

Debt Moratorium Supported For Tsunami Victim Nations

by Ramtanu Maitra and Rainer Apel

At a hastily organized conference on Jan. 6 in Indonesia's capital, Jakarta, to help the 11 tsunami-hit nations in Asia and Africa, the wealthy nations issued a draft declaration on debt moratoria. The declaration welcomed proposals to reduce the debt of tsunami-hit nations "to augment their national capacity to carry out the rehabilitation and reconstruction efforts."

The declaration was the outcome of a concerted effort by the European nations, launched by Germany. On Dec. 26, soon after the catastrophic sea waves hit the Asian and African coasts, German Chancellor Gerhard Schröder reacted quickly, going on television to address the nation, and to focus world leaders on the severity of the tsunami disaster and what the world must do. Schröder pointed out that most of the victims of this killer wave were the citizens of the affected nations, but that the tsunami also took lives of many German tourists visiting the area. He urged all to share the common suffering and the grief to bring home the message of an "indivisible one world."

Momentum toward debt relief gained ground on Jan. 6, when French President Jacques Chirac ordered his government to urge the Paris Club of creditor nations to approve a moratorium on debt payments by countries hit by the killer tsunami. The Paris Club comprises Austria, Australia, Belgium, Britain, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Russia, Spain, Sweden, Switzerland, and the United States. Its next meeting is set for the week beginning Jan. 10.

It was evident that prior to the statement issued by the French President, the Paris Club member-nations had begun

to decide independently on the issue. Almost simultaneous with the French President's announcement, Italian Prime Minister Silvio Berlusconi, in Rome, called for a special meeting of the Group of Eight leading industrialized nations to organize assistance efforts and to debate debt relief.

On Jan. 4, Britain unveiled a proposal for the world's wealthiest nations to freeze immediately about \$3 billion in annual debt repayments from countries hit by the tsunami disaster in the Indian Ocean. The freeze would be offered as part of a broader international package of emergency aid and reconstruction funds, which already amounts to \$2 billion for the Dec. 26 disaster, said Finance Minister Gordon Brown. The proposals were expected to be presented to the Paris Club meeting on Jan. 12, in the French capital.

Earlier, on Dec. 31, Canadian Foreign Minister Pierre Pettigrew had proposed a unilateral debt moratorium for nations hit by the tsunami with "immediate effect." He cited a moratorium on the foreign debt of the tsunami-hit countries of Asia as necessary to ease the difficult task of rehabilitation and reconstruction in the devastated region. The Canadian proposal included Sri Lanka—one of the most hard-hit nations in the disaster. An Agence France Press report from Ottawa said that Canada had billed the move as a signal to its partners in the Paris Club, ahead of its Jan. 12 meeting.

Show of Solidarity at Jakarta

At Jakarta, Chinese Prime Minister Wen Jiabao, Japanese Prime Minister Junichiro Koizumi, and U.S. Secretary of State Colin Powell were among the government leaders and officials who flew in for the hastily arranged one-day confer-



Banda Aceh, Indonesia, one of the regions worst-hit by the Dec. 26 tsunami. Germany has proposed a debt moratorium for the devastated nations. Equally essential is to bring the infrastructure of the region into the 21st Century—rather than focussing on restoring the fragile tourism “industry.”

ence. United Nations Secretary General Kofi Annan presided, but he did not take a clear stance on whether debt freezes would be helpful and/or forthcoming.

“What is important is that the international community does whatever it can to assist the governments in the affected countries,” Annan said. “The issue of debt relief . . . is very much on the table and I will wait to see what the countries concerned, the creditor countries, decide.”

According to the World Bank, among the tsunami-hit nations, Indonesia and India have the largest foreign debts. Indonesia owed \$132 billion and India \$104 billion in 2002, the last year for which figures were available, the bank said. Other debt totals were: Thailand, \$59 billion; Sri Lanka, \$10 billion; Malaysia, \$48 billion; Somalia, \$2.7 billion; and the Maldives, \$270 million.

There is no doubt that, although the debt relief issue will continue to be on the table, it may end up as yet another matter under discussion *ad infinitum*, unless strong political pressure is generated within the richer nations, and outside. Those who are skeptical about the debt moratorium include Australia, so far the largest provider of grants and loans (U.S. \$810 million) to help the tsunami-victim nations. Australian Foreign Minister Alexander Downer stated that aid, which puts money into governments’ general coffers, can more easily be targeted to those in need than debt relief. Downer also pointed out that a large amount of the national debts are private, which, when frozen, are not easy for the national governments to mobilize

from the private sources at a short notice. “Our view is that Indonesia is likely to benefit substantially more by direct and active programs,” Downer said. However, he made it clear that Australia would discuss the debt moratorium idea with other members of the Paris Club.

World Bank President James Wolfensohn had other reservations. He said creditors could ensure that the proceeds of debt relief go to those who need help, but that it was easier to control and monitor specially earmarked grant money.

Japan: Both Aid and Debt Moratorium

The clearest statement, however, came from Japan. Japanese Foreign Ministry spokesman Akira Chiba said that his country, a major aid donor, which holds \$20 billion in Indonesian debt alone, backed a freeze on repayments. “I see no choice between debt relief and aid,” he said. “Concerning loans, we are considering a moratorium and to grant aid. . . . We are ready to provide \$500 million for emergency assistance.”

