Old shackles, rising new masters? On Southern debt today

In 2015, the Chief Economist of the Bank of England declared that after the 2008 crisis centred in the United States (US), and the European crisis of 2011/12, the world might have entered "Part Three of the [crisis] trilogy, the 'Emerging Market' crisis of 2015 onwards."[1] Lower income economies are left with a "debt overhang" amid decreasing commodity prices and rising US interest rates—which made paying debts more difficult.

As of January 2019, global debt is at USD 184 trillion in nominal terms, or 225% of world GDP in 2017.[2] Both private sector debt and public debt are increasing. Public debt is higher than before the 2008 crisis, and this applies to "advanced" economies, "middle income" and also to low income countries.[3] The International Monetary Fund (IMF) said that Europe must have "contingency plans" in the event of a crisis.

Today's debt concerns are occurring amid other risks, more than a decade since the last financial crisis. First, global growth continues to stagnate. The IMF lowered its projection of world growth for 2019. Even capitalist centres such as the US (with others) have a shrinking manufacturing sector[4] and the rising power China is afflicted by manufacturing decline amid overcapacity. This is not helped by the "trade war" that threatens business confidence, among others. Second, corporate concentration continues to rise, including in financial corporations, amid widening economic inequality. Third, there is the ever-urgent climate crisis, now dubbed an emergency that poses worse weather events for peoples in the South.

Financing development effectively for the people is increasingly important amid these risks. But many of non-debt finance sources are decreasing and face issues in quality. Generating revenue from domestic sources such as taxation remain difficult given draining of Southern coffers, with billions lost due to multinational corporations' (MNCs) "illicit flows" and liberalisation that "intergrated" Southern states into unstable international finance markets.[5] Official development assistance (ODA) or "aid," the public money channelled in Northern donors' grants (and loans with substantive grant elements), are far from donors' commitments to provide 0.7% worth of their Gross National Income (GNI).

It is also a common concern that foreign policy goals of donors and capital-holders' profit remain primary over public interests of addressing poverty and structural changes. Foreign direct investment (FDI) to the South is slowly decreasing, but there are also concerns on how it drives Southern resource extraction and low labour costs. Forty percent of world FDI are also done to evade taxes, but laws to encourage FDI continues to be a norm.[6] On the other hand, ODA is oriented towards the motive for commercial returns as it is increasingly shifted for use in attracting private finance to Southern infrastructure in "blended finance."

For a long time, Southern countries have turned to debt to finance their economies, such as during the last decades of the 20th century--which resulted in crises as debts have been tools for foreign policy and economic domination. In the 2015 Addis Ababa Action Agenda, borrowing is still considered "an important tool for financing investment critical to achieving sustainable development".[7] A crucial aspect is to ensure that debts do not drain countries' economic resources, hence appeals in the sustainable development goals to "assist developing countries in attaining long-term debt sustainability."

BOX 1. WHAT IS DEBT?

Debt is the relation between 1) a borrower who receives a certain amount with the promise of later payment, and 2) a creditor or lender, to whom this amount is owed. Borrowers promise to pay not just the original amount owed (the "principal"), but additional amounts in "interest" for a set period of time. Private debt refers to those incurred by households, corporations and businesses, with public debt being amounts borrowed by governments. When they borrow from banks and other public actors within their country, this is called domestic debt. Businesses and governments incur external debt when they borrow from international lenders. Thus there is external public debt, or sovereign debt, comprised of government borrowings from big foreign banks, multilateral institutions such as the International Monetary Fund (IMF), and other governments usually of high income countries. This could also include private debts that would be "guaranteed" for payment by governments.

Debt in the South

The debt of the global South has been increasing since 2009. This has been since the US lowered interest rates after the 2008 crisis, which made it cheaper to borrow within the US but less profitable to maintain capital within the country, driving capital export to countries where they could yield more returns—such as in countries of the global South.[8]

Public debt is a crucial concern of peoples in the global South since governments pay their debts out of public resources, such as government budgets generated from tax collection, and countries' earnings from exports. When governments have to pay large, unsustainable debts, this can affect their economies and peoples as more resources are used up for debts instead of allocations for education, healthcare, housing and other social services; ensuring food production addresses people's needs; and improving economic productivity. On the other hand, even debt-burdened governments are concerned about their access to capital and finance—such as more loans—which could be compromised in debt crisis situations.

For peoples in the global South, external public debt has been even more of a concern. Aside from allocations away from people's needs, external public debt also entailed people's resources flowing out of economies for debts entered by elite-led governments with the external creditors: from finance capitalists usually centred in developed countries, US-led international finance institutions (IFIs) such as the IMF, and lender governments such as the US, European Union states, Japan and others.

