Freedom from Debt and Domination

Case studies from South Asia

SAAPE

Vikas Adhyayan Kendra

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Vikas Adhyayan Kendra (VAK) established in 1981, is a secular voluntary organisation engaged in the study and research of contemporary social issues. Geographically, VAK's activities are oriented towards Western India, viz., Maharashtra, Gujarat & Goa.

South Asia Alliance for Poverty Eradication (SAAPE) is a regional network initiative of like-minded NGOs, massed based organisations, academics, trade unions and community based organisations. It was established in 2001 with the theme of "Fighting unitedly against poverty, hunger and injustice". SAAPE envisions just societies and esteemed individuals fully enjoying all human rights for dignified living. Its mission is to facilitate the process for establishing suitable mechanisms thereby ensuring people's genuine participation in the decision making process at all levels to contribute towards poverty eradication.

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Foreword

The mechanisms of debt cycle have subjected the South Asian countries to the demands of Washington (where IMF, World Bank and US Treasury are all located). Most of the economic policy is decided outside the country concerned. Debt enables the creditors to exercise exorbitant power over the indebted countries. It has enabled the dominant classes in the North to subjugate the rest of the world and a form of new colonialism.

Forced to overcome their resource crisis to undertake development of these countries they had to borrow money heavily. To ensure the return of the loan - not so much the capital amount but the regular repayment of interest - the creditors impose severe conditionalities. Conditionalities include that these countries had to undergo IMF, ADB, macro economic reforms leading to strict reforms and structural adjustment programmes, free - market policy - imposed conditionalities, which involves the debtor countries rapidly integrating themselves into the world economic systems and the world markets in a particular manner by adopting policies of the new liberal agenda of globalisation, liberalisation, rationalisation, deregulation and privatisation. The effect of these policy prescriptions have been quite traumatic on these countries.

The servicing of debt has severely limited the countries capacity to mitigate the negative social impact for a foreseeable future. The negative impact includes increased unemployment and destruction of livelihood system leading to food insecurity. The majority of the workforce, both men and women, live on a day-to-day existence because of uncertainty of wages and job insecurity; increased public debt, cuts in social spending in health, education and social welfare have created further burden on the people.

The cancellation of Third World debt remains economic, moral and political imperatives and a matter of justice. Debt repayment sucks up part of the social surplus produced by the workers of the South (whether salary earners, small individual or family producers, or workers in the informal sector) and directs this flow of wealth toward the holders of capital in the North, with the ruling classes of the South taking their commission. Thus, the latter grow rich, while the national economies they head stagnate or regress and the populations of the South grow poorer.

Pillage of genetic material, excessive exploitation of natural resources, and colossal attacks against the environment have had disastrous effects on the countries of the periphery. To get the hard currency needed to repay debts, which the rich countries and the International Financial Institutions insist must be given top priority, the governments of the indebted countries have been obliged to sell off their natural resources to the highest bidder, at the same time seriously overexploiting them, with no consideration of medium – and long-term consequences.

To understand and deepen our analysis of the impact of IMF, WB and ADB policies and conditionalities, a South Asia workshop was organised in Sri Lanka from January 15-17, 2008.

The articles included in this publication are case studies presented during the workshop by the participants from different countries. A few other articles of contemporary relevance are also added to these to enrich your analysis and evolve strategies for resistance and alternatives. We hope that the publication will serve as an effective tool in the hand of activists working on these issues.

Subverting Democracy and People's Power

Asian Development Bank in Kerala

Anivar Aravind

Debt profile of Kerala

Kerala was the first Indian state to take a loan from the Asian Development Bank in 2001. The Left Front government of 1996-2001 invited ADB to the state. The purpose of the initial loan was to carry out the Modernising Government Programme (MGP), between 2001 and 2003. Again, in 2006-2007, the ADB provided loans to five municipal corporations under the $316.1 million Kerala Sustainable Urban Development Project (KSUDP).

The state has also taken World Bank loans for various infrastructure development projects, mainly the Kerala State Transport Project (KSTP) and Jalanidhi, besides the work on implementation of the Jawaharlal Nehru Urban Renewal Mission (JNURM) in the cities of Cochin and Thiruvanathapuram and for rehabilitation of the Tsunami victims.

Kerala is already on a debt overhang situation with a total outstanding debt of more than Rs 42,000 crore. In the financial year 2006-2007, Kerala used 25.5 per cent of its state revenue for paying loan interests (Rs 3,649 crore out of Rs 14,310 crore).

MGP: Project and protests

The Modernisation of Government Programme was implemented without any discussion in the state Assembly. The areas identified for reforms included public finance, state-level public enterprises, the power sector, road sector and municipal corporations. Its objectives also included decentralised planning and administrative reforms.

According to the project document, "The MGP aims to make government transparent and accountable." It was supposed to be implemented in 90 institutions in Kerala. The project itself was not at all transparent. Nor did it bring much change to the institutions of government. However, during its operation, it contributed some new contract terminologies to the legal vocabulary of the state, such as BOT, BOOT, SPV, etc. One of the key suggestions that came up through the programme was to reorganise the State Electricity Board by splitting it up into three different companies and privatise it part by part.

The implementation of the MGP met with protests from its very inception. These protests were organised by various civil society groups as well as political parties, including the ADB Quit Kerala Samiti, Porattam, CPI(ML), Farmers' Relief Forum, People's Forum Against ADB, etc.

The agitations started with protests against the Global Investors' Meet at Cochin in 2001. Porattam, a revolutionary group, even launched attacks on ADB officials and the ADB office. There were continuous demonstrations by the organisation ADB Quit Kerala Samiti, a state-level platform created by civil society groups. A six-month relay satyagraha was held in front of the state secretariat by the Samiti. A campaign was organised before the 2006 elections with activists taking a questionnaire to the candidates and previous MLAs and political parties.

KSUDP: Expensive and Undemocratic

The Kerala Sustainable Urban Development Project covers water supply, sewerage and sanitation, urban drainage, solid waste management, and urban roads and transport in five municipal corporations. The total cost of KSUDP is $316.1 million, of which the ADB loan provides for $221.2 million, the state government's investment is $59.8 million the five municipal corporations are to contribute $35.1 million. The project is being implemented in the Thiruvanathapuram, Cochin, Thrissur, Kollam and Calicut Municipal Corporation areas.

There are several conditionalities for the KSUDP. It not only advocates but virtually imposes privatisation. For example, by the mid-term review, the state government "will" have to redefine the role of the Kerala Water Authority into "an enabling regulatory framework" to facilitate private sector participation.

The ADB makes it clear that the government of Kerala and the municipal corporations have to fall in line. This is a direct attack on democracy and undermines the ability of local governments to prioritise their annual budgets and revenue mobilisation according to their specific political and developmental objectives.

The loan document says, "GoK will allocate, and ensure that municipal corporations allocate counterpart funds from their annual budget in order to meet the counterpart funding requirements of the Project. GoK will also ensure that each municipal corporation will make available all necessary land, staffing and facilities as required for timely completion of subprojects." Further, "GoK will ensure that all the municipal corporations pass a resolution by March 2008 to introduce service tax and/or other revenue mobilization measures in each municipal corporation to meet shortfall of revenues needed to fund O&M of the expanded water supply".

The KSUDP involves a mandatory increase in tariffs and conversion of public standposts. "GoK will ensure that all the municipal corporations will prepare and implement a financial improvement action plan to (a) introduce a sewerage charge, (b) introduce a solid waste management charge, and (c) improve collection efficiency, by no later than 1 year after related subproject completion. (…) the tariff will be increased twice during the project implementation period to a level which is sufficient to cover the O&M costs of new and existing infrastructure. (…) "By not later than March 2007, GoK will formulate a policy on conversion of standposts to individual metered house service connections and/or metering standposts, for the purpose of efficient demand side management and reduction of Non Revenue Water."

Apart from conditionalities, the project has high-cost consultancy and procurement components. In fact, expensive consultancies and procurement procedures are a part of all ADB projects. The state government will have to ensure that all consultants in the project will be selected in accordance with the ADB's 'Guidelines for Use of Consultants'. The detailed cost estimates indicate that $10.2 million will be spent on a few consultancy firms which will script much of urban policy in the five municipalities. Added to this, several hundreds of crores will be spent on equipment, materials, furniture, vehicles, trainings, workshops, studies and research.

The ADB is posing itself as the knowledge provider on Kerala's urban woes and their solutions. All arguments to legitimise its projections on investment, need for cost recovery, feasibility of tariff hikes, need for private participation, etc., however, are based on the ADB's own studies and surveys. Like its partner institution, the World Bank, the ADB also intends to produce its own brand of knowledge to justify its approach on urban development.

Limitations of the protests

Various protests have been launched against above the projects by the People's Forum Against ADB, Solidarity Youth Movement, CPI(ML), CPI, KSMTF, Yuvajana Vedi, Kerala Sthree Vedi, GAIA, Kabani, Keraleeyam, Kerala Campaign Committee Against ADB, etc. Statewide meetings and campaigns were held without a break from August 2006 to June 2007. The Eranakulam Corporation initially rejected the loan, but accepted it later due to the pressure from the ruling CPI(M).

The People's Forum Against ADB issued an open letter to the Kerala Chief Minister, signed by more than 200 organisations. The Chief Minister and three parties in the ruling Left Front were against the loan, but the local self-government minister, finance minister and the CPI(M), the major party in the Left Front, were in favour of taking it.

The date of implementation of the loan, 6 May 2007, was observed as a 'Black Day' in Kerala. All shops and offices were closed in response to a strike call by the Anti-ADB Campaign Committee. Most of the mainstream media supported the campaign. But the loan was taken against people's interests. In fact, the loan was signed without the knowledge of the people, even keeping the state chief secretary in the dark.

Although the protests against ADB and KSUDP have made considerable impact in Kerala's civil society, the campaign failed to secure any redress in courts. The high court criticised the government for lack of transparency not following proper process, but observed that the court did not have the power to put a stay on the agreement. The Supreme Court judgement in favour of loan from IFIs for urban infrastructure projects had a demoralising effect on the campaign.

The New Imperialism
Debt and its Impact on Nepal

Keshab Dahal
Bidur Subedi

Burden of foreign aid

Debt is not only a burden on the economy of the country. The social, political and environmental life and dignity of the country are also affected by the conditions of the debts imposed by the international financial institutions.

In Nepal, we are losing our natural heritage, dignity of nation and political independence to the political interests of the IFIs. Developed countries are developed by means of the increasing exploitation of our natural heritage. The IFIs are making money by trade natural resources. Their policies are causing floods, migration of people and soil erosion.

The grants are also motivated by the vested interest of the financial institutions. In surface these are given the impression of being free, not requiring to be repaid. It is believed that these will not put any burden on the country. But this is not true. There are a number of conditions imposed by the donor agencies/countries behind the grants.

For example, in the name of technical assistance, thousands of foreign experts are currently employed in Nepal. This has displaced the local experts and fostering continuous dependence upon donors.

The donors put pressure for unsuitable policy changes that sometimes marginalise the citizens of Nepal. This has been the case with the Arun III hydroelectric project. Nepal has not been allowed to build new projects above 10 MW without the donors' permission. The donors will fix the power tariff after production. Even the national Budget (tax rate, VAT, etc.) should be formulated with the suggestion of donors.

Reflections on some of the projects implemented with loans

There are many failed projects implemented with loans, such as the Irrigation Sector Support Project and Terai Community Forestry Development Project, among others. These are some examples where resources were manipulated and misused. Thousands of vehicles were bought under these projects and the political elite class used the services that added to the per capita loan and widened the gap between the poor and the rich.

The Upper Sagarmatha Agricultural Development project: The project was funded by ADB targeting three districts; Solukhumbhu, Okhaldhunga and Khotang of Sagarmatha zone of Nepal, with the aim of agricultural and infrastructure development in upper Sagarmatha. It targeted more than 41,000 households as direct beneficiaries and 10,000 households to be uplifted above the line of poverty. The total agricultural and livestock production was sought to be increased by 4.2 and 4.0 million US dollars respectively. The internal rate of return was expected to be 29 per cent. However, all these targets were just on paper. No significant achievements were realised.

The project did not progress after its initiation because of aid conditionality. The ADB's condition was to build trial roads in the districts, but the local people demanded motor roads for access to the market for agricultural production. After four years, because of people's pressure, the ADB agreed to build motor roads but the project period expired by that time and it was not completed.

However, a number of buildings for various purposes such as staff quarters and service centres were constructed. By the completion of the project period, these also appeared to be of no use for the local people and many service centres are empty or no services are available. The design of the project itself was not according to the priorities of people, rather pushed by the donors. Now, the project is finished without any impact.

The poor have limited access to the loan/aid. The development projects implemented with both loans and grants have been highly influenced by corruption, unaccountability and non-transparency.

For the last 45 years, a total of 370 billion US dollars have entered Nepal as foreign aid. However, the major part of the amount returned in the name of patments to consultants of donors and institutions.

Local elites and the rich also are benefited to some extent by the aid. The aid conditionality the pressure to raise the cost of goods and services affecting poor people.

The amount of aid appears to be quite big, but the real benefits go to the donor countries in the end. The hydropower projects is an appropriate example: some donors provide turbines, some others provide wiring materials, others build the power stations and yet some others construct the dams.

The KGA hydel project: The Kali Gandaki 'A' (KGA) 144 MW is Nepal's largest hydroelectric project, built in the western region of Nepal with conditional loans from the ADB and Japan Bank for International Cooperation (JBIC). Begun in 1997 and completed in 2002, this project turned out to be more costly compared to the original estimates. The reasons were the delays and corruption on the part of the Impregilo SPA Company, which was the main contractor of the project.

