club used to balk at holding meetings for countries whose debt was considered too small. Only Argentina, Brazil, Chile, Indonesia, Peru, Cambodia, Pakistan, and Zaire were summoned during this initial period. After the debt crisis at the beginning of the 1980s, the frequency of the Club's meetings greatly accelerated. Between the beginning of 1981 and September 2008, 373 agreements were signed by eighty-three debtor countries. The embarrassing record is

held by Senegal (summoned to the Club fourteen times since 1982) followed by Madagascar (twelve times), then Niger and the Democratic Republic of the Congo (eleven times). The volume of debts either rescheduled or canceled by the Paris Club is more than $500 billion.

The plenary meetings, which are generally monthly, are always the same.[98] The delegation from the indebted country and its lenders sit in alphabetical order around the big conference table. Multilateral institutions (the IMF, the World Bank, UNCTAD, Regional Development Banks) are also present. The president of the Club—often the director of the French Treasury or a close colleague—opens the proceedings. The leader of the indebted country's delegation, usually the Minister of Finance or the Governor of its central bank, presents in a formal way the reasons for their presence. During the preceding months the government of their country has been in contact with the Club and has already agreed to accept two very strict conditions, one to request the meeting with the Club based on its proven impossibility of continuing repayments under the ongoing conditions, and the other to sign an economic agreement with the IMF to ensure that it will not happen again. Before meeting its creditors, the indebted country has already had to accept the conditions imposed by those creditors, which means that on the appointed day, the delegation has nothing left to negotiate.

After this opening presentation, the IMF details the reforms planned to rescue the country from its predicament and then the World Bank and UNCTAD present their conclusions, after which the question-and-answer session can begin. When the latter session—euphemistically called "negotiating"—is over, the omnipotence of the creditors is made clear when the delegation of the indebted country is requested to leave the room while the members of the Paris Club negotiate among themselves. Once they have decided what they are going to do, the president informs the delegation from the Southern country—which had to wait incommunicado while their country's future was being decided—of their conclusions. If the delegation is not satisfied with the conclusions, the discussion can be taken up again, but the potential for persuasion is small since the country is requesting a renegotiation of its debt, and the fact that it is sitting at the table is a clear indicator that it is not going to revolt against the system.

After the minutes of the meeting have been signed, all that is left for the delegation to do is to show the media of its country how enthusiastic it is about the agreement that has been reached and thank the creditor countries.

The first time a country presents itself, the Paris Club fixes a date. Officially, only loans made before that date are affected by the rescheduling. Debts contracted afterward do not normally qualify for restructuring. This is to reassure the financial markets and the funding agencies that any new loans granted will be repaid. For Madagascar, Niger, and Côte d'Ivoire, that date was July 1, 1983, which considerably reduces the volume of debt concerned by any possible reduction.

The Paris Club distinguishes between two kinds of debt: ODA loans (Official Development Aid loans) granted at lower interest rates than those of the market, which are supposed to enhance development,[99]and non-ODA loans (or commercial loans), which are the only ones that may qualify for reduction. Generally, debt reduction by the Paris Club is reserved for the poorest and the most heavily indebted countries (see Q31). For the great majority of developing countries with payment difficulties, the Paris Club responds with debt rescheduling, which merely postpones the problem to a later date.

The living conditions of the poorest populations are in no way taken into account, since the Club aims to be simply a debt-collecting institution. It is managed by a Ministry of Finance, and not by a Ministry of Foreign Affairs. Its aim is to make the indebted countries pay the most they possibly can. "The Paris Club creditors seek to maximize recoveries. They typically require immediate repayment of as much of the original claim as possible. Amounts that cannot be repaid are rescheduled on terms that balance future payments with the objective of minimizing the chance that the debtor will return to the Paris Club with additional requests for forbearance."[100] The cronyism between the Club and the large banks seems to work well. Jean-Pierre Jouyet left the presidency of the Club in July 2005 to become a non-executive president of the French subsidiary of Barclays Bank.[101] Emmanuel Moulin, general secretary of the Club, took up his new post at Citibank, the major international banking group, in January 2006.

The Club actually presents itself as an informal group, a "non-institution" with no legal basis or status. Theoretically, the conclusions of its dis-

cussions are nothing more than suggestions that only come into effect if the creditor countries—totally independently—decide to apply them in bilateral agreements. Only such bilateral agreements have the law behind them.

However, it is written in the Principles of Solidarity that "creditors agree to implement the terms agreed upon in the context of the Paris Club." This is a clever way of watering down responsibility—the Paris Club is not responsible in any way since it has no legal entity, but the member states scrupulously respect its decisions. The greatest advantage of the Paris Club is that it enables creditors to act as a united front to recuperate individual bilateral loans, whereas the Southern countries are completely isolated from each other. The situation of each debtor country is examined in isolation, using data provided by the IMF, which has a strong tendency to be overly optimistic in its future projections.[102]

While requesting "good governance" from others, it does not practice what it preaches, since the agenda of its meetings is never made public before the meeting. No one outside the Club knows what the discussions are about, nor the position of the individual states. The meetings take place behind closed doors without any question of there being an observer present from either North or South social organizations. Riding roughshod over the conflict of interests of being both judge and party, the Club isolates the debtor countries from each other, making it obvious that the only concern of their meetings is the financial interests of the creditor countries.

It should also be noted that the Paris Club always capitalizes interest, that is to say, the outstanding interest due on Paris Club loans is capitalized. It is added to the initial debt—and thus generates future interest on itself![103] However, most Latin American constitutions, and even some European constitutions, such as Italy's, do not allow such a loan mechanism. The Paris Club actually manages the *tour de force* of getting the representatives of certain states to agree to decisions that are actually against their own constitution!

Furthermore, there is a very clear form of blackmail to dissuade indebted countries from forming a "front of refusal." From the Paris Club website: "Creditworthiness usually takes a long time to build, as lenders tend to assess over time the capacity of the debtor to repay its debt before entering into large lending. In contrast, failure to fulfill debt obligations

can rapidly damage creditworthiness. Under circumstances where debt restructuring cannot be avoided, countries that do not accumulate arrears and take preventive steps to reach a coordinated solution with their creditors, notably in the Paris Club, can restore their creditworthiness more rapidly afterward. In contrast, debtors that declare a unilateral moratorium tend to lose access to new financing for some time."

Finally, it is important to note that after appearing before the Paris Club, the indebted state can then turn to its private bank creditors, grouped in the London Club. Here the negotiations are of a similar type but even more opaque and with an even worse stench of profit at all costs.

> Today, the emerging markets are not forced open under the threat of the use of military might, but through economic power, through the threat of sanctions or the withholding of needed assistance in a time of crisis.
>
> —JOSEPH STIGLITZ, *Globalization and Its Discontents,* 2002

Basically, the Paris Club is a serious institutional anomaly, where united, all-powerful creditors meet on the sly.[104] For all these reasons, it should purely and simply be disbanded.

QUESTION 21
Are all the developing countries treated in the same way by the Paris Club?

It is undeniable that the developing countries are very different, each with its own history and its specific assets. It is impossible, from an economic point of view, to put Brazil and Bangladesh, India, and the Congo, Thailand and Morocco in the same boat. Each suffered the debt crisis in its own way but all had to accept it.

Latin America became a textbook case of ultra-neoliberalism, beginning with the dictator Augusto Pinochet in Chile in September 1973. Pinochet brutally, and with bloodshed, imposed an economic model defined by the Chicago Boys (see Glossary). The World Bank and the IMF actively supported Pinochet's regime. However, the debt crisis that

broke out in Mexico in 1982 and then spread to a large number of developing countries made it possible to impose this economic model without having to count on military dictatorships. Not until the beginning of the twenty-first century did alternatives start to emerge, in Venezuela, in Bolivia, in Ecuador. How long will it last? How far will they go?

The East Asian Tigers (Indonesia, Thailand, Malaysia, the Philippines) managed to attain strong economic positions that gave them a certain amount of room to maneuver until the mid-1990s. However, the 1997 crisis forced them under, later but just as brutally. Malaysia refused any agreement with the IMF in 1997–98, protected its domestic market, and, after the crisis broke out, took strict control of capital flows and exchange, and spent money on giving new impetus to production. Although the IMF announced impending disaster, Malaysia was back on its feet before the other affected countries.

For centuries, and more than other places in the world, Africa was bled dry by the slave trade, by colonialism, and by large-scale looting of its natural resources. Generations of Africans have been sacrificed, their cultural heritage stolen or scorned. Decolonization in the 1960s was most of the time limited to the simple physical withdrawal of the colonial powers (when they did in fact withdraw) and for most countries independence has never been more than an illusion. As soon as the debt crisis began, almost all the African countries came straight under the heel of the IMF, the World Bank, and the Paris Club member countries. The burden of the debt became the cornerstone of the ongoing neo-colonialism.

Some East European countries became heavily indebted toward the end of the 1970s. In the early 1990s, after the fall of the former Soviet Union and the Berlin Wall, all those countries were rapidly delivered up to the ferocious appetites of accelerated liberalization, and social conditions rapidly deteriorated. Russia was clearly in decline when the 1998 crisis occurred, with life expectancy falling by about four years during the 1990s and industrial production going down by 60 percent and GDP by 54 percent.

Just these few examples show how submission to the debt mechanism can differ from one country to the next. This submission was further facilitated by the corruption of the ruling classes of the developing countries, who soon learned how to cash in on their docility to international financial institutions, which proved to be willing accomplices.

The Paris Club responds differently to the problems encountered by the poorest countries than it does to those countries whose situation seems to be less critical. The Paris Club only reduces the debt for the poorest and most heavily indebted countries (the HIPC initiative generalized these debt reductions; see Q31), whereas the other countries have to be satisfied with a rescheduling of their debt.