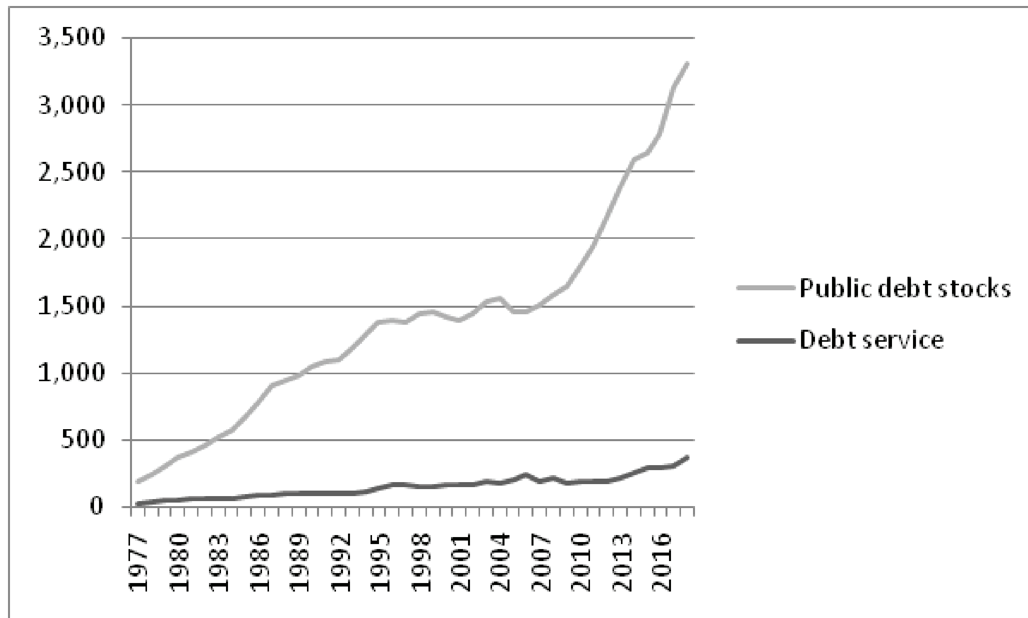
Is Southern debt sustainable?

Foreign debt of both Southern governments and private entities are on the rise. In 2018, external public debts of low- and middle-income countries "rose 5.2%" with the debt of China (still classified as a developing country) rising by 15% to USD 2 trillion, according to the World Bank. Excluding China, the increase in debt stock of Southern countries would be around 2%.[9]

> ***"Amounts funnelled for debt servicing in 2018 were double compared to 2008, and 17 times greater than in 1977."***

By end 2018, around one-third of low- and middle-income countries had an external debt-to-GNI ratio above 60%, and 9% of countries had above 100% debt ratios. As per an IMF assessment for September 2019, nine low-income countries are thus already in "debt distress" or the inability to pay debts, with 25 others in high risk of ending up the same.[10] Many of these countries are located in Africa. Twenty-three other countries are in moderate risk (see ***Table 1***).

Figure 1. *Rising public debt, debt service payments of low- and middle-income countries, 1977-2018*



Source: Computations from World Bank data, International Debt Statistics database. https://databank.worldbank.org/source/international-debt-statistics#

According to Jubilee Germany, 122 Southern countries are "critically in debt," with 17 having stopped its payments. The regions of Latin America and the Caribbean and Sub-Saharan Africa are the regions under the most critical state.[11]

Looking at the picture from an even longer timeframe shows a trend of unsustainable debts, with rising external government debt and payments for interest by low- and middle-income countries since the neoliberal decades, although with the accumulation of debt stocks increasing at a much larger rate (see ***Figure 1***).

Amounts funnelled for debt servicing were at USD 2.9 trillion in 2018, double compared to ten years before during 2008, and 17 times greater compared to USD 169 billion in 1977. Interest payments alone in 2018, at USD 112 billion, grew almost double from 2008 and 15 times from 1977.

There is also the historical reality of financial drain through public debts, where more money has been siphoned out of Southern economies compared to the amounts entering. From 1977 to 2008, Southern governments have received USD 3.4 trillion from loan disbursements (the finance released to borrowers), but paid back USD 3.7 trillion in total (in principal and interest).

This means that in this span of time, creditors have actually gained USD 304 billion just from Southern debts.

After 2008, with low interest rates and low commodity prices encouraging new debts in the South, disbursements have climbed compared to debt servicing (see ***Figure 2***). This is expected to reverse again when it is time for the South pay the new debts contracted. Nonetheless, historical transfers back to creditor countries indicate how these could adversely transfer resources away from debtor economies.

Aside from these, there are also concerns about "hidden" debts arising from the continuing promotion of public-private partnerships (PPPs). This is as PPP arrangements typically involve "contingent liabilities," or "off-budget" payments that have to be made should certain conditions arise that affect the returns to the private entity (e.g., sudden shifts in exchange rates).[12]

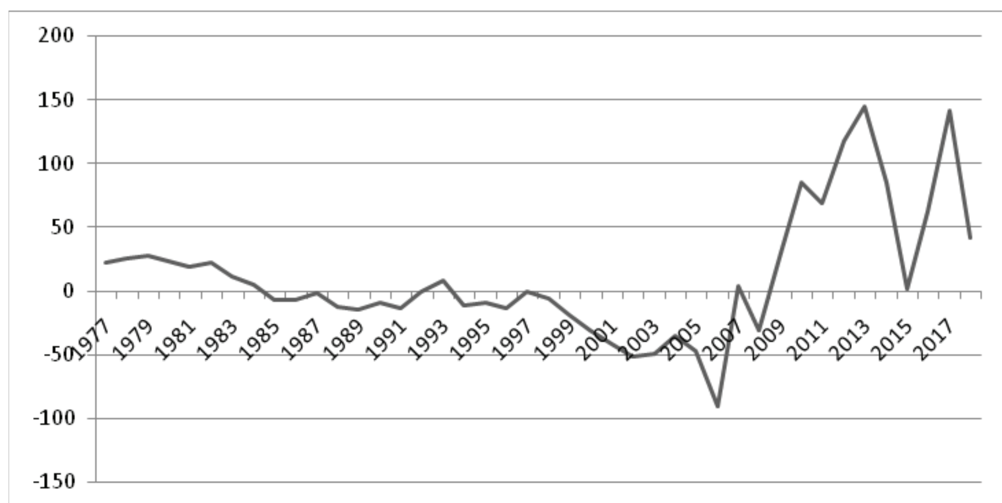
Table 1. *IMF list of low income countries at risk of debt distress*

