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Institutional Discontent

*March 22, 2015*

By [Michael](http://michael-hudson.com/author/michael/)

[Europe Tilts East Towards China (1/2)](http://therealnews.com/t2/index.php?option=com_content&task=view&id=31&Itemid=74&jumival=13470)[The line just above links to the actual 13 minute interview. The text below is a cleaned-up version for the record. –FNC]

Michael Hudson Report: Britain, German, France and Italy are among those who joined Asian Infrastructure Investment Bank in an expression of their discontent over World Bank polices that force developing countries to depend on the US – March 20, 2015

SHARMINI PERIES, EXEC. PRODUCER, TRNN: Welcome to The Real News Network. I’m Sharmini Peries, coming to you from Baltimore.

The Asian Infrastructure Development Bank, an Asian rival to the World Bank, was launched by the Chinese president, Xi Jinping, last year. Initially it was an Asian initiative, but last week, U.K. was the first European country to join the bank information, causing some friction between U.S. and Britain.

Now a few more European countries have joined the ranks of China, among them Italy, Germany, and France, and Australia is waiting in the wings.

Now joining me to discuss all of this is Michael Hudson. And as you know, Michael Hudson is a regular guest on The Real News Network. Michael is a distinguished research professor of economics at the University of Missouri-Kansas City. Given the subject matter we’re dealing with today, you may be interested in his book called super imperialism, specifically the chapter **on the World Bank**.

Thank you so much for joining me.

MICHAEL HUDSON, PROF. ECONOMICS, UMKC: It’s good to be here.

PERIES: And given the subject that we’re dealing with today, Michael, you’re going to be talking about perhaps the book you had published very early on, called Super Imperialism. And there’s a particular chapter I wanted to reference here on the World Bank.

So, if you are more interested in what Michael is about to say today, you should look that book up.

Thanks for joining us, Michael.

HUDSON: It’s good to be here, Sharmini.

PERIES: So, Michael, let’s begin with the Asian Infrastructure Investment Bank. The Chinese have established this bank with a $50 billion investment. Now, is this then a serious challenge to the World Bank?

HUDSON: Well, the idea is to make an alternative development philosophy to the World Bank. From the very beginning, the World Bank has been basically an extension of the U.S. Defense Department, from the first president, John J. McCloy, who is assistant secretary of defense, down through Robert McNamara, 1968 to ’81, and then by the neocon cold warrior Paul Wolfowitz, 2005 to ’07, and Larry Summers, the chief economist, along with Bob Zoellick.

So you have the purpose of the World Bank lending essentially for plantation export crops, for export crops to make countries avoid producing anything that might compete with American exports, above all grain, although every single mission of the World Bank, country mission, has recommended that countries undertake land reform and agricultural extension to help promote family farming and countries to feed themselves. [But] The World Bank has not made loans for this.

The World Bank, under U.S. congressional pressure, has said, look, we’re not going to finance countries becoming independent of the United States; our function is to make them export more to the United States and to buy from the United States. So the funding of the World Bank has mainly been to fund infrastructure developments, vastly overpriced, to Third World countries to create money for American engineering firms; also to lend out dollars and to indebt countries to it; and worst of all, to promote privatization. And that’s really the big difference between the Chinese Development Bank’s philosophy and the World Bank.

The World Bank is pressured everywhere for privatization of public utilities, of basic infrastructure, and then it will make loans to the governments to develop this infrastructure or the roads and the external economies, and then sell them cheap to American buyers, who essentially will create monopolies and turn infrastructure into a rent extraction to squeeze out interest, dividends, management fees that are all going to be paid to the Americans. And this has been raising the price of basic utilities–communications, transportation, water, and other things throughout the Third World. And this has made these economies uncompetitive with the United States that has a mixed economy where the government subsidizes infrastructure. So the Chinese Development Bank is to help make other countries get independent of this sort of neocon, neoliberal, right-wing economic philosophy and work government-to-government, help governments develop infrastructure, so that they can provide basic services at a lower cost or a subsidized cost, or even freely to the populations. That’s how the European countries and American economy got rich. And the only way to help repeat this process is to make a clean break from the United States and the World Bank.

PERIES: Now, I know that Secretary of State Kerry has stated that they have some concerns about the standards of this new bank. Now, how do we know that the new Asian Infrastructure Investment Bank will not follow the same model as the World Bank because the president of China, Xi Jinping, had already said they will borrow policy and standards of the World Bank in making sure that they are–they address the secretary of state’s concern.

HUDSON: I think he’s being very polite. The Chinese are always very polite. In my visits to Beijing, when they said they would learn the lessons of the World Bank, that means they learned lessons of what to avoid.

The good standards that Kerry talked about is Orwellian rhetoric for the standards that are thoroughly corrupt, thoroughly insider dealing. They’re the standards that led the IMF to make the military loan to Ukraine last week. They’re the standards that have made the World Bank support dictatorships and arm governments throughout the world, and to isolate any government that is not part of the U.S. diplomatic orbit, to isolate Cuba, Iran, North Korea, and not to make loans to governments to try to have a mixed economy.

