G8 agrees to paltry debt forgiveness package

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G8 finance ministers have proclaimed the June 11 debt relief package for some of the world's poorest countries as an historic agreement. In reality, the deal confirms the folly of looking to the imperialist powers for a resolution to the suffering of the oppressed peoples of Africa, Asia and South America.

There have been precious few initiatives authored by the Labour government of Tony Blair in Britain and backed by the Bush administration in the US that the media could even hope to portray as progressive. These are regimes, after all, that have demonstrated their contempt for the democratic and social aspirations of the workers and oppressed masses in the semi-colonial countries and their absolute loyalty to the predatory interests of big business. But the debt relief package has been utilised to boost the political credentials of Blair and Chancellor Gordon Brown and cited as proof that they are able to extract positive concessions from Washington.

In reality, when all the hype over the debt forgiveness package is stripped away, it becomes clear that in this too both London and Washington act as the representatives of a financial oligarchy that is indifferent to the suffering produced by the profit system on a global basis.

According to the World Health Organisation, almost 11 million children under the age of five die each year, mainly from preventable diseases. More than four in ten of these deaths are in southern and western Africa, caused by diseases such as malaria, pneumonia, diarrhoea and AIDS.

Despite this toll of human suffering, Africa is forced to pay a massive proportion of its GDP in debt repayments to the world's richest countries and multilateral organisations such as the International Monetary Fund. These resources must be diverted from vital infrastructure projects such as health and education.

Africa's total external debt stands at $300 billion, and far from encouraging the development of resources for the African people, Western loans have been linked to "conditionalities" based on IMF structural adjustment programmes that demand the opening up of Africa's markets, privatisation of the state sector, deregulation of the finance sector and allowing the free inflow and outflow of capital. These measures, designed to enrich the major corporations, have led to a catastrophic increase in poverty and an actual deterioration in social provision. Up to 40 percent of aid is made conditional on its being spent on goods and services purchased from the donor country.

Just as significantly, any effort by the African nations to resolve their crisis through trade comes up against extensive protectionist measures designed to prevent the penetration of Western markets and to limit African trade to raw materials at cut-rate prices. Action Aid points out that "tariff and non-tariff barriers, dumping and product standards cost an estimated $100 billion per year to developing countries, 50 percent more than total official aid." To make matters worse the price of some raw materials is falling not merely in relation to finished goods, but in absolute terms.

Malawi, a beneficiary of the debt forgiveness programme, relies on tobacco for more than 34 percent of its total revenue, and up to 70 percent of the population depends on its production. The price of tobacco has fallen by 22 percent this year and has halved in the past six years.

Africa's share of world trade is actually in decline, down from a meagre six percent in 1980 to just two percent in 2002.

On top of this, one must also factor in the massive transfer of investment monies from Africa to the West, estimated at a net $210 billion in foreign exchange reserves, portfolio and foreign direct investment and interest payments on debt.

The net result is that its debt burden worsens while repaying loans becomes more and more difficult.

What does the G8 finance ministers' package do to alleviate this economic and social calamity?

The June 11 agreement covers 18 countries that have fulfilled the economic criteria set down under the Highly Indebted Poor Countries Initiative (HIPC) launched in 1996. The World Bank, IMF and the African

Development Bank will write off 100 percent of their debts, but another 20 predominantly African countries have yet to meet the criteria and so get nothing.

The total debt forgiven is $40 billion, but this actually accounts for just $1.5 billion per annum in repayments. To put this in perspective, the debt deal represents only 3 percent of total aid flows of $50 billion per year. And even if all the other 20 possible beneficiaries meet the rigorous economic requirements being set for them under the HIPC, the total debt forgiveness package will only rise to $55 billion over a ten-year period. Full cancellation of debt for all 62 poverty-stricken countries would cost $45.7 billion a year, roughly 30 times the amount agreed at the weekend.

The agreement only affects debts to the multilateral institutions and not the larger sums owed to national governments and private lenders.

The high profile move is in part aimed at staving off criticisms of the major nations' failure to honour any other commitments on aid. For more than three decades, the wealthy countries have pledged to reach a United Nations target of spending 0.7 percent of GDP on aid. But the US presently allocates just 0.16 percent of its GDP to foreign aid and the situation is not much better elsewhere. The average figure globally stands at only 0.28 percent. For all its posturing, Britain presently gives just 0.35 percent of GDP in aid. Its latest pledge to debt relief amounts to just $700-$960 million over ten years.

There is little to suggest that any substantial new money has been made available by the G8 governments under the agreement. According to the *Guardian*, for example, the Treasury confirmed that the UK's share of the debt cancellation programme "was not, technically, new money."

More generally, no agreement has been reached thus far on any increase in aid by national governments. In discussions with Prime Minister Blair last week, President George Bush refused point blank to support proposals to double African aid from rich nations to $50 billion over the next decade.

The debt to the IMF will be covered by using part of its own surplus funds, and the G8 countries have made clear that their own initial three-year funding of the rest of the debt will be met from existing aid budgets. That will mean less money is available for Africa and elsewhere. Monies transferred after 2008 to the International Development Agency—the World Bank's lending arm—will also be siphoned off from aid, and it is impossible to know if any of these funds will be additional to those it would have received anyway.

In recent years the US share of IDA funding fell from 20 percent to 13 percent. One concern of the British and European governments was to safeguard the future of the World Bank itself, given America's unilateralist approach to this and other international bodies. But it is naïve to believe that the agreed US contribution—worth just $1.3 billion to $1.75 billion over a ten-year period—represents a shift in Washington's overall position.

Claims that the European Union has adopted a more generous stance than the US do not withstand scrutiny. An agreement reached in May by EU development ministers to give 0.56 percent of overall GDP for development aid by 2010 is still less than the 0.7 percent pledged 35 years ago and is not binding. Oxfam also pointed out that Germany, Italy and Portugal have all made "statements that the proposed increases in aid will be subject to fiscal constraints [that] will allow them a get-out-clause at a later date."

As soon as the G8 agreement was announced, reports were leaked making clear that France and Germany had been initially opposed to the proposals. Both cited their concerns that the monies must not be seen to reward corrupt African governments, but in reality they are reluctant to spend any additional resources, particularly given the precarious state of their economies.

Just as importantly, debt forgiveness—like aid—is designed to put additional pressure on those countries that have failed to meet the HIPC criteria to step up their economic restructuring. And there is no guarantee that any of the paltry sums of extra money available will actually benefit the workers and peasants in the recipient countries. For example, in praising the G8 decision, Rwandan Finance Minister Claver Gatete promised, "This money that is now being relieved will go towards private sector investments."