Low risk	Moderate risk	High risk	Already in debt distress
Bangladesh (SA)*	Benin (SSA)	Afghanistan (SA)	Republic of Congo (SSA)
Cambodia (EAP)	Bhutan (SA)	Burundi (SSA)	Gambia (SSA)
Honduras (LAC)	Burkina Faso (SSA)	Cameroon (SSA)	Grenada (LAC)
Madagascar (SSA)	Comoros (SSA)	Cabo Verde (SSA)	Mozambique (SSA)
Moldova (ECA)	Democratic Republic of Congo (SSA)	Central African Republic (SSA)	São Tomé and Príncipe (SSA)
Myanmar (EAP)	Côte d'Ivoire (SSA)	Chad (SSA)	Somalia (SSA)
Nepal (SA)	Guinea (SSA)	Djibouti (MENA)	South Sudan (SSA)
Rwanda (SSA)	Guinea-Bissau (SSA)	Dominica (LAC)	Sudan (SSA)
Senegal (SSA)	Guyana (LAC)	Ethiopia (SSA)	Zimbabwe (SSA)
Tanzania (SSA)	Kenya (SSA)	Ghana (SSA)	
Timor Leste (EAP)	Kyrgyzstan (ECA)	Haiti (LAC)	
Uganda (SSA)	Lesotho (SSA)	Kiribati (EAP)	
Uzbekistan (ECA)	Liberia (SSA)	Laos (EAP)	
	Malawi (SSA)	Maldives (SA)	
	Mali (SSA)	Marshall Islands (EAP)	
	Nicaragua (LAC)	Mauritania (SSA)	
	Niger (SSA)	Micronesia (EAP)	
	Papua New Guinea (EAP)	Samoa (EAP)	
	Solomon Islands (EAP)	Sierra Leone (SSA)	
	St. Lucia (LAC)	St. Vincent and the Grenadines (LAC)	
	Togo (SSA)	Tajikistan (ECA)	
	Vanuatu (EAP)	Tonga (EAP)	
	Yemen (MENA)	Tuvalu (EAP)	
		Zambia (SSA)	

**World Bank regions' classification: South Asia (SA); East Asia and the Pacific (EAP); Latin America and the Caribbean (LAC); Sub-Saharan Africa (SSA); Europe and Central Asia (ECA); Middle East and North Africa (MENA)*

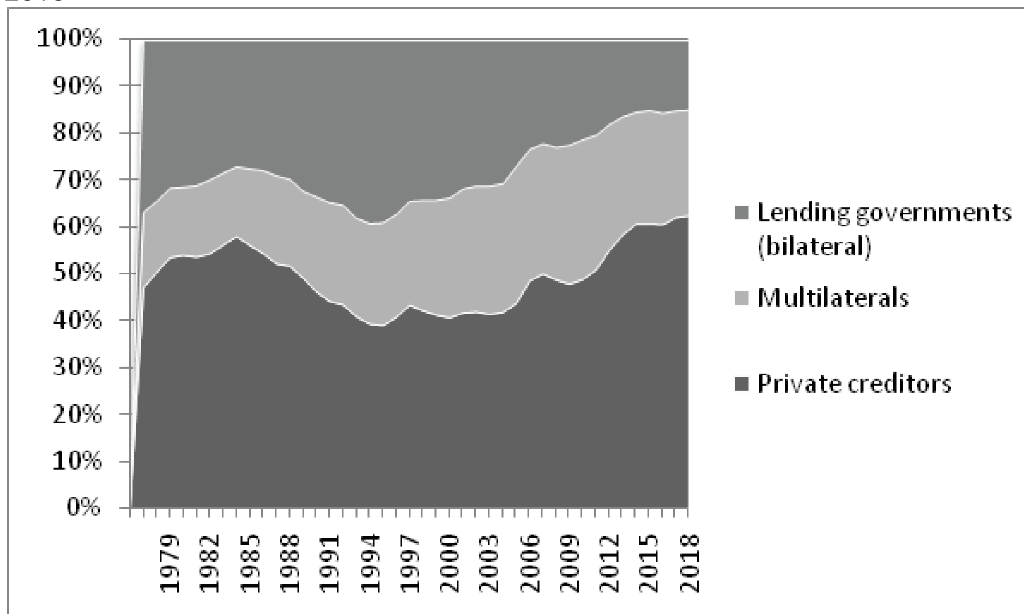
Source: iMF. 2019. List of LIC DSAs for PRGT-Eligible Countries as of September 30, 2019. https://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf

Figure 2. *Flow of money back to creditor countries, reversed after 2008 (negative means transfer from borrower to creditor)*



Source: Computations from World Bank data, International Debt Statistics database. https://databank.worldbank.org/source/international-debt-statistics#

Figure 3. *Increase in Southern debt owed to private, multilateral creditors, 1977-2018*



Source: Computations from World Bank data, International Debt Statistics database. https://databank.worldbank.org/source/international-debt-statistics#

Old shackles: Who are the main creditors?

