
Editorial

International Financing

The inability of many developing countries to meet their financial obligations is potentially the most dangerous contemporary challenge to international economic stability. Yet the political powers prove impotent in resolving or even tackling the problem. International commerce expanded in the 1970s primarily through the support and inducement of loan and credit facilities provided by the developed western nations. The inability of many countries to meet their repayment obligations has affected not only the genuine poor countries, but also the rich developing countries including, for example, Poland and Romania, Ghana and Nigeria, and Argentina, Brazil and Mexico. The enormity of this problem is fast growing out of control.

Despite sovereign pride, many developing countries are saddled by national debt, in many cases through borrowings of earlier governments for ambitious, impractical and sometimes outlandish schemes. These countries are now indebted to western bankers and their economic policies are geared primarily, not to the development and expansion of their national infra-structure and economy, eg health, education, food and employment programmes, but rather to the repayment of foreign debt obligations.

This situation negates the sovereignty

which developing countries seek to protect. Of greater concern is the effect on Western banks, which have become dependent on annual growth in assets and income. But the main concern is the effect on these Western banks when a government of a major developing country, whether due to the unrelenting economic burden of the repayment schedule, or revolutionary fervour, declares a public default on the national debt.

The effect of a default would probably have far-reaching repercussions for western countries. The banks would have to wipe off their balance sheet an enormous amount of assets, and many smaller creditors could be placed in severe financial difficulties. There would also be an enormous adverse effect on employment.

This debt problem must be tackled urgently and pragmatically by the governments of the western and the developing countries. The juggling of economic policies and false securities sought by the International Monetary Fund is totally inadequate: it represents a philosophy of no change, just different protection. The failure of the recent United Nations Conference on Trade and Development (UNCTAD) is indicative of the abyss between the views acceptable to the western and the developing countries. A major default would probably trigger further defaults, resulting in perhaps a deeper and longer economic recession than the world has ever before experienced.