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Poor nations drowning in debt

DEBT is the new form of slavery. Liberation, for most poor countries, lies in debt forgiveness. It will provide much-needed breathing space for the better-governed among the 41 heavily indebted economies to stage a recovery. While the Group of Seven industrialised countries recognised the need for burden-sharing among creditors at a recent meeting of finance officials, it remains to be seen whether debt amnesty coupled with additional relief will be in the offing at its summit next month in Cologne, Germany.

So far, none of the mighty six has taken Japan's lead in making substantial contributions to debt relief funds at the International Monetary Fund and the World Bank. Western donor countries had bickered on whether more funds should be made available for faster and wider debt relief at the World Bank-IMF gathering in Washington last month. The institutions' attempt to reduce the debt burden of the poor has failed dismally. There have been only two or three beneficiaries since the inception of the Highly Indebted Poor Countries Initiative three years ago. Secretary-General of the Commonwealth, Chief Emeka Anyaoku recently declared that the programme has failed to deliver.

Some concerned G-7 and European Union members have called for the initiative to be accelerated and extended to all heavily indebted nations. But such a call may be defeated by the reluctance of some donor countries to inject additional funds. Yesterday, Britain called for the US\$440 million (RM1.67 billion) in the World Bank/IMF HIPC Fund to be increased five-fold and US\$50 billion write-offs. Laudably so, it has taken the lead in pushing the European Development Fund to foot half the bill of a proposed US\$2 billion fund to speed up debt relief.

Equally crucial is the need to reform existing relief mechanisms in the HIPC and other multilateral funds. Criteria should be relaxed so that those in need will not be denied assistance. For those in dire straits, nothing less than a total write-off will help. Donors should emulate Japan's example in writing off up to 100 per cent of its official development assistance loans which it has extended to the world's poorest.

But solutions do not lie solely in a new debt deal or the fast availability of debt relief. It is a shame that none of the rich nations spoke of the need to alter global redistribution of wealth and challenge the status quo conceived under the Washington Consensus. As long as economic policy is bound by the straitjacket of the Consensus, it is difficult to envisage how poor nations can free themselves from the shackles of poverty. There is ample evidence that the effects of indiscriminate economic liberalisation or even poor sequencing of import liberalisation have depressing effects on real economic activity. As often stressed by Prime Minister Datuk Seri Dr Mahathir Mohamad, it is imperative to make globalisation a win-win formula which benefits all at the expense of none.

The IMF and World Bank's insistence that fiscal deficit is the "original sin" of troubled economies should no longer be regarded as received wisdom. Indeed, its prescription of reducing the deficit by cutting subsidies, for example, shows utter disregard for the poor in the affected country. Surely, not much can be achieved by squeezing the poor's consumption. Much of the answer for resolving the debt burden of the poor countries lies in a new financial architecture as well as an equitable

globalisation process - not dribblets of resources under humiliating conditions.

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