To whom are historical and continuing debts owed? Main creditors remain to be private entities (e.g., banks, private bondholders), multilateral lenders (e.g. ,IMF and other development banks), and bilateral creditors (i.e., governments)—they continue to be the main recipients of would-be Southern payments on principal and interest (see ***Figure 3***).

Banks and other institutional and individual holders of bonded loans ("bonds"), multilateral institutions such as the IMF-World Bank, and lending governments continue to have claim to trillions worth from Southern government debt especially since the 2008 crisis.

Around 72% of public debts in both regions of Latin America and the Caribbean as well as Central Asia (and the few developing countries in Europe), are owed to private creditors from 2008 to 2018. Private finance has captured 51% of the total debts in East Asia and the Pacific, 30% in South Asia, and 38% and 34%, respectively, for Sub-Saharan Africa and West Asia and North Africa.[13]

On the other hand, multilateral creditor institutions which include regional banks and the IMF-World Bank will have claims to 45% of South Asian debt, 32% in Sub-Saharan Africa, 31% in West Asia and North Africa, and around 20% each in East Asia and the Pacific, Latin America and Central Asia.

BOX 2. IMF-WORLD BANK: STRUCTURAL ADJUSTMENT AND "DEBT RESTRUCURING" INITIATIVES"

The US remains to have highest voting shares in both the IMF, mandated to ensure financial stability of the world economy, and the World Bank Group, mandated to supposedly end extreme poverty and create prosperity. The top leadership of the IMF and the World Bank have traditionally been a European and a US citizen, respectively. The US-led IMF acts as a de facto lender of last resort, providing loans to countries in debt when they are unable to pay. Historically, the IMF has also been an international financial "disciplinarian,"[14] driving Southern countries to "reforms" that supposedly allow them to stabilise their economies.

Of 58,406 conditionalities that came with IMF loans from 1984 to 2014, 87% of the dictated policy shifts revolved around just five policy areas: external debt (e.g., addressing overdue payments); the financial sector; revenue and tax policy; and trade, investments and exchange (e.g., liberalisation, increasing foreign exchange reserves).[15] The rest is related to privatisation, the labour sector (e.g., wage limits), other reforms (e.g., "anti-corruption", promoting the "private sector"), and finally, supposed poverty reduction policies.

Reforms from IMF-World Bank structural adjustment programs, and conditional loans in general, have garnered significant concerns due to their effects on people's rights (to be discussed below).

People's calls against Southern debt burdens and conditionalities were intense towards the 21st century. As a reaction, international institutions with the backing of creditor states launched the Highly Indebted Poor Country (HIPC) Initiative in 1996 and the Multilateral Debt Relief Initiative (MDRI) in 2005. Thirty-six countries, mostly in Africa, were involved in the HIPC; it required them to work out a Poverty Reduction Strategy Paper on neoliberal "Washington consensus"[16] priorities, with many countries increasing their debt burdens during the initiative.[17]

The requirement of neoliberal reforms were also sealed in the later MDRI as it required completion of the HIPC Initiative.[18] Some critique these initiatives for only making Southern debt "sustainable" in the sense of creating conditions for stable debt servicing and full repayment of remaining balances to the creditors, instead of addressing debt overhang as an issue of people's rights.

For 76 countries eligible for loans from the World Bank's International Development Association (IDA), between 35-50% of new debts from 2015 to 2018 are owed to multilateral institutions such as, indeed, the World Bank—with the IDA itself owning 26% of this debt in 2018.[19] Finally, bilateral government lending comprises generally smaller portions of debts in Southern regions: 34% in West Asia and North Africa and as low as 6% in Latin America.

"Creditors have platforms that give them greater bargaining power vis-a-vis debtors."

Aside from their claims to the payments for Southern debt, these creditors have platforms that give them greater bargaining power vis-a-vis debtors.

Historically, lender governments had what has been called the "Paris Club" as an informal formation of pressure over Southern peoples (aside from formal institutions such as the US-led IMF-World Bank, see Box 2). This Club, dominated by traditional lender states, hold confidential meetings and "negotiations" with Southern governments in crisis to restructure debts on a "case-to-case" basis. This is not to repudiate unjust and odious debts, but rather arrange possible ways for future repayment and continuing interest payments.

New creditors? China as a rising bilateral creditor

These traditional lenders are either big finance capital-holders in developed countries, or are developed country governments themselves. Amid its increasing notoriety in Western media, where can China be placed in the global architecture of debt relations?

