

2009

JESUIT CENTRE FOR THEOLOGICAL REFLECTION

DEBT, AID AND TRADE PROGRAMME

POLICY BRIEF

Fourth Quarter

OF WHOSE BENEFIT IS GLOBALISATION? EXAMINING THE RELEVANCE OF THE G20 TO ZAMBIA

Privilege Haang'andu

JCTR

2009

1.0 INTRODUCTION

The current dynamics of globalisation suggest it is a game between two camps: the rich industrialised countries and the less industrialised poor ones. In its ideal form, however, globalisation is supposed to be the creation of a global environment where the world is becoming a global community with various barriers that inhibit the socio-economic development of nations, peoples, and continents eliminated. Indeed there has been some disappearance of many such structures but there has also been some corruption of ideal globalisation where industrialised countries both dominate and manipulate processes of development and decision making in their interests at the expense of low income countries. With the disappearance of slave trade and colonialism, we see the emergence of neo-colonialism. The strongest meet, in the absence of the rest of the global community, and make binding decisions for the entire world, worse still, decisions that largely exclude the concerns of the majority and do not serve the common humanity. One such forum that convenes the rich countries of the world to discuss matters of development with the obvious absence of poor countries is the G20.

2.0 BACKGROUND TO G20

What is the G20 and what is its origin? From the very outset, it must be known that there are other groupings similar to the G20 (e.g. G7, G8 etc) that are meant to promote dialogue and cooperation among different countries. The G20, however, was uniquely designed to be a regular consultative forum to reduce the world economy's vulnerability to crisis. This decision was arrived at following the the East Asian financial crisis of 1997-1998, and the growing recognition that key emerging-market countries were not adequately included in the core of global economic discussion and governance. The G20, founded in 1999, was strictly a finance ministers' and central bank governors' forum established to systematically bring important industrialised and developing economies to discuss key issues in the global economy. The shift to include heads of state came in November 2008 when the heads of state of the G20 met in Washington, DC – then again in April 2009 in London and of course in Pittsburgh in September 2009. At a critical time of the global economic crisis, and although the logistics were already in place prior to the crisis, the heads of state decided to come together using the G20 grouping since the finance ministers and central bank governors were already used to communicating with one another.

The G20, unlike other forms of international cooperations like the United Nations, is an informal forum that promotes discussion between industrialised and emerging-market countries on key issues related to global economic stability. The G20, constituted by the nineteen most industrialised countries plus the European Union, represents 66% of the global population and it claims 90% of global gross national product. Further, 80% of world trade occurs among the G20 member countries.

The question this policy brief seeks to answer, more especially by attempting to examine the relevance of such cooperations to low income countries like Zambia, is whether the G20 is likely to provide genuine mechanisms for development, cooperation, and inclusion or simply becomes an instrument of "hegemonic cooperation." The JCTR is concerned about the impacts such processes as the G20 have on low income countries such as Zambia, especially that so many issues discussed at that level have a bearing on our engagement with policy makers both at the national and the international levels.

3.0 POVERTY IN ZAMBIA: A CRISIS BEYOND “GLOBAL ECONOMIC CRISIS!”

Meeting at the height of the global economic crisis in April 2009 in London, the G20, in their final communiqué said: “We recognise that the current crisis has a disproportionate impact on the vulnerable in the poorest countries and recognise our collective responsibility to mitigate the social impact of the crisis to minimize long-lasting damage to global potential.”¹

Following that acknowledgement, the G20 made several pledges to assist poor countries emerge out of the global economic meltdown. Today some sectors speak about the great hopes currently characterising the global economic performance, gradually emerging the global economy out of the recession. One of the macroeconomic indicators being cited is the appreciation of commodity prices on the international market. Copper, for instance, which is the back-bone to Zambia’s economy, has gained from about US\$3500 per metric ton in the first quarter of 2009 to more than US\$6000 per ton in the fourth quarter. However, whether this will be sustained is subject to concerns as to whether it is just speculation caused by stock piling by China, raising the question of whether this can be used to measure the performance of the world economy. In spite of this, there is some hope stemming from improving employment levels and trade volumes.