Activists and experts had conceived the KGA as a better and cheaper alternative to Arun III. But it did not happen. The cost escalated from US $250 million to US $360 million by the time of its completion. The civil construction cost increased by 67 per cent. To meet the cost, ADB put the additional condition to increase power tariff. Even though Nepal is the second richest country in water resources at present, it has one of the highest tariffs in the world.

During the implementation process of the project, public consultation was limited and the activists were prevented from attending the local meetings and presenting their views.

Kathmandu drinking water privatisation: The Nepal Water Supply Corporation (NWSC) is a government corporation set up in 1990 and is responsible for water supply to Kathmandu and 11 other towns. In 1997, Government of Nepal decided to privatise the management of water supply in the Kathmandu Valley under a lease contract due to the pressure of donors.

In 1998, a National Water Supply and Sanitation Sector Policy was drafted to privatise water supply and sanitation services in

Kathmandu with financial support from the World Bank. In 2002, two unsuccessful attempts to pre-qualify contractors for a 10-year management lease contract ended with only one pre-qualified each time. The ADB requested that joint ventures of water utilities from developed countries and international consultants with experience in developing countries be allowed to bid.

Then ADB had agreed to prepare a five-year management contract. A privatisation policy was agreed with the precondition for the Bank's support to the controversial US $464-million Melamchi Water Supply Project, approved in December 2000 with co-financing from JBIC and other donors.

The Melamchi project involves the construction of a 26-kilometre tunnel primarily to divert 170 million litres of water daily from the Melamchi River. The NWSC would gradually escalate the price to at least five times more by the time Melamchi water started flowing in the pipe-networks of Kathmandu.

In 2006, a multinational company, Severn Trent Water International, was invited to take the management responsibility of Kathmandu drinking water system in accordance with conditions laid down by ADB. Following protests by the civil society in Nepal in 2007, the minister in charge postponed any decision to award this contract to the sole bidder Severn Trent. There is a Cabinet debate still pending. ADB officials on the other hand have threatened to terminate its multi-million dollar loan to the Melamchi project. The debate is still going on.

NGOs and local communities have led the opposition against the conditions imposed on Melamchi water project's. They have criticise it as a useless project which damages the local options, the issue of leakages and non-revenue water, estimated at 40-70 per cent. The Melamchi project cost is equivalent to 70 per cent of the overall government investment on water and sanitation projects for more than 10 years, while only 6 per cent of the population would benefit from the project.

Conclusion

There is no doubt that the Nepalese people have a great burden of debts on their shoulder and the per capita debt is increasing by the day. In this reality, taking loans to pay off loans will further push Nepal into a serious debt trap. This is a new imperialism and Nepal

and its poor people are becoming its prey.

We should reject the policies and conditions of the IFIs and ask the government not totake loans tied with conditions and not to pay previous debts.

Globalization and the IFIs
A Neo-liberal Agenda?

William Stanely

India in the debt trap

In 1991, India adopted the 'New Economic Policy' in order to stabilise and restructure its growing deficit and declining economic growth rate. This policy was geared towards neo-liberal economics and markets were opened up to foreign trade. Multinational corporations (MNCs) were allowed free access into India. The deficit problems also led to borrowing from the World Bank, whose ideology complements the notion of unrestricted capitalism and deregulation that the corporations seek.

Due to the new export-led economy, more money is being spent on imports than exports. India has a debt burden of about US $100 billion, of which about one-third is to the World Bank. India spends US $12 billion a year in debt servicing and 20 per cent of that is just interest payment. Capital drain is a consequence of corporations entering the domestic market and pumping their profits out of the Indian economy.

It is common knowledge that multilateral institutions like the World Bank, IMF and Asian Development Bank take advantage of the economic mess created by the countries and then, in the name of economic recovery, they put them in an intricate web of money lending. They first provide loans in the name of Social Security Net Programmes (SSNP), which invariably fail their targets. Then they extend the debt trap by further providing loans to new programmes. In this way, the country's foreign debt mounts manifold, thus tightening the debt noose further. The multilateral institutions then advocate the idea of reviving their economies through deregulation and liberalisation of state-owned enterprises, thus laying the ground

for taking over the nation's economy by trans/multinational corporations.

India is the World Bank's largest borrower, having taken more than US $47 billion as of June 2000 in market-based loans. The country began borrowing massively from the World Bank in 1991 and was forced to accept conditions that included cuts in social spending, privatisation of natural resources and agriculture, and free trade to allow MNCs to compete against local businesses.

Worst hit communities

Farmers: This sector is the Bank's largest portfolio with US $10.2 billion financing. The removal of agricultural subsidies has forced fertilizer prices up 40 per cent; the domestic price of rice has risen 50 per cent. MNCs and agricultural technologies create a dependent market by the use of patents, allowing them to dictate which crops are to be produced, on the basis of profitability rather than need. Growing interest rates make it impossible for small producers to get loans, and the majority of those pushed off the land are untouchables.

Coastal communities: The World Bank has funded US $96.8 million in shrimp farming. Over 80,000 hectares of land have been converted to shrimp farms. More than 5,000 hectares of common land have been taken over by commercial interests. It was initially claimed that shrimp culture creates employment. But less than 10 people are required to work in one hectare and it is mostly children who are being hired as 'feed boys'.

One estimate in the late 1990s showed that while annual revenue through shrimp exports in Tamil Nadu alone was US $868 million, the economic loss in terms of lost livelihood in the traditional activities of fishing and farming, as well as environmental destruction, was more than US $1.38 billion.

In another move, the World Bank loaned US $450 million to India with the majority of the money going into the Sardar Sarovar dam. However, after mounting criticism, it delayed the remaining finances and set up an assessment board. The 1991 Independent Review of the project chaired by a former head of the UN Development Programme, Bradford Morse, concluded that "The Sardar Sarovar Projects as they stand are flawed, that resettlement and rehabilitation of all those displaced by the Projects is not possible under prevailing circumstances, and that the environmental impacts of the Projects have not been properly considered or adequately addressed."

Traditional coastal communities feel that they directly bear the brunt of sea level rise and other forms of climate change. Their regions are already being used indiscriminately for industrial activity and to dump effluents, disturbing biodiversity and the marine food chain. Now, climate change is destroying their habitat through submergence, further affecting marine life, and increasing their vulnerability to enhanced and more frequent storm surges.

They are being asked to adapt to and accommodate this crisis, but resources are not being seriously committed. Voluntary support and market mechanisms are not enough. The traditional coastal communities are not the cause of these problems. They have a right – entitlement – to the resources, including technologies, to face this onslaught on their livelihoods.

Forest communities: The representatives from the forest communities emphatically state that forests are essential for the livelihood of local communities, and that their partnership and ownership is essential for survival. They feel that the concept of forests as carbon sinks – global commons – tends to treat forests as just another commodity. This concept must take into account that the sustenance and habitat of most indigenous communities depend on them. They have built their culture, social systems, economy and very identity around these resources. They object to the forests being considered only as carbon sinks and expect the decision makers to respect their sentiments. It is important for the decision makers to negotiate with these communities and find a way of sharing their livelihood to the benefit of all.

Accelerated climate change and the options being negotiated on this issue directly impact the natural resource-based communities. Their livelihood resources are either appropriated or degraded, pushing them to even greater vulnerability, and therefore putting to grave risk their right to life, livelihood and dignity.

We believe that climate change is a part of a larger environmental crisis and related to the basic issue of ecologically destructive development processes that have been globally pursued. The issue of climate change raises basic questions of social justice and has a direct bearing on development alternatives for the future.

Impact of privatisation

For the last two decades, the eastern Indian state of Orissa has been under the wrath of nature's fury: persistent drought situation, heat waves, cyclones and floods. Out of the last 100 years, the state has been disaster-affected for 90 years: floods have occurred in 49 years, droughts in 30, and cyclones have hit the state in 11 years. Since 1965, natural calamities are not only becoming more frequent, but striking areas that never had a record of vulnerability. In 1998, a heat wave killed around 1,500 people. The 1999 cyclones hit coastal Orissa leaving more than 10,000 people dead. In 2000, drought parched the fields in coastal districts. It has faced unprecedented floods of 2001, drought in 2002, floods again in 2003 and a threat of cyclone in October 2003. In the last three years, natural calamities have claimed more than 50,000 lives. Cultivable land has become fallow, leading to hunger and starvation deaths. The frequent occurrence of manmade and natural calamities made Orissa the disaster capital of India. The natural calamities of the recent years have put the development clock of Orissa two decades behind.

Orissa was the first state in India to privatise water, power and agricultural sectors, after taking a World Bank loan of US $350 million in 1996. Since then the rates have gone up by 500%, leaving 20% less people living in rural Orissa with access to electricity. The development of the coal mining industry has had the most significant impact.

G-7 funding of Orissa's industrialisation included a US government loan of US $232 million. France provided US $607 million towards the construction of an aluminium-smelting complex, Nalco. Japan has invested US $125 million in coal. The UK has invested US $40 million in upgrading the Hirakud dam. Wages have been decreasing consecutively since 1992, having gone down from an average of US $3.3 to US $1 a day. Employment rates have decreased and the quality of employment has also declined. Employment in the casual sector has increased by 32% leading to more unstable employment and poor working conditions. Women are predominantly found in low-wage jobs.

Privatisation of health services has led to inadequate healthcare provision, creating a two-tier system and leaving 53 per cent of the population receiving less than minimal healthcare. There is an urban bias with 66 per cent of hospitals located in urban areas.

Three-fourths of the population lacks adequate access to safe drinking water or modern healthcare. India's pharmaceuticals industry has grown at 12 per cent a year and exports 500 million dollars worth of drugs. But no more than a third of all Indians can afford to buy its products.

There are more poor and illiterate people now than the entire population in 1947. Almost one-half of the adult population, and nearly two-thirds of adult women, are illiterate. Prices have risen twenty-fold, shifting income and assets further from the poor. Income disparities have widened more than tenfold.

Many of the social indicators given above illustrate that the situation in India is not improving since 1991 and links between World Bank policies of free trade and the exploitation that is carried out by businesses can never result in an equitable or sustainable development for India.

Emerging civil society – People's voice

Viewed from this angle, the civil society needs to assert true citizens' role towards fostering democratic rights and ensure responsive governance. The idea of civil society has been most coherent when applied to nations where citizens need protection from a repressive state. Civil society is a broad term denoting the wide range of organisations operating outside the governmental and business sectors. In the absence of a civil society, repressive, tyrannical, even genocidal forces are supposed to have a freer hand. Where it is present, it is supposed to constitute a force to resist and reject undemocratic rule and exploitative economic forces and expose corrupt governments. The victory of market capitalism over state socialism reveals just how diminished the nation-state has become and how the corporate world has consolidated its power. Since the liberalisation of the southern economies, frequent civil society action against corporate violence is inevitable.

We as civil society have an ethical responsibility. We should seek policy changes through advocacy and promote alternatives and sustainable initiatives. We need to review what kind of policies, development missions, trade relations and political systems have allowed the developed countries to appropriate the resources of others (which has provided for thousands of years sustainable livelihood to many communities) for greedy, luxurious over consumption and unsustainable lifestyles.

Ecological debt

The 'North' (the so-called 'First World' or western world) comprises only 25 per cent of the world's population, yet consumes around 75 per cent of global resources. Pre-existing political and economic structures, the legacy of centuries of European colonialism, have resulted in a situation in which the Northern countries, through the activity of Northern companies and the individual lifestyles of people in those countries, draw vast amount of resources from the Southern countries. This drain of basic resources and raw materials has greatly undermined the capacity of Southern countries to feed them.

According to the United Nations Development Programme (UNDP) report of 1998, 20 per cent of the world's population living in the highest income countries makes 86 per cent of all consumer purchases. The richest one-fifth consumes 58 per cent of the energy used by all humans. This segment also produces 53 per cent of carbon dioxide emissions, while the poorest produce just 3 per cent.

The term 'ecological debt' was originally coined by a South American NGO in the early 1990s, and since then has been used primarily in awareness raising campaigns. The concept refers to the responsibility held by those who live in industrialised countries, as well as their accomplices in the South, for the continuing destruction of the planet due to production and consumption patterns driven by the neo-liberal globalised market economy.

Critically, the concept connotes that the poor of the Third World are the principal creditors of the ecological debt. The ecological debtors are the world's wealthiest citizens. Yet not only are these debtors not held accountable, but neither governments nor corporations have taken steps to measure the size of the debt. Meanwhile, developing countries are paying over and over their financial debt to rich countries.

The concept of ecological debt is gradually gaining clarity with initiatives to understand its different aspects. One organisation defines ecological debt as "The debt accumulated by Northern, industrial countries toward Third World countries on account of resource plundering, environmental damage, and the free occupation of environmental space to deposit wastes, such as greenhouse gasses, from the industrial countries" (Acción Ecológica of Ecuador). It is time that the account is set right.

Development or Destruction?

International Financial Institutions in Bangladesh

Monower Mostafa

The common agenda of International Financial Institutions

Various International Financial Institutions (IFIs) offer loans on various terms. Yet, the general impact of these loans and their accompanying prescriptions on the borrower countries indicate that all of them have a set of common objectives. These are:

- ✍ Dismantling public institutions and public enterprises with immense power to big business;
- ✍ Removing all supports and protection for local industries and agriculture by liberalising imports;
- ✍ Supporting export oriented activities to meet the needs of the western market by supplying cheap products at the expense of the economy and environment;
- ✍ Withdrawing the state's responsibility of providing basic services such as healthcare and education for the people; and
- ✍ Raising prices of fuel, gas, electricity, fees on education and healthcare costs to create good business opportunities for the global corporations.

If their polices/agendas are implemented, the IFIs get in return a huge market for the global capital, favourable conditions to have extraordinary return on investment and an open space for global big businesses.

Foreign aid is taken to fill the gap of budget deficit, to meet balance of payment for international trade and to fund the Annual Development Programme of a country (ADP). It can take the form of food aid, commodity aid or projects aid.