Closer inspection of this seemingly logical system shows some very surprising exceptions. Some carefully selected countries receive preferential treatment. Strategic allies are simply momentarily useful for the geopolitical ambitions of countries of the North, and they have negotiated their alliance by putting the question of their debt in the balance.

Poland

In April 1991, Poland went before the Paris Club, which had decided to reschedule all debts owed to its members, almost $30 billion. Thus was Poland rewarded for opening up to liberalization, as the first East European state to join the Western camp by leaving the Warsaw Pact. Nevertheless, despite this measure, Poland was to see its bilateral public debt service increase from $183 million in 1990 to $353 million in 1991, $755 million in 1992, $779 million in 1993, and so on. This led the Polish president, Lech Walesa, to protest that his country was very poorly rewarded.

Egypt

In May 1991, $21 billion of Egypt's bilateral debt was rescheduled to reward it for its cooperation during the first Gulf war against Iraq. The service on the bilateral public debt was thus halved: from $1.14 billion in 1990 to $555 million in 1991, before climbing back to over $800 million in 1992 and 1993. But its bilateral public debt stock continued to increase.

Russia

Certain grandiloquent declarations by the Paris Club are quite simply contradicted by the facts. In 1998, Russia decreed a unilateral moratorium and has received absolutely no sanctions. On the contrary, it has greatly benefited from the unilateral suspension of payments. What is going on?

Faced with a fall in its export revenues (fall in the price of oil in 1998) and its tax revenues, Russia unilaterally suspended debt repayments for three months, starting in August 1998. This modified the balance of power in its favor, with regard to its Paris Club and London Club creditors. Thanks to the suspension of payments, it obtained the cancellation of about 30 percent of its debt to these two categories of creditors. Its status as a former nuclear superpower no doubt helped it to force the negotiations through. As for the IMF, it has continued to grant loans to Russia despite the suspension (in contradiction to its own declarations) while several billion dollars have been embezzled via Western European tax havens by top Russian officials converted to capitalism.

We have no sympathy for the Russian leaders who are conducting a ruthless war against the Chechen people and who are applying antisocial and corporate-driven policies throughout the whole of Russia. However, there is a lesson to be learned from this suspension of payments: an openly defiant attitude to the creditors can pay off.

Former Yugoslavia

In November 2001, the former Yugoslavia benefited from generous treatment for the whole of its debt from the Paris Club, which granted it the conditions normally reserved for the poorest countries. This favor came after the new Serb government handed former leader Slobodan Milosevic over to the International Criminal Tribunal in the Hague on June 29, 2001.

Pakistan

In December 2001, Pakistan was rewarded for having released the Afghan Talibans and for forming an alliance with the United States during its operations in Afghanistan after the 9/11 attacks. The Paris Club advantageously restructured almost the entire debt owed to it by Islamabad.

> Your rapporteur notes that conditionality often means imposing a preestablished line of conduct upon the country benefiting from the IMF's intervention. This conduct is rarely adapted to the reality of their economic and social structures, but is modeled on the developed economies which, it should be remembered, have only reached their present stage of development after decades, even centuries, of economic evolution.
>
> —YVES TAVERNIER, Member of Parliament, French National Assembly Finance Commission's Report on the Activities and Control of the IMF and the World Bank, 2001

These few cases show the extent to which decisions on debt are linked to the geopolitical imperatives at the time. The states of the North meeting in the Paris Club use the debt as a means of domination over the developing countries. As soon as it is in their interests, as soon as they have the political will to win over a temporary ally, they know how to manipulate debt reduction or cancellation as a means of reaching their ends. The increase in the numbers of these types of cases over the last few years has brought the Paris Club into the spotlight.

QUESTION 22
What is undermining the Paris Club?

Having always cultivated an ethos of secrecy, the Paris Club carefully avoids media coverage. Yet in recent years it has hit the headlines on three occasions.

In November 2004, Iraq's debt was the subject of unusually long discussions between its creditors. It was the first time a session of the Club ended on a Sunday. During the military invasion of March 2003, the United States and its allies called for the cancellation of 95 percent of the debt owed by Iraq to member countries. France, Russia, and Germany, opposed to the war, did not want to go beyond 50 percent. Agreement was reached on a three-phase debt relief of 80 percent, that is, $31 billion out of the $39 billion held by the Club.[105] Note that to justify the proposed reduction of the Iraqi debt, on April 7, 2003, Washington put forward the doctrine of odious debt. However, the U.S.government quickly put aside this important argument, for fear that other developing countries might demand that the same doctrine be applied to their debts (see Q44).

In January 2005, after the tsunami off Indonesia that killed more than 220,000 people, numerous associations mobilized to demand debt relief for the countries affected.[106] The media impact of this demand, coupled with the first-ever attendance of a French finance minister at one of its meetings, incited the Paris Club to announce a one-year moratorium on the debts of Indonesia and Sri Lanka. The result was that those two countries had to repay between 2007 and 2010 the amount they were due to repay in 2005. But once the public attention had fallen, the Club's true face was revealed: no generosity, no more pretense of compassion. Not only was there no cancellation, but since these countries were not paying on the due date, the creditor countries that wished to could add interest over the moratorium period.

> In accordance with the principle of a non-concessional debt moratorium, when rescheduling the due dates, some creditors invoiced the moratorium interest at the appropriate market rate. Other creditors, France included, decided not to invoice these moratorium interests at all.
>
> —RAMÓN FERNÁNDEZ, while vice president of the Paris Club[107]

No further details were made public.

In October 2005, the Paris Club agreed to cancel two-thirds of the debt Nigeria—Africa's biggest oil producer—owed to member countries: $18 billion out of $30 billion. This is a textbook example of the Club's phony good news. First of all, Nigeria had to repay all its outstanding arrears within six months for one-third of the sum to be canceled, and then, for the other third to be erased, Nigeria had to obtain IMF approval of its economic policy and also make further repayments. Nigeria then submitted even further to the IMF's demands by paying out $12.4 billion in a few months, even though the arrears dated from the military dictatorship of the 1990s and constituted odious debt. Not all Nigerian politicians agreed to this: a motion adopted in March 2005 by the Chamber of Representatives demanded that repayment of the external debt be stopped. Farouk Lawan, president of the Finance Commission of the Chamber, stated, "It is unconscionable that Nigeria has paid £3.5 billion in debt service over the past two years but our debt burden has risen by

£3.9 billion—without any new borrowing. We cannot continue. We must repudiate this debt."[108]

That was only the tip of the iceberg. As with the IMF, demands for early repayments to the Paris Club came thick and fast.

In summer 2005, Russia signed a check for $15 billion, out of a total of $40 billion of debt toward member countries and then, in 2006, another for $22.6 billion, which settled the balance with the Club. This allowed Russia to become a creditor country once and for all, after having had a very special status, since it was both a recent member of the Club and indebted toward other members. Russia even dared to suggest that this money be used by its creditors for the development of poor countries, incurring the wrath of several countries that did not want to be told how to spend these funds.

Many other countries followed suit. In June 2005, Peru negotiated the early repayment of $2 billion, out of a total debt of $4.2 billion. In December 2005, Brazil announced early repayment of its total debt to the Club—$2.6 billion. In March 2006, Algeria also repaid its entire debt to the Club—$8 billion, and in January 2007 Macedonia—$104 million, in May 2007 Peru—2.5 billion, in July 2007 Gabon—$2.2 billion.

The case of Gabon is worth looking at in detail. The country has been run for forty years by Omar Bongo, that "faithful friend" of France, whom Nicolas Sarkozy warmly thanked for his advice during the French president's successful electoral campaign in May 2007, and who was received at the Elysée Palace shortly afterward. Bongo, a pillar of French interests in Africa for several decades and renowned for his suspicious landslide electoral victories, is under investigation for embezzlement of public money concerning property in Paris. According to a U.S. Senate inquiry cited by the association Survie, each year he reserves about 8.5 percent of the budget of this little oil state that made Elf's fortune and filled its slush funds.[109] Elf was absorbed in 2000 by Total, the other big French oil company.

When Gabon went before the Paris Club, the country was treated with indulgence, thanks to the French. The unprecedented result was that Gabon paid off its debt at its market value, which was 15 percent less than its nominal value. A few days later, on July 27, 2007, when the French president was in Gabon, he announced an even bigger drop of 20

percent on the part held by France. The difference was converted into investments to save the forest, a major source of the wealth of rich Gabonese, whose profits are monopolized by the clan in power.

Besides wood, Gabon is rich in natural resources, notably oil, iron, and manganese. Its GNP per inhabitant is one of the highest in Africa, but the population gets nothing of this wealth, and 62 percent of the Gabonese live below the poverty line. Since the end of colonialism, French leaders have never slackened their grip on the Gabonese economy. Omar Bongo ensures it stays that way.

Other countries behaved very differently. Following Cuba in the 1980s and 1990s, Argentina stopped repaying the Paris Club at the end of 2001, and yet it was not ostracized by the great powers. However, negotiations started up again in 2007 with a view to restarting payments. The silence of the Paris Club on the subject has been deafening. As for the creditors, in 2006 Norway, despite being a member of the Paris Club, independently canceled the debts it was owed by five countries (see Q44). At the same time it took the precaution of saying that the ensuing discussions on Norwegian debt reduction would take place within the Paris Club framework. It can be seen that the Paris Club fears potential contagion and prefers not to draw attention to those that do not repay or those that cancel debts without going through them. The Paris Club's wiggle room for maneuver is further reduced by the increasingly active role of China, which is not a member, as an international lender.

Instead of any form of compromising with the grouped creditors, it is perfectly possible to adopt a firm and dignified attitude by refusing categorically the dictates of the Paris Club and by ending all dialogue with this illegitimate entity.

QUESTION 23
What is the role of the World Trade Organization (WTO)?