Without trivialising the importance of efforts made to fight the recession, the global economic situation has always been a source of serious concerns. For a long time now, while the most industrialised countries of the world prosper, poor living conditions have characterised Zambia and many other low income countries. The very fact that 65% of Zambians, for a long time, have been unable to access clean drinking water, adequate food, decent shelter, basic education and healthcare does mean there has been a crisis in the country. Poverty, even with positive macro-economic indicators, is a state of deprivation, and is in itself a crisis. In other words, positive growth on the part of economic indicators does not necessarily entail improved livelihoods. So even before the global economic indicators tumbled, the situation of poverty in Zambia was still dire, with two thirds of the population unable to access basic human needs. The question of poverty, therefore, lies far beyond the economic crisis. The G20 may, momentarily, prescribe measures to help the poor emerge out of the global economic crisis such as the Special Drawing Rights, already benefiting the Zambian budget², but we need to see more rational commitment to ending chronic poverty in Zambia and the rest of the world and to addressing the real issues stalling development in Zambia imbedded in various structures.

An example is the concern that as low income countries go out to beg for aid to rich countries, an estimated US\$ 690 billion in illicit outflows leave low income countries for the developed³. With one hand the rich countries give aid, with another they siphon from poor countries raw materials, huge monies in form of debt servicing, and, taking advantage of weak institutional and environmental monitoring frameworks, in the name of foreign direct investment, pollute poor countries’ air and waters.

According to estimates from the Washington-based Global Financial Integrity, outflows from poor countries to rich ones in form of corruption are as little as 5%, and just over one third are proceeds from criminal activities. The lion's share of capital outflows is linked to tax evasion and avoidance by commercial activities. The Pittsburgh G20 communiqué failed to put forward specific and ambitious measures to combat tax evasion and help in reducing tax avoidance by strengthening global legal and institutional instruments to enhance

¹ Bretton Woods Project, Delivering the Insufficient?, Briefing, September 10, 2009.

² 2010 National Budget Presentation, No 35

³ The African Monitor, April 2009

transparency of the activities of multinational corporations and to lay-out an ambitious plan to close down tax havens. This is a serious concern for JCTR and the larger Civil Society in Zambia where multinationals set up operations and enjoy tax exemption for a long time, sometimes paying salaries lower than the Government recommended minimum wage. The JCTR are especially interested in new global rules on tax information exchange that would help developing countries like Zambia.

Yes, globalisation has scored some success, but mainly for the already advantaged minority. By and large, it has created an incredible abyss between the rich West, and the poor low income countries. More specifically, the G20 processes affect Zambia's socio-economic development in the following areas:

4.0 ON SOCIAL PROTECTION

The Pittsburgh G20 communiqué mentions that the World Bank should strengthen: "its focus on food security through enhancements in agricultural productivity and access to technology, and improving access to food". This raises concerns about the increasing role given to the World Bank as provider of global public goods, such as finance for climate change and food security. An analysis of the 2008 World Development Report by German NGOs shows that the Bank still encourages small farmers to become part of the global value chain of agricultural production in order to graduate from poverty. The approach being promoted is the privatisation and liberalisation of the agricultural sector which is similar to that proposed in the 1990s that subsequently turned 70% of the low income countries into net food importers. If this made them extremely vulnerable to the vagaries of the free market, what more in the wake of the speculative international commodity market with insufficient safeguards or support?

The communiqué also mentioned that the World Bank should strengthen "its focus on human development and security in the poorest and most challenging environments" by contributing "to financing the transition to a green economy through investment in clean energy, energy efficiency and climate resilience." Yet - ironically the Bank continues to fund fossil fuel projects, which raises serious questions about the ability of the Bank to take up a role at all in climate change funding. Zambia has not been insulated from the effects of climate change and it does need serious support to adapt. The G20 discussed the need for efficient and effective financing to address climate change. A striking point is that any future financing for climate change should not be a re-allocation of money previously promised to Zambia and the rest of the world's poor but a renewed commitment of additional funds.