In reality, a substantial part of foreign aid finds its way back to the lenders in the form of consultant fees and cost of equipment. Government officials, politicians and the influential persons involved in the process get their due share. Economists estimate that only 25 per cent of aid goes to the target groups while 75 per cent is siphoned off.

Some glaring features of foreign aid to Bangladesh

The flow of foreign aid to Bangladesh dwindled drastically and dropped to $1.03 billion in the fiscal year 2003-04, which was the lowest in two decades and a half. The Aid Group of Bangladesh, officially known as the 'Local Consultative Group', is comprised of 32 bilateral and multilateral donors where World Bank occupies the leading position.

The record of success of foreign aid in poverty alleviation is more frustrating than what one usually thinks about it. Foreign aid has facilitated the expansion of the capitalist market economy and the culture of consumerism. The glaring phenomenon of "aid-dependent consumerism" has serious implications for the economy, especially for savings and investment.

The share of loan in the foreign aid package has swelled to 68 per cent in the 2005-06 fiscal year from 11 per cent in 1972-73. The share of grants, which was 89 per cent in the fiscal year 1972-73, has now declined to 32 per cent. The decreasing grant components have resulted in a larger portion of loans in the total aid package and increased per capita foreign debt by 21 times to nearly $140.

The per capita debt burden of the country was $6.59 in 1973-74 fiscal year. As the country's foreign loan continues to soar up, every child is born in Bangladesh with a burden of foreign debt to the tune of Tk 10,000.

The annual debt service payment constitutes 13.5 per cent of the entire Budget outlay. It is almost double the allocation for the health sector (6.6 per cent) and only one per cent less than the allocation for education (14.5 per cent), the highest line item of Budget 2007-08.

Bangladesh is the third largest loan recipient of World Bank. The total effective loan from the World Bank is $2326 million.

World Bank – the policy roots of economic crisis and poverty

The World Bank has been formulating the economic policy in Bangladesh since Independence. The policy packages and associated credit arrangements have evolved from the Import Programme Credits (IPC) to Structural Adjustment to Poverty Reduction Strategy Papers.

Bangladesh has found it difficult to force a faster rate of poverty reduction beyond the average of 1 per cent throughout the 1990s. The absolute number of poor people continues to rise, as does the denial of their rights. Bangladesh now has more poor people than it had in the year of its war of liberation. 49.8 per cent of the total population lives below the poverty line, i.e., take less than 2,200 kcal a day per head. 19.98 per cent of the population suffer from hardcore poverty, i.e., take less than 1,800 kcal a day per head.

The national income share of the bottom five per cent of the population has declined from 1.03 per cent to 0.67 per cent, while that of the top five per cent increased from 18.85 per cent to 30.66 per cent; and that of the bottom 20 per cent declined from 6.52 per cent to 2.21 per cent, while that of the top 20 per cent increased from 44.87 per cent to 55.02 per cent.

The richest 10 per cent of the population control 40.72 per cent of the total national income while the poorest 10 per cent had access to only 1.84 per cent of the national income in 2001-2002. The gap has widened since 1995-1996, when the richest 10 per cent of the population controlled 34.68 per cent of the national income while the poorest 10 per cent had access to 2.24 per cent of the income.

Joblessness increased by 3.3 per cent a year throughout the 1990s and has had a crippling effect on the economy. Around 90 million people do not have access to primary healthcare and 100 million lack access to adequate sanitation. Twelve million children under five are malnourished, two million infants have low birth weights. About 110 million people are denied access to electricity.

Indiscriminate import liberalisation and financial-sector policies have diverted the flow of capital away from productive investment and deeply hit domestic manufacturing sectors and employment.

Small farmers and women have been affected more negatively by the differential access to resources for production. Reforms have directly and indirectly affected the ownership, control and use of productive land, further skewing the distribution of wealth and incomes in the rural areas.

Real wages have deteriorated, unemployment and job insecurity have increased, family incomes decreased generating an increase in child labour as a result of labour-market reforms and other adjustment measures, particularly among the lowest income groups.

The privatisation of public utilities and services has usually resulted in significant price increases for the public, paralleled by little improvement or education in access and service. The quality of education and healthcare has generally declined.

Globally, the World Bank's policies have in general led to increased current account and trade deficits and debt, disappointing levels of economic growth, efficiency and competitiveness, the misallocation of financial and other productive resources, the "disarticulation" of national economies, destruction of national productive capacity and extensive environmental damage.

The World Bank: 'partner' or 'destroyer'? The case of the jute sector

Bangladesh is one of the major jute producing countries in the world, apart from India, China and Myanmar. It produces the best quality jute due to its comparative advantage of soil quality and natural environment conducive for jute cultivation. Bangladesh is the single largest raw jute exporting country.

Jute production and business got its momentum in this subcontinent since 1833 supplying raw jute in Dandy. The first jute mill was established in Kolkata in 1855. By 1900, the Indian jute industry became the largest in the world, superseding the British one.

In the 1950s, jute industries grew in Pakistan with the help of the government. A number of jute mills including Adamjee and Bawani were established during this period.

The era of privatisation and denationalisation in Bangladesh was through the Structural Adjustment Policies (SAP) in the 1980s. The government denationalised 35 jute mills between 1982 and 1985. Another 24 state-run jute mills faced closure at different times due to various factors, including mismanagement and rampant corruption.

In 1991, a task force of the first caretaker government revealed that the assets of 29 jute mills, worth more than 2.45 billion taka, were by then denationalised at the face value of only 55 million taka.

In February 1994, the Government of Bangladesh signed an agreement with the World Bank/IDA for the US $247-million Jute Sector Adjustment Credit (JSAC), the largest World Bank loan to Bangladesh. This so-called JSAC project involved:

- Closing 9 of the 29 public mills and downsizing two large public mills;
- Retrenchment of about 20,000 employees in the public sector; and
- Privatisation of at least 18 of the remaining 20 public mills.

The JSAC was designed to be disbursed in four trances. Release of each trance was conditional on the completion of the reform programme.

Conditions applied for different trances:

- 1st trance: Closing down four mills and retrenching 12,000 workers;
- 2nd: Closing down five mills, privatising nine mills and retrenching 8,000 workers
- 3rd: Privatising nine mills.

The project stopped after the disbursement of two trances, making the whole jute sector vulnerable.

The goal of the project was to increase productivity and employment, and to privatise the whole sector in order to make it profitable. However, the intended beneficiaries of the project (the private sector) claimed that they had been harmed rather than helped through the

project and the JSAC was responsible for the reduction of private sector capacity.

They categorically mentioned that the operating loom age for the private sector had dropped from 5,955 looms in 1992-93 to 3,969 looms in December 1996. The JSAC was responsible for temporary closure or reduction in capacity of 11 private mills. They apprehended major additional damages in the future, such as permanent closure of private sector mills, with related loss of security and income and dislocation of careers, job loss for thousands of employees and loss to Bangladesh’s economy and social welfare. The root causes of loss were the lack of proper planning, mismanagement and plundering.

The Adamjee Jute Mill is a case in point. The 51-year old mill, the largest in the world, was closed down officially on 30 June 2002. But the “death warrant” was actually issued on 17 February 1994, when the Government of Bangladesh signed the JSAC agreement with the World Bank/IDA.

The Adamjee Jute Mill was established in 1952 and located in Narayanganj, 25 km from Dhaka, with 298 acres of land. Its original production capacity was 96,000 tonnes with 3,400 looms. Before closing, the capacity came down to 50,000 tonnes with 2,000 looms. In 2002, the number of workers and employees was 32,000. Between 1972 and 2002, Adamjee had earned 3,704 crore Taka, of which 2,238 crore was in foreign currency. It had given 900 crore Taka to the government, paid 370 crore Taka as interest of the bank loans and 200 crore Taka as electricity bills.

India set up four new jute mills after the closure of Adamjee, and three a more mills will go into operation soon, raising the total number to 92.

We do not know what happened to the 6,000 students studying in five schools located in Adamjee compound. Besides 40,000 workers, 30,000 people used to live around the mill; the number is almost 500,000 if family members are counted. Ten million farmers’ family members were dependent on the crop demanded by the jute mills.

For years, Bangladesh had dominated the global trade in jute with 85 per cent share in raw jute export and 65 per cent in jute goods export. The total quantity of hessian, sacking and CBC produced in 1972-73 was over 450,000 tonnes, which grew to about 563,000 tonnes in 1982-83. But the production of these jute goods dwindled to about 242,000 tonnes in 2005-06 due to lack of proactive policy support, sheer negligence and indiscriminate closure of jute mills.

Bangladesh is now fast losing its foreign jute markets to India. It lost some of its major buyers such as Ghana, Syria, Iran and Sudan because of the closure of jute mills. These buyers have now moved to India. A comparison of Bangladeshi jute exports with India's reveals that Bangladesh exported 14 lakh tonnes of jute goods in 1990, while India's share was only 6 lakh tonnes, against 30 lakh tonnes of global demand. But the situation has been totally reversed now. The global demand for jute and jute goods has risen to 50 lakh tonnes, and India has seized the major markets. Bangladesh has failed to cope with the growing demand for jute goods in the world market with only 24 mills.

The World Bank-dictated reform is still in operation. Of the 24 existing jute mills in the public sector, six more are in the process of shutting down or selling out. Fourteen thousand workers were to be retrenched by December 2007. In October 2007, 5,908 workers were sacked. After independence, the number of jute mill workers and employees were .25 million, now it has gone down to just 45,000.

The production of jute has decreased as the jute mills are being closed down gradually. The number of handlooms has dwindled from 26,000 to just 8,000. And the people of Bangladesh are burdened with more debt, not for establishing new factories or promoting older ones either in the public or private sector, but for downsizing or closing them.

Plundering of Public Assets — A Chronology of Privatization in Pakistan

Abdul Khaliq

Pakistan, under the gospel of market economy, since 1991, has been aggressively pursuing the policy of market liberalization and privatization. The Government of Pakistan during 1990s, after being hit by economic downturn, was forced to adopt Structural Adjustment Program (SAP) under IMF to reform the economy suffering from macroeconomic instability. Pakistan, since then launched to sell off a number of profitable public sector institutions, without realizing the negative consequences on the socially marginalized classes.

Till April 2006, Government of Pakistan had completed or approved 160 transactions at gross sale price of Rs. 395.241 billion in the last 15 years. The sale of 26 per cent Pakistan Telecommunication Corporation Limited (PTCL) shares in 2006 alone fetched $2.5 billion. Out of total 160 privatized State Owned Enterprises an astounding 130 have been collapsed. According to the Privatization Commission Ordinance 2000, 90 percent of the proceeds will be spent for debt-servicing and 10 percent will go to poverty alleviation programs. Both the objectives of the Ordinance have not been achieved as external debt as well as poverty is on the rise in the last years. The privatization proceeds are reportedly misused by successive regimes. It is difficult to track the utilization of privatization proceeds as there is no separate account for it in the State Bank of Pakistan. The privatization proceeds are mentioned as part of the revenues, the understanding is that the 90 per cent of the proceeds will be used for repaying the loans and 10 per cent for the development of the country. But now the total income from privatization is mentioned as the revenue of the state.

The very process of privatization has not only negatively affected the working classes of the country but also caused substantial decrease in the industrial work force. Since 1990, about 0.6 millions workers have been rendered jobless as a result of implementation of privatization and neo-liberal policies. 64 percent of the workers in privatized units were forced to take "golden shake hand" in the name of voluntary separation scheme (VSS).

The privatization of State Owned Enterprises (SOE) became an important instrument of the state economic policy in late 80s. However, it was in 1991 that privatization process in Pakistan became effective. In 1988, the new government of Benazir Bhutto appointed a British firm M/s N.M. Rothschild, as consultants, to undertake a study on privatization strategy and selection of prospective candidates. The consultants submitted their report to the government in May 1989.

It recommended privatization on widespread ownership basis as an appropriate strategy for Pakistan. By "Wide Spread Ownership" the consultants meant development of Pakistan's capital markets. After analysis of more than 50 companies, the consultants short-listed seven companies as potential candidates for widespread offers. These included Habib Bank, Muslim Commercial Bank, Pakistan National Shipping Corporation (PNSC), Pakistan International Airlines Corporation (PIAC). Pakistan State Oil (PSO), Sui Southern Gas Company (SSGC) and Sui Northern Gas Pipelines Ltd (SNGPL). The government of Benazir Bhutto had not enough time to privatize the identified units as it was sacked on charges of corruption in early 90s.

The government of Nawaz Sharif, soon after assuming power in November 1990, declared privatization as its primary economic policy objective. It covered a wide spectrum of fields like industries, banks, development finance institutions, tele-communications and infrastructure facilities.

A Committee on Dis-investment and De-regulation in 1991 was established that recommended the disinvestment of 118 industrial units, which included 45 nationalized units taken over by late Zulifkar Ali Bhutto government during the period 1972-74. The Nawaz government approved this disinvestment plan and announced the creation of a Privatization Commission on 22nd January 1991. This period of Nawaz Sharif government saw massive privatization

in all sectors with 68 units handed over to private owners from 1991 to 93.

In the period from 1992 to 1994 public assets worth Rs.120 billion were divested. The consultants engaged by Asian Development Bank conducted a thorough study of the first period. They published a detailed report in 1998, according to which only 22% of the privatized units were performing better than in the pre-privatization period, 44% approximately the same and about 34% worse than before. Moreover, the most tragic consequence of privatization was the closure of 20 units soon after transfer to private owners. The closure of these units has played havoc with the national economy and the first phase of privatization contributed to the lower rate of industrial and economic growth. The GDP growth, which was above 6% in 1980s declined to around 4% in the post privatization period. The buyers were not interested in running the privatized factories but in stripping the assets. This is a frequent bane of privatization. Assets strippers buy, pay one installment, remove the machinery, sell the real state and then walk away. All the engineering units, privatized during 1992-94, except Millat and Al-Ghazi Tractors were closed after privatization.