China, still classified as an "upper middle-income country," has a history of being a borrower from traditional lenders. Large-scale borrowings and investment including from abroad marked China's rise and integration within the world economy dominated by corporate giants and powers such as the US. For instance, 37% of such flows to low- and middle-income countries from 2009 to 2018, totalling at USD 3.8 trillion, went to China alone. It has a total external debt stock of USD 1.96 trillion by end-2018, with most of the 15% increase from 2017 attributable to China's liberalisation of its financial markets and increasing renminbi debts.[20]

Today, China praises the "free flow" of capital and labour, a global "free trade regime" and "deep integration to markets" in responding to the economic and development challenges after 2008. Its economic rise is alongside state intervention, a growing number of China's state-owned enterprises (SOEs) are among the world's largest corporations, and policies of "going out" through outward investment and "opening up".[21]

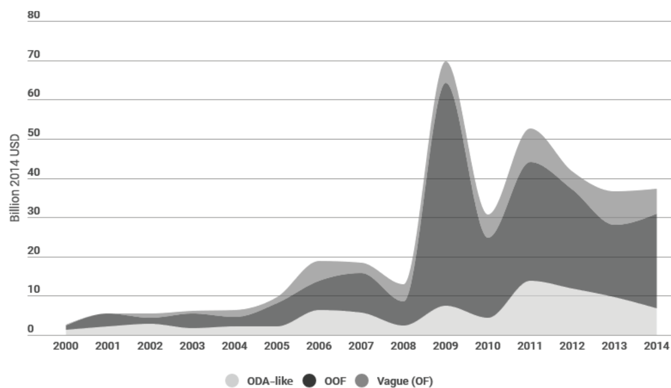
Foreign investment has been encouraged, matched by indications of privatisation for SOEs. By 2018, according to the Deputy Governor of the People's Bank of China, state-owned economic activity account for "less than 40% of GDP," market shares of SOEs have been in decline, and fully state-owned companies are now "very limited".[22]

It has also begun leading international institutions such as the Asian Infrastructure Investment Bank (AIIB) which both compete, but at the same time cooperate, with the traditionally US-led system of the IMF-World Bank.

With an increasing need for capital export, China has offloaded excess capital through investments and loans within and outside the Belt and Road Initiative (BRI). AidData reports, amid limited information available, that China has released at least USD 81 billion of "ODA-like," concessional finance and USD 216 billion in more commercial financing flows from 2000 to 2014[23] (*see **Figure 4***).

Different organisations also estimate that the rising power supposedly channelled at least USD 48 billion of finance to East Asia and the Pacific from 2000 to 2016;[24] USD 140 billion to Latin America and the Caribbean from 2005 to 2018;[25] and USD 142 billion to Africa from 2000 to 2016.[26]

Figure 4. *China's "ODA-like" and commercial credit flows, 2000-2014*



Source: AidData. 2017. https://www.aiddata.org/china-official-finance

While not part of the Paris Club of creditors, China's lending is done along the general lines of its foreign and economic policy. Lending through BRI has promoted the country's corporations as contractors or financiers. Some claim that Southern countries look to China's financing through loans and investments due to the absence of "strings" attached,[27] which could mean conditionalities based on the Western economic model but can possibly refer also to requirements in line with human rights and environmental standards.

Estimates of effects from China's lending vary, given constraints in data availability. The China-Africa Research Initiative on the other hand claims that of the 17 African countries in alarming debt risks, eight have only meagre debts to China; six have substantial Chinese debts but also to other traditional creditors; but also three in distress by virtue of Chinese loans—with the conclusion that the rising power is "not currently a major contributor" to African debt distress.[28]

There are also assessments of worsening debt burdens in at least eight BRI countries–namely Pakistan, Mongolia, Djibouti, Laos, Kyrgyzstan, Maldives and Montenegro–despite being "unlikely to cause a systemic problem in the regions of the initiative's focus."[29] On the other hand, some have cited potentially threatening Southern debt burdens due to China, arising from debtor countries' unreported hidden debts to the rising power.[30]

"Chinese lending can worsen the drain on Southern economies insofar as it adds to the decades of financial and economic bleeding because of traditional creditors."

Meanwhile, others have cited China's debt renegotiations that are supposedly more "balanced" towards the borrower: in 40 cases of debt renegotiations (involving 24 countries), 11 cases resulted to writing off small portions of debts, with exceptions such as the USD 5 billion written off from Cuba's debt.[31]

The question of "debt traps" must be considered in relation to broader systemic issues. Historical and systemic factors are related to Southern debt, such as prevailing commodity-dependent export orientation (see next sections). Southern debt is also an issue of power imbalances, with creditor blocs of mostly high-income countries such as the Paris Club having greater bargaining power vis-a-vis individual debtor countries.

The US-led IMF plays the role as a financial "disciplinarian" to ensure that debtor countries remain solvent enough to pay despite defaults, and with steps done towards ensuring creditors are paid. There are elites in debtor states that have entrenched debt-dependent economies and compromised people's development prospects. Such unbalanced power relations have been against peoples in debt-burdened countries– from Mexico in the 1980s to the Greek crisis after 2008.

Chinese lending can thus worsen the drain on Southern economies insofar as it adds to the decades of financial and economic bleeding because of traditional creditors. On the part of Southern debtor countries, China's rise as a creditor sustains this overall system that promotes debt reliance and maldevelopment.

Old shackles: Debt and the commodity-dependence trap

For Southern countries, export earnings from commodities are a major source of money used to pay external debts denominated in foreign currency such as the dollar. Taxes are also another possible source of funding to pay debts, and increased taxation has been a recommendation in IMF agreements, with tax burdens passed onto citizens, burdening the poor.