At the end of the Second World War, the IMF and the World Bank were not the only two organizations that were supposed to be set up to build the postwar world economy. The allies, mainly the United States and

Great Britain, had decided to create the International Trade Organization. But although it was envisioned, the ITO never actually came into existence because the United States abandoned the idea. Fifty-three countries signed the ITO charter in Havana in March 1948, but the U.S. Congress did not ratify the document.[110] What did survive from the preparation of the ITO charter was the lowering of tariff barriers, which had been agreed upon and signed at the beginning of 1948. The committee that had been set up to organize the negotiations, and which by definition was supposed to be a temporary structure and had always had a very limited institutional status, remained in existence under the name of the agreement—the GATT, General Agreement on Tariffs and Trade.

Basically over the next fifty years, the GATT organized eight rounds of negotiations, each one liberalizing trade further than the one before. The last of these rounds, the Uruguay Round (1986–94), ended with the creation of the World Trade Organization in April 1994 at the Marrakech Conference. The "Final Act" of this round was, in the words of the WTO, an "umbrella agreement" widening the scope of negotiations to sectors that had not been part of the GATT, such as agriculture, textiles, and services.[111] It was also the first time that the question of intellectual property rights had been addressed within the context of international trade. The WTO was given the mandate to organize these wide-ranging negotiations and to intensify the liberalization of trade. Free trade had become the impassable horizon of the WTO, even though this free trade was the same as "putting the fox in charge of the hen-house."

Free trade is, in fact, the strategy adopted by those who have become powerful economic actors to ensure that they remain powerful. Once they have reached the top, it is in the interest of the powerful to say, "Now we must allow the market forces to work." For the WTO, to liberalize means obliging developing countries to abandon all forms of protection and to open up their economies to the ferocious appetites of the transnational firms.

> Any nation which by means of protective duties and restrictions on navigation has raised her manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than to throw away

these ladders of her greatness, to preach to other nations the benefits of free trade, and to declare in penitent tones that she has hitherto wandered in the paths of error, and has now for the first time succeeded in discovering the truth.

—FRIEDRICH LIST, economist,
The National System of Political Economy, 1841

In the nineteenth century, Great Britain was the dominant power, and it also used this argument, as Ulysses Grant, president of the United States from 1868 to 1876, well understood: "For centuries England has relied on protection, has carried it to extremes, and has obtained satisfactory results from it. There is no doubt that it is to this system that it owes its present strength. After two centuries, England has found it convenient to adopt free trade because it thinks that protection can no longer offer it anything. Very well then, gentlemen, my knowledge of our country leads me to believe that within two hundred years, when America has gotten out of protection all that it can offer, it too will adopt free trade." This is precisely the aim of the WTO.

Each country in the WTO has one vote, and decisions are reached by consensus. Much pressure is put on countries that are not willing to toe the line, and the great powers thought at first that this would be enough to forge ahead with liberalization. Fortunately, this was not the case. That is why the present general director of the WTO, Pascal Lamy, who is the former European commissioner for trade and as such used to be the negotiator representing the European Union at the WTO, has often expressed his desire for an institutional reform so that the neoliberal reforms he was defending along with the great powers could no longer be blocked by informal coalitions of other member countries.[112]

The WTO has its own internal tribunal, the Dispute Settlement Body (DSB), whose arbitrator makes the final decision when a country contests an agreement. The arbitrator's decisions are binding for all member states. Although the Havana treaty specifically referred to the United Nations and announced the creation of an International Trade Organization subject to UN laws (such as the Universal Declaration of Human Rights), the main economic powers made sure that the WTO had no institutional link with the United Nations.

The WTO hit the headlines toward the end of 1999, when its ministers held a conference in Seattle. Large sectors of public opinion had been very quick to realize the threat of this new international actor, which has such enormous and uncontrolled power. The demonstrations at Seattle were big enough to prevent the summit from taking place, and the representatives of the various countries had to leave without achieving their goals.

The September 11, 2001, attacks in the United States finally enabled the great powers, blocked for two years, to put on the pressure so that the WTO conference in Doha succeeded in launching new negotiations to further increase the liberalization of world trade. It was not by chance that this meeting was held in the highly policed state of Qatar, so far from potential mass demonstrations. In Doha, it was decided that the new round of negotiations should be completed before the end of 2004, but after that the divisions between industrial countries, developing countries, and poor countries remained strong. At the next conference, which took place in Cancún, Mexico, in 2003, the developing countries formed an alliance that was dubbed the G20, and stood up to the great powers of the North.[113] The intransigence of the rich countries, especially in the negotiations concerning agriculture, led Mexico to walk out of the summit. After Seattle, this was the second setback for the WTO.

Negotiations were still deadlocked in August 2008. The United States and the European Union have been negotiating mainly with Brazil and India to try to reach an agreement. These two countries both hope to become included in the great powers, even if it means sacrificing their populations. However, even these negotiations have not yet led to an agreement. This is a good thing, as it has become a matter of urgency to stop the privatization of basic common goods such as water, education, health, and access to seeds through the elaboration of agreements such as the agreements on services (GATS) and on intellectual property rights (TRIPS).

Along with the IMF and the World Bank, the WTO completes the powerful war machine set up to prevent the Southern countries from protecting their economies against the ferocious appetite of the multinationals, which are now so vital for them. For example, Article III of the Marrakech agreement establishing the WTO says, "With a view to

achieving greater coherence in global economic policymaking, the WTO shall cooperate, as appropriate, with the International Monetary Fund and with the International Bank for Reconstruction and Development and its affiliated agencies."

How does this cooperation work? The IMF and the World Bank impose very strict neoliberal conditionalities that force indebted countries to open up their economies to a world market dominated by the most industrialized countries and the multinational companies that usually have their headquarters in them. The way the economies of developing countries are linked to the world market is always to the detriment of local producers, the internal market, and the possibility of developing South-South relations. Contrary to what the neoliberal dogma would have everyone believe, a more open economy, with more connections to the world market, is a handicap to development, with only a few exceptions like China.[114] Integrating a developing country into the world market generates a structural deficit in the balance of payments, since imports increase more quickly than exports, and this deficit tends to be closed by borrowing from abroad, which increases the debt.[115] Most developing countries have entered the downward spiral of debt and dependence.

The actions of the WTO affect much more than mere trade. The WTO is a key element in the system set up to give free rein to neoliberal interests. The policies promoted by the trio of the World Bank, the IMF, and the WTO are mutually coherent and follow a clear-cut agenda with many facets (political, economic, financial, and geo-strategic), which the social movements must continue to oppose.

> Countries seeking free trade agreements with the United States should meet criteria beyond those of an economic and commercial nature. At the very least, those countries should cooperate with the United States in its external policy and its national security objectives.
>
> —ROBERT ZOELLICK, U.S. Trade Representative, 2001 to 2005[116]

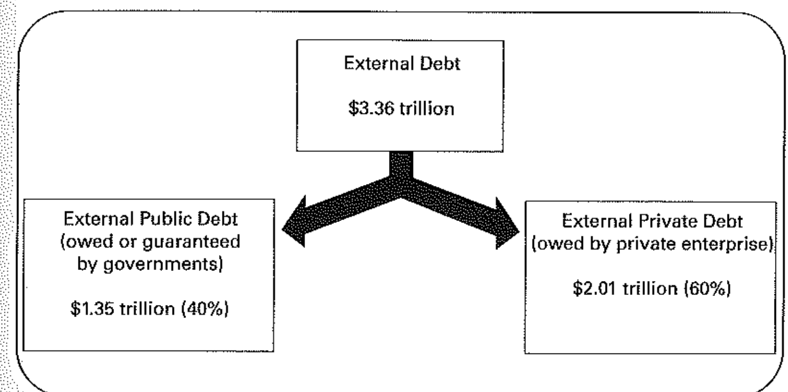
CHAPTER SIX

The Structure of Developing Countries' Debt

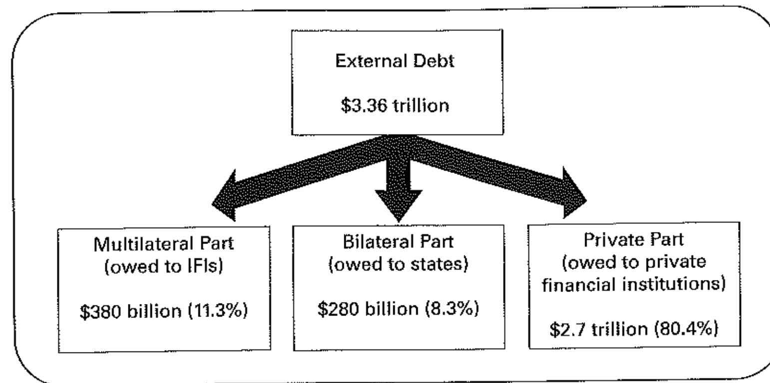
QUESTION 24

Of what does the external debt of developing countries consist?

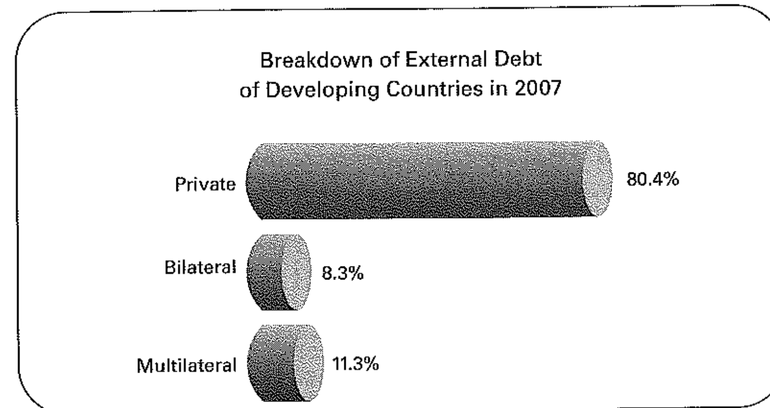
In 2007, the total external debt of developing countries was estimated at approximately $3.36 trillion dollars. For the borrowers, this debt stock is made up of approximately equal amounts of public and private debt.



