



Globalization and Marginalization: Debt and the International Underclass

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Dramatic pronouncements about the nature and consequences of globalization are the order of the day. Capitalism and democracy are seen as spreading throughout the world as economies and markets are increasingly integrated at the global level, bringing a new prosperity and better governance to all. The developing country debt crisis is said to be over, and marginalized parts of the world are being integrated into the global economy through economic reforms supervised by the International Monetary Fund (IMF) and the World Bank. Liberal internationalists trumpet the rise of the supranational authority of international organizations while conservatives fear the loss of state sovereignty these organizations allegedly bring. At the same time, neo-medievalists see a world composed of increasingly powerful and autonomous markets and networked corporations in which states will become epiphenomenal. This perspective is an almost Marxian mode of production materialism now popular in the world's major business schools, one that also predicts the end of the state.

While less dramatic, I would argue that the global reality is far more complex, uneven, and interesting. Many have let the fault of analytic hurry—seeing things as real before they actually are—carry them away. The state is not in major retreat; it remains the most important constitutive unit of the international system and is quietly

reconfiguring itself in the face of new global realities and technologies. What exists is a complex form of transgovernance in which states are linked in increasingly complex networks composed of officials from other states, international organizations, corporations, banks, law and lobbying firms, and a rich array of nongovernmental organizations (NGOs) that are beginning to constitute a rough sort of global civil society.

In parts of the world the state is receding, as weak postcolonial states such as Somalia, Liberia, Sierra Leone, and Congo (formerly Zaire) fail, but this is not the same as the alleged retreat of the state in the face of the onslaughts of globalization. Power is not shifting away from states to anywhere near the degree claimed in recent writings. Part of the problem is that we seem to have bought into our own myths about states and sovereignty. States have never been monolithic control instruments; their powers have ebbed and flowed over time as the underlying structures of the international system have changed. The state is not being dismantled, nor even disaggregated, but rather reconfigured. In fact, transgovernance actually strengthens the role of the state in global affairs.

TRANSGOVERNANCE AND THE STATE

Transgovernance is a largely statecentric phenomenon that has been emerging for some time. Laws and regulations are still enforceable almost exclusively at the national level or through structures, international or otherwise, that are supported primarily by national mechanisms of constraint and finance. These networks of coordination are flexible forms of cooperation and regulation based on the interaction of officials with similar concerns and

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often similar normative frameworks and backgrounds, and they lead to increasingly dense arrangements of largely voluntary cobinding (that is, cooperation that leads to a new sense of unity and identity). The networks are not, however, free from conflict or larger configurations of power; they are largely rooted in the structures and hierarchy of the liberal capitalist democracies of the Organization for Economic Cooperation and Development (OECD), or what was once simply called the North. Their reach is certainly global, if not always bindingly so. From these networks have emerged new ways of coping with complex problems, often without formally legislated outcomes at the national or international levels.

The memorandum of understanding is the key operational mechanism of transgovernance, which means that these transnational governance networks of cooperation and response are even less accountable than national structures, although legislatures and civil societies are devising increasingly better forms of oversight and accountability. These networks, with their multigovernmental core, are major anchors for the activities of international and nonstate actors, all of which operate wherever they believe they will have the most success. As a result, transgovernance networks reflect the reach and the limits of both supranational and market structures.

THE PARIS CLUB: TRANSGOVERNANCE EMBODIED

The networks of transgovernance are increasingly populated by hybrid "intersection institutions" or structures such as the Basel Committee on Banking Supervision, the Bank for International Settlements, and the Paris Club of creditor states; the last is a prime example of the complex richness and ambiguity of transgovernance processes.

A major claim in globalization literature is that the world's economies are integrating rapidly and in ways that facilitate the development of productive capitalist economies for the benefit of all peoples; in other words, that transformation and not marginalization is the order of the day. It is clear that development requires productive linkages to the globalizing capitalist economy, but it is not clear that all countries can establish such productive ties with even roughly equal ease. A key indicator of this was the international debt crisis that exploded with Mexico's dramatic default on its \$84 billion foreign debt in August 1982. With the debt crisis came increased efforts at economic reform under the auspices of the IMF and the World Bank, as well

as rapidly evolving mechanisms for coping with the threat debt posed to the stability of the international financial system.

