# The Spectre of Third World Debt

*By Frederick F Clairmonte and John H Cavanagh.*

**"The present configuration of international indebtedness, and its vast political and social ramifications is one of extreme gravity."**
**In this article Frederick F Clairmonte and John Cavanagh look at the options open to the actors involved in the debt crisis, especially the developing countries.**

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In investigating the symbiotic phenomena of an exponentially growing debt and plummeting export earnings, this analysis contributes to the debate as to how long the periphery can endure these capital outflows that have scaled torrential proportions to the capitalist centre. In so doing, these findings point to a further cataclysmic impact of such levels of indebtedness on their social, economic and political fabrics, not to speak of the impact on their international trade and payments mechanisms. And, indeed, of the entire global trading and financial mechanisms which, despite the superficial glittery of the leading stock markets, reveals the stresses and strains of an approaching debacle.

## USA: The spectre

There is one event of tremendous global significance which, while bearing directly on the present holocaust of the underdeveloped countries, is not analyzed. After four years of widening current-account deficits (bankrolled by the savings of poor and rich countries via the medium of high interest rates) the US has now surged into the lead as the planet's biggest debtor with net foreign liabilities of about 120 billion (G) USD at the end of 1985. The US economy and its leadership is thus akin to a desperate gambler living on borrowed time and borrowed money with bankruptcy at the end of the road; and this in a relatively short time span.[1]

## The setting

Researchers and policy makers are confronted with huge variations in estimates of Third World debt, ranging from the IMF's 800 G USD to the World Bank's 950 G USD for 1985.[2] These variations stem from divergent principles of classification, debt definition and sources; the highly unequal reporting systems for measuring inter-country capital flows; the absence of rigorous and standardized accounting practices in several economies.

Our analysis is based on the IMF's far lower estimates in that they provide breakdowns by countries and regions for both short and long-term debt. What the sheer volume and variations (16 per cent) of these two numbers point up to is: the imprecision of our knowledge on levels of international debt (more specifically those of the periphery); and that both the numbers 800 G USD and 950 G USD respectively could both very well be an underestimate of actual Third World debt.

## Debt growth

Aggregate Third World debt burgeoned in the last half decade — from 500 G USD (1980) to 800 G USD (1985). Of the three major Third World regions (see Table 1), Latin America dominates the debt scene with 368 G USD (46 per cent), trailed by Asia (304 G USD) and Africa (129 G USD). While total African debts has notched up only 16 per cent of the total, a figure that could be construed as numerically small, the debt service of most African economies[3] is prodigious in relation to their gross domestic products. Further, their economies[4] are more fragile and dependent on crumbling primary commodity prices than the other two major Third World regions, as well as having been afflicted, in recent years, by natural disasters of apocalyptic proportions.

## Dynamics of borrowing

How, it may be asked, did this tragic state of affairs emerge? Such a crisis was by no means fortuitous given the mathematical imperatives of borrowing and the role played in global lending by the transnational banking circuit: simply put, the more that is borrowed, the more that needs to be borrowed. To be sure, the global debt crisis of the periphery's primary producers had its roots in their massive borrowings from the transnational banking complex.

These corporate creditors, as Mexico's President Miguel de la Madrid reminds us, "were flush with huge