Analysis of this period of privatization has shown that it has not been able to achieve the intended goals of privatization. The procedure of privatization, according to ADB consultants, was also not transparent but smacked of cronyism and corruption.

The anti-trade union measures by successive regimes resulted in decrease of trade unions and union memberships. The number of registered unions increased from 708 in 60s to 2,522 in 70s and 6,551 in 80s respectively. Similarly their declared membership rose from 350,000 in 60s to 736,000 in 70s and 870,000 in 80s.But after the process of privatization trade union membership decreased from 870,000 in 80s to 296,257 in 1999.

General Mushraff regime after taking over in 1999 announced to continue neo-liberal policies. Since then the regime has been bent upon privatizing big public units in industrial and services sector, like Pakistan Telecommunication Corporation Limited, Habib Bank Limited, Pak Saudi Fertilizers and Pakistan Steel Mills.

The privatization process was suddenly halted in 2006 when Supreme Court of Pakistan, through a suo moto notice, struck down the privatization of Pakistan Steel Mills. Gen Mushraff had sold out the only steel mills of Pakistan to his cronies at a throw away price of just Rs. 33 billion. Only the affiliated assets of Pakistan Steel Mills stand at Rs. 133 billion.

The general perception is that privatization results into higher level of efficiency but it is not true in case of Pakistan. It has slowed down social development. The pre-privatization period (1981-1991) witnessed an annual average growth rate of 6.7 % of GDP while it went down to 4.4 % during privatization period (1991-2001). The two major objectives of privatization in Pakistan; debt-servicing and poverty alleviation have not been achieved. The total external debt rose from US $ 23.363 billion in 1991 to $ 40.32 billion in Dec 2007. While the number of people living below poverty line is also rising and has reached to 46 per cent.

The plundering of privatization money is also an open secret. In July 2002, the Public Accounts Committee (PAC) had detected a massive sum of Rs. 80 billion missing, collected from privatization, when it was disclosed that this money was not used for the debt retirement purpose. In addition to it, indiscriminate use of billions of rupees collected from the privatization money on consultant salaries and legal experts also raised troubling questions that who was actually benefiting from the whole privatization process after laying off thousands of workers. The PAC also learnt that consultants and advisors generally hired by the Privatization Commission are heavily paid. As much as Rs.5 billion were spent on the consultants, advisors etc.

In most of the responses to privatization union leadership failed to protect the genuine rights of the workers. They fell to opportunism, and succumbed to pressure of state, generating a great deal of disappointment among the workers and the general public. But the resistance of PTCL workers in 2005 was by no means a minute task. It definitely shows the decisive role of workers in the economy and the society.

Several other State Owned Enterprises including Pakistan Steel Mills, Pakistan State Oil, Pakistan Railways, Water and Power Development Authority (WAPDA) and other gas and energy units are in queue to put on the block. The commitment with which the state is pursuing the privatization agenda has virtually turned Pakistan into a hunting ground for international capital.

Green shoots amidst debt chaos

Éric Toussaint

As regards North/South relations[1], we are at present in a situation which is exactly the opposite of the financial crises of the past 25 years. The credit bubble has begun to deflate and is moving towards the developing countries in the form of speculative capital settling on stock exchanges such as those of Mumbai/Bombay, Shanghai[2] or Sao Paulo. The high level of foreign reserves accumulated by the developing countries gives them some protection but caution is required. We are witnessing a new phase of history. While nefarious practices continue, at the same time alternatives which empower the oppressed are beginning to emerge. These embryonic alternatives need all the support they can get. The time is ripe to reinforce and radicalize these alternatives, as the countries are in a position of strength compared to the industrial countries. Grasped with both hands, emancipation could be on the horizon.

In 1982, the external public debt crisis of the developing countries was triggered by the combined effects of the rise in interest rates imposed by the United States two years earlier, and the fall in prices of raw materials, particularly oil. The epicentre was in the South and the first casualties were the governments of the developing countries, who suddenly found themselves owing enormous amounts in debt repayments.

The financial crises of the 1990s practically only affected developing countries - there was the Mexican crisis of 1994-1995, the Asian crisis of 1997-1998, the Russian crisis of 1998, the Brazilian in 1999, Turkish 2000 and Argentine in 2001-2002. Each crisis was triggered by sudden movements of capital and speculative attacks on the currencies of the countries concerned. Financial capital that had been directed towards these countries before the crisis was withdrawn, causing the crisis. It was a question of capital flight to safety, with capital being returned to the financial centres of the North, considered more secure.

Since August 2007, there has been a financial crisis in the North in the world's leading economy, which so far has mainly affected private finance companies in the industrialized countries, especially North America and Western and Central Europe. For the moment, Japan has been spared as its private finance sector, directly hit by a debt crisis over 15 years ago, has barely had time to get started again. The Japanese crisis perhaps led Japanese bankers to be rather more prudent than their North-American and European counterparts[3]. Only the future will tell. The crisis in the financial system of the North is such that capital flight to safety is operating in the opposite direction to that of the past. Capital is being directed away from the North towards the flourishing stock-exchanges of countries like India, China and Brazil[4], now perceived as safe havens. The phenomenon is so excessive that the Indian government, despite being neo-liberal, is considering ways of discouraging this inopportune capital inflow, which will force up the value of the Indian rupee and quite possibly flow out again shortly if more viable financial opportunities present themselves elsewhere in the world.[5]

The global situation has changed over the last 25 years in other ways, too:

1) History shows that between 1982 and 2005 there was a tendency for the price of raw materials to fall and the terms of exchange between industrialized and developing countries deteriorated. Since 2005, there has been a sharp rise in the prices of raw materials.
2) Most developing countries now have trade surpluses, especially China which is inundating the global markets with its manufactured goods.
3) In 1982 and the years that followed, developing countries' foreign exchange reserves were limited. Since 2002, slowly at first and gathering pace since 2005, they have continually increased.
4) Interconnected markets have led to an increase in private debt in both the North and the South in the form of complex types of derivative products which, far from ensuring greater stability, make for more opacity and speculation (see preceding article : "An International Situation Dominated by the Bursting of the North's Private Debt and Housing Bubble"). We have a vast financial system with a considerable sector based on the accumulation of debt paper that could collapse at any moment like a house of cards.
5) Internal public debt has reached all-time highs in the developing countries, while the external public debt is falling. In the USA it has increased too, although more slowly, and in Japan it remains extremely high at 185% of the GDP, according to the IMF.
6) There is an explosion of food prices worldwide.
7) There has been a frenzied acceleration of the arms race led by the United States.
8) South-South capital flows are on the increase.
9) China is making itself felt as never before in international economic and financial relations.
10) A group of Latin American countries has launched the foundations of new multilateral regional institutions, starting with a Bank of the South.

Accumulation of developing countries' foreign exchange reserves

Since 2004, the economic situation has been characterized by the high price of raw materials and a number of agricultural products. This has allowed a large number of developing countries to increase their export revenues and accumulate significant foreign exchange reserves, especially countries which export oil, natural gas and minerals. Some agricultural exporters have also benefited from this favourable situation. China, by exporting manufactured goods, has accumulated impressive quantities of foreign exchange reserves, amounting to stock of over 1 400 billion dollars. However, not all the developing countries are included in this scenario; some sub-Saharan African States have seen their situation take a turn for the worse.

In 2007, the developing countries together hold over 3 500 billion dollars[6] in foreign exchange reserves while the industrialized countries hold less than half this sum. How do the developing countries use their reserves?

1) A considerable share (certainly over 900 billion dollars) is loaned to the United States through the purchase of Treasury bonds[7]. China lends the United States 400 billion dollars of its reserves, emanating from its trade surplus with them, so that the North-American economy can continue to buy Chinese products. Many Latin-American, Asian and African countries also lend part of their reserves to the USA. This conservative policy, which is absurd from the point of view of the interests of the populations concerned, is increasingly criticized.

2) A significant number of governments have taken the opportunity to make early repayments of their debts to the IMF, the World Bank, the Paris Club and private bankers.

3) Some have created development funds, into which they can place some of their foreign reserves, in view of financing social and infrastructure projects such as buying up companies in the industrialized countries[8]. These funds are known as Sovereign Wealth Funds. In order of importance, the biggest are those of the emirate of Abu Dhabi (the amount of fund is not published, but estimates place it between 250 and 875 billion dollars!!), then Kuwait, China, Singapore, Russia. Libya has just announced the creation of a fund of 40 billion dollars. Venezuela created the “Fonden” (fund for national development) in early 2007. In all, the various public funds of the developing countries place about 2 000 billion dollars at their disposal. Some of these public funds, such as China’s National Council for Social Security Fund - NCSSF - aim to back up the financing of their social security system. The biggest funds buy up companies in the industrialized countries, which is a source of anxiety for those governments. The developing countries are now having recourse to different policies from those adopted in the years following the oil boom of 1973. In those days, the governments of the developing countries recycled petrodollars by lending them to the private banks of the North and then became indebted to those banks. Present policies are more solid, but in no way break away from the dominant logic of capitalism. Investments are not made in alternative non-capitalist projects, whereas they could serve as powerful levers to set up policies reinforcing the public sector by breaking private control over the major means of production, developing a solidarity-based economy, and radically redistributing wealth by applying principles of justice and equality.

4) The creation of a Bank of the South

   Seven South American countries (Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay, and Venezuela) are negotiating the creation of a Bank of the South to finance their regional integration and social projects. Some among them are also contemplating the creation of the Bank of ALBA (Cuba, Nicaragua, Bolivia and Venezuela). The signs of a divorce from the World Bank and the IMF are increasing: Ecuador expelled the World Bank permanent representative at the end of April 2007, Venezuela is thinking of leaving the World Bank and the IMF, Bolivia does not recognize the authority of ICSID (International Centre for Settlement of Investment Disputes, a subsidiary of the World Bank) anymore. Having said that, beyond the signs of bad temper, none of the three countries has so far actually left the IMF and the World Bank.

Concerning the Bank of the South, there are two options. The first is to set up a bank that will take a neo-developmentalist stance (supporting the regional expansion of capitalist companies such as the Argentine Techint, the Brazilian firms specializing in civil engineering or Petrobras), modelling itself on the construction of Europe, where big capital overrides all other interests. The second option would be to endow itself with an instrument for funding economic, social and cultural policies that break with the logic of profit-seeking and prioritize economic, social and cultural integration by applying the different pacts that guarantee civil, political, social, cultural and economic rights.

The governments of Brazil and Argentina uphold the first of the two options, while those of Venezuela, Ecuador and Bolivia tend to favour the second. Negotiations are still under way, since Brazil keeps on finding new motives for deferment. The outcome is likely to be a compromise based on the first option. Other themes are being debated by the governments concerned: will each country have equal influence in the decision-making structures? Will officials working in the new institution enjoy the same rights, privileges and impunity as those currently enjoyed by officials working for the IMF, the World Bank, the Inter-American Development Bank and other existing international institutions? What guarantees will there be of transparency and answerability? The social movements in Latin America and elsewhere are making a joint effort to influence negotiations in favour of the second option. For example, they have published two open letters to the heads of State taking part in the discussions[9].

According to information dating from 11 November, the Bank of the South should be launched on 9 December 2007 in Buenos Aires, on the eve of the handover of power between Nestor Kirchner and Christina Fernandez Kirchner, the newly elected Argentine president. This awaits confirmation.

Massive increase in domestic public debt

A recent development which also has to be considered is that the domestic public debt is increasing rapidly. In 1998 the internal and external debts were equal; in 2006 the domestic public debt exceeded the external debt by a factor of three[10]! This phenomenon is very important: from now on, it is no longer possible to measure the level of debt of developing countries solely on the basis of the external debt.

The weight of public debt repayments

The latest figures published by the World Bank in GDF 2007 indicate that servicing the external public and private debts by developing countries amounted to 540 billion dollars in 2006. If we only consider the servicing of the external public debt, since this falls under the responsibility of the state budget, it represented 280 billion dollars in 2006. Despite the fact that the external public debt/GDP ratio is decreasing, the total volume of the debt is continuing to rise and the amounts repaid increased once again in 2006 compared to the previous year. More ominously, if we include servicing the domestic public debt, which also falls under the state's responsibility, it is the astronomical sum of more than 1000 billion dollars a year which the public authorities of developing countries have to repay for both external and domestic public debt.[11]

Increase in the indebtedness of private firms

We must not lose sight of the increasing indebtedness of private firms of developing countries. The external debt of developing countries' private companies increased from 664 billion dollars in 2004 to 911 billion in 2006, which represents a hike of 37%[12]. Since the raw material exporting countries are witnessing an upturn in their fortunes, the private banks of the most industrialized countries have multiplied their loans to these private companies. The two private sectors which are indebting themselves most in developing countries are the banks and the firms dealing with hydrocarbons and raw materials. We must pay particular attention to this development: the private banks of the developing countries borrow from the North on low interest rates, mostly on a short-term basis, to lend this money to the internal market at a higher rate and on a long-term basis. If the economic situation suffers a downturn (which is likely in the coming years), we might witness a number of bankruptcies of the private banks of developing countries, just like the financial crises which hit Mexico in 1994-1995, the countries of South-East Asia and South Korea in 1997-1998, Ecuador in 1998-1999 and Argentina in 2001. Today's private debt of banks might, if we are not careful, become tomorrow's public debts.

Hence, the need to control private sector indebtedness. The same applies to the sector of hydrocarbons and minerals. Private petroleum, gas and mineral companies, take out loans in order to increase their production capacity and profit from the current high prices of raw materials. If the prices drop, the investments made through borrowing might not be profitable and the debt would become impossible to repay. It is imperative to limit and control this indebtedness.