By the mid-1990s, many analysts were pronouncing the debt crisis over. In the sense that it no longer posed a major threat to the international financial system, this is true and is a testament to creative international cooperation by a wide variety of actors, including the Paris Club. The debt crisis was not resolved for all countries, however; it has become increasingly clear that some are less able to benefit from internationally sponsored economic reform and thus less able to grow their way out of debt service difficulties. Today, rather than becoming more integrated into the world economy, these countries appear to be increasingly marginalized. Capital is instead flowing again, at increasing rates, to key "emerging market" regions of the world, especially East and Southeast Asia and Latin America. State failure, war, and civil strife have been accelerated by the costs and consequences of economic reform that has come to very little in many places, all aggravated by insufficient debt relief. What is taking place today in many African countries may well play out in similar ways on the rim of the former Soviet Union and among weak states elsewhere.

The Paris Club is a complex and powerful, yet rarely recognized, hybrid international organization that reveals a lot about the evolution of the international political economy and the nature of transgovernance processes. Over the last several decades it has directly affected the lives of millions of people, although technically it does not exist. It is not a formal organization with a charter, legislated set of rules, fixed membership, large bureaucracy, or fancy building; it is usually described as an ad hoc "forum" of creditor countries that reschedules the public and publicly guaranteed debt of developing countries. It is far more, however, and has evolved significantly since it began operations in 1956 when it rescheduled Argentina's \$350 million bilateral debt. From that modest beginning, the number and variety of debt reschedulings has accelerated dramatically: 26 between 1956 and 1976, 150 between 1977 and 1990, and well over 200 by the mid-1990s, with more to come.

As a linchpin of international debt management, the Paris Club influences the prospects for peace and development in many of the world's states—mostly middle and low income countries in Africa and Latin America and, more recently, in Eastern Europe and the former Soviet Union. Russia

assumed the debts of the Soviet successor states and then received the largest rescheduling in the Paris Club's history. In a dramatic move, it has also recently become a member of the Paris Club, making it both a creditor and debtor Paris Club country. Another wave of rescheduling will come eventually from the other successor states.

Since the late 1970s, the Paris Club has become increasingly nested in a complex of interactions with other important actors in the international political economy—the IMF, the World Bank, regional development banks, the United Nations Conference on Trade and Development, the OECD, the Bank for International Settlements, the London Club (the private debt rescheduling forum of international banks), the Consultative Groups (country aid consortia), investment bank advisory groups that sometimes represent debtor countries, and, of course, the governments of the debtor countries. These actors take part in Paris Club operations or are involved as observers and advisers. More recently, private volunteer organizations such as Oxfam have become interested in the Paris Club and have put forward debt reform proposals, which is seen by some as evidence of the emergence of an international civil society concerned with management of a global commons.

Debt rescheduling is one of the easiest and quickest ways to provide badly needed foreign exchange to countries in economic, social, and political trouble, but rescheduling is possible only if the debtor country has economic reform programs in good standing with the IMF and the World Bank. In addition, London Club rescheduling is supposed to come only after Paris Club rescheduling, and Consultative Group aid coordination is also linked to Paris Club rescheduling.

COPING WITH THE INTERNATIONAL UNDERCLASS

A central structural dilemma for the global economy is the emergence of an international underclass of weak states and economies that may not be able to benefit easily or quickly from economic reform and democratization. It poses major difficulties for the functioning and evolution of the international political economy and for international peace and conflict well into the next century.

This structural dilemma has largely driven the evolution of the Paris Club. By the 1970s, while continuing to deal with middle income countries, it focused increasingly on weak states. Such states often get into debt service trouble quickly and do not come out of it easily because economic reform

has not worked well for them. They come back to the Paris Club repeatedly and have forced it to gradually bend, stretch, manipulate, "redefine," and even eliminate its rescheduling rules. One of the first norms to go, although slowly, was the prohibition on rescheduling previously rescheduled debt.

