IMPERIALISM AND THE POLITICAL ECONOMY OF GLOBAL SOUTH'S DEBT

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IMPERIALISM AND THE POLITICAL ECONOMY OF GLOBAL SOUTH'S DEBT

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LIST OF ABBREVIATIONS

BRI	Belt and Road Initiative
CACs	Collective Action Clauses
CF	Common Framework (for Debt treatments beyond the DSSI)
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
FDI	Foreign Direct Investment
FFC	Forces of Freedom and Change
GA	(United Nations) General Assembly
GDP	Gross Domestic Product
GNI	Gross National Income
HIPC	Heavily Indebted Poor Countries (initiative)
IBRD	International Bank for Reconstruction and Development
ICESCR	International Covenant on Economic, Social, and Cultural Rights
ICJ	International Court of Justice
IDA	International Development Association
IFFs	Illicit Financial Flows
IFIs	International Financial Institutions
IGE	Intergovernmental Group of Experts
IIF	Institute of International Finance
IMF	International Monetary Fund
LMICs	Low and Middle Income Countries
MDRI	Multilateral Debt Relief Initiative
MMT	Modern Monetary Theory
NCP	National Congress Party (Sudan)
NIEO	New International Economic Order
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PCR	the People's Republic of China
RSF	Rapid Support Forces
SAP(s)	Structural Adjustment Program(s)
SDRM	Sovereign Debt Restructuring Mechanism
SST	State Sponsors of Terrorism
TDB	Trade and Development Board (UN)
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development

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PREFACE

The Global South, as a geo-historical concept, occupies in the age of neoliberal globalization the intellectual space opened up during the Cold War by the concept of the Third World. Like its predecessor, the Global South connects Latin America, the Caribbean, Asia, Africa, and Oceania as a set of territories that share characteristics pertaining to history (former European colonies/victims of imperialism), international law (countries that are international norm-takers rather than international norm-producers), economic status (nonindustrialized or late industrialized countries), knowledge production (marginalized and distorted subjectivities of Western-centric epistemology), geopolitics (dominated countries that try to challenge the world system), etc. In common academic usage, the concept refers to empirical sets that may differ according to the themes studied, the statistical sources used, etc.

A condition common to the Global South countries following the different waves of political independence has been the recurrence of foreign currency debt crises. In most episodes, the script was already written, with some nuances. In economic booms, there is a large demand for external financing that is met by eager creditors attracted by the prospect of high returns based on exaggerated risk perceptions. When granted, the financing is not always used for productive projects that will allow it to be repaid or in the interest of the population. Sometimes the new loans are intended to repay debts previously contracted. The crisis generally occurs when the terms of trade deteriorate. Declining export prices reduce the ability to service the debt. Creditors become less enthusiastic and fear defaults on their loans. The costs of refinancing the debt increase accordingly.

As countries become insolvent and face a balance-of-payments crisis, they apply for emergency loans to the International Monetary Fund (IMF), a twentieth-century-born institution that updates the goals of "gunboat diplomacy" with "civilian" methods. In its capacity as bailiff and policeman for Global North-based creditors, the IMF provides "assistance" in return for the austerity measures it invariably imposes. The objective is to get the states to reduce their "lifestyle," which is considered "expensive"," and to try to quickly obtain external surpluses (export revenues) to continue to service the debt. Meanwhile, the World Bank also provides "assistance" in return for privatizing public enterprises and liberalizing the economy (foreign trade, finance, labor relations) for the benefit of foreign capital and its local junior allies. When the debt proves impossible to service, even with the "assistance" of the two Bretton Woods institutions, there comes talk of restructuring it. In this fragmented process, private and multilateral creditors rarely lose out, while bilateral creditors make some concessions, always bearing in mind their diplomatic and geostrategic interests. The debt relief granted by the "creditor nations" often falls far short of the expectations of the movements campaigning for the abolition of Third World's (now Global South's) debt. In the end, the populations of debtor countries, especially the most vulnerable among them, are the adjustment variables. Their cries of anger in the streets may have led to the overthrow or non-reelection of certain governments in place.

