International Law and the Crisis of the World Capitalist System

Course 11

Debt as a Mechanism of Neocolonialism and Domination by Major Powers through Bretton Woods Institutions

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I. WHAT IS DEBT?

- **Private debt** (within a country)
- **Public debt** (external to the country)

This course primarily focuses on **external public debt** of Developing Countries (DCs).

External debt of DCs is divided into two categories: external public debt and external private debt.

External Debt?

External Public Debt: This is contracted by public authorities, local governments, or public entities, or by private entities whose debt is guaranteed by the State.

External Private Debt: This is contracted by private companies (a subsidiary of a multinational from the North, a local bank, or a local industrial enterprise) and is not guaranteed by the State.

External Public Debt

The multilateral portion: When the creditor is a multilateral institution such as the IMF, World Bank, or other international institutions.

The bilateral portion: When the creditor is another State.

The private portion (or commercial portion): When it is a loan granted by a private bank or when it consists of bonds issued by the country on an international financial market.

II. BRETTON WOODS INSTITUTIONS

The International Monetary Fund (IMF)

The International Monetary Fund (IMF) was created in 1945. At its creation, the Fund's objective was to ensure the stability of the new international monetary system by ensuring compliance with the stability of currency parity systems.

From the 1970s onward, it carried out the mission of supporting countries experiencing financial difficulties to prevent the outbreak of a financial crisis. During the debt crisis of the 1980s, this new mission consisted of designing, for countries in crisis, Structural Adjustment Programs (SAPs). The SAPs have contributed to weakening and slowing the development of Southern countries to this day.

The World Bank (WB)

The International Bank for Reconstruction and Development (IBRD) was created in July 1944 at Bretton Woods (United States), at the initiative of 45 countries gathered for the first United Nations Monetary and Financial Conference.

The World Bank Group consists of 4 organizations:

- The International Finance Corporation (IFC), created in 1956 for financing the private sector of DCs;
- The International Development Association (IDA), created in 1960 for loans to the poorest countries;
- The International Centre for Settlement of Investment Disputes (ICSID), created in 1966. This is a kind of tribunal where a private company can sue

created in 1966. This is a kind of tribunal where a private company can sue a State if it feels harmed by a decision, even democratically made by a government concerned with the living conditions of its people;

- The Multilateral Investment Guarantee Agency (MIGA), created in 1988 to promote investment in DCs.

The term "World Bank" refers to the IBRD and IDA.

The Paris Club

The Paris Club, created in 1956, is an informal group of public creditors whose role is to find coordinated and sustainable solutions to the payment difficulties of indebted countries. The creditors of the Paris Club grant them debt relief to help them restore their financial situation.

The Club is chaired by the Director of the French Treasury. Their meetings are held behind closed doors and reports are never published. When the Paris Club intervenes, there is never any question of human rights or living conditions of populations.

III. THE MECHANISM OF ILLEGITIMATE DEBT

Illegitimate or odious debt is debt contracted by authorities that does not serve the interests of the populations of debtor countries.

Illegitimate debt is money diverted by a minority, but the interest is paid by citizens who have not benefited from it.

Analysis of Illegitimate Debt

1. A power balance in favor of creditors.
2. No consultation of the peoples of the debtor parties. Poorly structured projects.
3. The funds obtained serve a minority that often rules as a dictator in debtor countries. A large portion of the funds is diverted to the detriment of projects.
4. Interest rates are too high, making the debt unsustainable. To repay the debt, States are forced to borrow. A vicious circle.

According to the IMF, some figures on African debt in 2024

- **Total volume**: Approximately €1,860 billion (or more than $1,000 billion for external debt alone).
- **Debt service (capital and interest)**: Nearly $90 billion devoted to debt service in 2024, or nearly double the foreign aid received.
- **Affected countries**: 22 African countries in a state of over-indebtedness.

The Structural Adjustment Program (SAP)

Faced with the debt crisis in the 1980s, the IMF and World Bank imposed Structural Adjustment Programs (SAPs) on indebted countries.

The SAP, according to CADTM, consists of:

- Exporting more (to the detriment of food crops) and spending less, through two sets of measures.
- Elimination of subsidies for essential goods and services, reduction of social budgets (Education, health, housing, food) and reduction of the civil service wage bill,
- Economic liberalization through the abandonment of capital movement controls and exchange control elimination, opening of markets by removing customs barriers, privatization of public enterprises (Today, all food habits of Southern country populations are turned toward the outside). What comes from the West is better.

AND THEN COVID!

In 2022, after the COVID-19 health crisis, 60% of African countries spend more on debt repayment than on health care, to the detriment of local needs.

African countries are also facing a new debt crisis, aggravated by the Covid-19 pandemic, which rests on three main historical factors.

IV. DEBT AS AN INSTRUMENT OF DOMINATION

- **Political control**: Debt allows influencing domestic, foreign, and even the choice of leaders of Southern countries.
- **Economic, commercial, and customs domination of indebted countries, ensuring their dependence on the powers.

- **Exploitation of resources**: The debt mechanism often leads to free trade agreements that favor companies of creditor countries. The prices of raw materials are set by buyers.
- **Financial subjugation**: Loans often conditional allow creditors to control the public finances of debtor countries. More than half of the debt is used to purchase from companies of creditor countries or services from experts from these countries.
- **Imposition of Bretton Woods institutions such as SAP, the HIPC initiative (privatizations, budget cuts) that serve the interests of dominant powers.

CONCLUSION

Faced with the debt mechanism and its devastating impacts on the populations of Southern countries, I share the recommendations from the book "Africa: the debt trap and how to get out of it" by CADTM.

- Cancel debts and oppose the conditionalities of creditors
- Conduct an audit of public debt with citizen participation
- Implement a genuine reparations policy

This manuscript has been translated from the original French presentation while preserving the academic structure and content integrity of the course materials on international debt and neocolonial financial mechanisms.