In the G20 London communiqué, low-income countries were to be allowed to draw upon International Development Association (IDA) resources early, but this would have left a gap in their budgets in a few years time without some more resources. Something which is now evident is that social protection is too risky a mechanism to derive from the international economy and absolute free-market system as we have seen from the world financial crisis and other past experiences. With this continued level of uncertainty in the international economy, countries are too susceptible to external shocks in the international system and not all are equal in the free-market system. This, therefore, spells out the more reason and need for Zambia and other low income countries to develop and strengthen social protection systems in order to safeguard the vulnerable masses against the misfortunes of increasing level of liberalisation in the international system. It is very clear that the World Bank is not using its resources and influence to promote or support low income countries to guarantee or ensure the vulnerable are safeguarded.

5.0 AID

In the April 2009 G20 meeting, the G20 promised \$50 billion in resources for the world's poor to aid efforts in fighting the global recession. By the time the G20 was meeting in September in Pittsburgh, less than half of the total amount had been delivered. Further, the Pittsburgh communiqué was silent on this \$50 billion the G20 leaders pledged to poor countries in April. As has been acknowledged by the *Zambian Government*⁴, funding from the Cooperating Partners has significantly reduced for the 2010 budget resulting from public fund misappropriation at home. However, it is also true that donor aid to the country has been fluctuating long before the corruption revelations in the Ministry of Health. For instance, in 1996, volumes of Official Development Assistance (ODA) declined by 70% when governance became an issue of concern in Zambia.

Fluctuations in ODA flows, coupled with the already low returns on trade, threaten Zambia's achievement of the Millennium Development Goals. In their Pittsburgh communiqué, the members of the G20 failed to address or make provisions for the predicted \$33 billion aid deficit through 2010; a deficit created by unmet aid commitments and the reduced value of the Gross National Income of donor countries.

6.0 TRADE

The unfair trade relations between the rich and poor countries, where the rich continuously use trade negotiations to promote their industries at the expense of fair trade, remain unaddressed by the G20. Issues to do with capacity of developing countries to adequately participate in developing trade agreements and strengthening institutional arrangements to help in implementing such agreements leaves much to be desired. Liberalisation's emphasis on the opening of markets, as has been evidenced in the Economic Partnership Agreement negotiations, does not necessarily guarantee development and improved livelihoods for the poor 65% of Zambians.

Once again, G20 leaders urged that the Doha Trade talks be completed in 2010 without announcing any real commitment on the elimination of trade-distorting measures in the richest countries. Time and again low income countries have expressed the challenge of overcoming Technical Barriers to trade even with Duty Free and Quota Free Market Access. This is just an example of the many instances that the G20 gives binding deadlines to developing countries to bow to their conditionalities without taking reciprocating measures which seem to benefit low income countries but would seemingly disadvantage them. This leaves one wondering whether or not the G20 countries realise that rapid and universal liberalisation creates a barrier to the development of the potential capacity of countries like Zambia to develop competitive industrial muscles on the international market. Similarly, with developed countries having more resources and capacity to provide private sector support through subsidies, developing countries are often disadvantaged in the development and diversification of their economies. Therefore, the G20 should begin taking serious measures to support rational liberalisation where support of development and safeguards precede liberalisation in order to enhance the prospects of genuine fair trade.

Zambia has, like many other low income countries, been trapped in the vicious cycle of selling low value products (raw materials) and buying products of high value (semi-processed and processed materials). Trade measures should be adopted to address this imbalance especially in the case for developing countries where there is a heavy reliance on revenue

⁴ 2010 National Budget Presentation, No. 74

incomes from these low value products which are normally raw materials and most affected by market price speculations.

7.0 DEBT

Although Zambia received debt relief through the Highly Indebted Poor Countries and Multi-lateral Debt Relief Initiatives, in April 2005 and 2006 respectively, the country still remains vulnerable to unsustainable indebtedness as long as there are no transparent lending and borrowing frameworks put in place. The current global crisis is sending debt levels skyrocketing in many low income countries, threatening to erase the gains of the Jubilee campaign of the past decade. Zambia has seen a significantly steady increase in her debt stock, both domestic and foreign the last couple of years. Meanwhile, the G20 are pouring fuel on the fire by providing 99% of their promised resources to the developing world as loans, not grants⁵. Even the much celebrated Special Drawing Rights are not a grant, but monies payable to the IMF.