The holders of the external debt can be broken down into: multilateral holders, $380 billion; bilateral holders, $280 billion; and private holders, $2.7 trillion.



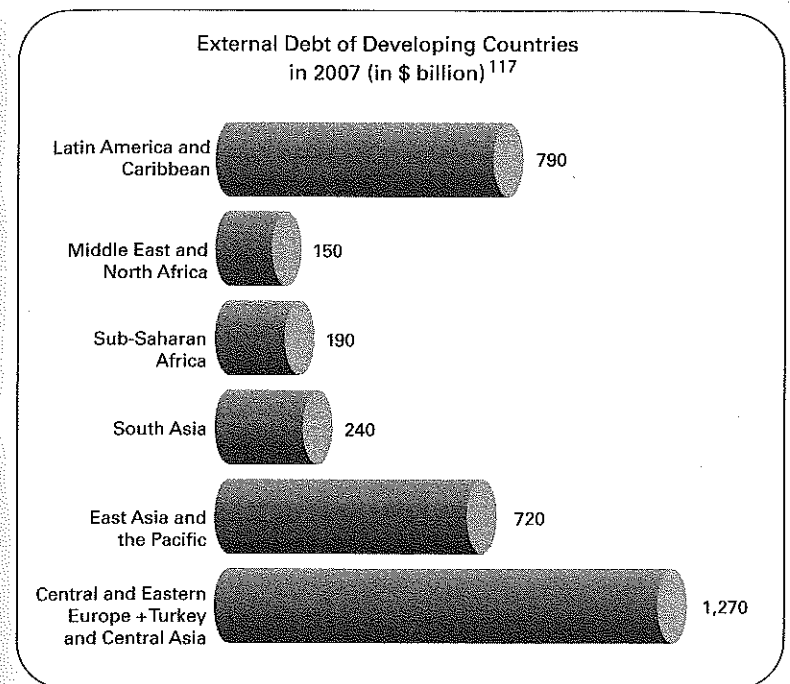
Private banks hold by far the greatest part of the external debt.



Source: Calculated by the authors based on the World Bank's, *Global Development Finance 2008*

The most industrialized developing countries have the largest debt (see diagram page 148).[118]

The type of creditor varies from one country to another. Countries that have strategic natural resources or that have reached a certain level of industrialization have a higher credit rating. Private financial institutions (banks, pension funds, insurance companies, various speculative funds) are therefore happy to lend them money, and most of the debt of these countries is held by private financial institutions. This is the case for countries such as Brazil, Argentina, Chile, Venezuela, Mexico, South Africa, China, India, Malaysia, and Turkey.

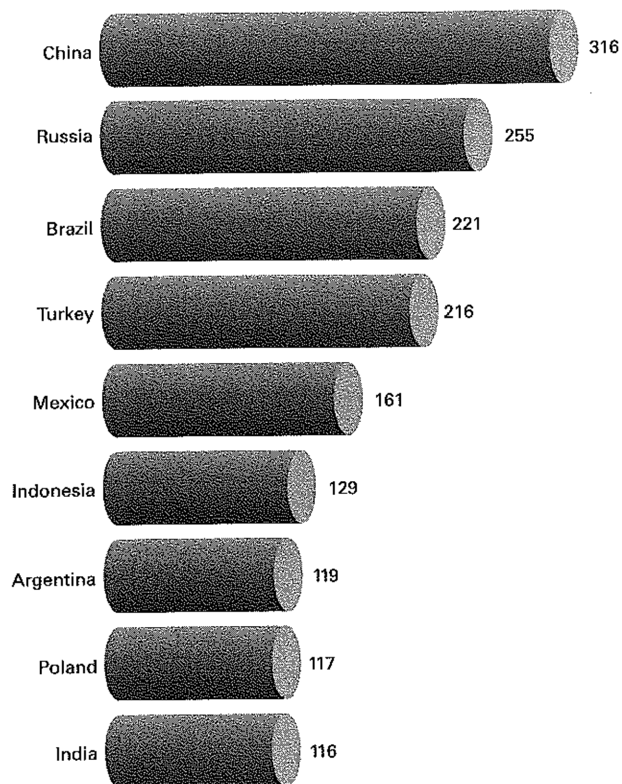


Source: World Bank, *Global Development Finance 2008*

However, some very poor countries with mineral resources also get considerable loans from private financial institutions, but the percentage of the total debt in this case is not generally the major part. This is the case for Bolivia, Côte d'Ivoire, Congo-Brazzaville, Mauritius, and Sudan.

By contrast, the poorest countries that do not have large quantities of mineral resources are of little interest to private creditors. The private creditors withdrew from these countries at the beginning of the debt crisis in the early 1980s after collecting repayment of their existing debts without granting new ones, except for short-term loans at exceptionally high interest rates. The public creditors (bilateral and multilateral) took over, lending money to the poorest countries to enable them to repay these private creditors.

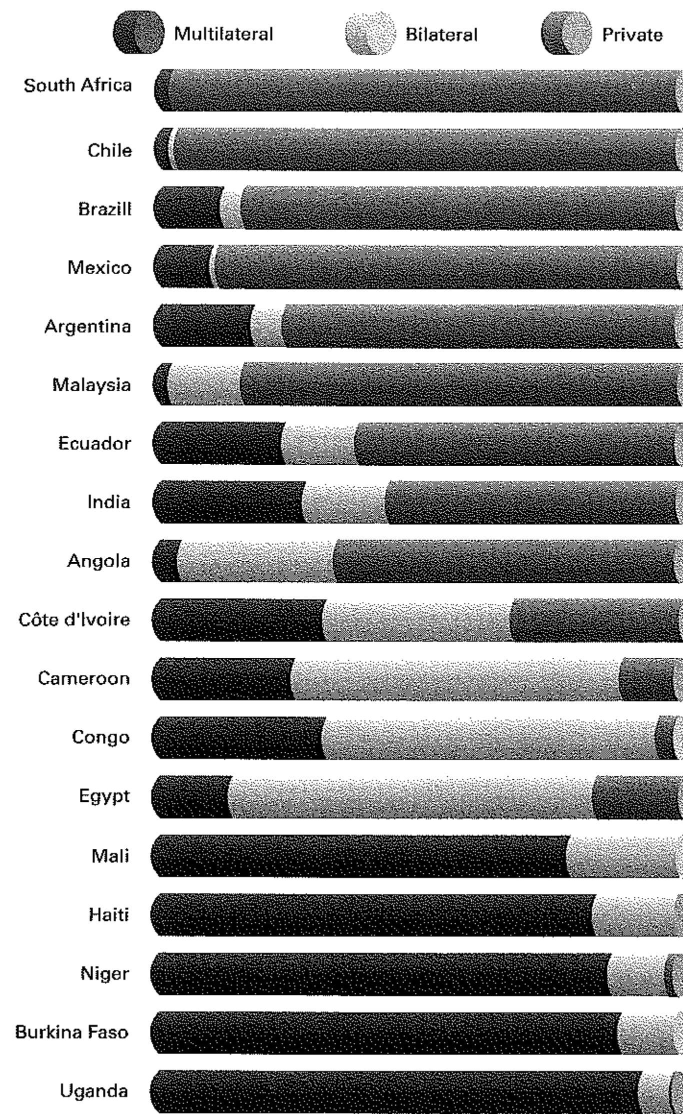
The multilateral creditors, in particular the World Bank and the regional development banks, have reached the point where they are by far the main creditors of some of the most heavily indebted countries. Thus



Source: World Bank, *Global Development Finance 2008*

they hold over 75 percent of the debts of Burkina Faso, Chad, Gambia, Madagascar, Niger, Mali, Malawi, Uganda, Haiti, and Nepal.

States of the North are the main creditors in other indebted countries, as for example in Cameroon, the Democratic Republic of the Congo, Egypt, Gabon, and Vietnam. This is due to the fact that, for historical reasons, a considerable proportion of the bilateral debt is money owed to private firms of the former colonial power, private firms whose loans are guaranteed by their governments, essentially through export credit agencies, such as Coface in France or Ducroire in Belgium.

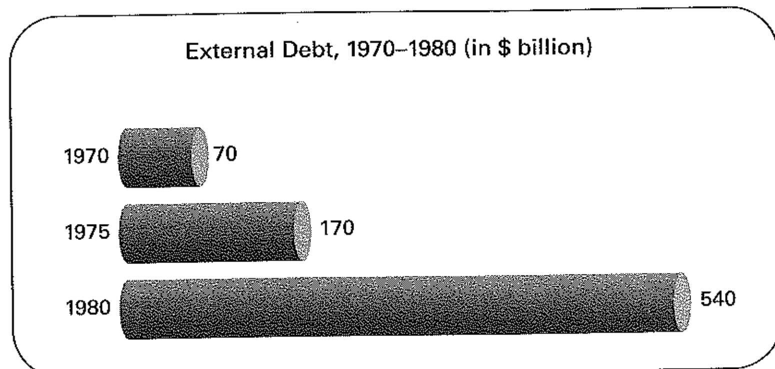


Source: World Bank, *Global Development Finance 2007*

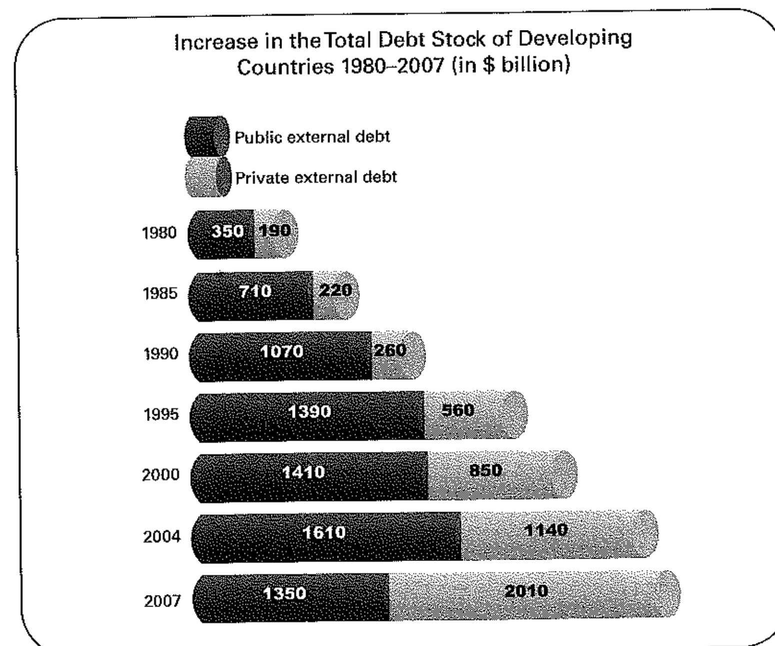
QUESTION 25

How has the debt changed since 1970?

