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Vicki Briault Manus, translator.

Preface to the 2005 edition

From 2001 to 2005, policies decided in Washington and Peking dominated the world economy. Authorities in Washington combated the economic crisis in the United States by instituting policies to boost the economy: a radical drop in interest rates (to negative levels in real terms, which allowed American households to continue to accumulate debt in order to maintain consumption levels, and allowed businesses to get out of debt), fiscal reform that favored consumption and the accumulation of wealth, a drastic increase in the state deficit, and the invasion of Afghanistan and Iraq to bolster the military-industrial complex. China's entry into the World Trade Organization (WTO) in 2001 and its opening to foreign investments reinforced its role as a large capitalist workshop exploiting an abundant labor force that was underpaid, disciplined, and educated. China did not engage in international competition by dropping all barriers, however: its currency is unconvertible and tied to a dollar whose value is dropping (which increases China's competitive edge in foreign markets), it maintains control over the movement of capital in and out of its borders, its domestic market enjoys continued protection, and foreign investors cannot take control of any and all sectors (the Chinese banking sector remains public and Chinese).

Washington's decision to lower interest rates addressed domestic policy problems. This decision had international ramifications: it lightened the load with regard to debt repayment for developing countries with access to financial markets (approximately twenty-five countries, including China, Russia, Brazil, Mexico, Venezuela, Southeast Asian countries, South Korea, and South Africa). While the risk premiums (the spread) paid by developing countries for access to private capital in the form of loans were unusually high between 1998 and 2000, they began to fall beginning in 2001. From 2004 to 2005, they reached a record low.

Various factors that I will not analyze here brought about a sharp increase in oil prices in 2003–04. China's sustained growth was like a breath of fresh air for a suffocating world market: the price of most raw materials (iron, copper, nickel, combustibles) and semi-finished goods (steel) climbed sharply in 2003, 2004, and 2005. China won considerable shares of the market on a world scale (going from 2.5 percent in 2000 to 5.4 percent in 2004). The foreign exchange reserves of 101 developing countries increased greatly. The combination of low interest rates, lowered risk premiums, and rising raw material prices produced a sharp increase in the foreign exchange reserves of developing countries, which rose to $1.6 trillion at the end of 2004—a level never reached before and greater than the total external public debt of all developing countries![1]

The increase in the main developing countries' solvency (more than $200 billion in new debt between 2002 and 2004) allowed them to increase their indebtedness by issuing public and private bonds on financial markets in the North. Although some developing countries partially reduced their external debt (Russia and Venezuela, for example), others continue to increase their debt greatly (Brazil, Mexico, and Argentina after the conclusion of negotiations with its creditors). All or nearly all are increasing their internal public debt.

The current situation presents an unusual opportunity for the governments of developing countries to modify their situation substantially or even radically. It is possible to get out of debt. China alone, with $600 billion of foreign exchange reserves could change the international situation in favor of developing countries, if its autocratic government wanted to. What if there existed a united Chinese-Russian front against the governments of the major industrialized nations? These two countries could stack the deck on the world scale if they had an alternative project in common. The governments of a considerable number of developing countries spread over four continents (Asia, Latin America, Africa, and Eastern Europe—if you include Russia, as the IMF and World Bank do) temporarily hold the key to change. On a global level, they are net creditors to the main world superpower and private banks of the North. Theoretically, they could completely do without the IMF by repaying what they still owe. They could create a support fund for those developing countries that have less hard currency than they do (beginning with the fifty least developed countries), enabling them to rapidly get out of debt (the total amount necessary to eliminate their debt is quite low).

Never before has the situation been as advantageous for the periphery from a financial standpoint. Yet, no one is talking about changing the rules. The governments of China, Russia, and the main developing countries (India, Brazil, Nigeria, Indonesia, Mexico, South Africa…) do not express any intention of changing the world situation in practice in favor of the people. Yet, politically, if they wanted to, these governments could constitute a powerful movement capable of imposing fundamental democratic reforms on the entire multilateral system, fifty years after Bandung. They could adopt moderate policies—a planned repayment of debts with a below par rating—or radical policies—repudiate the debt and institute a series of policies that break with neoliberalism. The international situation is in their favor because the main world superpower is bogged down in the war in Iraq and the occupation of Afghanistan, and is confronted by strong resistance in Latin America that is leading to bitter defeats (in Venezuela, Cuba, Ecuador…) or to an impasse (in Colombia).