Capital flight and profit repatriation towards the North versus the movement of migrants' remittances towards the South

Capital flight and brain drain from developing countries to the most industrialized countries have increased over the last few years. However, the amount of profits repatriated towards the 'parent company' has multiplied by a factor of 4.5 between 2000 and 2006 (from 28 billion in 2000 to 125 billion in 2006)[13]. Moving in the other direction, are the remittances migrants send to their native countries, which have also increased[14]. According to a recent study, in 2006, migrants sent 301 billion dollars to their families in developing countries[15]. This is six times more than the amount sent in the context of Development Aid.

Foodstuff versus biofuel

Throughout 2007, the price of food has increased everywhere. This increase has direct repercussions on the budget that households have to allocate to food in order to survive. In sub-Saharan Africa, as well as in Southern Asia, where the large majority of the population is forced to assign 60% of their revenues to purchasing food, this price increase is taking a dramatic turn, while in Western Europe, Japan or North America, although the increase in price has certainly produced discomfort, the great majority of the population has not manifested concern. Globally, it is mainly women who suffer the brunt of the increase in food prices, as they are most often in charge of feeding the family. An analysis based on gender and class is required to understand the changes.

Two main reasons for the increase in food prices

Firstly, there is the decision of many governments and multinational companies to develop the production of biofuels, such as ethanol, which is produced from sugarcane, maize, colza or other plants[16]. Nowadays, 20% of US maize is used to produce ethanol, and 50% of the sugarcane in Brazil![17] The rise in price of maize has had repercussions in Mexico and increased the cost of tortillas. This is an example of the devastating effect of free-trade treaties. In fact, in 1994, a free-trade agreement between the US, Canada and Mexico (NAFTA) was signed. Once NAFTA was in place, US agro-business flooded the Mexican market with cheap US maize, selling it at a price that was below the cost of production of the small Mexican farmers, thousands of whom subsequently lost their jobs (and have since tried to emigrate to their rich Northern neighbour). Since 2006, the price of maize exported by the US has largely increased because of demands linked to the production of ethanol. Consequently, the price of food went up in Mexico since maize is the main staple food. The Mexican peasants that used to produce the maize are not there anymore to respond to the demand. They have either sold their land and emigrated to the cities or the US, or they are crippled by debt and have difficulties in getting back into maize production.

A second phenomenon has worsened the food situation of the poorest. In 2006 and in 2007 the big grain companies, based in the most industrialized countries with temperate climates, reduced the area planted with cereal food crops in order to force up cereal prices on the world market. This means they took the risk of creating food shortages in Africa and other continents which, over the last forty years, have become net importers of cereals due to the fact that institutions such as the World Bank have encouraged them to prioritize the cultivation of tropical products (cocoa, coffee, tea, groundnuts, etc.)

The driving forces of capitalism are trying to profit from this situation to strengthen the domination and control of multinationals over agricultural production. Thus, on the pretext of increasing Africa's food production, the Bill and Melinda Gates Foundation and the Ford Foundation have tried to launch a green revolution in sub-Saharan Africa. They placed Kofi Annan at the head of their project, who had already created cronyism with the big multinationals through the creation of Global Compact in 2000 when he was general secretary of the United Nations. It must be remembered that since the 1960s, the green revolution has been imposed in India, the Philippines and other developing countries, by the World Bank and the Ford Foundation, resulting in greater dependence of farmers on the big multinationals responsible for the production of seeds, herbicides and pesticides (Monsanto, Cargill, Sygenta,…)[18]. The environmental effects are equally disastrous (especially soil and groundwater salinisation). The solution in sub-Saharan Africa does not lie in the green revolution but in the radical reduction in cash crops for export, so as to free up land for the production of cereals and other essential food crops. A public policy of support and protection of African peasants is needed.

On a planetary scale, the dramatic increase in the price of food crops represents a strong argument in favour of implementing food sovereignty policies and radical agricultural reform, including rejecting the production of biofuels. Governments must take strong measures to guarantee that healthy, non-genetically modified food is available for the citizens of their countries, by favouring organic crops produced by small and medium scale farmers under different forms of organization and ownership: smallholders, cooperatives, public companies, and traditional communities.

China, a capitalist country of the modern style

China is presented from the angle of its economic success, in terms of GDP growth and increased exports. GDP growth may well be impressive, but in fact, China has chosen a capitalist model of development, implying increased exploitation of Chinese workers, mass redundancies, privatisation of many public companies, radical reductions in State spending on education, health, social security, and unbridled productivism with total disregard for nature and public health. Over the last ten years, the percentage of wages in the GDP has fallen sharply, going from 53% in 1998 to 41% in 2005[19]. It is true that China is a net creditor with regard to the United States but it has accumulated a colossal internal debt. Worse still, social inequalities are growing at a horrendous speed. Various studies show that while the living conditions of the poorest 10% of the population have seriously declined, the richest 10% have seen their income and wealth booming. The number of Chinese billionaires in dollars has shot up from 3 in 2004 to 106 in 2007[20]. A severe economic slowdown in the United States may not make too much impact on the economic health of China, as it exports more to Europe than to North America. Nevertheless, it is not impossible that the contradictions of China's domestic economy combined with an external shock such as a significant slowdown in the USA could lead to major problems. The rise of internal debt both at government level and in companies, the accumulation of unsafe debts in banking, the creation of speculative bubbles on the property market and the stock exchange are some of the factors that could lead to an economic crisis, sooner or later. Not to mention the powder-keg of glaring social inequalities. Quite apart from the risk of a crisis, it is the model adopted that deserves utmost criticism[21].

India's economic miracle – a myth

Another country presented as a success story is India. Economic growth exceeds 9%, the Mumbai (Bombay) stock exchange is booming, and Indian companies are investing in industrialized countries and developing countries alike. With few exceptions, the media fail to report on the changes in living conditions for the majority of Indian citizens. However, the Indian daily Hindustan Times on 14 October 2007 revealed that according to a study by a government institute, 77% of the population - in other words 836 million Indians - live on less than 20 rupees a day (less than 0.5 US dollars). These figures are very different from those of the World Bank, which only attest to about 300 million Indians living on less than one US dollar a day[22]. India has a high number of working poor.

India's National Commission for Enterprises in the Unorganized Sector reveals that 320 million workers live on less than 20 rupees a day[23]. The same Hindustan Times article published the findings of a study on world famine carried out by the International Food Policy Research Institute (IFPRI) according to which 40% of underweight children under the age of five live in India. In the fight against famine, India lags behind other Asian countries such as Pakistan and China. In a ranking of 118 countries, Cuba and Libya figure among the first while China comes 47 th, Pakistan 88th and India 94th. The report states that the situation has seriously deteriorated among India's peasants. According to other sources, between 1996 and 2003 more than 100,000 small farmers committed suicide, most of them for reasons of over-indebtedness. This translates as one suicide every 45 seconds. According to the Indian newspaper DNA in its 17 September 2007 issue reporting on a government study, 46% of Indian children are underweight. In Mumbai, a city of 14 million inhabitants, where trading on the stock exchange reached unprecedented heights in 2007, 40% of children are underweight. According to DNA, in spite of 9 years of sustained economic growth, famine has declined by only 1% in India. Here we have a perfect example of the fallacy of the trickle-down effect, whereby economic growth is supposed to be automatically beneficial to the poor. What will be the effect of the doubling of the price of milk in India in 2007? Obviously it will have no impact on the consumption of India's wealthy. According to Forbes, which publishes an annual report on the world's richest people, in 2006 India became the Asian country with the highest number of billionaires (36 billionaires with a cumulative fortune of 191 billion US dollars, thus displacing Japan with its 24 billionaires together worth some 64 billion US dollars. Of the world's richest people, Lakshmi Mittal ranks 5th. According to data provided in October 2007 by the financial press, the Indian billionaire Mukesh Ambani has now overtaken Lakshmi Mittal and may well be in a position to vie for first place (currently held by the Mexican Carlos Slim) or second place (currently held by Bill Gates) in the world's wealthiest line-up.

These figures are challenged by other sources: for example, Newsweek's 12 November 2007 issue predicts that there will be 106 Chinese billionaires in 2007. In this case Chinese billionaires will outnumber Indian billionaires, ousting India from first place. But this is of little matter here. What is certain is that rapid growth in India and China is producing more and more rich people, and at the same time more and more poor people.

Mounting inequality in Asia

According to a recent study published by the Asian Development Bank, social inequality and inequality in income distribution increased in 22 Asian countries between 1995 and 2005[24]. Those countries where inequality is most on the increase are, in order, China, Bangladesh, Nepal and Sri Lanka. As for India, the Gini coefficient[25], which measures the level of income inequality, rose from 32.9 in 1993 to 36.2 in 2004.

Banks and hedge funds rush to invest in Indian microfinance

In October 2007, the first international microfinance investment fair was held in the Indian capital. It brought together 40 Indian microfinance institutions (among them SKS Microfinance, Share, Spandana and Basix) and major international private equity companies[26]. Microfinance is a fast-growing sector that is attracting more and more foreign investors, big banks and hedge funds. In India, 36.8 million people take out small microfinance loans for amounts not exceeding 100 dollars on average. The total volume of loans increased by 76% in 2006-2007 to reach 766 million dollars. The payment default rate for these loans is just 2%. Companies like Sequoia (the US venture capital company that backed Google) and Unitus Equity Fund (another US company investing in eBay) have taken a share in SKS Microfinance. Citibank and Fortis-ABN-Amro have announced that they will also be investing in SKS and other microfinance companies. According to SKS' chief executive, hedge funds are also interested in investing in the sector. Who was it that said microfinance was a real alternative? Brazil's president Lula, former presidents Jacques Chirac and Bill Clinton, Spanish prime minister Zapatero, G.W. Bush and Kofi Annan, of course. They were not entirely wrong if they were thinking of a profitable investment for bankers and private equity companies, not to mention the founders of some of these microfinance companies like the executives of the Mexican microfinance company Compartamos who became millionaires in 2007.

The astronomical cost of the US war in Afghanistan and Iraq

In 2008, US expenditure on the war in Afghanistan and Iraq since 9/11 will reach 800 billion dollars[27]. According to a United Nations

calculation, this is the amount that the international community should have spent over a period of 10 years to ensure that every inhabitant of the planet has access to drinking water (over one billion of the world's population are currently without), access to basic education (over 800 million are illiterate), access to medical care and health infrastructures (2 billion men and women are without), and access for all women to gynaecological and obstetric care[28]. These calculations take into account only US expenditure; if one were to add the cost of the destruction caused by invasion and occupation in Iraq and Afghanistan, as well as the money spent by US allies, the figure would be far higher. Not counting the number of human lives lost and the number of wounded and war-traumatized.

Crisis in the World Bank and the IMF

In 2007, the chief executives of the World Bank and the IMF resigned before the end of their mandate. Paul Wolfowitz, who, with Donald Rumsfeld, fabricated the lies that served as a pretext for the invasion of Iraq (the existence of weapons of mass destruction and collaboration between Saddam Hussein and Al Qaida), was forced to resign because he had been found guilty of favouritism towards his girlfriend (a World Bank employee). Rodrigo de Rato, managing director of the IMF, resigned from his post, thus triggering a new election. The "elective" processes – both of the World Bank and the IMF – demonstrate that these institutions operate outside the democratic norm. The US president alone designates the candidate for the World Bank presidency and the WB governors simply ratify this decision. This is how the "election" has worked for over sixty years. As for the IMF, it is the principal European governments who designate the candidate for managing director, who must then be approved by Washington[29]. Recent events highlight the fact that both the European and US governments wish to maintain strict control over the two main multilateral financial institutions[30]. Beyond this denial of democracy, the two institutions are going through difficult times: IMF resources have dried up, since, apart from Turkey, no other major developing country owes it large amounts of money (the IMF lives off the sums refunded by its clients) and the World Bank is having trouble proving it is fulfilling its mission in the fight against poverty. Many clients are trying to pull out of the Bank as other sources of financing become available on more favourable terms. Among these are the loans granted by China and other developing countries.

Vulture funds descend upon weaker countries

Vulture funds are private investment funds that buy up large portions of the debt of a poor country on the secondary market, at a very low rate, in order to sue the country and obtain the face value of the debt they hold, plus late penalties. These vulture funds have already received close to one billion USD on court decisions. Just last April the London High Court ruled that Zambia was to pay 17 million USD to Donegal International for a debt they had bought for only 3 million in 1999. No less than 40 lawsuits have currently been filed against twenty countries of the South, most of them in Africa though some in Latin America. Eight lawsuits have been filed against the Democratic Republic of Congo, and courts have already ruled against the Congolese State in five of them. Here is another illustration: the US Kensington Funds has filed a case against Congo-Brazzaville for 400 million USD as payment of a debt they bought for USD 10 million. In the current legal context it is most likely that US judges will again decide in favour of the vulture funds.

Unstable LIBOR

The London Interbank Offered Rate is the interest rate at which London banks lend money to each other. Almost all variable rate loans granted to developing countries are based on it. Loan contracts specify that the interest owed is equal to the LIBOR interest rate plus a given percentage, for instance, Libor + 3%. If the Libor rate is at 4.5 %, the interest owed will be 7.5 %. Since the crisis that started in August 2007, the Libor rate has been extremely unstable. When banks lose their confidence in each other the Libor rate increases. This is what happened in September when the Libor rate soared before decreasing again. If the crisis that started in August drags on, which is not at all impossible, the Libor rate may reach a much higher level than the present rate. In which case the following paradoxical situation could arise: the US interest rate falls while interest rates paid by developing countries actually increase because of an increase in the Libor rate. Developing countries would then have to dig into their reserves in order to pay a higher bill. Of course this is only a possibility.