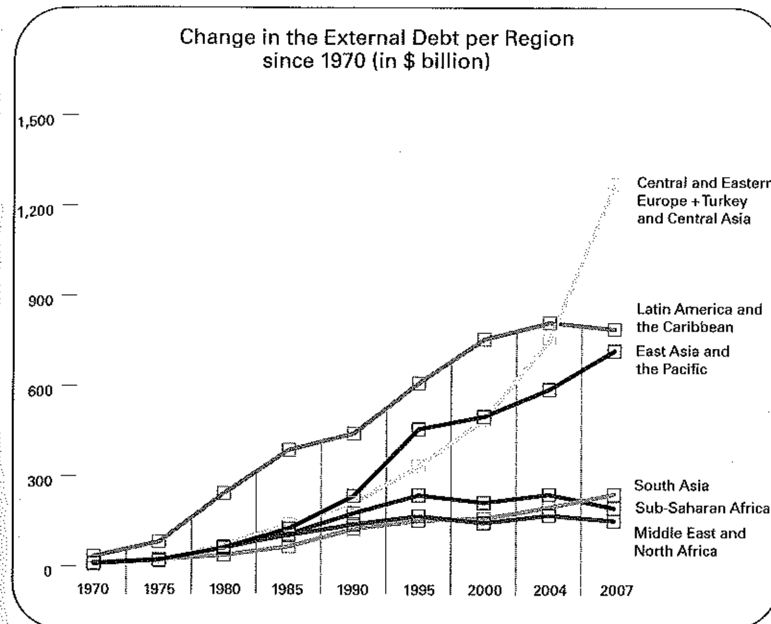
Before the debt crisis began, the external debt of all the countries had increased eight-fold between 1970 and 1980.



Source: World Bank, *Global Development Finance 2008*



Source: World Bank, *Global Development Finance 2008*



Source: World Bank, *Global Development Finance 2008*

Since 1980, the external debt of developing countries has continued to increase. A preliminary analysis shows that the debt has increased greatly for all the developing countries in all six regions since 1970.

From the diagrams, we can see that Latin America had an enormous external debt early on and thus it was not just a coincidence that the 1982 debt crisis began there. Although it cannot be seen on the above graph (see Q29), the Latin American countries have greatly increased their internal public debt over the last few years while their external public debt has gone down slightly, essentially as a result of early repayments.

On a different scale, Sub-Saharan Africa has followed a similar pattern, namely a large external debt in the early 1980s (close to that of East Asia), a debt crisis that devastated the continent, and rates of repayment that were crippling the countries. Then, in the mid-1990s, the widely publicized debt reductions, though bringing the *increase* in total debt stock to a halt, only managed to reduce the *total* stock to just slightly below $200 billion.

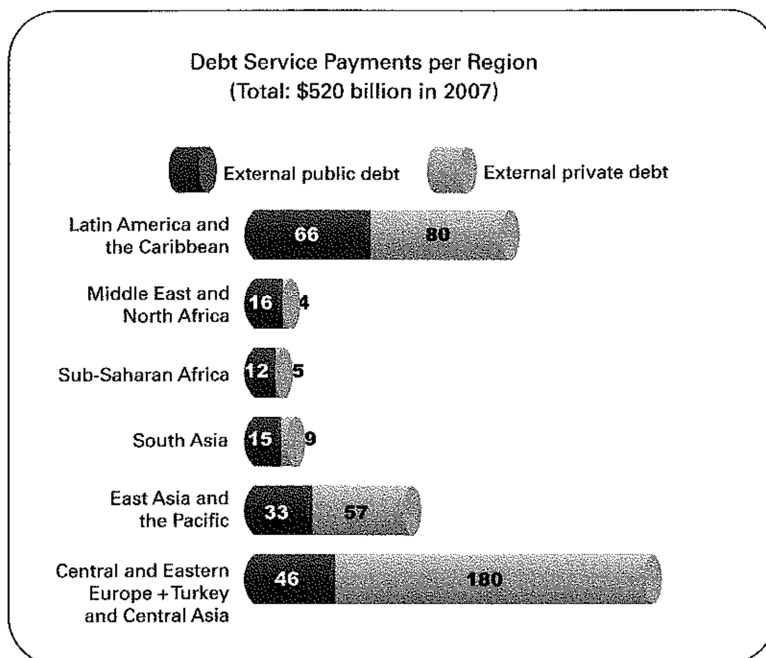
For East Asia, the changes were very different. The external debt was low during the 1980s, but then grew rapidly during the first half of the

1990s. This led to the 1997–98 crisis, followed by very large repayments by the countries concerned.

After the Berlin Wall fell in November 1989, the countries of the former Soviet bloc plunged into the neoliberal ethos—and their debt soared. This is the region with the greatest increase in public external debt in 2007.

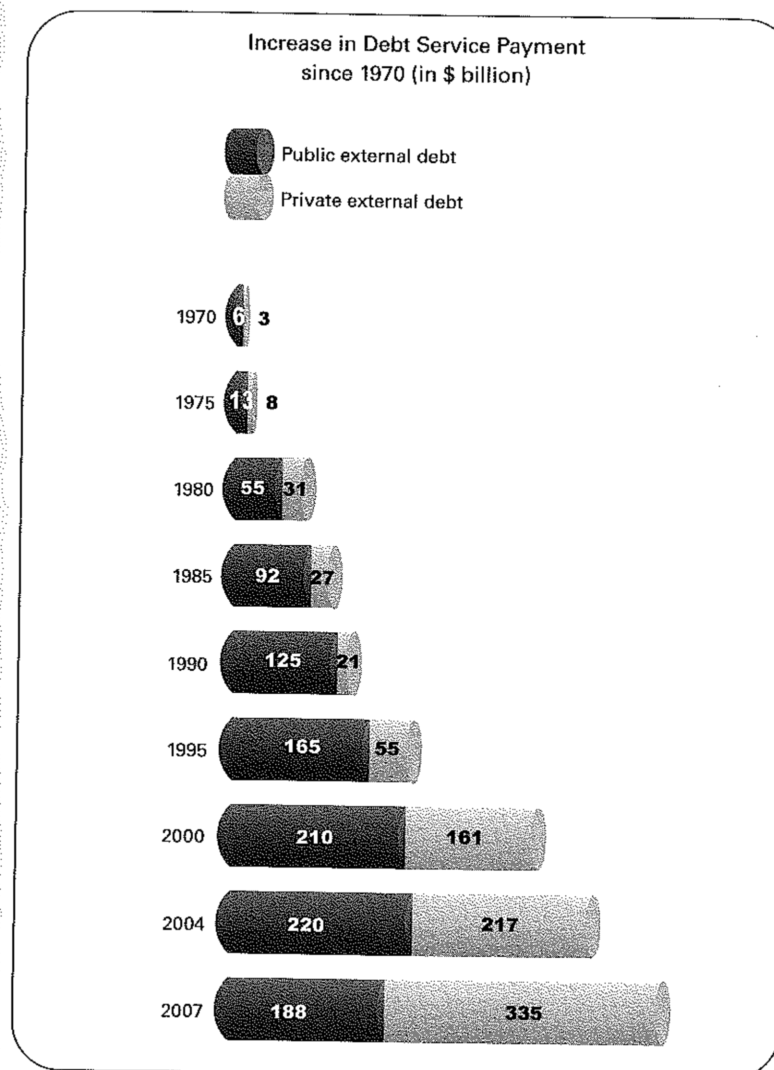
QUESTION 26
Do developing countries repay debts?