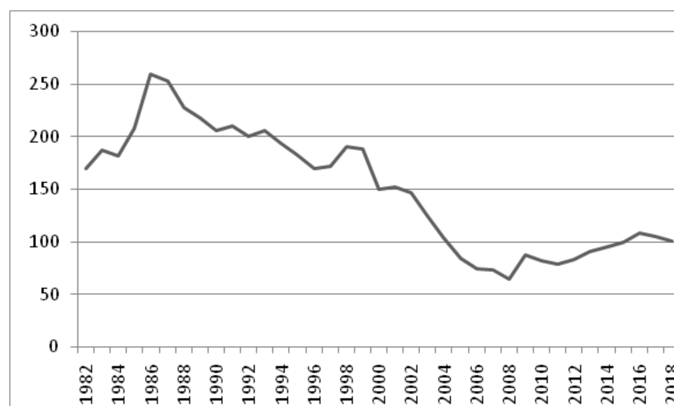
> ***"Aiming for high export earnings and foreign exchange reserves makes sense only where large amount of debts is in foreign currency. More than 75% of debts of low- and middle-income countries have been in US dollars."***

Aiming for high export earnings and foreign exchange reserves makes sense only where large amount of debts is in foreign currency. Indeed, this is the case as more than 75% of debts of low- and middle-income countries have been in US dollars. This has steadily been rising since the 1990s.[32]

It represents the dominant position of the US for most of the late 20th to the first decades of the 21st century, while being an increasing pressure to debtor economies to expand exports.

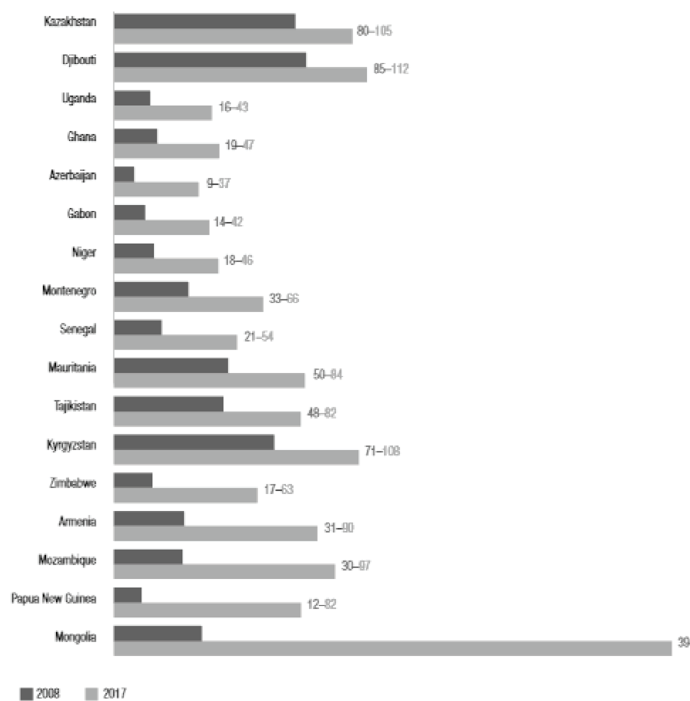
But many Southern countries are accumulating debt faster than their export earnings. This is usually measured through comparing borrowing governments' debt stocks with their exports (the debt to export ratio). For most of the 1980s until the 2000s, with the exception of 2003 until around 2016, low- and middle-income countries' debt has been more than 100% of their exports and primary incomes (see **Figure 5**).

Figure 5. *Southern public debt as percentage of exports and primary income, 1977-2018*



Source: Computations from World Bank data, International Debt Statistics database.

Figure 6. *Some commodity dependent countries and increasing debt burden after 2010*



Source: UN Conference on Trade and Development. 2019. "State of Commodity Dependence 2019."

Indeed the 2018 ratio "averaged at 101 percent" according to the World Bank,[33] compared to around 65% in its low around 2008. It is as if for every USD101 of debt, Southern countries have exported an equivalent of a dollar for possible use in repayments. Of course, different Southern countries have differing amounts of debt and export earnings. "About 45 percent of those countries' debt to export ratio record over 150 percent," according to the World Bank.[34]

Export orientation, especially if limited to one or a few kinds of primary commodities, poses problems for Southern development. "Commodity dependence," according to the UNCTAD, "is almost exclusively a developing-country phenomenon."[35] One-hundred two of the world's 189 countries are commodity dependent in the period of 2013 to 2017, compared to 92 in 1998 to 2002. Commodity dependence is a condition of 91% of low-income countries, 53% of lower-middle income, and 55% of upper-middle income countries.

As an outcome of their integration to world markets, these countries are sensitive to volatile commodity prices. Shifts in commodity prices can worsen economic performance and worsen external debt burdens, such as after the commodity price decline after 2010 (see ***Figure 6***).

BOX 3. PAKISTAN AND THE PHILIPPINES: DEBT AND TAXES

The Pakistani government has 31% of its debt from multilateral lenders, and its debt stocks are rising faster than its exports (as seen in a debt stock-to-exports ratio of 295% in 2018 from an already high 186% in 2008). Pakistan has already taken 21 loans from the IMF from 1958, with loans of around USD 10 billion in 2008 and USD 6 billion in 2013. Pakistan owes around USD 15 billion contracted from the BRI's China-Pakistan Economic Corridor.