Far from being smooth, generalized, or orderly, this evolution of norms shows the complex interplay of the varied and often shifting interests of the major creditor countries as they interact with their respective legal structures, bureaucratic cultures, and domestic politics—electoral, legislative, and special interest. It is fascinating to see why, how, and when some special deals have become more generalized norms and others have not. The impact of these efforts on the underlying structural dilemma has been minimal, however. As a result, the Western countries that form the core of the Paris Club have started proposing more flexible "menus of terms" that can be applied to "severely indebted" countries—the Toronto terms of 1988, the London terms of 1991, the Naples terms of 1994, and the Lyon terms of 1996.

This complex bargaining over individual country deals has fostered the creation of new understandings about how the international financial system can be managed and the emergence of new institutional and personal linkages and networks that facilitate everyday cooperation and the handling of crises. From my work on Africa's debt in the 1970s, I am convinced that the Paris Club's handling of these early problems of the international underclass created the "case" or "common law" normative consensus, appreciation of long-term consequences, social networks, and institutional linkages that made possible the swift and largely successful handling of Mexico's crisis in August 1982. This is but one example of a more generalized phenomenon shaping the treatment of other important international collective action problems.

State capabilities vary enormously in the international system. The structural disadvantages of these debtors have been seriously aggravated by their poor state capabilities, resulting in insufficient debt relief. Weak state capabilities have led to poor performance at the Paris Club. Consequently, some countries have hired merchant banks and even international law and public relations firms to represent them, leading to uneven outcomes. These weak state capabilities must be taken seriously, as levels of state effectiveness will be one of the major determinants of reconfigured global hierarchies.

BY WHOSE BOOTSTRAPS?

By the early 1990s, it had become clear that many of the poorest states that had come before the Paris Club had an insolvency rather than a liquidity problem. In 1996 the IMF and the World Bank designated 41 of their member states as "heavily indebted poor countries" (HIPC) whose debt was not likely ever to be repaid in full. The total external debt of these countries, mostly public or official rather than private, rose from \$55 billion in 1980 to \$183 billion only a decade later and to \$215 billion by 1995, a sum more than twice their export earnings. Of the 41, 32 are from sub-Saharan Africa. Most of the HIPC have high levels of poverty and limited domestic resources and, in effect, constitute an international underclass of states on the margins of the globalizing world economy. All but 6 fall into the United Nations Development Program's lowest human development category. According to Oxfam, these countries are in a vicious circle of economic and social decline.

In sharp contrast to other developing countries, the HIPC have weak economic growth and export performance. Average gross domestic product growth between 1985 and 1990 was 2.2 percent and fell to only 1 percent between 1990 and 1995. In 1993, 32 of them had gross national product per capita figures of \$695 or less, debt to export ratios higher than 220 percent, and/or debt to GNP ratios of more than 80 percent. Over half often have annual debt service due of more than 20 percent of government revenue. The debt payments of Zambia and Nicaragua, for example, use one of every two dollars received in aid, which diverts scarce resources from both economic reform and poverty reduction efforts.

Between 1980 and 1996, all but four of the HIPC had Paris Club reschedulings, with an average of four each, and on concessional terms, including some debt forgiveness. Existing procedures clearly were not leading to sustainable and productive debt levels. Since 1982 most middle-income debtors have improved their situations significantly by vigorous economic reform and have successfully reentered international capital markets as a result. By December 1996 only four middle and lower middle income countries had Paris Club agreements. At the same time, many of the HIPC were being marginalized at a rapid rate. This is not to imply, however, that HIPC are necessarily consigned permanently to the underclass. A few have made remarkable progress—Bolivia, Ghana, and Uganda, for exam-

ple, and more recently Mozambique, despite debt payments that are more than double its combined health and education budget. These countries will need major international assistance, however, to continue their climb out of the international underclass.

