

Question. Using examples from specific countries discuss how the debt crisis beginning in the 1980s and associated structural adjustment packages are widely considered responsible for ongoing poverty and lack of social development in large parts of the developing world. What mechanisms have development institutions adopted to deal with overwhelming debt faced by heavily indebted countries and what are the implications of conditionality that is central to these packages. How has the increased presence of Chinese development assistance affected the power of OECD donors to insist on specific conditions linked to international aid.

The structural adjustments by the Washington Consensus and the IMF are responsible for the ongoing poverty and lack of social development in many parts of the developing world today. Structural adjustment package (SAPs) were implanted to deal with overwhelming debt. In recent years China's involvement in development has weakened the power of the OECD countries to insist on terms of international aid.

The debt crisis of the 1980s led to SAPs from the Washington Consensus and the IMF. These adjustments are responsible for the ongoing poverty and lack of social development in many parts of the developing world today. The emergent of SAPs was the result of modernisation theory, which split the world up into who was most modern and who needed to become modern, and the dependence theory, in which Third World countries had become reliant on First World nations. These theories led to the idea of first, second and third world nations. The First World was those nations that were modernised, had strong economies and were the height of civilised society. Second World countries were socialist countries which was a disease of modernism and Third World nations were behind and needed to play catch up to the leader. Such ideology led to banks over lending to Third World countries who when financial trouble hit in the 1970s-80 were unable to make credit repayments. The Washington Consensus and the IMF stepped in to fill the void left by the banks, but under strict terms.

This involved structural adjustments to a country's economy such as trade liberalisation, privatisation, and competitive exchange rates to name a few. Effectually leaving the country at the whims of the free market, wealthy nations and short term profits over long term gains. While such neo-liberal policies sound good they proved to be disastrous for these developing nations. The mechanism of privatisation, for example, sounds good in theory but becomes a tool by local wealthy elites use to become richer at expense of the poor. In Rwanda, despite warnings by experts, the IMF have funded development projects which established a patronage system for the dominant Hutus while the Tutsis lost farming land leading to violence between

these two people (Smith, 1997 p. 182). This uneven distribution can be fought. Susan George argues that such debt is more powerful than colonialism in controlling the Third World; by making debt so high that these countries can't pay and enforcing conditions that threaten domestic markets to the instability of international markets (George, 2007 pp. 8-9). Such chaos can be seen in Brazil where in 2006 they paid 55 percent of the value of their exports to the IMF, despite good exports, just to maintain foreign investment. With such pressures on its economy Brazil is paying its debt off in advance. Susan George suggests that if too many Third World countries do the same thing the fund may not survive (George, 2007 p. 11). Neil Smith argues that the free market focuses of the Washington Consensus and the IMF does not consider that many international companies grow out of national markets that were subsidised by their respective countries (Smith, 1997 pp. 176-177). Yet they expect Third World countries to not use such strategies for themselves and still pull themselves out of poverty.

This is however changing. China's involvement in development is opening a door for Third World countries to negotiate a better deal. This has affected OECD countries' power to impose conditions on international aid. China has emerged as a force of development particularly in Africa. Where soon China will overshadow Japan and the USA in aid monies given to the continent. Although China had not imposed anything like SAPs on African countries its involvement is also causing problems. An example is Chinese enterprises' involvement in Nigeria. Because of a lack of humanitarianism, Chinese companies in the country, can take advantage of the country's corruption. With trade unions in the textile sector of the economy complaining about bad Chinese working conditions. Horace Campbell argues despite China's actions it is not aiming to become an imperialist power as it does not have the scope of economic, military and civil representation within the continent yet. It may in the future but because of Africa's past such footholds might be hard to establish. Campbell also notes that Africa's working class are opposed to the 'slave like conditions of Chinese workers employ[ed] on contract in Africa' (Campbell, 2008 pp. 100-102). While China has emerged as a major player in Africa it is also disrupting Australia's regional programs and the conditions it places on aid. Australia has been involved with the OECD since 1971 and much of its aid has been in the Pacific region. According to the Lowy Institute the way China handles its aid program in secrecy is affecting the Pacific trust of Beijing, inhibiting good collaboration between the Pacific, China and Australia (Hanson,

2008). China's involvement in these two parts of the world are effecting OECD countries ability to control the terms on which the Third World is currently subject too.

China involvement in development has changed the playing field for OECD countries. They can no longer rely on SAPs of the Washington Consensus and the IMF which have been responsible for large quantities of poverty. As China's involvement in development spreads new forms of aid should be developed.

(Word count 893.)

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