This contextualises the three-year IMF USD 6 billion loan to Pakistan approved in 2019, the 13th "bailout" in the history of the country and six years since the last 2013 loan.[36] Conditional targets for the loan are raising foreign exchange reserves, paying USD 37 billion of outstanding debt, ending subsidies on utilities, devaluing the rupee and raising taxation revenues by 45%.[37] Price hikes in electricity and petroleum were also initiated before the approval of the loan agreement.[38] Local traders are already feeling the effects of rising taxes as many called for strikes. Some have also called this the "IMF's imperialistic takeover" of Pakistan.[39]

In the Philippines, the multilateral bank Asian Development Bank (ADB) has used project supervision together with loans to pursue projects that violate the rights of affected communities. The ADB has signed its "single largest infrastructure financing ever"[40] in a USD 2.57 billion loan to co-finance a railway connecting Manila to the New Clark City (NCC), another project under construction. The loan-backed railway plan is targeted for 2025 but the 9,450-hectare NCC,[41] with the ADB as the project's transaction advisor, has proceeded without people's consent and already displaced indigenous and farm communities and destroyed agricultural livelihoods.[42] The loan for a connecting railway project tolerates such impacts in the name of connectivity and false sustainability. Overall, ADB lending for the coming 2020-2022 could reach USD 10 billion.

A tax reform, with consumption taxes on fuel and other goods, was also implemented to fund the government's infrastructure drive and economic goals. This reform has been supported by the IMF.[43] But it has been a factor in rising inflation on the prices of basic goods, such as petroleum. The situation raises the question of whether revenues from taxing people's consumption in the long run will contribute to servicing debts from the government's expensive infrastructure drive. This is amid loans not just from the ADB but from China, with the Kaliwa Dam as well as the Chico River Pump Irrigation Project protested by indigenous communities, with controversial contract clauses tantamount to surrendering national resources in case of repayment failure.

Industrialised economies' governments on the other hand, despite having high debt ratios, have greater capacity to pay, have more foreign currency such as US dollars, are less subject to volatile commodity prices, and have corporations controlling value chains. High income countries promote their exports too, through export credit agencies (ECAs) which channel 1) loans and 2) commercial credits to the South (e.g., finance are tied to buying goods from the lending Northern country) or 3) guarantees that task governments to cover Northern exporting MNCs earnings in cases that might prevent payments (e.g., war).

Some have pointed to a "revolving door of debt" due to creditor countries' ECAs, as they contribute to the cycle of ballooning Southern debt, renegotiation, and then another cycle of increasing debt burden including from ECAs.[44]

Continuing people's concerns

Debt burdens and overhang do pose stumbling blocks to realising people's rights in the global South. As debt servicing increase in government budgets, responding to public needs may be hampered.

Historical and continuing "policy reforms"and "structural adjustment" in the name of better fiscal situations, can be illustrative. IMF loan packages have meant adjusting policy towards declining social service spending, as in Argentina, or cutting state subsidies on basic commodities such as fuel in Ecuador. Austerity means that belt-tightening measures are accompanied by increasing tax burden on the poor.

The people's right to food and control over resources are compromised in restructuring towards export-oriented, extractive, commodity-dependent economies. This ensues as shifts in agriculture and land-use turn to a few varieties of cash crops, if not monoculture, that are more in demand in the world market. On the other hand, farmers who have been self-sufficient to a degree may find that they have to purchase—or worse, be unable to afford—food they have previously grown.

Farmers, indigenous peoples, fisherfolk and other sectors may also face adverse impacts from projects financed by loans—despite being the claimed beneficiaries of such infrastructure (see ***Box 3***).

The cases of Ecuador, Argentina, and many other countries party to IMF agreements also show constraints in realising the people's right to participate in politico-economic processes. The IMF continues to create agreements with governments that violate basic civil-political rights, such as that of Moreno's Ecuador (see ***Box 4***).

But related neoliberal restructuring–from deregulation to trade liberalisation–threatens to puteconomic pathsunder the hold of external actors such as the IMF. With the decline in addressing people's needs comes greater alignment to creditor interests, especially international entities. Cumulative amounts in yearly budgets are allocated to pay the interest and principal of debts owed to foreign banks, multilateral institutions and more powerful governments.

These pose greater obstacles to the people's right to shape their economic policy, and show how debt distress and the resulting loss of economic sovereignty threaten the people's right to development and to self-determination. Indeed, a UN Independent Expert is of the opinion that through its economic influence and loans, the IMF must be jointly responsible along with states in cases of rights violations.[45]

"Debt distress and the resulting loss of economic sovereignty threaten the people's right to development and to self-determination."

Structural transformations as requisites for people's development

Globally, systemic shifts in international economic governance are necessary. More recently, civil society have raised principles that assert that formal and informal debt negotiation bodies must not be left to or primarily led by the creditor states (as in the case of the Paris Club, IMF-WB and some regional banks); that all stakeholders, especially the people, must have inclusive participation; that needs of populations are put before debt servicing; a respect for international

BOX 4. ECUADOR, ARGENTINA, CHILE: IMF INTERVENTION AND INEQUALITY

In a continent of strategic interest to the US, and one with rising public debt, the IMF has shown renewed activity in the past years.