Increase in South-South lending and the growing role of China

Private and public Banks in some developing countries (China, Brazil, India, Malaysia, South Africa) grant more and more loans to governments or companies in other developing countries. Loans by Chinese public banks to Africa have soared. In 2004-2006 Chinese banks lent two billion USD to developing countries for oil and gas development and production.[31] India, South Africa and Brazil as well as China are on the lookout for raw materials, which accounts for their banks granting more loans in order to back up supplies. These countries also try to sell their goods and services to other developing countries. The more vulnerable countries may thus fall into a new kind of dependence that will not necessarily be any better than the current one towards industrialized countries. In order to avoid this happening, South-South loans must be part of a more general process aiming at mutual empowerment.

The Bank of the South: the first step towards a new international financial architecture

It is all the more urgent to develop a new international institutional architecture which would include the WB and IMF being replaced by democratic institutions. The IMF and the WB will eventually overcome their ongoing crisis if developing countries do not rapidly develop new alternative financial instruments. Indeed were there to be a new financial crisis in developing countries, we can be sure that the IMF would be straight back in the lead as last resort creditors. Even though they have been weakened, these two institutions are still implementing their neo-liberal agenda.

Developing a new architecture will require the creation and reinforcement of South-South regional integration processes: setting up one or several Banks of the South that will have to coordinate their efforts, devising counter-trade mechanisms among developing countries that are based on solidarity.[32] Such mechanisms are already producing interesting results in Latin America and the Caribbean, for example a marked improvement in the field of health care, energy security (Petrocaribe), education and information (Telesur).

We must also continue to demand the cancellation of illegitimate public debts, whether internal or external, so as to free up new resources to meet human development, which forcibly requires that human rights be respected. This is why initiatives concerning debt auditing are essential.

We are witnessing a new phase of history. While nefarious practices continue, at the same time alternatives are beginning to emerge which empower the oppressed. These embryonic alternatives need all the support they can get. The time is ripe to reinforce and radicalize them, since the developing countries are in a position of strength compared to the industrial countries. Local ruling classes want to use the situation to buttress their own capitalist projects which can take the form of regional trade integration (the Chiang Mai agreement in East Asia or Mercosur in South America) but in a context that favours the pursuit of maximum private profits. Peoples and governments who want real change cannot be content with such projects; they can go further by taking advantage of this historic opportunity - an opportunity for emancipation not to be missed.

End notes:

1 His article follows on from "An International Situation Dominated by the Bursting of the North's Private Debt and Housing Bubble" also written in November 2007. The author has recently published several articles on the international economic situation and its alternatives: "The International Situation and the Debt: the new Challenges Facing CADTM" August 2007 http://www.cadtm.org/spip.php?article2800, "The Bank of the South: a Review of what is at stake" May 2007 http://www.cadtm.org/spip.php?article2655 , "Bank of the South, International Context and Alternatives" Sept 2006, http://www.cadtm.org/spip.php?article2040 , See also: Damien Millet, Eric Toussaint, "Banque du Sud contre Banque mondiale", Le Monde diplomatique, juin 2007. Centre/Periphery or industrialized countries/ developing countries. Neither of these descriptions is satisfactory.

2 The Shanghai stock exchange, which has seen a sharp rise throughout 2007, has nevertheless fallen in the second fortnight of November 2007. This would seem to indicate that investors are beginning to have doubts about the unfailing strength of the Chinese economy, and are starting to think that it could be affected by the crisis which erupted in the USA.

3 That said, the economic situation of Japan is particularly depressed. In the second quarter of 2007, the GDP had fallen by 1.2% when annualized. At the same time, investment spending fell back by 4.9%, while household consumption only progressed by 0.3%; yet these two items are the principal motors of growth. The Nikkei index on the stock-exchange has nose-dived. Salaries are stagnating and unemployment is up. Projected growth for the whole of 2007 was 1.7% but this will

depend on the success of the exports which are pulling the economy this year.

4 See the extended report on this subject in the Financial Times, 18 October 2007.

5 The Thai government had already taken steps to control capital movement in 2006 for the same reasons.

6 The value of foreign exchange reserves is calculated in dollars, the main international currency of foreign exchange reserves, although in fact, the reserves are also made up of other currencies: euros, yens, sterling, Swiss francs…Worldwide reserves for 2007 are 2/3 in dollars. ¼ in euros and the rest in other strong currencies. (See Bank for International Settlements, Annual Report 2007, Bale, p.97)

7 See the critical analysis of this policy in "Bank of the South, International Context and Alternatives" Sept 2006, http://www.cadtm.org/spip.php?article2040

8 This is the case of Venezuela, Russia, China. The Norwegian government has done the same thing to maximize the returns on petroleum. (See Bank for International Settlements, ibid, p. 104.)

9 Open letter to the Presidents of Argentina, Bolivia, Brazil, Ecuador, Paraguay and Venezuela. 26 June 2007 For a Bank of the South in accordance with peoples' rights, needs, potentialities and democratic vocation http://www.cadtm.org/spip.php?article2720. Second letter (in Spanish) : http://www.cadtm.org/spip.php?article2967

10 World Bank, Global Development Finance 2007, Washington DC, p. 46.

11 According to the calculations of the author. Neither the World Bank nor the other IFI provide reliable data on the reimbursement of the domestic public debt. The basis of the calculations is the following: according to the World Bank, in 2006, the internal public debt was three times higher than the external public debt. In 2006, the interest rate for the internal public debt of developing countries was generally higher than the interest rate for the external public debt. Since the repayment of the external public debt of developing countries amounted to about 280 billion dollars in 2006, we can estimate that the total repayment on the external and internal public debts exceeded the sum of 1000 billion dollars in 2006. In 2007, the amounts repaid were greater than those of 2006.

12 World Bank, Global Development Finance 2007, Washington DC, Tables, All Developing Countries

13 World Bank, Global Development Finance 2007, Washington DC, p. 53.

14 World Bank, Global Development Finance 2007, Washington DC, p. 54

15 The study was carried out by the IFAD (International Fund for Agricultural Development), one of the specialized UN agencies. See http://www.ifad.org/events/remittances/maps/index.htm

16 The reduction of farm land devoted to the production of cotton in the US will have a positive collateral effect for cotton producing countries in Africa (Mali, Benin, Burkina-Faso) and also Uzbekistan, because the price of cotton on the world market will go up.

17 World Bank, Global Development Finance 2007, Washington DC, p. 25.

18 See Vandana SHIVA, The Violence of the Green Revolution, Third World Network, Malaysia, 1993, 264p.

19 Newsweek, 12 novembre 2007.

20 Newsweek, 12 novembre 2007.

21 Pour une présentation critique du modèle chinois, voir Martin Hart-Landsberg – Paul Burkett, China: Entre el Socialismo real y el Capitalismo, Editorial CIM, Caracas, 2007.

22 It should be noted that to arrive at this figure the World Bank calculates in purchasing-power parity, which enables it to present the situation more positively.

23 Newsweek, 12 November 2007.

24 The Hindu, 24 September 2007

25 0 represents perfect equality and 100 total inequality

26 Financial Times, 12 October 2007

27 See Peter Backer in the Washington Post, article reproduced in Courrier International of 11 October 2007. According to the Washington Post, when Bush leaves office on 20 January 2009, the cost of war could reach 1000 billion dollars (since September 2001), or more than the cumulative cost of the Korean and Vietnam wars.

28 A calculation made jointly by United Nations specialized agencies: World Bank, WHO, UNDP, UNESCO, UNFPA, UNICEF and published in Implementing the 20/20 Initiative. Achieving universal access to basic social services, 1998, http://www.unicef.org/ceecis/pub_implement2020_en.pdf The above-mentioned agencies estimate that 80 billion dollars per year is the additional sum needed for expenditure relative to

the basic social services concerned, given that approximately 136 billion dollars are already devoted to them. The total annual amount to be guaranteed fluctuates between 206 billion and 216 billion dollars. For the detailed calculation see the document cited above, p. 20.

29 In 2000, Washington refused the European candidate and succeeded in having another European proposed.

30 Not forgetting that another European, Pascal Lamy, is Director-General of the WTO.

31 World Bank, Global Development Finance 2007, Washington DC, p. 44.

32 See the kind of trading developing between Bolivia, Venezuela and Cuba in 2006-2007, for instance in the fields of hydrocarbons, technology transfer, health care and education.

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Differences between 1982 and 2007-2008 crisis

Éric Toussaint

In 1982, the external public debt crisis of the developing countries was triggered by the combined effects of the rise in interest rates imposed by the United States two years earlier, and the fall in prices of raw materials, particularly oil. The epicentre was in the South and the first casualties were the governments of the developing countries, who suddenly found themselves owing enormous amounts in debt repayments.

The financial crises of the 1990s practically only affected developing countries - there was the Mexican crisis of 1994-1995, the Asian crisis of 1997-1998, the Russian crisis of 1998, the Brazilian in 1999, Turkish in 2000, Argentine in 2001-2002 and Brazilian again in 2002. Each crisis was triggered by sudden movements of capital and speculative attacks on the currencies of the countries concerned. Financial capital that had been directed towards these countries before the crisis was withdrawn, causing the crisis. It was a question of capital flight to safety, with capital being returned to the financial centres of the North, considered more secure.

In August 2007, a financial crisis exploded in the North in the world's leading economy, which so far has mainly affected private finance companies in the industrialized countries, especially in North America and in Western and Central Europe. For the moment, Japan has been spared as its private finance sector, directly hit by a debt crisis over 15 years ago, has barely had time to get started again. The Japanese crisis perhaps led Japanese bankers to be rather more prudent than their North-American and European counterparts[1]. The crisis in the financial system of the North is such that capital flight to safety is operating in the opposite direction to that of the

past. Capital is being directed away from the North towards the flourishing stock-exchanges of countries like India, China and Brazil[2], now perceived as safe havens. The phenomenon is so excessive that the Indian government, despite being neo-liberal, is considering ways of discouraging this inopportune capital inflow, which will force up the value of the Indian rupee and quite possibly flow out again shortly if more viable financial opportunities present themselves elsewhere in the world.[3]

The global situation has changed over the last 25 years in other ways, too:

1) History shows that between 1982 and 2004 there was a tendency for the price of raw materials to fall and the terms of exchange between industrialized and developing countries deteriorated. Since 2005, there has been a renewed sharp rise in prices.

2) Most developing countries register trade surpluses, especially China which is inundating the global markets with its manufactured goods.

3) In 1982 and the years that followed, developing countries' foreign exchange reserves were limited. Since 2002, slowly at first and gathering pace since 2005, they have continually increased.

4) Interconnected markets have led to an increase in private debt in both the North and the South in the form of complex types of derivative products which, far from ensuring greater stability, make for more opacity and speculation. We have a vast financial system with a considerable sector based on the accumulation of debt paper that could collapse at any moment like a house of cards.

5) Internal public debt has reached all-time highs in the developing countries, while the external public debt is falling. In the USA it has increased too, although more slowly, and in Japan it remains extremely high at 185% of the GDP, according to the IMF.

6) There is an explosion of food prices worldwide.

7) There has been a frenzied acceleration of the arms race led by the United States.

8) South-South capital flows are on the increase.

9) China is making itself felt as never before in international economic and financial relations.

10) A group of Latin American countries has launched the foundations of new multilateral regional institutions, starting with a Bank of the South.

Accumulation of developing countries' foreign exchange reserves

Since 2004, the economic situation has been characterized by the high price of raw materials and a number of agricultural products. This has allowed a large number of developing countries to increase their export revenues and accumulate significant foreign exchange reserves, especially countries which export oil, natural gas and minerals. Some agricultural exporters have also benefited from this favourable situation. China, by exporting manufactured goods, has accumulated impressive quantities of foreign exchange reserves, amounting to stock of over 1 400 billion dollars in December 2007. However, not all the developing countries are included in this scenario; some sub-Saharan African States have seen their situation take a turn for the worse.

In 2007, the developing countries together hold over 4 600 billion dollars[4] in foreign exchange reserves while the industrialized countries hold less than a third of this sum. How do the developing countries use their reserves?

1) A considerable share (certainly over 700 billion dollars[5]) is loaned to the United States through the purchase of Treasury bonds[6]. China lends the United States 400 billion dollars of its reserves, emanating from its trade surplus with them, so that the North-American economy can continue to buy Chinese products. Many Latin-American, Asian and African countries also lend part of their reserves to the USA. This conservative policy, which is absurd from the point of view of the interests of the populations concerned, is increasingly criticized.

2) A significant number of governments have taken the opportunity to make early repayments of their debts to the IMF, the World Bank, the Paris Club and private bankers.

3) Some have created development funds, into which they can place some of their foreign reserves, in view of financing social and infrastructure projects such as buying up companies in the industrialized countries[7]. These funds are known as Sovereign Wealth Funds. In order of importance, the biggest are those of the emirate of Abu Dhabi (the amount of fund is not published, but estimates place it between 250 and 875 billion dollars!!), then Kuwait, China, Singapore, Russia. Libya has just created a fund of 40 billion dollars. Venezuela created the "Fonden" (fund for national development) in early 2007. In all, the various public funds of the developing countries place about 2 000 billion dollars at their disposal. Some of these public funds, such as China's National Council for Social Security Fund - NCSSF - aim to back up the financing of their social security system. The biggest funds buy up companies in the industrialized countries or their shares, which is a source of anxiety for those governments. Many of these funds have taken advantage of the crisis faced by a number of big Western private banks since August 2007 to buy their shares (UBS, Merrill Lynch, Citigroup,…) This is the case particularly of the fund of Singapore (Temasek) and a number of Chinese ones. The developing countries are now having recourse to different policies from those adopted in the years following the oil boom of 1973. In those days, the governments of the developing countries recycled petrodollars by lending them to the private banks of the North and then became indebted to those banks. Present policies are more solid, but in no way break away from the dominant logic of capitalism. Investments are not made in alternative non-capitalist projects, whereas they could serve as powerful levers to set up policies reinforcing the public sector by breaking private control over the major means of production, developing a solidarity-based economy, and radically redistributing wealth by applying principles of justice and equality.

