Very Little from Evian

By Aldo Caliari | June 2, 2003

This year's meeting of the Group of 8 (G-8) leaders is being held from June 1-3 in Evian (France). But the preparatory work leading up to the G-8 meeting had already shown that very little would emerge on three key crises that affect global development today—the Third World debt crisis, the African crisis, and the crisis of legitimacy of the global arrangements that drive the globalization process, including the G-8 itself.

With regards to debt, more than five years have passed since 70,000 people formed a human chain to demand an end to Third World unpayable debts at the G-8 leaders' meeting in Birmingham. Since then, the "enhanced" version of the Heavily Indebted Poor Countries Initiative (HIPC) offered as a response has proven to be woefully inadequate to free up resources for development and poverty reduction even in the modest number of countries that have been targeted. Out of 42 originally eligible countries, only 8 have seen actual debt stock reduction, and in some of these, like Uganda, debt remains at levels qualified as unsustainable under the parameters of the HIPC initiative itself. Debts owed to private creditors, which make up most of the debts owed by middle-income countries, are not contemplated by the initiative. These particular debts have been responsible for crises of monumental proportions in the past decade, including the biggest sovereign default in history (Argentina, 2001).

In an international debt management system that is dominated by the creditors themselves, be they public (multilateral and bilateral) or private creditors, failures and omissions can only be expected to continue. Indeed, under the current system, it is the creditors who decide unilaterally which countries will have access debt relief, in which amounts, and under which conditions. The situation cries for some kind of independent and predictable process for sovereign debt resolution. There is no reason why indebted developing countries should continue to lack the kind of guarantees domestic bankruptcy laws afford to indebted private companies in nearly all countries of the world.

However, progress toward a better international debt management framework seems far from this year's G-8 agenda on debt. The working document emerging from the last meeting of G-8 Finance Ministers, in preparation for Evian, reinforces the existing approach with a few minor changes. One proposed change is the reform of the Paris Club (bilateral public creditors) practices that would now enable the Club to consider debt restructuring for some middle-income countries. U.S. interests in addressing Iraq's debt seem to have been the main factor behind this initiative. It seems clear that debt restructuring and reduction for middle-income countries would remain a measure of last resort taken on ad hoc basis and, as such, contingent, just as in the Iraqi case, upon the geopolitical and strategic interests of particular G-8 members.

Meanwhile, discussions leading to a rules-based framework on sovereign debt restructuring that could have introduced some degree of predictability and rationality in the management of debt claims by private creditors and, potentially, also the members of the Paris Club themselves, have been put to rest for the time being. The proposal that went further in that direction, developed by IMF staff for more than one year, was dropped in the last World Bank-IMF Spring meetings, due in large part to pressure from the Bush administration.

The dramatic situation in Africa is another issue that has gained prominence in the G-8 agenda in the past few years. Addressing the agricultural problem, which is largely a commodity pricing problem, is central to any solution to the crisis, given the widespread famine and the heavy dependence of the continent's economy on agricultural production. In fact, the economies of most African countries are dependent on the production of a very small number of primary commodities. The prices of those commodities, left to the vagaries of international markets, have been characterized by steady decline and increasing volatility for the past two decades. A study on Sub-Saharan Africa estimated that for every dollar of capital inflow that enters the region, 51 cents make up for commodity price losses. The commodity prices issue seems not only worthy of attention on its own right, but also worthy of attention in order to avoid undermining other initiatives that rely on infusions of aid or private investment in the continent. Some form of intervention in the market through an international commodity policy or agreement is clearly in order.

In spite of its importance, however, the issue of commodity prices will remain as invisible as usual on the agenda of the main industrial powers. Early proposals tabled by Mr. Chirac pointing out the need to achieve "predictable incomes from commodity exports" raised some hopes that, in this G-8 meeting, the issue would finally make it to the agenda. Unfortunately, as the saying goes "when elephants fight, the grass suffers": the issue got lost amidst the barrage of accusations between the U.S. and the EU on other elements of the proposal related to subsidies and food aid. Chirac's proposal advocated a moratorium on export subsidies that affect African commodities. The U.S. shields its own production subsidies and dumping practices from any moratorium. Chirac's proposal also advocated untying food aid, which conflicted with the U.S. position that makes food aid to African countries affected by famine contingent upon their acceptance of genetically modified foodstuffs. As many agricultural experts have pointed out, such kind of aid could prove a costly "gift" for African famine-ravaged countries. The likely spread of GMO seeds that could result would essentially force small farmers in those countries to pay large fees to the large U.S.-based companies that own the seeds' patents for subsequent production.

Finally, growing international criticism focuses on the lack of transparency and accountability of the G-8 who, in their gathering, make decisions affecting the rest of the world and then push them through the global economic institutions using the power that they hold. In a special initiative of the host country, France, that seems intent on appeasing those criticisms, leaders of several developing countries have been invited to a pre-meeting consultation with the G-8 Heads of State. Notwithstanding the positive aspects of the initiative, the need to reform to the rules and practices that hinder the effective participation of those countries in global economic decision-making is glaringly missing from the main meeting agenda.

Perhaps the most concrete example revolves around the need to increase the voice and participation of developing countries in decisionmaking within the Bretton Woods institutions, where the G-8 countries alone currently hold nearly half of the voting power. This has emerged as an issue of concern from discussions in different forums, namely, the UN-sponsored Financing for Development Conference and, later on, the Development Committee of the World Bank and the IMF, where it remains under consideration. The fact that it is not included in the agenda for Evian shows how uncommitted the G-8 leaders actually are to the democratization of global economic decisionmaking.

At this year's G-8 Summit, the attempts to heal the rifts over the recent Iraq war are likely to take center stage. Key crises affecting global development, however, will have to wait for another G-8 meeting…

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