Although major economic problems sometimes prevent some developing countries from continuing their repayments over limited periods, the immense majority honor their financial commitments. Thus the total amount paid in debt servicing for 2007 came to $520 billion, distributed over the six developing countries regions as follows:



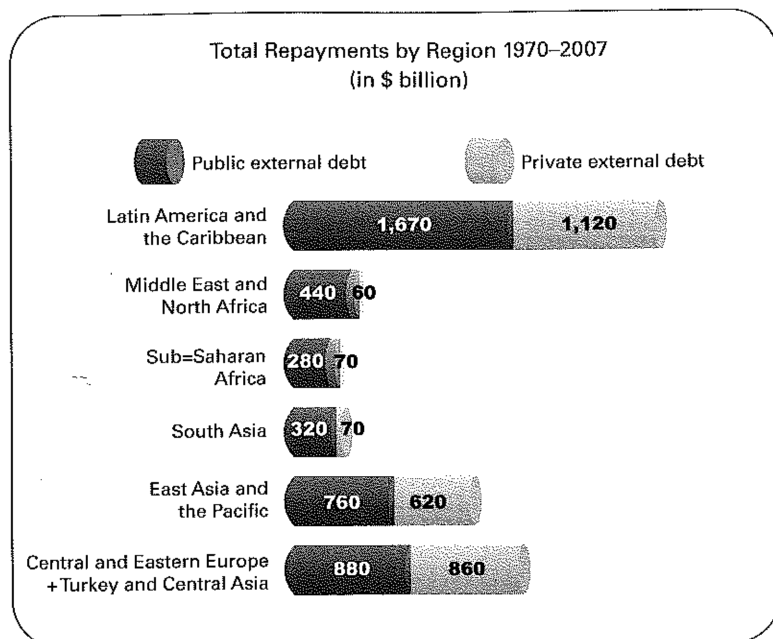
Source: World Bank, *Global Development Finance 2008*

The amount paid in servicing the debt over the period 1970–2007 increased parallel to the debt itself:



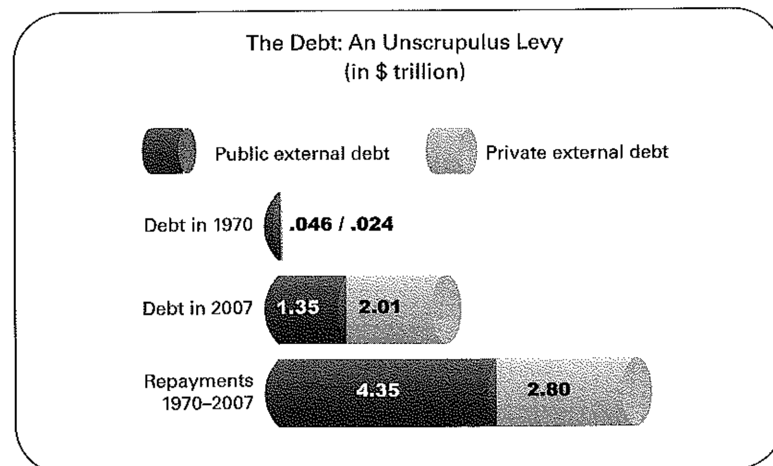
Source: World Bank, *Global Development Finance 2008*

The total amount repaid by the developing countries between 1970 and 2007 was an astronomic $7.15 trillion, distributed over the regions as follows:



Source: Calculated by the authors based on the World Bank's *Global Development Finance 2008*

Basically, the debt is an incredible levy imposed on the economy of developing countries:



Source: Calculated by the authors based on the World Bank's, *Global Development Finance 2008*

What do the graphs really show?

Between 1970 and 2007, the total external debt of the developing countries was multiplied by 48—during which time they repaid 102 times the amount they owed in 1970

For decades now, the amount to be repaid has become so large that that it has led to a snowball effect, with the developing countries taking out new loans to service the existing loans. This can clearly be seen by looking at the long-term debt figures for the year 2007.[119] The governments of developing countries repaid $123 billion of outstanding principal and $65 billion interest. During the same time, they received $169 billion in new loans, which they will have to repay, both principal and interest, in the coming years. Since 1970, the figures are even more spectacular: the governments of developing countries have received $3.89 trillion in loans, but the principal repayments total $2.83 trillion and the interest repaid, $1.52 trillion; that is, developing countries have repaid a total of $4.35 trillion, which means the creditors have already made a profit of $460 billion since 1970,[120] and that is without even taking into account the amount that still remains to be repaid.

In other words, the debt for which repayment is being demanded from the developing countries today has nothing to do with money that has been injected into the economy of these countries. It is a Sword of Damocles hanging there, obliging them to transfer the greater part of their wealth to their creditors and to make them reform their economies uniquely in order to service the debt.

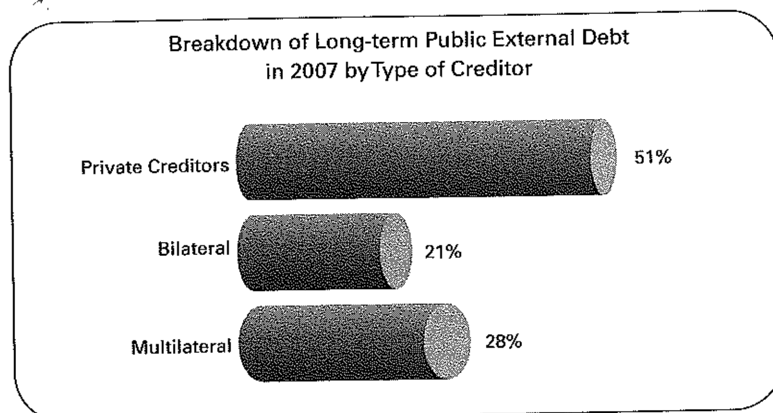
> Servicing the debt is the visible sign of allegiance.
>
> —JEAN ZIEGLER, *L'empire de la honte* (The Empire of Shame), 2005

QUESTION 27
What about the external public debt of developing countries?

Let us now look at the external public debt, that is to say, the debt repaid or guaranteed by the governments of developing countries. Unlike the

debt a private company owes to foreign institutions, the public debt weighs directly on the population of the Southern countries, since their governments have to draw on the state budget to repay it. It is this part of the debt that we are most concerned with, especially when demanding that debts be canceled (see chapter 10).

This question concerns the external *long-term public debt*—evaluated at $1.35 triillion. It is distributed per creditor as follows:



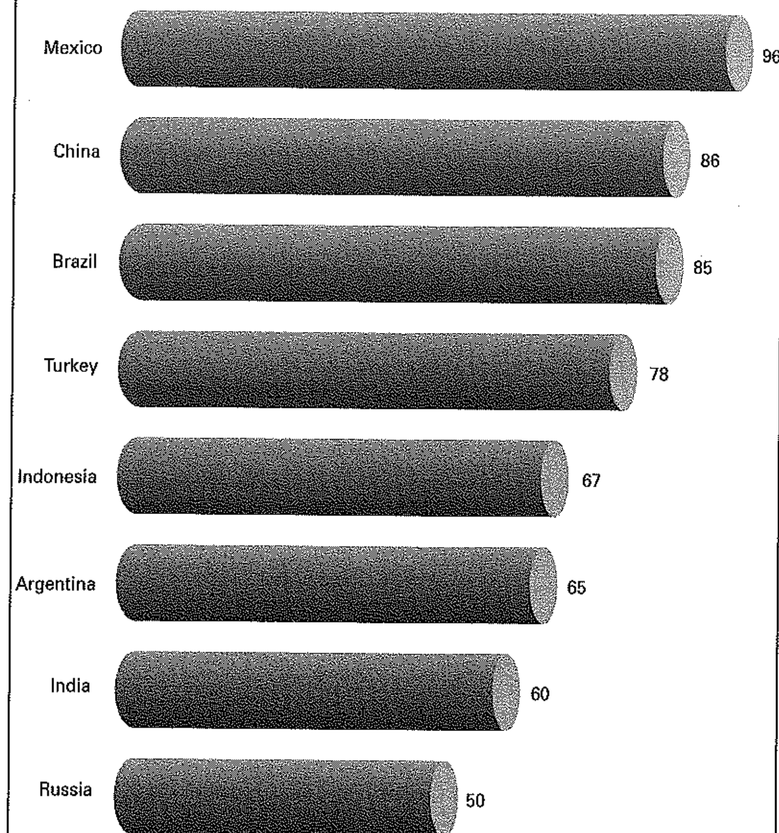
Source: World Bank, *Global Development Finance 2008*

And by region:

Long-term Public External Debt by Region in 2007 (in $billion)	
Latin America and Caribbean	400
Middle East and North Africa	110
Sub-Saharan Africa	130
South Asia	160
East Asia and Pacific	260
Central and Eastern Europe +Turkey and Central Asia	290

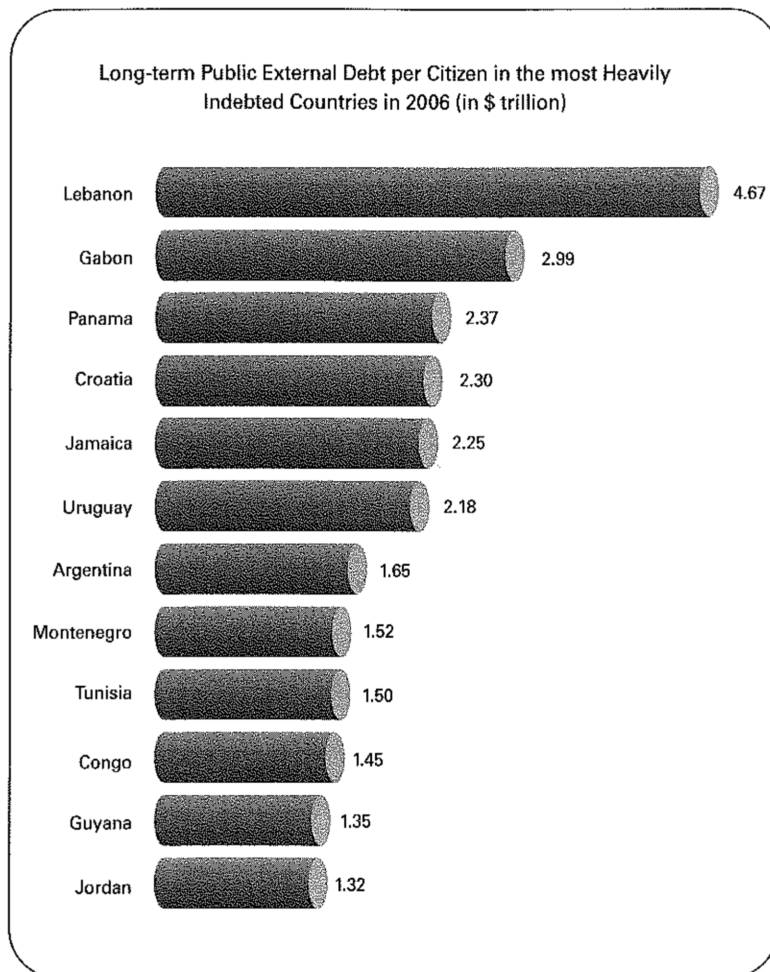
Source: Calculated by the authors based on the World Bank's *Global Development Finance 2008*