Although there is no doubt that the world’s response to the catastrophic event may not be commensurate with the size of the tragedy, it is nonetheless decidedly positive. The global aid pledges within 10 days amount to about \$4 billion. More important, perhaps, is the presence of a host of world leaders at the Jan. 6 Jakarta conference, which shows the purpose and concern of the rest of the world. Among those present from the Asia-Pacific Region were: Australian Prime Minister John

Howard, Cambodian Prime Minister Hun Sen, Chinese Prime Minister Wen Jiabao, Indian Foreign Minister K. Natwar Singh, Indonesian President Susilo Bambang Yudhoyono, Japanese Prime Minister Junichiro Koizumi, Malaysian Prime Minister Abdullah Ahmad Badawi, New Zealand Prime Minister Helen Clark, Philippines President Gloria Macapagal-Arroyo, Singaporean Prime Minister Lee Hsien Loong, South Korean Prime Minister Lee Hae-Chan, Sri Lankan Foreign Minister Lakshman Kadirgamar, Thai Foreign Minister Surakiart Sathirathai, and Vietnamese Prime Minister Phan Van Khai. Also present were UN Secretary General Kofi Annan, U.S. Secretary of State Colin Powell, European Union Commission President José Manuel Barroso, Luxembourg Prime Minister Jean-Claude Juncker (for the EU Presidency), British Foreign Secretary Jack Straw, South African Health Minister Manto Tshabalala-Msimang, and UNICEF chief Carol Bellamy.

Beyond Money

But the question remains: What will the rest of the world be committed to do, once the first wave of relief work comes to an end? German Chancellor Schröder addressed this issue in his Dec. 31 nationwide speech. He called for taking a “lasting responsibility” for the tsunami-devastated nations, and said that Germany would take such long-term responsibility. The relief work should be directed in such a way that “all wealthy countries adopt partnerships for the reconstruction of specific regions,” Schröder said. “I think the big industrial nations, including Germany, each must take responsibility for one country. Our German states should take responsibility for specific provinces; our cities for cities, and villages for villages. Our industry could help. Aid would thus be visible and concrete. German schools and their students could be partners for schools in the devastated areas,” with the support of the students’ parents.

In addition, Schröder pointed out that such measures would make it clear that although the money is very important, “we want to go beyond donation of money.” He also told fellow Germans that his government will propose to friends in the European Union, Germany’s intent to follow such a strategy of lasting partnership with the tsunami-victim nations. “Each country of our rich continent could thus show responsibility, and demonstrate humanity.”

By contrast, U.S. President Bush’s response to the tsunami victims did not go beyond dealing with the immediate, and that, too, in a limited manner. But the enormity of the devastation has begun to sink in, as Secretary of State Powell made a quick visit to the Indonesian island of Sumatra and saw with his own eyes what the killer wave had done to the western part of the island. Secretary Powell had earlier said categorically that the U.S. financial aid of \$350 million was enough. But after experiencing the horror people are undergoing, Powell became somewhat flexible. He told the AFP on Jan. 5 that he is “not in a position right now to confirm what

the United States will be able to do . . . but I think debt relief is something, clearly, the international community should look towards.”

According to the BBC, a declaration signed at the end of the aid conference in Indonesia also called on the UN to mobilize the international community for the relief effort. Secretary Powell said the tsunami “core group” of nations, whose formation was announced by President Bush on Dec. 29, would be dissolved and folded into the broader UN-led operations. Powell told the conference attendees that the core group, which the United States initially formed with India, Japan, and Australia, and which was later joined by Canada and the Netherlands, had “served its purpose.” “It will now fold itself into the broader coordination efforts of the United Nations as the entire international community works to support the nations who have suffered this tragedy,” Powell said in his prepared speech.

As expected, the world leaders at Jakarta pledged to set up an Indian Ocean early warning system, which could save at least some lives in the event of another tsunami.

Time To Rebuild

It is evident that the world leaders at Jakarta have taken note of the first call that came out of Germany. On Dec. 29, Germany’s Assistant Minister of Development Sector Relations, Erich Stather, said in an interview with the German SWR radio, that, beyond the immediate rescue work, a special longer-term effort must be made by the international community to rebuild homes, settlements, transportation infrastructure, freshwater supply, and medical-care infrastructure. He also called for adequate attention to the farmlands and fishing estuaries which were devastated by the intrusion of seawater.

Stather said that the reconstruction effort must address the entire Indian Ocean, while taking into consideration special requirements of individual countries in the region. He also pointed out that an early seismic warning system must be installed in the Indian Ocean in 2005.

While the world leaders need to be pressured to adopt a long-term development plan to alleviate the sufferings of the millions involved, the victim nations must also seize this opportunity to put in place an infrastructure that will help them develop their physical economies and strengthen their nations. In 1997, Southeast Asia experienced a financial “tsunami,” which evaporated billions of dollars’ worth of real money, and paper money, from the Southeast Asian banks and bourses. This money had been invested in speculative activities, tourism, and associated risky investments. Numerous German media reports pointed out after the Dec. 26 catastrophe that Thailand, in particular, had re-invested heavily in the tourism industry once the 1997 financial shock was over. A good part of that tourism industry in Thailand, as well as in Sri Lanka, got washed away on Dec. 26. Infrastructure, not tourism, should now be the priority.