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Paulo Nakatani, Rémy Herrera. Le Sud a déjà payé sa dette extérieure au Nord, mais le Nord refuse de reconnaître ses dettes à l'égard du Sud. 2007. halshs-00145411v2

**HAL Id: halshs-00145411**

**<https://shs.hal.science/halshs-00145411v2>**

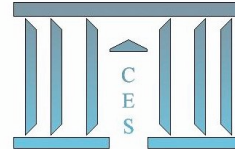
Submitted on 16 Jan 2008

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

Paulo NAKATANI, Rémy HERRERA

2007.14



CENTRE NATIONAL  
DE LA RECHERCHE  
SCIENTIFIQUE

# **THE SOUTH HAS ALREADY REPAID ITS EXTERNAL DEBT TO THE NORTH, BUT THE NORTH REFUSES TO RECOGNIZE ITS DEBTS TO THE SOUTH**

**Paulo NAKATANI\* et Rémy HERRERA\*\***

## **Résumé**

Ce cahier de recherche portant sur la dette extérieure des pays en développement est à l'origine d'une déclaration écrite présentée par le Centre Europe Tiers-Monde (CETIM) lors de la 4e session de mars 2007 du Conseil des Droits de l'Homme de l'Organisation des Nations unies à Genève (point 2 : application de la résolution 60/251 de l'Assemblée générale du 15 mars 2006, cote ONU : *A/HRC/4/NGO/17*). Son message est clair : le Sud a remboursé sa dette extérieure au Nord. En effet, l'ensemble des 145 pays en développement ou à marché émergent ont payé, entre 1980 et 2006, un montant cumulé de 7 673,7 milliards de dollars états-uniens au titre du service de la dette extérieure. Dans le même temps, le solde de cette dette a augmenté de 617,8 milliards de dollars en 1980 à 3 150,6 milliards en 2006, selon les données du FMI. Bien qu'ils aient déjà remboursé en intérêts et amortissements du capital plus de 12 fois le montant dû en 1980, ces pays continuent de supporter une dette plus de cinq fois supérieure à celle due en début de période.

## **Summary**

This working paper dealing with developing countries' external debt is at the origin of a written statement presented by the Centre Europe Tiers-Monde (CETIM) during the March 2007 4th session of the Human Rights Council of the United Nations Organization in Geneva (item 2: implementation of the General Assembly Resolution 60/251 of 15 March 2006, UN symbol: *A/HRC/4/NGO/17*). Its message is clear: the South has already repaid its external debt to the North. As a matter of fact, the 145 developing countries and newly emerging market economies taken as a whole have paid, between 1980 and 2006, a cumulative amount of US\$ 7673.7 billion in external debt service. During the same period, the amount of that debt increased from US\$ 617.8 billion in 1980 to US\$ 3,150.6 billion in 2006, according to the IMF. Although they have already repaid in capital and interest, more than 12 times the amount due in 1980, these countries still bear the burden of external debt which is more than five times larger than that due at the start of the period.

**Mots-clés :** Dette extérieure, Sud, développement.

**Key-words:** External debt, South, development.

**JEL Classification:** F34, H63, O16.

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# **THE SOUTH HAS ALREADY REPAID ITS EXTERNAL DEBT TO THE NORTH, BUT THE NORTH REFUSES TO RECOGNIZE ITS DEBTS TO THE SOUTH**

**Paulo NAKATANI\* et Rémy HERRERA\*\***

## **Developing countries' external debt**

Since the debt crisis, precipitated in 1979 by changes in U.S. 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 “market economies” taken as a whole have paid, between 1980 and 2006, a cumulative amount of US\$7673.7 billion in external debt service (1). 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 the figures published by the International Monetary Fund. The debt of this group of countries, comprising 145 member states, would continue to grow throughout 2007, according to the IMF, 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 beginning of the period.

This gigantic drain of resources operating for more than a quarter of a century has changed neither the status of these 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, over the last few years, the dramatic increase in intra and international inequalities, as well as in relative and absolute poverty. International debt repayment constitutes one of the forms of transfer of the 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 country and to those of the North. This has tended to increase the rate of labour force exploitation in the South. In this way, the 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

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debt crisis (1980-1989). In the past ten years (1997-2006), marked by a series of financial crises and a growing polarization of the capitalist world system, this transfer rose to 6.20% of GNP (2).

In recent years, in the context of ever increasing market integration and deregulation of capital movements, there have been a transformation of debts to bonds on financial markets and a conversion of external debts into internal debts. This gradual evolution, which is still ongoing, hides some perverse effects, in particular interest rates often higher on internal debt. Reducing external debt service repayments, makes more difficult a precise calculation of the size of the drain associated with the external debt. This is all the more true because the other forms of transfer of surplus from South to North continues to operate through different channels, such as the repatriation of 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 both as a means of financing and a constraint on the financing of capital formation. Nevertheless, the weight and dynamics of the debt show that the loans do not contribute to financing development. Besides, 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 capitalist world system.

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

The disproportion of developing country debt, as well as the history of the monetary and financial international system, provides no indication of a possible 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 capitalist world system must be profoundly reorganized, following new principles. These should impose strict limits on the capital accumulation dynamics based on the rationale of profit maximization and plundering, and should promote solidarity and cooperation between partners. This is one of the essential conditions for the construction of a fairer international economic order.