So when China learns from these standards, it’s learned what to avoid and to do exactly the opposite, to make, to create an independent trading and financial system and development system that does not–to dovetail into the U.S. economy.

About 30 or 40 years ago, the World Bank produced a document called Partners in Progress. And my review of it in Super Imperialism was called “Partners in Backwardness”. In the discussions I’ve had in China, in Russia, they’re very clear that the World Bank has tried to underdevelop them.

In the case of Russia, for instance, many colleagues of mine who are land assessors went, met with St. Petersburg in–and to Moscow, and including Vladimir Putin, as early as 1991, and outlined how Russia could maintain its tax base by taxing the land, taxing the natural resources. As soon as they’d left, the World Bank came in and went to the various Russia cities that had agreed to try to use land and natural resource rents and said, we will give you huge amounts of money if you don’t tax the land. We want to untax it so you can privatize it. And indeed it was privatized to the kleptocrats. And the only way the kleptocrats and the other owners who privatized these natural resources in Russia could cash out was by selling them to American and foreign investors in oil, gas, iron ore, diamonds, nickel, and other raw materials Russia had.

So Russia realizes that when the World Bank and the AID [International Development Association (?)] [[USAID](http://en.wikipedia.org/wiki/United_States_Agency_for_International_Development) → United States Agency for International Development ?] came in with the Harvard boys, and with Larry Summers playing a key role, that they were totally screwed by this.

So they’ve learned to take a different development tack, to be independent in food and other manufactures, and independent of the kind of warped development strategy that the United States has. And especially this is designed to finance two things. It’s to finance Chinese and other infrastructure development. Rather than having the U.S. expensive firms come in and build roads and airports and things, the Chinese will do it.

But there’s another reason for this, that the United States has already started a financial Cold War against China, Russia, and the BRICS. And it’s been going to country after country. In Ukraine, for instance, it said, try not to pay the debt that you owe to Russia. It’s gone to Sri Lanka and said, let’s back a right-wing dictatorship or a right-wing group that doesn’t pay China. So China has had great trouble collecting on the vast infrastructure investment that it’s made and is supposed to be paid for by these countries. And the U.S. is trying to stiff it in trying to have countries default on loans that are to the BRICS and default to any country that is not in the U.S. military Cold War orbit.

And so China thinks, well, if we have an international bank on the same stature as the World Bank and the IMF, then when countries owe foreign debts, just as they don’t write down the foreign debts to multinational institutions like the World Bank or IMF, so they won’t write down their debts to the China Development Bank, because we have France, Italy, England, and other Asian countries all in it together. So this protects China’s investment abroad and China’s loans to government to help develop the infrastructure, whereas under the United States, when countries can’t pay to dollars, then the IMF comes in and imposes austerity. There’s no indication that China’s going to come in and impose the same kind of crippling austerity that the World Bank and the IMF have been imposing on countries.

PERIES: How do we know that?

HUDSON: Well, in the discussions I’ve had with Chinese and Russian officials, that’s what we talk about. The first book of mine, as I said, that was translated into Chinese and Russian was Super Imperialism, and that led to many years of discussion with them.

PERIES: Now, I have actually seen and witnessed what China’s impact has been in some of the Latin American countries where they have huge investments in infrastructure development projects, which often isn’t in the best interests of those countries. For example, China brings in a number of their labor, thousands of Chinese workers, to those sites to work, and they’re basically importing labor, not hiring the local labor for these projects. Now, that’s what I witnessed. How do we know that China is really going to be different, apart from the discussions they’re having with you? Is that reflected in any policy? Or are they trying to have these conversations in a more collaborative way with the southern countries?

HUDSON: Well, for almost any countries for the last few hundred years that has been putting it in infrastructure, it’s pretty much used its own labor and management. Certainly the World Bank has always promoted very expensive American management and American workers for this. Britain did in its countries. I think China wants to make sure that it has control. And, after all, it’s trying to do–it’s already trained its labor specifically for these projects. And the World Bank has been and the IMF have been very careful to prevent other countries from developing the kind of labor and developing the skills that would lead them to create this infrastructure, precisely in order to make them dependent on World Bank and U.S. leadership. And of course China is going to be using its own labor, but in principle, obviously, these countries need to develop the skills so that they can say, look, we have to have our own labor work here too.

PERIES: So, Michael, in our next segment let’s take up what this means in terms of the Europeans joining this bank and the impact that’s going to have in terms of the relationship–at least the financial relationships–between the United States and these European countries.

HUDSON: Fine.

PERIES: And thank you for joining us on The Real News Network.

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From: <http://michael-hudson.com/2015/03/odious-debts/>

Odious Debts

*March 23, 2015*

By [Michael](http://michael-hudson.com/author/michael/)

[Europe Tilts East Towards China](http://therealnews.com/t2/index.php?option=com_content&task=view&id=31&Itemid=74&jumival=13490) (2/2), TRNN, March 22, 2015.

