



General Assembly

Distr.
GENERAL

A/HRC/4/NGO/17

6 March 2007

ENGLISH, FRENCH AND SPANISH

HUMAN RIGHTS COUNCIL
Fourth session
Item 2 of the provisional agenda

**IMPLEMENTATION OF GENERAL ASSEMBLY RESOLUTION 60/251
OF 15 MARCH 2006 ENTITLED “HUMAN RIGHTS COUNCIL”**

**Written statement* submitted by Europe – Third World Centre, a non-governmental
organization in general consultative status**

The Secretary-General has received the following written statement which is
circulated in accordance with Economic and Social Council resolution 1996/31.

[26 February 2007]

* This written statement is issued, unedited, in the language(s) received from the
submitting non-governmental organization(s).

Developing countries' external debt¹

The South has already repaid its external debt to the North, but the North refuses to recognize its debts to the South.

1. Since the debt crisis, precipitated in 1979 by changes in US monetary policy in the form of a unilateral increase in interest rates of the Federal Reserve by Paul Adolph Volcker, the developing countries and newly emerging market economies have paid, between 1980 and 2006, a cumulative amount of US\$7673.7 billion in external debt service². However, during the same period, the amount of that debt increased from US\$617.8 billion in 1980 to US\$3150.6 billion in 2006, according to figures published by the International Monetary Fund. The debt of this group of countries, comprising 145 member states, according to the IMF, will continue to grow throughout 2007, to exceed US\$3350 billion. The debt of the Asian developing countries alone could rise to US\$955 billion. In other words, although they have already repaid in interest and capital, more than 12 times the amount due in 1980, the developing countries, today still bear the burden of external debt which is more than five times larger than that due at the start of the period.

2. This gigantic drain of resources operating for more than a quarter of a century has changed neither the status of the dependant economies, nor the nature of their relations with the developed countries of the North. It contributes, on the contrary, to the ever increasing concentration of wealth, at national level in favour of the dominant classes of the countries of the South and at international level in favour of the countries of the North. It explains in large part the dramatic increase over the last few years, in intra and international inequalities and in relative and absolute poverty. International debt repayment constitutes one of the forms of transfer of surplus produced by the countries of the South to the North and of that produced by the workers of the South to the capitalists of their own countries and to those of the North. This has tended to increase the rate of labour force exploitation in the South. In this way, developing countries and newly emerging market economies have had to transfer to their creditors, an annual average of 3.68% of their GNP (Gross National Product) during the decade following the crisis (1980-1989). In the past six years (1997-2006), marked by a series of financial crises and a growing polarization of the international capitalist system, this transfer rose to 6.20% of GNP³.

3. In recent years, in the context of ever increasing market integration and deregulation of capital movements, there has been a transformation of debt to bonds on financial markets and a conversion of external debt into internal debt. This gradual evolution which is still ongoing, hides some perverse effects, in particular higher interest rates on internal debt. Reducing external debt repayment, makes more difficult a precise calculation of the size of the drain associated with it. This is all the more true because transfer of surpluses from South to North continues to operate through different channels, such as the repatriation of

¹ This statement has been written in collaboration with Paulo NAKATANI, Professor at the Federal University of Espiritu Santo, Vitoria, Brazil and Rémy HERRERA, researcher at CNRS – The Economic Centre of the Sorbonne (France).

² Calculation by the authors based on data provided by the International Monetary Fund: *IMF, 2006, World Economic Outlook Database*, September, Washington D.C. It is the sum of annual values drawn from the line "External Debt: Total Debt Service" from the group "Other Emerging Market and Developing Countries". Statistics downloaded the 16 January 2007 from www.imf.org

³ Calculation by the authors based on the same IMF datas.

profits on direct foreign investment, profits on the revaluation of bonds recorded as portfolio investments in balance of payments, or unequal exchanges. The external debt can be interpreted as a means and a constraint on the financing of capital formation. The weight and dynamics of the debt show that the loans do not contribute to financing development. And the debt is itself increasing in order to cover repayment of interests and capital. So it functions as a self-perpetuating mechanism of poverty aggravation, overexploitation of work and a block on development in the economies of the periphery of the world capitalist system.

The debt: a financial, socio-economic and political problem

4. The disproportion of developing country debt, like the history of the monetary and financial international system, provides no indication of a solution to the current debt crisis if it is only the efforts and resources of these countries that are mobilized. Economic, commercial, monetary and financial relations between the countries of the centre (North) and those of the periphery (the South) of the world capitalist system must be profoundly reorganized, according to new principles. These should impose strict limits on the dynamics of capital accumulation based on the rationale of profit maximization and pillage, and should promote solidarity and cooperation between partners. This is one of the essential conditions for the construction of a fairer international economic order.

5. Developing country external debt is not only a financial problem. In most cases, it developed according to conditions and interests of dominant capitalists of the countries of the North, in close collaboration with elites of peripheral countries. These alliances often produced complex situations, such as “odious” debt (illegitimate or illegal), the transformation of external debt into public debt – which can often be qualified as “odious” debt or even ecological debt. Odious debts were contracted by local elites against the public interest, to finance sumptuous expenses, corruption and repression of the working classes, often resulting in massacres and torture. The substitution of private debt by public debt was a way for countries to manage the debt crisis in favour of the local bourgeoisie. When the USA decided to increase interest rates – in the hope of resolving their own crisis - many governments of the peripheral capitalist countries at the beginning of the 1980s, nationalised a large part of the private external debt of the local bourgeoisie imposing responsibility for the cost of the operation on the population. Furthermore, the debt also served to finance polluting activities of transnational companies which have resulted in dramatic destruction of the environment and highly negative externalities, at national and international level.