In the Pittsburgh Summit, the G20 failed to squarely confront the issue of growing indebtedness. In Zambia the IMF and Government officials continue to claim that external debt levels are still very sustainable in the country. That assurance in itself will not safeguard Zambia from a possible future debt trap. It is shrewdness with domestic borrowing mechanisms that will. Zambia urgently needs to counter failures such as the G20's failure to give directives against IMF policies with firm constitutional measures such as strong parliamentary oversight in the loan contraction process. The concern is less about the ability of the country to repay borrowed monies than about the trade off of money going to debt servicing and lack of transparency in loan contraction against development investments being priority to the country.

⁵ Jubilee USA Network: Falling Short, A Progress Report on the G20's Commitments to the World's Poorest

Table 1 below shows Zambia's Debt Structure in US\$ Millions

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| PARIS CLUB | 2,179,183 | 2,713,854 | 2,343,118 | 1,996,016 | 2,329,607 | 806,953 | 204,855 | 212,559 |
| NON PARIS CLUB | 340,455 | 377,902 | 271,716 | 233,019 | 211,366 | 207,037 | 73,202 | 74,235 |
| BILATERAL | 2,519,638 | 3,091,756 | 2,614,834 | 2,229,035 | 2,540,973 | 1,013,990 | 278,057 | 286,794 |
| MULTILATERAL | 3,404,338 | 3,368,098 | 3,674,856 | 3,163,592 | 4,043,830 | 3,540,820 | 595,201 | 708,301 |
| <i>African Dev. Bank</i> | 96,859 | 88,494 | 53,157 | 84,437 | 51,135 | 37,917 | 74,297 | 21,002 |
| <i>African Dev. Fund</i> | 231,560 | 230,168 | 243,044 | 132,730 | 294,898 | 289,763 | 52,230 | 72,581 |
| <i>BADEA/ABEDA</i> | 18,495 | 16,400 | 15,344 | 15,723 | 16,412 | 15,919 | 18,252 | 18,138 |
| <i>European Dev. Fund</i> | 38,691 | 40,692 | - | - | - | 0 | 0 | 0 |
| <i>European Inv. Bank</i> | 28,410 | 78,642 | 20,806 | 29,409 | 192,554 | 160,959 | 62,261 | 55,755 |
| <i>IFC</i> | - | - | - | 1,403 | - | 0 | 0 | 0 |
| <i>IBRD</i> | 11,399 | 10,908 | 9,849 | 2,887 | - | 0 | 0 | 0 |
| <i>IDA</i> | 1,788,748 | 1,826,148 | 2,481,222 | 2,284,162 | 2,496,112 | 2,335,586 | 260,645 | 316,905 |
| <i>IFAD</i> | 54,706 | 55,296 | 55,296 | 66,379 | 80,516 | 75,802 | 85,848 | 91,080 |
| <i>NDF</i> | 420 | 413 | 2,336 | 2,117 | 1,692 | 11,611 | 14,522 | 17,399 |
| <i>OPEC</i> | 6,558 | 7,296 | 8,219 | 8,480 | 19,534 | 21,707 | 27,145 | 29,490 |
| <i>Shelter Afrique</i> | - | - | - | - | 668 | 417 | 0 | 0 |
| <i>IMF Credits</i> | 1,128,492 | 1,013,642 | 785,584 | 535,865 | 890,308 | 591,139 | 32,494 | 85,950 |
| PRIVATE BANKS | - | - | - | - | 14,361 | 14,567 | 0 | 0 |
| SUPPLIER CREDIT | - | - | - | - | 69,232 | 81,656 | 57,143 | 111,373 |
| TOTAL GOVT. DEBT | 5,923,976 | 6,459,854 | 6,289,690 | 5,392,627 | 6,668,395 | 4,651,034 | 990,200 | 1,106,468 |
| PARASTATAL & PRIVATE | 410,375 | 832,263 | 646,433 | 646,794 | 444,618 | 404,712 | 901,900 | 1,021,396 |
| TOTAL DEBT STOCK | 6,334,351 | 7,292,117 | 6,936,123 | 6,039,421 | 7,113,013 | 5,055,746 | 1,892,100 | 2,127,864 |