Developing country external debt is not only a financial problem. In most cases, it developed according to conditions and interests of the dominant capitalists of the countries of the North, in close collaboration with the elites of peripheral countries. These alliances often produced complex situations, such as “odious” debts (illegitimate and/or illegal), the transformation of external debts into public debts –which can often be viewed as forms of “odious” debts–, or even “ecological debts”. Odious debts were contracted by local elites to be used against the public interest, to finance sumptuous expenses, corruption or repression of the working classes –often resulting in massacres and torture.

The substitution of private debts by public debts was a way for the state to manage the debt crisis in favour of the local bourgeoisie. When the United States decided to increase its interest rates –in the hope of resolving its own crisis–, many governments of the peripheral capitalist countries, at the beginning of the 1980s, nationalised a large part of the private external debts 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 levels.

These debts are behind the increasing misery of large parts of the populations of the countries of the South, especially in Africa. Between 1980 and 2006, US\$675.3 billion have been extorted to finance the debt service flows from the African continent, even though it is the poorest in the world (3). 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, hardly more half of this sum would be enough, according to the estimates of the FAO (U.N. Food and Agriculture Organization), to eradicate hunger in the world, thanks to the provision of food rations corresponding to nutritional levels considered to be satisfactory to each poor inhabitant of the South. Remember that, according to the World Bank, over a population of four billion poor people, more than 850 million people still suffer today from malnutrition, and 5 million children die of starvation each year in the world. The wealth accumulated in the countries of the North is in part produced by exploitation of workers and destruction of nature in the countries of the South.

### **Proposed solutions to the debt problem**

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 effectively debts towards the poorest countries (4). 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 capitalist world 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. As a consequence, 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.

Thus, the campaign for developing country debt cancellation must be supported, in particular the initiatives carried out in the creditor countries, such as Norway. This country has just recognized its co-responsibility in the “illegitimate debt” several

countries (Ecuador, Egypt, Jamaica, Peru, Sierra Leone) and decided unilaterally to cancel 62 million euros of credits held on these countries (5). In the case of Ecuador, a Commission of civic oversight of corruption, with the support of associations, obtained in 2002 an investigation 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 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 (5). The mobilizations to cancel the debt are also to be supported in the debtor countries –although the proposal was not applied until now, 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.

The Heavily Indebted Poor Countries (HIPC) Initiative, launched by the G7 in Lyon in 1996, then strengthened in Cologne in September 1999, can never solve the problem. This Initiative concerns a very limited number of poor countries, and its aim is to make the debt burden “sustainable” without questioning its legality or legitimacy. The exchange of debt against assets (debt equity swaps) does not constitute a solution either, because these are often used to support programmes of privatisation and changes in the national structures of capital ownership in favour of foreign transnational companies. The proposal to buy back debts between developing countries in the framework of South-South alternative cooperation is interesting but limited, because it merely transfers the burden of debt from one country of the South to another. In these circumstances, the most effective solution is the launch of debt audits –insisting that the states identify each component of debt, including those qualified as “odious”, to demand, if necessary, cancellation of payments (4). Even progressive Third World governments are trying to renegotiate their debts under the least disadvantageous conditions in order not to interrupt repayment flows. 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 IMF, continue to be followed. Furthermore, the foreign currencies 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.

These proposals for audit, development of appropriate legislation on external debt, and cancellation of debt, would prove effective in terms of development policies if they were accompanied by profound changes of the international monetary and financial system, questioning the roles of the IMF, the World Bank, and the WTO. Among these necessary

measures, let us quote: the modification of the rules of access to the markets and to the international monetary and financial systems; the building 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 –including ecological crimes–, allowing the elaboration of international law on debt to be developed –and, if necessary, to condemn the transnational companies and their local allies to pay to the countries of the South repairs for their “ecological debts”.

## NOTES:

(1) Calculation by the authors based on the 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:

[http://www.imf.org/external/pubs/ft/weo/2006/02/data/weorept.aspx?pr.x=39&pr.y=12&sy=1980&ey=2007&scsm=1&ssd=1&sort=country&ds=.&br=1&c=001%2C110%2C163%2C119%2C203%2C123%2C998%2C200%2C605%2C603%2C904%2C901%2C505%2C510%2C405%2C205&s=D%2CDS%2CDS\\_NGDPD&grp=1&a=1](http://www.imf.org/external/pubs/ft/weo/2006/02/data/weorept.aspx?pr.x=39&pr.y=12&sy=1980&ey=2007&scsm=1&ssd=1&sort=country&ds=.&br=1&c=001%2C110%2C163%2C119%2C203%2C123%2C998%2C200%2C605%2C603%2C904%2C901%2C505%2C510%2C405%2C205&s=D%2CDS%2CDS_NGDPD&grp=1&a=1)

(2) Calculation by the authors based on the same IMF data.

(3) Calculation by the authors based upon IMF data on Africa.

(4) CETIM *et al.*, 2006, *Menons l'Enquête sur la dette – Manuel pour des audits de la dette du Tiers Monde*, Éditions du CETIM, Genève.

(5) See: [http://www.cadtm.org/article.php3?id\\_article=2119&var\\_recherche=Norvege](http://www.cadtm.org/article.php3?id_article=2119&var_recherche=Norvege).