The government of Ecuador has signed a USD 4.2 billion Extended Fund Facility—a loan with conditionalities—with the IMF, including an additional USD 6 billion from other creditors such as the World Bank. This "new economic plan",[46] according to the IMF, was claimed to address issues related to rising debt from declining world oil prices after 2014 (which already bounced back by the time President Moreno's term began in 2017) and the appreciation of the dollar. The government has since implemented austerity measures marked by privatisation and layoffs in SOEs, and the ending of fuel subsidies amid cuts in public spending.[47]

The Decree 883 that led to the rise in fuel costs was widely opposed by indigenous peoples' movements, workers, students and other sectors for more than two weeks. The centre-right government was eventually driven to verbally commit to the withdrawal of the Decree and the restoration of the subsidies. However, resistance against such IMF-backed austerity was faced by state repression: the government declared a state of emergency, leading to 8 deaths, and security forces' arrest of 1,200 and injuries involving 1,300 people.[48] Threats against indigenous leaders continue after the protests.

In Argentina, the IMF allowed a three-year USD 57 billion loan to the Macri government, supposedly the biggest single loan in the lender's history.[49] This was in 2018, in a fearful situation that Argentina would not be able to pay its debts, with a devaluating currency due to US rising interest rates–17 years since the country plunged into debt crisis in 2001, which was blamed on IMF policies as well.

The latest loan is conditioned on attaining zero deficit in 2019, limited state intervention on its own currency.[50] In late 2018, an "austerity budget" was approved that cut social spending by 35% and increased debt servicing by 50%.[51] This was called as a "positive step" by the IMF but oppositionists warned of adverse impacts on people's right to basic services. By the time Macri left office, Argentina had USD 100 billion in external debt. Opposing austerity and renegotiating the loan were among the issues taken up during the campaign of the now President-elect Fernandez.[52]

In Chile, decades since being the "laboratory" for neoliberalism in the South under former dictator Pinochet, peoples have been asserting themselves against its continuing legacy. Protesters decry how privatisation and other "reforms" worsened inequality and blocked people's access to basic services. Minimum wage is below USD 400,[53] only 1% of the population own almost 27% of the country's wealth amid supposed growth,[54] and the current president, Sebastian Pinera, is a billionaire. By July 2019, the IMF is still stressing need for "accelerating private sector investment" and "strong [IMF] guidance" for future policy.[55]

Mobilisations, at one point reaching up to 1 million people, racked the capital Santiago and other cities, beginning from fare hike issues but reached to demands for overhauling its "Pinochet-era" constitution.[56] The government was eventually driven to heed the people's demand, but heavy repression of people's actions continue.

BOX 5. A DETOUR THROUGH HISTORY: DEBT AND ECONOMIC STRANGLEHOLD

Historically, debt has been a means of undue influence of economic powers. Peoples in the global South have witnessed this in the latter decades of the 20th century, in a debt trap backed by the US and allied states. This is in the context of the Cold War, oil crisis, a crisis of inflation and economic stagnation. Private banks from developed countries, using their excess capital, lent unabashedly to Southern governments, which have been de facto tolerated by governments such as the US and institutions it led such as the IMF-World Bank.

Economic powers tolerated finance capital from continuing to extract profits amid increasing difficulty to pay Southern debts. This has been done through rising interest, allowing elite-led Southern governments to create new debts to pay old debts, and rising debt stock from devaluation of Southern currency. Elite-led Southern governments tied their economies to commodity exports, usually of only a single or a few kinds of raw material commodities, to increase their export earnings (e.g., incomes from exports in dollars) just to pay the debts they incurred in foreign currency. Southern debt overhang, or debts that governments cannot service anymore, became pretexts for US-led IMF "reforms" that exported US economic models and reined in Southern governments through so-called "structural adjustment".

rights covenants and development commitments; transparency; among others.[57]

In the global South, a necessary key link indeed would be people's sovereignty over processes such as development planning and finance-related policy.

Peoples residing in Southern countries, through people's organisations, movements and civil society, must have substantive influence over such decision-making even at local and national levels. This could range from interface with progressive parliamentarians, to asserting shifts in domestic power relations towards people's economic sovereignty.

There is a variety of policy options for peoples in the global South to ensure non-debt dependent financing and shift away from reliance on foreign financing sources.

Amid growing discrediting of neoliberal policy, establishing controls on Northern private credit to Southern governments—and Northern capital in general—should be considered. Creating dynamic domestic markets is important to eschew reliance on foreign investment and debt, through agrarian reform on a "land to the tillers" framework and a strategic and sustainable industrial policy to develop productivity, while efficiently allocating social output for people's needs and generating domestic employment.

Cancellation of debts must be an option when these are found to be odious, illegal or illegitimate. Evaluating historical effects of liberalisation of investments, trade and financial markets should be conducted to inform necessary policy reforms to prevent accumulation of debt, stagnation into export-commodity dependence, and economic drain.

Civil society and progressive parliamentarians must continue to support people's resistance to IMF-dictated policy, and one-sided loan arrangements with monopoly capitalist financiers in traditional lenders, and even rising lenders such as China. Today's rising debt concerns could mark an important juncture to even strengthen movements for debt justice and to end Southern countries' unequal debt relations. Demands from grassroots movements vis-a-vis neoliberal frameworks and undue economic influence should be considered seriously, from revoking usurious and extractive loan arrangements with China, ending austerity, to cessation of IMF influence, even to "shutting down" the IMF-World Bank. #

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