4) The creation of a Bank of the South. Since December 2007, the Bank of the South is on track, even though all the choices have yet to be concluded at the time of writing this text. Its founders (Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay, Venezuela) want to finance their

regional integration and social projects. The governments of Brazil and Argentina argue for a neo-developmentalist project of regional expansion of capitalist enterprises, based on the model of European integration where the interests of big capital dominate. The governments of Venezuela, Ecuador and Bolivia are inclined to provide themselves with an instrument to finance economic, social and cultural policies that break with the profit logic and which would apply the different conventions that guarantee civil, political, economic, social and cultural rights. The operation of the future Bank of the South has not been finalised, for example at the level of the voting rights of the member countries or on auditing mechanisms. The first trimester of 2008 should bring definitive answers. On the other hand, other countries are planning to create an ALBA bank (Bolivia, Cuba, Nicaragua, Venezuela).

Massive increase in domestic public debt

A recent development which also has to be considered is that the domestic public debt is increasing rapidly. In 1998 the internal and external debts were equal; in 2006 the domestic public debt exceeded the external debt by a factor of three[8]! This phenomenon is very important: from now on, it is no longer possible to measure the level of debt of developing countries solely on the basis of the external debt.

The weight of public debt repayments

The latest figures published by the World Bank indicate that servicing the external public and private debts by developing countries amounted to 540 billion dollars in 2006. If we only consider the servicing of the external public debt, since this falls under the responsibility of the state budget, it represented 280 billion dollars in 2006. Despite the fact that the external public debt/GDP ratio is decreasing, the total volume of the debt is continuing to rise and the amounts repaid increased once again in 2007 compared to the previous year. More ominously, if we include servicing the domestic public debt, which also falls under the state's responsibility, it is the astronomical sum of more than 1000 billion dollars a year which the public authorities of developing countries have to repay for both external and domestic public debt.[9]

Increase in the indebtedness of private firms

We must not lose sight of the increasing indebtedness of private firms of developing countries. The external debt of developing countries' private companies increased from 664 billion dollars in 2004 to 911 billion in 2006, which represents a hike of 37%[10]. Since the raw material exporting countries are witnessing an upturn in their fortunes, the private banks of the most industrialized countries have multiplied their loans to these private companies. The two private sectors which are indebting themselves most in developing countries are the banks and the firms dealing with hydrocarbons and raw materials. We must pay particular attention to this development: the private banks of the developing countries borrow from the North on low interest rates, mostly on a short-term basis, to lend this money to the internal market at a higher rate and on a long-term basis. If the economic situation suffers a downturn (which is likely in the coming years), we might witness a number of bankruptcies of the private banks of developing countries, just like the financial crises which hit Mexico in 1994-1995, the countries of South-East Asia and South Korea in 1997-1998, Ecuador in 1998-1999 and Argentina in 2001. Today's private debt of banks might, if we are not careful, become tomorrow's public debts. The same applies to the sector of hydrocarbons and minerals. Private petroleum, gas and mineral companies, take out loans in order to increase their production capacity and profit from the current high prices of raw materials. If the prices drop, the investments made through borrowing might not be profitable and the debt would become impossible to repay. It is imperative to limit and control this indebtedness.

Vulture funds descend upon weaker countries

Vulture funds are private investment funds that buy up large portions of the debt of a poor country on the secondary market, at a very low rate, in order to sue the country and obtain the face value of the debt they hold, plus late penalties. These vulture funds have already received close to one billion USD on court decisions. Just last April the London High Court ruled that Zambia was to pay 17 million USD to Donegal International for a debt they had bought for only 3 million in 1999. No less than 40 lawsuits have currently been filed against twenty countries of the South, most of them in Africa though some in Latin America. Eight lawsuits have been filed against the Democratic Republic of Congo, and courts have already ruled against the Congolese State in five of them. Here is another illustration: the US Kensington Funds has filed a case against Congo-Brazzaville for 400 million USD as payment of a debt they bought for USD 10 million. In the current legal context it is most likely that US judges will again decide in favour of the vulture funds.

Unstable LIBOR

The Libor (London Interbank Offered Rate) is the interest rate at which London banks lend money to each other. Almost all variable rate loans granted to developing countries are based on it. Loan contracts specify that the interest owed is equal to the LIBOR interest rate plus a given percentage, for instance, Libor + 3%. If the Libor rate is at 4.5 %, the interest owed will be 7.5 %. Since the crisis that started in August 2007, the Libor rate has been extremely unstable. When banks lose their confidence in each other the Libor rate increases. This is what happened in September when the Libor rate soared before decreasing again. If the crisis that started in August 2007 drags on, which is not at all impossible, the Libor rate may reach a much higher level than the present rate. In which case the following paradoxical situation could arise: the US interest rate falls while interest rates paid by developing countries actually increase because of an increase in the Libor rate. Developing countries would then have to dig into their reserves in order to pay a higher bill. Of course this is one possibility which should not be excluded and that developing countries must consider when making their choices.

Increase in South-South lending and the growing role of China

Private and public Banks in some developing countries (China, Brazil, India, Malaysia, South Africa) grant more and more loans to governments or companies in other developing countries. Loans by Chinese public banks to Africa have soared. In 2004-2006 Chinese banks lent two billion USD to developing countries for oil and gas development and production.[11] India, South Africa and Brazil as well as China are on the lookout for raw materials, which accounts for their banks granting more loans in order to back up supplies. These countries also try to sell their goods and services to other developing countries. The more vulnerable countries may thus fall into a new kind of dependence that will not necessarily be any better than the current one towards industrialized countries. In

order to avoid this happening, South-South loans must be part of a more general process aiming at mutual empowerment.

The Bank of the South: the first step towards a new international financial architecture

It is all the more essential to develop a new international institutional architecture which would include the WB and IMF being replaced by democratic institutions. The IMF and the WB will eventually overcome their ongoing crisis if developing countries do not rapidly develop new alternative financial instruments. Indeed were there to be a new financial crisis in developing countries, we can be sure that the IMF would be straight back in the lead as last resort creditors. Even though they have been weakened, these two institutions are still implementing their neo-liberal agenda.

Developing a new architecture will require the creation and reinforcement of South-South regional integration processes: setting up one or several Banks of the South that will have to coordinate their efforts, devising counter-trade mechanisms among developing countries that are based on solidarity.[12] Such mechanisms are already producing interesting results in Latin America and the Caribbean, for example a marked improvement in the field of health care, energy security (Petrocaribe), education and information (Telesur).

We must also continue to demand the cancellation of illegitimate public debts, whether internal or external, so as to free up new resources to meet human development, which forcibly requires that human rights be respected. This is why initiatives concerning debt auditing are essential.

We are witnessing a new phase of history. While nefarious practices continue, at the same time alternatives are beginning to emerge which empower the oppressed. These embryonic alternatives need all the support they can get. The time is ripe to reinforce and radicalize them, since the developing countries are in a position of strength compared to the industrial countries. Local ruling classes want to use the situation to buttress their own capitalist projects which can take the form of regional trade integration (the Chiang Mai agreement in East Asia or Mercosur in South America) but in a context that favours the pursuit of maximum private profits. Peoples and governments who want real change cannot be content with such projects; they can go further by taking advantage of this historic opportunity - an opportunity for emancipation not to be missed.

End notes:

1 That said, the economic situation of Japan is particularly depressed. In the second quarter of 2007, the GDP had fallen by 1.2% when annualized. At the same time, investment spending fell back by 4.9%, while household consumption only progressed by 0.3%; yet these two items are the principal motors of growth. The Nikkei index on the stock-exchange has nose-dived. Salaries are stagnating and unemployment is up. Projected growth for the whole of 2007 was 1.7% but this will depend on the success of the exports which are pulling the economy this year.

2 See the extended report on this subject in the Financial Times, 18 October 2007.

3 The Thai government had already taken steps to control capital movement in 2006 for the same reasons.

4 The value of foreign exchange reserves is calculated in dollars, the main international currency of foreign exchange reserves, although in fact, the reserves are also made up of other currencies: euros, yens, sterling, Swiss francs…Worldwide reserves for 2007 are 2/3 in dollars. ¼ in euros and the rest in other strong currencies. (See Bank for International Settlements, Annual Report 2007, Bale, p.97)

5 Estimation of the author. It is not unlikely that the amount is much higher but it is very difficult to obtain a precise number since the majority of central banks do not disclose how their reserves are divided.

6 See the critical analysis of this policy in "Bank of the South, International Context and Alternatives" Sept 2006, http://www.cadtm.org/spip.php?article2040

7 This is the case of Venezuela, Russia, China. The Norwegian government has done the same thing to maximize the returns on petroleum. (See Bank for International Settlements, ibid, p. 104.)

8 World Bank, Global Development Finance 2007, Washington DC, p. 46.

9 According to the calculations of the author. Neither the World Bank nor the other IFI provide reliable data on the reimbursement of the domestic public debt. The basis of the calculations is the following: according to the World Bank, in 2006, the internal public debt was three times higher than the external public debt. In 2006, the interest rate for the internal public debt of developing countries was generally higher than the interest rate for the external public debt. Since the repayment of the external public debt of developing countries amounted to about 280 billion dollars in 2006, we can estimate that the total repayment on the external and internal public debts exceeded the sum of 1000 billion dollars in 2006. In 2007, the amounts repaid were greater than those of 2006.

10 World Bank, Global Development Finance 2007, Washington DC, Tables, All Developing Countries

11 World Bank, Global Development Finance 2007, Washington DC, p. 44.

12 See the kind of trading developing between Bolivia, Venezuela and Cuba in 2006-2007, for instance in the fields of hydrocarbons, technology transfer, health care and education.

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Translated by Vicki Briault, Judith Harris, Christine Pagnoulle and Diren Valayden in collaboration with Elizabeth Anne.

The triple failing of the big private banks

Eric Toussaint
Damien Millet

Since August 2007, US and European banks have constantly made headline news concerning the deep crisis they are going through and its knock-on effect on the neoliberal economic system as a whole. Asset depreciation for these banks currently stands at over 200 billion dollars. Several banking research services and seasoned economists estimate that the final damage will exceed 1,000 billion dollars[1].

How did the banks manage to build such an irrational lending system? Eager for profit, mortgage companies made loans to a sector of the population that was already heavily indebted. The conditions attached to these mortgages – highly profitable for the lender – amounted to daylight robbery for the borrower: the interest rate was fixed and reasonable for the first two years but thereafter rose sharply. Lenders assured borrowers that the property they were buying would quickly appreciate thanks to the boom in the real estate sector. The problem was that the real estate bubble burst in 2007 and house prices started to go steadily down. The number of defaults on payment soared and mortgage brokers had trouble repaying their own loans. To protect themselves, the big banks either refused extra credit to the mortgage lenders or agreed to new loans at far higher interest rates. But the spiral did not stop there, since the big banks had bought up a large number of the original loans as off-balance sheet operations by creating specific companies called Structured Investment Vehicles (SIV), which finance the purchase of high yield mortgages converted into bonds (CDOs, or Collateralised Debt Obligations).

As from August 2007, investors stopped buying the unguaranteed commercial papers issued by SIVs, which no longer looked like a safe or credible option. Consequently, the SIVs lacked the liquidity needed to buy up mortgages and the crisis worsened. The big banks who had created the SIVs therefore had to bail them out to stop them going bankrupt. Up to then, SIV operations had not appeared in the banks' accounts (thus allowing them to conceal the risks involved), but now the SIV debts had to come out of the closet and onto the books.

The result was general panic. In the US, 84 mortgage companies either went bankrupt or partially stopped doing business between 1 January and 17 August 2007, as opposed to only 17 similar cases for the whole of 2006. In Germany, the IKB BANK and SachsenLB were saved by the skin of their teeth. Recently, in England, the bankrupt Northern Rock has had to be nationalised. On 13 March 2008, the Carlyle Capital Corporation (CCC) fund, known to be close to the Bush clan, collapsed with debts 32 times its capital. The following day, the prestigious US bank Bear Stearns (5th US investment bank) called on the US Federal Reserve to provide an emergency credit line. Bear Stearns is being snapped up by JPMorgan Chase for a mere pittance.

Several branches of the lending market are shaky constructions on the point of collapse. They drag into their misadventures the powerful banks, hedge funds or investment funds through which they were created. The salvage of these private financial institutions requires massive intervention on the part of the public authorities. And thus once again, profits accrue to the private sector, and losses to the public purse.

Which brings us to a key question: how is it that banks can readily waive bad debts to the tune of tens of billions of dollars yet have constantly refused to cancel the debts of developing countries? Why should the one be feasible and the other impossible? It should be remembered that the debts claimed today from these countries go back in the past to criminal dictatorships, corrupt regimes and leaders pandering to major powers and investors. The big banks lavished loans on such notorious regimes as that of Mobutu in Zaire, Suharto in Indonesia, the Latin-American dictatorships of the 1970s and 1980s, not to mention the apartheid regime in South Africa. How can the banks persist in inflicting the burden of debt on people who have suffered the consequences of despotic regimes funded by the banks themselves? From a legal standpoint, many of the debts appearing in their accounts are odious and as such should not be repaid. But the banks continue to demand their pound of flesh.

We should also remember that the Third World debt crisis was caused by the drastic unilateral hike in interest rates imposed by the Fed in 1982. Up to then the private banks had been happily handing out variable rate loans to countries that were already over-indebted. The crash came when these countries could no longer sustain repayments. Today history is repeating itself, this time in the North: overindebted households in the US are faced with mortgages that they can never repay as they watch the value of their properties plummet.

The recent waiving of debts by banks can only justify the claims of those who, like the CADTM, demand the cancellation of Third World debt. Why? Because the long-term debt of Third World public authorities towards international banks reached 181.9 billion dollars in 2006[2]. Since August 2007, the banks have had to cancel a far greater amount, with more still to come.