The causes of underclass status are many and complex: external trade and other shocks, heavy reliance on primary commodities, weak formal economies and economic reform efforts, corrupt and oppressive governments, civil conflict and war, environmental degradation, and disintegrating physical and social infrastructure. All this is reinforced by limited access to private international capital flows despite the implicit bargain with the IMF and the World Bank that such access would sustain economic reform efforts. A number of these countries are failed or failing states—Somalia, Liberia, Sierra Leone, Chad, Cameroon, Central African Republic, and both Congos. Others suffer from ongoing civil strife—Rwanda, Burundi, Sudan,

Uganda, Angola. Even some HIPC with major resources, such as Nigeria and Sudan, are in serious trouble. In addition, another group of weak states exists that are not yet classified as HIPC because they have only recently had access to official and private international finance. Three states of the former Soviet Union, for example—Kazakhstan, Uzbekistan, and Belarus—are mixed in with African states at the bottom

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of international credit ratings, and others are not yet rated; they are likely to be future HIPC.

In September 1996, after considerable internal debate and external pressure, the World Bank announced a major new initiative to cope with the debt and related problems of these states—the HIPC debt initiative. The initiative is to provide an exit from the rescheduling process by reducing debt to "sustainable" levels so that it is not an impediment to growth and poverty reduction. It is billed as a new paradigm for international action. In fact, it builds on existing mechanisms and has the Paris Club at its core, with the IMF and World Bank playing a more direct role while retaining their status as preferred creditors. It is meant only for those countries that have demonstrated a strong commitment to major economic reform for at least six years, and is conditioned on continued compliance with IMF and World Bank dictates.

In a complicated, multistage process, the Paris Club countries will provide concessional debt relief and reduction on a case-by-case basis to eligible

countries, and the IMF and the World Bank will provide important formal debt relief for the first time. All non-Paris Club creditor countries and commercial creditors are to provide comparable treatment, although it is not clear how this will be achieved. Now that Russia is a member of the Paris Club, about \$170 billion owed to it by cold war allies will be brought under the HIPC umbrella, although the debt will be greatly discounted. Initial estimates put the cost to the creditor countries and the IMF and World Bank at about \$5.5 billion, with the hope that it will catalyze private financial flows and help reintegrate these countries into the global economy.

This new effort at more effective global economic governance was pushed by Britain, the Netherlands, New Zealand, and the World Bank. Although the initiative is likely to help only 8 to 20 countries, and not quickly, it was resisted from the beginning by Japan, Germany, and Italy because of concerns about cost, burden sharing, moral hazard, and issues related to the proposed sale of IMF gold reserves; it was also thought to undermine the credibility of the IMF and the World Bank as enforcers of major economic reform. The United States and the IMF have also had serious doubts along the way.

Major NGOs, led by Oxfam, maintain that the Paris Club and the IMF lack the will to achieve seri-

ous debt relief. They claim that IMF conditionality is much too stringent, challenge the way sustainability, vulnerability, and threshold indicators are assessed, and point to weak commitment to poverty reduction. Oxfam charges the IMF and some of the major countries with systematic attempts to delay and restrict implementation, partly through data manipulation, while asserting that industrialized countries can easily afford the cost. Uganda and Bolivia, both of which have engaged in heroic economic reform efforts for over a decade, will be the first to benefit, but only after considerable delay.

GLOBAL SOLUTIONS TO GLOBAL PROBLEMS

Given the complexities and power structures of the current international system, major reform usually comes slowly. Very little came of all the heat and rhetoric of the efforts of developing countries in the 1970s and 1980s to set binding, generalizable rules for debt as part of a New International Economic Order; change has instead come from the powerful players in the international system, on their terms and in their time frame. The HIPC initiative is an innovative extension of the transgovernmental Paris Club mechanism, but it is not clear how well it will work or whether it will be adequate for the international underclass in the face of the powerful forces of globalization. ■

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