This scenario is being played out again before our very eyes, as the period opened by the COVID-19 pandemic has brought the issue of the Global South's external debt back to the forefront. Faced with this "black swan" event, the Southern countries found themselves with reduced ammunition. In some cases, as in Africa, the economic crisis even preceded the health crisis. The deterioration of the terms of trade, the drop in export and tourism revenues, the decline in foreign direct investment flows, the increase in risk premiums on bonds issued by Southern governments, currency depreciation, etc. were the immediate consequences of the health crisis that started in China before spreading to Northern countries and the rest of the world. In this particular configuration, many governments in the South were faced with a difficult choice: to service the debt or to fail to mitigate the health, economic, and social consequences of the COVID-19 pandemic. In the same vein, shocking inequalities in physical and financial access to COVID-19 vaccines have compromised prospects for a strong economic "recovery" in the South.

The COVID-19 pandemic has certainly revealed the many flaws in the multilateral system, the various facets of the dependence of Southern countries (commercial, technological, financial) on Northern countries, and the strong reliance of the latter on Southern labor and raw materials. It has also been an accelerating factor. The ongoing debt crisis in the Global South was on the cards before Sars-Cov-2 appeared. External solvency indicators – debt service to exports; exports to external debt stock; official reserves to external debt stock – tended to deteriorate in most Southern countries during the 2010 decade. Despite the partial cancellation of sovereign debts under schemes such as the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI), Southern countries reindebted massively in the wake of the Great Financial Crisis (2007-8). This context is marked both by the gradual exhaustion of the primary products supercycle observed since the early 2000s and by the pursuit of nonconventional monetary policies by Northern countries' central banks (quantitative easing, zero interest rate policy). These have led to an abundance of liquidity on international financial markets that could be invested in exotic destinations ("emerging markets/frontier markets") offering returns much more attractive than those prevailing in the Global North.

Though a similar structural logic led to their genesis, the debt crisis of the 1980s and the current one differ in at least two aspects. On the one hand, the immediate triggers were not the same: declining terms of trade and a drastic rise in the Federal Reserve interest rates ("Volcker Shock") in the first case; a pandemic in the second. On the other hand, the composition of creditors changed significantly. The share of official loans (bilateral and multilateral) in the public external debt stock of Southern countries was more important at the time. Since then, one country in particular acquired the new status of a global creditor vis-à-vis the Southern countries: China. Moreover, private creditors are now dominated by Eurobond holders rather than commercial banks. This latter change reflects the transition in the North to market-based financial systems, but also the trend toward increasing concentration and centralization of capital. Trillion-dollar asset management companies like Blackrock now hold the sovereign debts issued by countries like Zambia, one of the sovereign defaulters that made the headlines in 2020. This new environment, marked by the emergence of China and private creditors, is making the process of restructuring Southern sovereign debts more complex and their outcomes more uncertain.

Seizing the opportunity offered by current events, this volume aims to revisit the issue of Global South's external/foreign currency debt, with a particular focus on sovereign debt. The starting point of the contributions gathered here is the recognition that Global South's external debt crises are structural in nature. As such, they cannot be explained away as the result of "mismanagement", "fiscal irresponsibility", etc. These idiosyncratic considerations are potentially aggravating rather than structural factors helping account for the longevity and recurrence of this problem across the Global South.

Among the questions addressed in this volume: How can we explain debt cycles in the South? In what ways are they indicative of the subordinate economic and monetary status of the Southern countries, or even of the particular constraints imposed on them by economic, monetary, and financial order? In what way does foreign currency debt constitute an instrument of imperialist domination? What is the role of the ruling classes of the South in the persistence of this pattern? How true is the view that China is practicing a "debt trap diplomacy" to loot Southern countries? What are the implications of creditors' view on debt sustainability on the sustainability of social reproduction and the environment? Why have repeated calls for an international mechanism to restructure sovereign debts not yet been successful? What alternatives can be considered in the absence of such a mechanism? More importantly, what practical measures could help turn the page on debt crises in the Global South countries and rid them of the iron fist of their creditors?

The contributions in this volume allow us to consider the external debt of Global South countries as a *legacy of imperialism* in its colonial phase (visible through the longevity of legal structures of colonial origins and the dependence on exports of primary and low wage-based products), the *ongoing outcome* of a global economic, monetary and financial order that constrains their autonomous development, and an *instrument of imperialist domination* that makes it possible to shape their economic policies according to the requirements of core countries and their capitalist interests. Using various theoretical lenses, *Imperialism and the Political Economy of Global South's Debt* critically engages with policy proposals to overcome the structural conditions that create the enduring foreign debt burden and its long trail of avoidable human sufferings.

Ndongo Samba Sylla
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