The most heavily indebted governments in absolute figures are:



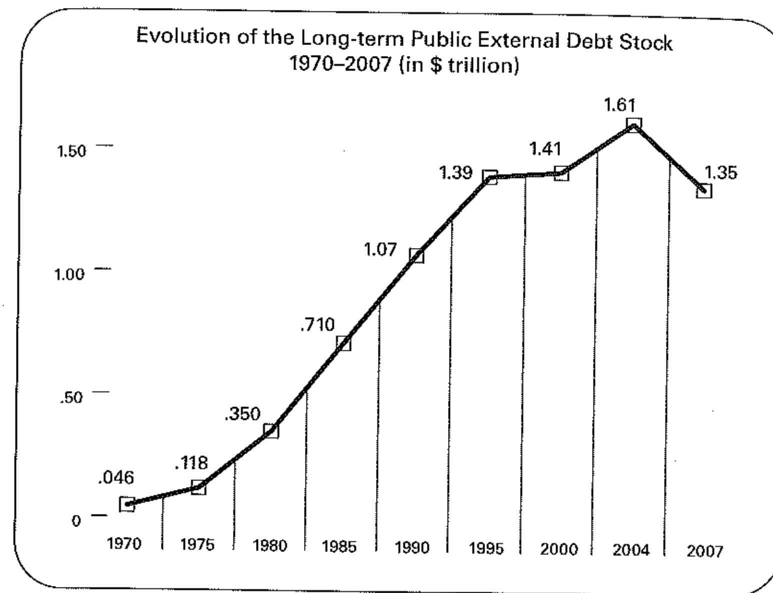
Source: Calculated by the authors based on the World Bank's *Global Development Finance 2008*

In relative figures, it is interesting to compare the total debt stock with the number of citizens of each country. The external public debt per inhabitant gives a very different picture:[121]



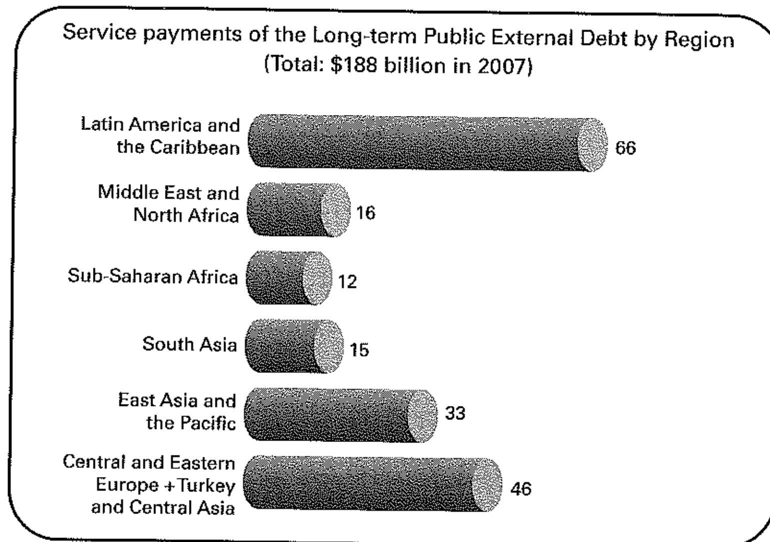
Source: Calculated by the authors based on the World Bank's, *Global Development Finance 2008* and *World Development Indicators 2008*

Between 1970 and 1995, the total debt stock soared, before rising more gradually and later starting a slight drop in 2005:



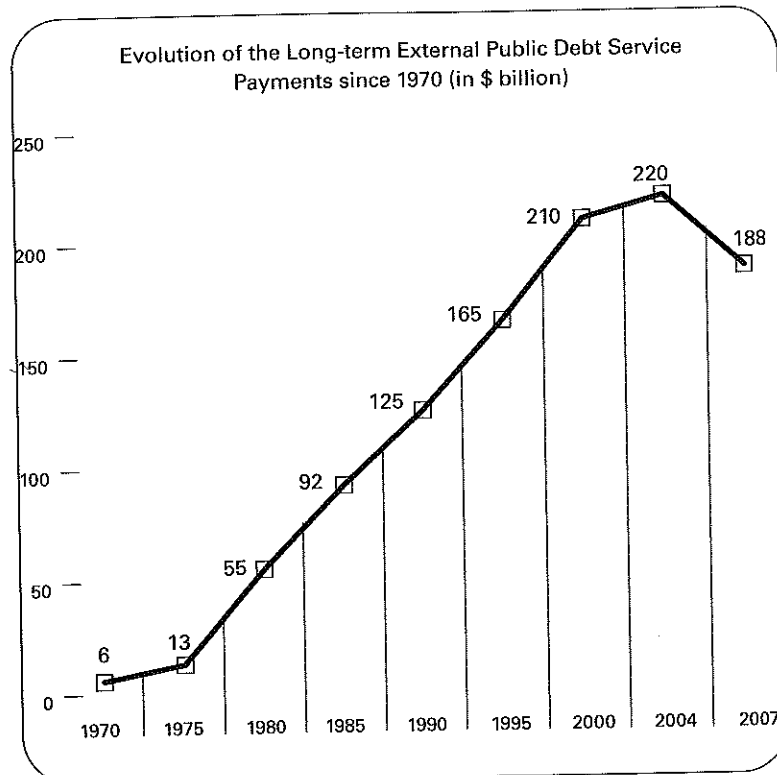
Source: World Bank, *Global Development Finance 2008*

In 2007, servicing the total external public debt amounted to $188 billion distributed as follows for the six regions:



Source: Calculated by the authors based on the World Bank's, *Global Development Finance 2008*

The change in the amount repaid over the period 1970–2006 directly reflects the change in the debt itself:



Source: Calculated by the authors based on the World Bank's *Global Development Finance 2008*

Over the period of reference, 1970 to 2007, which is approximately the duration of a "long cycle" in an economy, the long-term external public debt of the developing countries rose from $46 billion to $1.35 trillion, whereas the developing countries repaid a total of $4.35 trillion. That is to say:

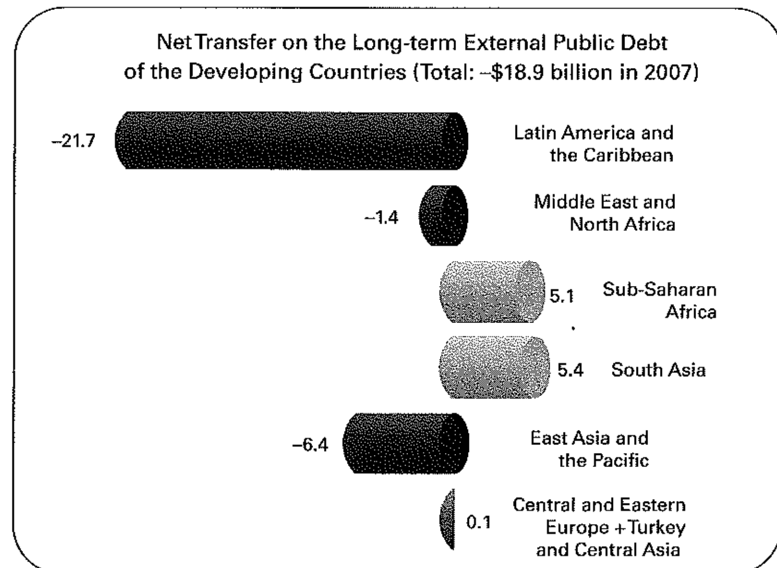
Between 1970 and 2007, the external public debt of the developing countries was multiplied by twenty-nine. During this time, they repaid the equivalent of ninety-four times the amount owed in 1970.

QUESTION 28
How are debt-related financial flows directed?

Enormous repayments have to be balanced against considerable new loans to find out if, in the end, the governments of developing countries receive more in new loans than they are paying out to service existing debts. In other words, is the debt-related financial flow from North to South or from South to North?

To answer this question, the net transfer on the debt is taken as the difference between the amount provided by new loans and the total amount repaid. If it is positive, the country has received more than it has paid out, even if it implies that large repayments due in the future will make the net transfer negative in the coming years. If it is negative, that means that the debt is directly draining the wealth of the developing countries to enrich the creditors.

Unsurprisingly, in 2007 the net transfer on the public long-term external debt was negative: minus $18.9 billion. But with clear differences: it was positive for South Asia and Sub-Saharan Africa, practically null for countries from Central and Eastern Europe, Turkey and Central Asia, and negative for the other regions.



Source: Calculated by the authors based on the World Bank's, *Global Development Finance 2008*

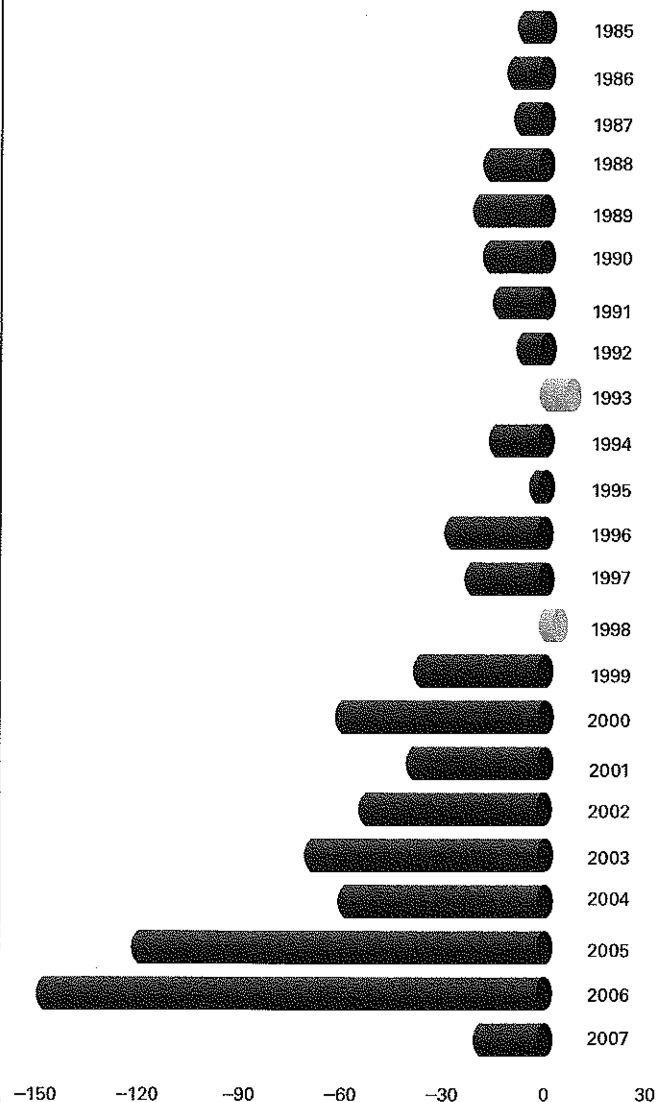
It is as if the population of the developing countries had directly sent $18.9 billion to their creditors in 2007! Although not shown in the chart, the large negative transfer to the IMF particularly stands out; the IMF alone received $5 billion.