6. These debts are behind the increasing misery of large parts of the populations of the countries of the South, particularly in Africa. Between 1980 and 2006, US\$675-3 billion have been extorted to finance the debt service, from the African continent, even though it is the poorest in the world.⁴ This is more than the amount of external debt owed by all the developing countries at the beginning of the crisis. As a yearly average during this period, this corresponds to US\$25 billion. By way of comparison, according to the FAO, more than 850 million people still suffer today from malnutrition and 5 million children die of starvation each year in the world. The accumulated wealth of the countries of the North is in part produced by exploitation of workers and destruction of nature in the countries of the South.

⁴ Calculation of the authors based upon IMF data on Africa

Proposed solutions to the problem

7. Many non governmental organizations, such as the Committee for the Cancellation of Third World Debt (Comité pour l'Annulation de la Dette du Tiers Monde -CADTM) or Jubilee South, consider, with reason, that the developing countries have paid off their external debt to Northern creditors in totality and that it is the rich countries which owe a real debt towards the poor countries. According to these social movements, debt cancellation is the only available means to open the way to development. However, the countries at the centre of the world capitalist system and their multilateral monetary and financial institutions, above all the IMF, the World Bank and the Paris Club, have no interest in resolving the problem of external debt because it represents a reliable means of keeping the countries of the south in perpetual dependence. It is the people of these countries, supported by social movements (in the South as well as in the North) who must take on this task.

8. The campaign for developing country debt cancellation must be supported, despite the fact that the measure has not been implemented even by the most progressive governments. The boldest decision so far has been to interrupt repayment in order to renegotiate external debt, as Argentina did in 2002.

9. The HIPC (Heavily Indebted Poor Countries) Initiative, launched by the G7 in Lyon in 1996 and strengthened in Cologne in September 1999, can never solve the problem. The Initiative concerns a very limited number of poor countries and its aim is to make the burden of debt "sustainable" without questioning its legality or legitimacy. The exchange of debt against assets does not constitute a solution either because these are often used to support programmes of privatisation and changes to national structures of capital ownership in favour of foreign transnational companies. The proposal to buy back debt between developing countries in the context of South-South cooperation is interesting but limited because it merely transfers the burden of debt from one country of the South to another. Even progressive third world governments are trying to renegotiate their debt under the least disadvantageous conditions in order not to interrupt repayment schedules. Sometimes, debt service repayment to the IMF is even made ahead of schedule. This is certainly no solution since dependence will persist for as long as economic policies, imposed by the Fund, continue to be followed. Furthermore, debts borrowed on financial markets to pay the IMF are often at even higher interest rates. The country's dependence is then displaced towards financial markets, further complicating the picture.

10. In these circumstances, the most effective solution is the launch of debt audits – insisting that States identify each component of debt, including those qualified as "odious" in order to demand, if necessary, cancellation of payments.⁵ An audit allows cancellation to be proposed and implemented in full transparency and justice. The audit can be undertaken by a legislative, executive or judicial body. Brazil and the Philippines have already accumulated considerable experience in this area. In Ecuador, a Commission of civic oversight of corruption, with the support of associations, obtained in 2002 an audit on the sale of Norwegian ships to the government of Ecuador in the 1970s. The Commission concluded that the credits accorded as loans for development aid" were illegitimate (as they did not help the recipient of the South but rather Northern industry), that no technical or

⁵ CETIM et al. *Menons l'enquête sur la dette ! Manuel pour des audits de la dette du Tiers Monde*, Genève, 2006.

financial evaluation had been undertaken in the creditor country (either by the agency for cooperation or the agency for export credit), that the increase in the debt was due to unfavourable conditions introduced during the renegotiation and that no-one knew where the ships were nor how much was still owed. After the Commission had recommended cessation of repayment, in October 2006, and following an intense campaign by Ecuadorian and Norwegian social movements, the Norwegian government announced cancellation of this debt, for which its recognised co-responsibility.⁶

11. These proposals for audit, development of appropriate legislation on external debt and cancellation of debt, will prove effective in terms of development policies if they are accompanied by profound changes to the international monetary and financial system; the construction of regional systems to stabilise exchange rates; control and taxation on capital movements (particularly speculative); abolition of tax havens; as well as the establishment of international tribunals responsible for judging the social, economic and cultural implications of third world debt, allowing international law on debt to be developed so that a similar situation does not arise again in the future.⁷

⁶ Norway by the way, has recognised its co-responsibility in “illegitimate” debt in several countries (Ecuador, Egypt, Jamaica, Peru, Sierra Leone) and has decided to unilaterally cancel 62 million euros of debt held in these countries. Idem and see http://www.cadtm.org/article.php3?id_article=2119&var_recherche=Norvege

⁷ Samir Amin (in French) « *Quel avenir pour les Nations Unies ?* », in ouvrage collectif *ONU : droits pour tous ou loi du plus fort ? Regards militants sur les Nations Unies*, CETIM, Genève, janvier 2005, p. 187.