8.0 CONCLUSION

The JCTR recognises the importance of international processes such as the G20 because deliberations and decisions made at that level have significant impact on national efforts to fight poverty. For instance changes in fiscal policies and monetary policies in the G20 economies do impact on the volatility in the price of commodities such as copper in the speculative markets on the London Metals Exchange (LME) and New York Mercantile Exchange (NYMEX). This is because industries with the largest buying power for the commodity are found in the G20 economies and use lines of credit from their home economies which they use for operations and investments in developing countries. In the meantime, Zambia's foreign earnings from copper and cobalt amount to 80.8%, illustrating the extent that Zambia is vulnerable to sudden shocks in the global economy.

The recognition of the impacts processes like the G20 have on low income countries also requires that low income countries themselves be vigilant in ensuring domestic policies of engagement that do not leave them vulnerable to external forces. A country that has in place a concretely spelt out legal system on borrowing, for example, will not fall prey to IMF conditionalities and other bad loans. Zambia must keep keen track of processes whose decisions spell out global rules of economic engagement so as to keep up the pace with global movements.

It is clear that the G20 can do a lot to share the benefits of globalisation. At the moment, it is also clear that **member countries** of the G20 have protectionist interests for their own countries which could work against low income countries' struggles to efficiently plug into the possible opportunities on the global market. The attention placed to address the plight of the poor should not be less than that put on national security and the fight on terrorism. Desiring

to protect ourselves from the bother of the poor, we build ourselves a barrier against those living in unstable worlds, and so we defeat the entire agenda of globalisation!

9.0 RECOMMENDATIONS

i) Given the uncertainties in the international economy and the shocks such cause to the low income countries, Zambia needs to invest in social protection safeguards to ensure turbulences at global level do not have devastating shocks on the poor and the general population. Ordinarily, a country is more vulnerable to shocks by global crisis if its poverty levels are high prior to the crisis.

ii) The acknowledgment that there are outflows from poor countries to rich ones through both tax evasion and tax avoidance and otherwise should serve as caution for Zambia to put in place watertight investment laws and financial regulations. A question Zambia could ask, for example, is: Do we have domestic mechanisms of assessing the cost of mining in the country to justify our taxation claims? This would help the country to ensure it has measures to combat tax evasion and tax avoidance by multinationals.

v) Liberalisation must be done in sequence where development support preceeds liberalisation. There is need for the country to protect local infant industries against unfair competition with the heavily subsidised industries from the developed countries. Zambia, therefore, should be reluctant to take on every directive as and when spelt out by the IMF without a clear assessment of the impacts on the populace, especially the poor.

vi) The need for value addition to copper and other export commodities cannot be overemphasised. At the moment Zambia is caught up in the selling of low value products and buying high value products.

vii) Zambia needs to develop and strengthen its own indicators of external debt sustainability. This also needs to be coupled with a strong domestic legal framework on borrowing to enhance parliamentary oversight and transparency in the process of loan contraction. This will protect the country from future debt traps and counter the external forces to push low income countries into indebtedness.

viii) The G-20 influences other international cooperation mechanisms and the decisions expressed in the communiques have significant policy implications of key institutions throughout the world. Therefore, it is important for the G20 to adequately address some of the inflexible measures that limit low income countries' ability to participate and benefit from the ideal form of globalisation.

10.0 REFERENCES

- i) Bretton Woods Project, Delivering the Insufficient?, Briefing, September 10, 2009.
- i) Ministry of Finance and National Planning, 2010 National Budget Budget Presentation.
- iii) The African Monitor, April 2009.
- iv) Author's own computations based on G20 Pittsburgh Summit Experience and JCTR work Data.
- v) Jubilee USA Network: Falling Short, A Progress Report on the G20's Commitments to the World's Poorest.