It is clear that the big private banks have failed in three ways:

- they have built up catastrophic private lending structures that have led to the present disaster;
- they have lent to despotic regimes and forced the democratic governments that replaced them to repay this odious debt down to the last cent;
- they refuse to cancel the debts of developing countries, for whom repayment means ever-worsening living conditions for their people.

For all these reasons, the banks must be held to account for their actions over the last decades. The governments of the countries of the South must make a full audit of their debts, as Ecuador is doing today, and repudiate all debts that are odious and illegitimate. The bankers have shown them that such a step is perfectly feasible. It would also be the first step towards restoring the true role of finance, which is to be of service to men and women. Everywhere, without exception.

End notes:

1 On 7 March 2008 Goldman Sachs research department estimated losses of 1,156 billion dollars, George Magnus of UBS in February floated a figure in excess of 1,000 billion, and Nouriel Roubini of New York University put the figure at 1,000 billion dollars at the very lowest (see http://www.rgemonitor.com/blog/roubini).

2 World Bank, Global Development Finance 2007.

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Eric Toussaint, president of CADTM Belgium, author of The World Bank: A Critical Primer, Pluto, London, 2008.

Translated by Judith Harris and Elizabeth Anne

Poverty and Development

Nicolás ANGULO SÁNCHEZ

There is a narrow and reciprocal relation between the reduction of poverty, development and human rights, because human development consists in the fulfillment of human rights and therefore, in the progressive reduction of poverty. Human development must be centered in the populations and the people who forms them, and its objectives are the improvement of their well being and respect for their dignity and identity. Therefore, to the extent that poverty supposes the antithesis of social development, it is a brutal and violent denial of each and every human right which substantially limits the scope of public freedoms of the poor, depriving them and the communities to which they belong of the necessary goods to lead a worthy life. And this should be a matter of interest in the science and praxis of economy.

Just like sustainable human development, poverty has a multidimensional and complex nature since it implies material elements such as hunger, malnutrition; lack of security, potable drinking water as well as for hygiene; health problems linked to easily curable diseases with the actual medicines and knowledge; precarious and unhealthy housing conditions; unemployment and subemployment, the scarcity of income; non-material elements such as illiteracy, restricted access to educational centers and several other public services; exclusion and social marginalization, violence, and ultimately, the lack of perspectives and expectations that the situation can improve, which leads to despair.

Likewise, poverty implies an important limitation of the rights of political participation. Therefore, it is valid to ask what freedom means to those who do not have enough to eat and even die of starvation, since human and civil rights have no meaning for those who vegetate in hunger, sickness and ignorance.

The World Bank (WB) established one dollar per day as the threshold of what has been called "extreme poverty", which is quite arbitrary, since the dollar is the currency of a developed country and its monetary value not only is not equivalent to the same amount of goods in different parts of the planet, but also the disparity can be very high. Moreover, establishing one dollar per day as the threshold of extreme poverty allows hiding that there is also this kind of poverty in countries that are presumably more "developed". In any case, if we take this dollar as a reference even with all its imprecisions, estimations are that between 1,200 and 1,300 million people all over the world live (sub-live) on less than one dollar a day. This presumes that one out of every four or five people live in conditions of "extreme poverty" and with scarce perspectives that their situation may change in the short term, since the number of people living in these conditions is not decreasing.

Some of the main difficulties that third world countries face are referred to the enormous burden of the foreign debt, the deterioration of the relation of commercial interchange, the decrease in the Official Development Assistance and the shortage of private capitals and human resources that go to those countries. Likewise, we must draw attention to the difficult situation that Africa faces, where poverty has reached particularly serious levels:

"Most of the continent is affected, among other things, by an insufficient physical and institutional infrastructure, scant development of human resources, lack of food security, malnutrition, hunger, epidemics, generalized diseases, unemployment and subemployment. Several conflicts and disasters must be added to this. These varied limitations and restrictions make it difficult for Africa to benefit fully from the processes of globalization and liberalization of commerce, and to fully integrate world economy" (paragraph 17) (1). This is the reason why "Africa's critical situation as well as that of less advanced countries demands that they be given priority in international cooperation for development and in the allocation of Official Development Assistance funds" (paragraph 185).

This dramatic situation leads many young Africans to desperately try to emigrate to Europe or other industrialized countries, many of them dying, or being ill-treated or injured, in the attempt of crossing increasingly difficult frontiers which are turning the richest and industrialized countries into a sort of inaccessible fortresses, openly contradicting their repeatedly self-proclaimed “freedom”.

Extreme poverty supposes the denial of every human right and that freedom without respect and fulfillment of economic, social and cultural rights is but an illusion. One particularly relevant summit was the World Conference on Social Development which took place in Copenhagen in 1995, which ended with the approval of the Declaration about Social Development, which put forward the eradication of poverty as the main objective of the international community as an ethical, social, political and economic obligation of humanity. Poverty is defined as a complex and multidimensional problem that requires an integrated and intersectorial approach, just like human and sustainable development. In the end, poverty is the consequence of the denial of development and therefore, of human rights, including economic, social and cultural rights.

According to what was said in that Summit, one of the relevant aspects of poverty expresses itself through the lack of participation of the most vulnerable groups and individuals in the adoption of decisions in civilian, social and cultural life. This is because poverty is a strong disadvantage for communication and the access to the institutions, markets, employment and public services, which causes these sectors of the population to remain forgotten and marginalized by those in charge of elaborating and deciding policies. Moreover, the satisfaction of basic needs is considered essential for the reduction of poverty, and in order to achieve this, creating worthy jobs is a must.

Another fundamental aspect in order to understand and define poverty consists in what is called the relational aspect, which is a factor that is often left aside by liberal authors. This relational component is closely linked to the feeling of dignity and self-esteem, which is an aspect that the poor themselves often stress when they define and describe what poverty is and what makes them feel poor.

Poverty isn’t only the mere shortage of income, but also the lack of development of the capabilities of personal faculties due to hardships or lack of means and basic resources in order to fulfill personal development. Thus, poverty means a deficient standard of living, of security and self-esteem. Therefore, poverty is subdivided into two main dimensions: the economic one, linked to the shortage of income to satisfy basic needs, and social, which is

closely linked to “social exclusion” and where the relational aspect mentioned before is highly important, especially in the richer and industrialized countries.

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Nicolás Angulo Sánchez is author of the book El derecho humano al desarrollo frente a la mundialización del mercado, editorial Iepala, Madrid, 2005 (http://www.revistafuturos.info/resenas/resenas13/derecho_desarrollo.htm).

Translation by “Mirada Global”

Report of the Workshop on International Financial Institutions:

Impact on Democracy & Governance in South Asia

A South Asian regional workshop on Debt and IFIs was held from January 15-17, 2008. 52 delegates from Sri Lanka, India, Pakistan, Bangladesh and Nepal met near Colombo, Sri Lanka. Delegates from CADTM Belgium also participated in the workshop. It was organised by South Asian Alliance for Poverty Eradication (SAAPE), Vikas Adhyayan Kendra (VAK), Comite pour l'Annulation de la Dette du Tiers Monde (CADTM) and Alliance for the Protection of Natural Resource and Human Rights (ANRHR).

The workshop began with the introductory theme note by Linus Jayatilake (from the Sri Lankan trade union CIWU) and Sushovan Dhar (from VAK). Later, Ajit Muricken (Director of VAK) presented the various publications of VAK, which has consistently published materials on Structural Adjustment Policies, globalisation, operations of finance, capital and international debt. Mr. Muricken also spoke about the changing socio political reality induced by the IMF – WB. The Banks imposition of free trade on the countries of the south as loan conditionalities accelerated economic globalism which severally and even violently restructuring the world. Its effect has been as devastating as the Tsunami that ravaged many of these countries. Rapid import liberalisation in South Asian countries has often intensified poverty and inequality. Populations in these countries suffer untold hardships as their countries have to pay back loans to rich creditors of the North. This has exacerbated inequalities and marginalization. The loan conditionalities attached to the IMF and World Bank programmes are thus a major part of the problem.

Eric Toussaint, CADTM, Belgium, provided historical evolution of the Bretton Wood Institutions incorporating five periods of its evolution and growth: 1944-1962, 1962-1968, 1968-1982, 1982-1996, 1996-2008.

According to Eric Toussaint debt repayment sucks up part of the social surplus produced by the workers of the South (whether salary earners, small individual or family producers, or workers in the informal sector) and directs this flow of wealth toward the holders of capital in the North, with the ruling classes of the South taking their commission. Thus, the latter grow rich, while the national economies they head stagnate or regress and the populations of the South grow poorer.

The consultation provided space for presentation of case studies and sharing on the current economic and political situations and the World Bank's role in influencing policies in the South. Penetrating analysis of the impacts of indebtedness and of the policies of the International Financial Institutions in various regions of the South Asian countries highlighted the negative impact of IFS on the life and livelihood of the people. The negative impact include Water privatisation, hydraulic projects of World Bank in Nepal, forced eviction of indigenous people for so called "ecological" project funded by the World Bank in India, mineral exploration in the several States by the TNCs displacing thousands of people from their livelihood support systems were identified as the main issues.

Participants from Sri Lanka in their interventions highlighted socio political crisis in Sri Lanka as a result protracted ethno-political conflict, produces a vicious cycle of civil war with consequences of violence, death displacement of civilian population and violation of civil and human rights. The violations of civil rights have been routinised in times of intense war – arrests, torture, abductions and civilian killings. Increasing indebtedness to the International Financial Institutions especially has severely affected and destroyed the traditional support system of small peasantry, fisher folk; destruction of natural resources, subsistence economy.

The meeting was also addressed by Tissa Balasuriya from the Centre for Society and Religion, Sri Lanka in which he traced back history, in the context of the plunder, the genocide, the monopolisation of the land and wealth - an initiative which started in 1492 at the time of the brutal European aggression against the populations of what were later called Americas, and also the West Indies. He insisted on the entire relativity of the current concept of terrorism compared to this context. He pointed out the flight of technologies (weaving in India by the British), the slavery blessed by the theologists themselves, the racism which was at the base of the division of wealth and markets. It is now necessary to inverse the notion of indebtedness and demand compensation. The religions should take note of these social questions.

The workshop also dealt in great detail analyzing the IMF–induced SAP programme of the 1990s that enforced the trade liberalisation regime, preoccupied in the pursuit of the new economic policies, and the liberalisation of agriculture which has transformed food into a commodity, in the global market for sale, from something that nourished the people and provided them with a secure livelihood, into a commodity for speculation and bargaining.

Eric Toussaint in his second day presentation also highlighted the need for an alternate agenda comprising of a democratic and internationalist alternative to the neoliberal capitalist globalisation; supremacy of human rights, social rights and the rights of the environment over the demands of capital; the need to bring about equality between women and men; need to deepen the crisis of legitimacy of the World Bank, the IMF, the WTO, the Davos Forum, the G8 and the mega TNCs; demand for the unconditional cancellation of the Third World debt and the abandonment of structural adjustment policies; demand for a halt to trade deregulation and rejecting the present definition of trade-related intellectual property rights; demand for the protection of natural resources and public property by preventing their privatisation; demand for a ban on the use of genetically modified plants and patents on life; obstruct the arms trade and militarist policies (such as the US Colombia Plan); and assert the right of populations to endogenous development.

The second day deliberation revolved around the current international crisis and was addressed by Eric Toussaint where he explained in brief how the current epicentre of the crisis is situated in the industrialised North while, in 1982, it was found in the Third World countries.

In the inter-active session, the participants dealt at the length on the question of the need to abolition of World Bank and its replacements by the other global institutions.

Can the IMF and the World Bank be reformed? The answer is obvious: according to Eric, these institutions should be abolished and replaced by other global institutions. They should be abolished because their property-based constitutions, their allegiance to a very limited number of countries (of which only one, the United States, has the veto on any decision it may wish to block, even if all 183 other members wanted it to go forward) and the distribution of power within their ranks are incompatible with any truly democratic reform. Other multilateral institutions should be set up in their stead (whether with the same names or different ones does not matter) based on the democratic principle contained in the UN Charter (one State, one vote) and with the mission of ensuring monetary stability internationally, controlling capital movements, offering low-interest loans not tied to neo-liberal monetarist conditionalities, and returning what was stolen from them to the countries of the Periphery.

Mankind should be endowed with international institutions where every people of the world can really find its place. Institutions where the national delegates could debate questions central to humanity in public (broadcast on television and radio). These will be Institutions where the GDP or the military force of certain countries - or of one country - would have no weight in the decision-making process.

There were interventions from Sharath Fernando, Linus Jayatilake, Niel Wijethilaka, Rajan (plantation worker and trade union leader), Jude Pernan, (leader of a fisher folks association) from Sir Lanka highlighting the current plight from different angles. Following this Monower Mostafa from Bangladesh, Abdul Khaliq from Pakistan, Anivar Aravind, Roy David, Sanjay K. Rai, Satish Samuel, William Stanley from India made interesting presentations highlighting the issue of debt and the role of IFIs like the World Bank, IMF and the ADB.

The participants identified the following issues as common experience in South Asia; privatisation promotes reduction in employment, evictions and migrations, growth of the informal sector, increase in the workload for women, deterioration in the working conditions, increase of costs for goods and services. The debt leads to reduction in the social services, loss of dignity and social power, violation of human rights, displacements, erosion of democracy, increased control of IFIs and TNCs on local resources.

The participants identified the following strategies to demand the repudiation of the debt as well as demand compensations for ecological debt and sustainable development, the creation of a Bank of the South favourable to the interests of the poor and independent of the imperial countries and TNCs.

To achieve the above demands, the following strategies were identified as plan of action; mass mobilization of the affected communities, establish solidarity linkages across the South Asia on issues related to debt, raising consciousness about the alternatives at a global, regional and national level; independent research on IFIs and the impact of their policies; documenting the experiences of alternatives and of best practices.