[The line just above links to the actual 8 minute interview. The text below is a cleaned-up version for the record. –FNC]

SHARMINI PERIES, EXEC. PRODUCER, TRNN: Welcome back to The Real News Network. I’m Sharmini Peries, coming to you from Baltimore.

This is segment two with Michael Hudson on the Asian Infrastructure Investment Bank, a new rival to the World Bank. In segment one we talked about the history of the World Bank and the problems that it has posed in terms of its policies to the developing world and why it is necessary to develop another investment bank of this nature.

So Michael is joining us to continue this discussion. And as you know, Michael Hudson is a regular guest on The Real News Network. Michael is a distinguished researchprofessor of economics at the University of Missouri-Kansas City.

Given the subject matter we’re dealing with today, you may be interested in his book,called Super Imperialism, specifically the chapter on the World Bank.

Thank you again for joining us, Michael.

MICHAEL HUDSON, PROF. ECONOMICS, UMKC: Good to be here.

PERIES: So, Michael, let’s take up this question of why the European countries are eager to join the China-led bank and what tension this is causing with the United States.

HUDSON: Well, I suspect their motivation for joining is hoping to get some role in some of the development contracts in the big construction projects that are being done. They are going to have a minority share, just as they have in the World Bank.

The problem is that in the World Bank, the U.S. has a veto power and has vetoed any project that does not reflect U.S. national interests. Well, you can be pretty sure that China is going to maintain a similar veto power in the bank that it’s creating, and maybe some of its allies will also have a dominant power there. And so the European countries will come in as minority investors. Just like there’s a managing partner in a partnership that actually conducts things and the other partners simply follow along, China is going to be the managing partner in this bank as the counterpart to the U.S.’s managing partner in the World Bank–so the Europeans are hoping in participating in this.

Now, what China gains by having them as members is the fact that now that this is a multilateral supranational organization, it will be very hard for countries that borrow from the bank to undertake their own development projects to then write down the loans. They can’t treat this bank in the way that they would treat private bondholders. This bank will be treated in the same way that the IMF or the World Bank or the European Central Bank is. Its loans will be immune from the haircuts and the write-downs that you’re having elsewhere. So this is China’s way – by bringing in the European countries, this is China’s way of protecting its own investments and its own loans to these countries without really risking a chance that England can play the role of a wrecker, which, of course, is what the United States would like it to do and why the United States pushed it into the common market originally.

PERIES: And, Michael, this also puts the whole issue of the U.S. dollar as a universal currency in question. Obviously, the Chinese are also interested in making sure the yuan/renminbi is

also a part of these, part of what benefits from this relationship with these countries.

HUDSON: Well, the U.S. is using the dollar as a Cold War weapon. As I mentioned in the previous section, it’s been urging countries that owe money to Russia not to pay. (See Anne Gelpern’s report in Credit Slips for a discussion, and her report for the Peterson Institute of International Finance.) Russia, the Ukraine, to treat the Russian debt as if it were foreign aid and didn’t have to be repaid, and as if somehow it were an odious debt. That was proposed by the U.S. banking interests.

If China can succeed with the other BRICS, with Russia, Brazil, and other countries, in creating an alternative area, it can turn the tables on the U.S. It can claim that the debts to the World Bank are odious debts. The World Bank and IMF claimed to be foreign aid. The money was counted in the United States budget as foreign aid. But it wasn’t aid at all

. Its effect was to underdevelop countries. It made them import-dependent. It blocked their ability to produce their own food.

If China and the BRICS can achieve a critical mass as an alternative to the dollar, they can treat the dollar in the way and that the U.S. financial strategists have been trying to treat it against any potential Cold War enemy, which means any country north of Maine, any country west of California, any country east of Rhode Island or south of Texas. The United States has turned the finance system, the dollarized system, into a Cold War tool, and other countries are moving as quick as they can, are being driven to move as quick as they can out of the U.S. orbit to protect themselves from being stiffed by the U.S. and to be free of U.S. financial aggression, in which the World Bank, is even more than the IMF, the most aggressive neoliberal, neocon institution.

PERIES: Michael, you mentioned odious debt. Now, wouldn’t this be opening the floodgates to a lot of other issues of other countries that might also use that argument against the current World Bank if they’re actually advising people to do this?

HUDSON: That’s exactly what Anne Gelpern pointed out in her discussion of U.S. strategy against Russia in one of her articles for the U.S. banking lobbies, saying, look, this very dangerous. If you claim that other countries have odious debt for trying to develop, you’re saying if other countries try to develop, that’s odious? If other countries try to be free of the U.S. Cold War, that’s odious? They can turn the tables on you, and the United States is going to end up isolated. And so the United States is obviously rethinking exactly how it’s going to help the Ukraine not pay Russia the money it owes, how it’s going to help Sri Lanka not pay China the money it owes, how it’s going to pressure other countries to sort of default on their debts to anyone that the United States says is not in our friendly side of the Cold War.

PERIES: Michael, as always, I thank you so much for joining us today.

HUDSON: It’s very good to be here. Thank you.

PERIES: And thank you for joining us on The Real News Network.

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