This is a perfect example of the "debt spiral." After the debt crisis, the governments of developing countries had to take out new loans to make the enormous repayments of existing debts. The net transfer on the external debt remained positive, as long as new loans were coming in and the rate of repayment remained reasonable, whereas the net flow became negative from 1985 on, when the level of repayments soared, apart from two periods that stand out: 1993, when money started to flow into Latin America, just before the crisis broke out in Mexico in 1994; and then in 1998, when the IMF and the G8 poured money into Asia to counter the Asian crisis (see diagram on facing page).

But even these figures do not tell the whole story, since a true estimation of the real flows would not only take into account repayments of the external debt but would have to include all of the following: capital flight when rich people in the developing countries invest abroad; the repatriation of profits by multinationals, including invisible transfers, especially using methods of "over-" or "under-charging." According to what is more favorable and depending on a variety of factors, a transnational corporation may choose to declare its profits in any of the countries where it is located. Internal over- and undercharging is one of the techniques commonly used: the prices for intra-company imports and exports can be set well above and below market prices, thus helping to shift profits from one place to another; the acquisition of businesses in developing countries at rock-bottom prices by the dominant classes of the industrialized countries under privatization policies; the low-cost purchase of basic goods produced by the populations of developing countries (with deteriorating exchange rates); the "brain drain"; and the theft of genetic resources.

Between 1985 and 2007, developing countries sent to their creditors the equivalent of 7.5 Marshall Plans.

At the end of the Second World War, the Marshall Plan for the reconstruction of Europe, financed by the United States, cost about $100 bil-



Source: World Bank, *Global Development Finance 2008*

lion at today's value. Between 1985 and 2007, the governments of developing countries paid back $759 billion more than they received in new loans—that is, $759 billion, the total net transfer over this period.

Thus it is as if the citizens of the developing countries had sent the equivalent of 7.5 Marshall Plans to their creditors, with the local capitalist elite taking their commission on the way. It is a well-oiled mechanism, with part of the money coming back to the South in the form of new loans to ensure that the transfers continue. Inevitably, the debt becomes self-perpetuating. Thanks to the debt, the wealth of the citizens of the South is being transferred under our very eyes to the elite of the North, with the complicity of the elite of the South.

QUESTION 29
What about the domestic debt of developing countries?

World Bank statistics give details concerning foreign debt, but there is less information available concerning internal public debt. However, the part played by internal debt has increased in importance over the last few years.

The internal public debt of developing countries increased sharply from 1995 onward. Major increases in a large number of middle-income countries are especially worrying. Even though certain very poor countries are not yet affected by the phenomenon, there is clearly an upward trend in the internal public debt of developing countries.

According to the World Bank, the total domestic public debt of the developing countries rose from $300 billion in 1997 to reach $3.5 trillion in September 2005 (two and a half times the external public debt, which in 2005 reached the figure of $1.415 trillion).[122] What is more, in 2007 repayments of the domestic public debt amounted to approximately three times those of the external public debt, that is, $600 billion. This means that repayments of all public debt (both internal and external) paid out each year by the public authorities of developing countries exceed $800 billion.

Take the example of Colombia. Like other Latin American countries, it was hit by the debt crisis of the 1980s but "benefited" from the huge but

Domestic and External Public Debt in Colombia

YEAR	DOMESTIC (% of GDP)	EXTERNAL (% of GDP)	TOTAL (% of GDP)	DOMESTIC PUBLIC DEBT AS PERCENT OF TOTAL PUBLIC DEBT
1990	1.90	12.87	14.76	12.9
1991	1.55	12.48	14.03	11.0
1992	2.93	12.06	14.99	19.5
1993	4.47	10.08	14.55	30.7
1994	4.58	8.08	12.66	36.2
1995	5.75	8.14	13.89	41.4
1996	6.62	7.81	14.43	45.9
1997	8.83	8.93	17.76	49.7
1998	10.60	11.51	22.11	47.9
1999	14.45	15.07	29.52	48.9
2000	18.65	18.25	36.90	50.5
2001	22.02	22.14	44.16	49.9
2002	24.97	25.35	50.32	49.6
2003	25.63	25.09	50.72	50.5
2004	25.73	20.70	46.43	55.4
2005	29.90	16.68	46.57	64.2
2006	28.48	16.38	44.85	63.5

Source: Banco de la República de Colombia and Ministerio de hacienda y crédito público

ephemeral capital investment that took place at the beginning of the 1990s. It seemed as if the neoliberal model had triumphed, but in fact it was leading Colombia to an impasse of financialization and excessive public debt. The country's domestic public debt increased enormously.

Colombia's domestic public debt expressed as a percentage of its GDP rose fifteen-fold between 1990 and 2006; its external debt increased over the same period but only by one and a half times.

The same kinds of policies were applied in Brazil, Argentina, Venezuela, and Mexico. In developing countries everywhere, there was a huge increase of public debt, mainly internal debt. The figures published in April 2005 by the World Bank speak for themselves.[123] Taking developing countries as a whole, both external and domestic public debt,

which accounted for 46 percent of GDP in 1990, increased to 60 percent of overall GDP in 2003. However, external public debt as a percentage of GDP decreased slightly between 1990 and 2003, from 31 percent to 26 percent. On the other hand, domestic public debt doubled its share of the total, increasing from 15 percent to 34 percent of GDP.

The financial crises that affected the developing countries between 1994 and 2002, resulting from the deregulation of the market and the private financial sector as recommended by the World Bank and the IMF, led to an enormous increase in internal public debt. In short, by following the Washington Consensus, governments of developing countries had to give up their currency and capital controls. This was combined with the deregulation of the banking sector in different countries. Private banks had to take more and more risks, which led to numerous crises, beginning with Mexico in December 1994. Capital was massively withdrawn from Mexico, sparking off a chain reaction of bank failures. The Mexican government, supported by the World Bank and the IMF, transformed the banks' private debt into internal public debt. This took place in exactly the same way in countries as different as Indonesia (in 1998) and Ecuador (in 1999/2000).

In addition, even in those developing countries whose banking sectors had not collapsed, the World Bank advised the governments to increase their internal debt. Although difficult to believe, the World Bank actually considered that this was a positive development, and advised foreign investors to invest in the rapidly growing internal debt market. It advised governments of indebted countries to encourage large foreign banks to take over local banks—something already very prevalent in Latin America. Large Spanish banks have massively invaded the banking sector in South America, and U.S. banks dominate banking in Mexico.[124] The World Bank also supports the privatizing of pension schemes and encourages the use of workers' savings (which constitute their future pensions) to buy securities in domestic public debt. The governments of Brazil, Chile, and Argentina applied this policy of partial privatization of pension schemes, and pension funds have become significant buyers of domestic debt securities.

This development does not concern only Latin America. Domestic public debt has risen the most in Asia in the last few years, mainly as a result of the Asian crisis of 1997–98 and of the policies imposed by the IMF and the World Bank.

Instead of being invested productively, under the supervision of either the public authorities or the private sector, the savings placed in banks have systematically been diverted to serve the parasitic investment model. Banks lend money to the public authorities that must be repaid at excessively high rates. It is less risky for them to lend to the state than to give loans to small or medium producers. A state rarely defaults on its domestic debt. Encouraged by the World Bank, central banks of developing countries often impose very high interest rates. This leads to the situation that local banks borrow short term, at fairly low rates, on foreign financial markets (the United States, Japan, and Europe) and then lend this money long term in their country at a high interest rate. The banks make a good profit until interest rates begin to escalate in the North, which can lead to bankruptcy. And there is always the risk that the state will take over their private debts again, thus increasing the domestic public debt. And so we have the vicious circle of internal/domestic public debt, which accompanies that of external/foreign public debt.

Brazil is a typical example. Its internal public debt is eight times higher than its external public debt. In 2008, its internal public debt reached $869 billion ($1.4 trillion *reals*), an increase of 40 percent in barely two years.[125] Repayments on Brazil's domestic debt are twelve times higher than those of its external debt. The percentage of Brazil's budget spent on debt repayment (internal and external together) is four times greater than the percentage spent on education and health.[126] Guatemala's internal public debt is four times higher than its foreign debt.

In Argentina, even though the government managed to achieve a reduction of its external public debt in 2005 (by suspending repayments to private creditors for three years) its domestic public debt increased, and as a result there was once again a dramatic increase of Argentina's total public debt.[127]

Another phenomenon that triggers an increase of domestic public debt is the accumulation of huge foreign exchange reserves by those developing countries that export oil, gas, minerals, and certain agricultural products whose price has increased since 2004. This phenomenon also affects China, which is accumulating an enormous amount of foreign