I am persuaded, however, that this will not materialize; neither the moderate nor the radical scenario will be put in place in the short term. The overwhelming majority of the current leaders of the developing countries are totally caught up in the neoliberal model. In the majority of cases, they are completely tied to the interests of local ruling classes that have no perspective for distancing themselves concretely from (not to mention breaking with) the policies followed by the major industrial powers. Capitalists in the South confine themselves to a rentier behavior and when they do not, they try at most to capture market shares. This is the case with Brazilian, South Korean, Russian, South African, Indian, and other capitalists, who ask that their governments exact this or that concession from the most industrialized nations in the context of bilateral or multilateral commercial negotiations. In addition, competition and conflicts between developing countries' governments are real and can get worse. The commercial aggression of Chinese, Russian, and Brazilian capitalists with regard to their competitors in the South is causing tenacious divisions.

Only the irruption of the people on the stage of history could change the course of things, but there is as yet no solid indication pointing in this direction. There has been a succession of radical struggles in the developing countries in recent years: Ecuador and Bolivia in 2000, Argentina in 2001–02, Venezuela in 2002–03, Bolivia in 2003, China in 2004, South Korea in 2003–04, Bolivia in 2005, Nigeria in 2004–05, Niger in 2005, not to mention liberation struggles and resistance to occupation from Palestine to Afghanistan to Iraq. Those participating in these struggles have demonstrated extraordinary courage. Some of their struggles have been partly successful (Ecuador, Bolivia, Argentina, Venezuela, Niger…), but they have not gone beyond local or national boundaries. Although the antiglobalization and antiwar movements, the World Social Forum, continental social forums, the campaigns for debt cancellation and against the WTO continue to grow, they are unfortunately not (yet?) in a position to unite these struggles and put forward an offensive strategy for doing away with neoliberalism.

Besides, the current situation, temporarily favorable to developing countries, is at risk of changing in 2006–07. Two basic factors can intervene in a globally unfavorable way: first, a continuation of the rise in interest rates started by the United States in June 2004; second, a decrease in demand in the United States that would have repercussions in China and, from there, in the rest of the world (assuming no boost in European or Japanese demand), leading to a drop in the price of raw materials. A rise in interest rates combined with a drop in the price of raw materials occurred between 1979 and 1982, and triggered the debt crisis of 1982. If the rise in interest rates is sharp, if the price of raw materials begins to drop, and if a number of deeply indebted developing countries such as Brazil, Turkey, Mexico, Argentina (once more), and Nigeria experience difficulties in paying, it is not impossible to see a new crisis erupt in a synchronized way.

The current, unusual situation illustrates the impasse that the neoliberal model represents for people of the South. According to the dominant economic theory, development of the South has been delayed due to insufficient domestic capital (insufficient local savings). Also according to this theory, countries wishing to undertake or accelerate development must appeal to external capital in three ways: first, by taking on external debt; second, by attracting foreign investments; third, by increasing exports in order to procure the hard currency necessary to buy foreign goods that facilitate growth. The poorest countries are also supposed to behave themselves, like good students of the developed countries, to attract grants. However, reality contradicts theory: developing countries supply capital to the most industrialized nations, to the US economy in particular. The World Bank does not deny this: "Developing countries, in aggregate, were net lenders to developed countries" (World Bank 2003a, 13), and "Developing countries are now capital exporters to the rest of the world" (World Bank 2005, 56).

It is not true that developing countries only have recourse to debt to finance their development. Today, recourse to loans essentially serves to ensure the continuation of repayments. In spite of the existence of significant foreign exchange reserves, governments and local ruling classes in the South are not increasing investment and social expenditures—with one exception: the government of Venezuela that is in opposition to local ruling classes and to US and European Union imperialism. Sooner or later, the people will free themselves from debt slavery and from the oppression carried out by the ruling

classes in the North and the South. Through their struggles, they will win the implementation of policies that redistribute wealth and put an end to the productivist model that is destroying nature. Then, public powers will be forced to give absolute priority to the satisfaction of fundamental human rights.

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Liege, Belgium
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(translated by Sophie Hand)

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1 *Source*: World Bank, *Global Development Finance 2005*, p. 165. At the end of 2004, developing countries had approximately $1.6 trillion at their disposal in the form of foreign exchange reserves ($1.591 trillion)—more than the total of their external public debt ($1.555 trillion, see p. 161). China, Malaysia, Thailand, India, and South Korea have foreign exchange reserves greater than their external public debt. As a whole, developing countries in Asia have foreign exchange reserves that are more than double the amount of their external public debt (or 30 percent more than the sum total of their public and private external debt—see tables on pp. 161 and 165). China's reserves alone constitute more than seven times its external public debt. For North Africa and East Asia, the foreign exchange reserves are as high as $141 billion while the external public debt is up to $127 billion. Algeria's reserves are as high as $41 billion against an external public debt of $27 billion.