**Table 1**

**Developing countries: debt, capital flows and exports, 1980—1985[a]**
**(in G USD)**

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985[c] |
|---|---|---|---|---|---|---|
| *Africa* | | | | | | |
| *External debt[c]* | *94.3* | *103.1* | *117.1* | *125.1* | *129.3* | *128.5* |
| Debt service | 14.6 | 14.1 | 15.5 | 17.4 | 19.1 | 20.7 |
| of which: interest payments amoritization payments | 9.0 | 8.4 | 8.9 | 10.8 | 11.8 | 12.2 |
| Goods and services exports | 107.6 | 91.8 | 78.8 | 76.1 | 77.1 | 76.2 |
| Primary commodities exports | 19.3 | 16.9 | 15.8 | 15.9 | 19.0 | (16.8) |
| Debt service as percentage of: | | | | | | |
| goods and services exports | 13.6 | 15.4 | 19.6 | 22.8 | 24.8 | 27.1 |
| primary commodities exports | 75.9 | 83.7 | 98.1 | 110.0 | 100.5 | (123.2) |
| *Latin America* | | | | | | |
| *External debt[c]* | *230.7* | *287.0* | *328.6* | *340.6* | *355.6* | *368.3* |
| of which: interest payments | 23.0 | 33.6 | 39.2 | 36.4 | 38.8 | 36.9 |
| amortization payments | 19.1 | 22.9 | 21.9 | 14.6 | 16.4 | 18.2 |
| Goods and services exports | 126.2 | 137.5 | 123.0 | 118.5 | 130.1 | 124.9 |
| Primary commodities exports | 45.8 | 43.8 | 39.3 | 42.2 | 43.0 | (39.3) |
| Debt service as percentage of: | | | | | | |
| goods and services exports | 33.1 | 41.1 | 49.6 | 43.0 | 42.4 | 44.1 |
| primary commodities exports | 91.8 | 129.1 | 155.3 | 120.7 | 128.3 | (140.2) |
| *Asia[e]* | | | | | | |
| *External debt[c]* | *174.7* | *199.6* | *230.7* | *256.1* | *274.8* | *303.7* |
| Debt service | 20.9 | 26.6 | 29.7 | 33.4 | 36.5 | 38.6 |
| of which: interest payments | 10.7 | 14.1 | 15.3 | 15.7 | 18.5 | 18.8 |
| amortization payments | 10.2 | 12.5 | 14.4 | 17.7 | 18.0 | 19.8 |
| Goods and services exports | 222.6 | 246.6 | 242.6 | 248.9 | 278.7 | 278.0 |
| Primary commodities exports | 34.1 | 37.4 | 34.7 | 34.2 | 33.9 | (30.6) |
| Debt services as percentages of: | | | | | | |
| goods and services exports | 9.4 | 10.8 | 12.2 | 13.4 | 13.1 | 13.9 |
| primary commodities exports | 53.5 | 71.1 | 85.6 | 97.7 | 107.7 | (126.1) |
| *Total developing countries[e]* | | | | | | |
| *External debt[c]* | *499.7* | *589.7* | *676.4* | *721.8* | *759.7* | *800.5* |
| Debt service | 77.6 | 97.2 | 106.3 | 101.8 | 110.8 | 114.4 |
| of which: interest payments | 39.3 | 53.4 | 61.1 | 58.7 | 64.6 | 64.2 |
| amortization payments | 38.3 | 43.8 | 45.2 | 43.1 | 46.2 | 50.2 |
| Goods and services exports | 456.4 | 475.6 | 444.4 | 443.5 | 485.9 | 479.1 |
| Primary commodities exports | 104.2 | 98.1 | 89.8 | 92.2 | 95.9 | (86.7) |
| Debt service as percentage of: | | | | | | |
| goods and services exports | 17.0 | 20.4 | 24.0 | 23.0 | 22.3 | 23.9 |
| primary commodities exports | 74.5 | 99.1 | 118.4 | 110.4 | 115.5 | (131.9) |

**Sources:**
IMF, *World Economic Outlook, April 1986,* table A47 and table A51; UNCTAD, *Yearbook of International Commodity Statistics, 1985.*

**Notes:**

[a] End of year.
[b] Estimated by IMF.
[c] Includes short-term debt and guaranteed and unguaranteed long-term debt for IMF member countries.
[d] Estimated
[e] Excluding Middle East oil exporters.

amounts of liquidity that they could not absorb and wanted to recycle",[5] and which it did at heightened levels of profitability. What the president doubtless meant by "roots" was that the decade 1973—1982 witnessed an escalation of capital flows from the transnational banks to the Third World. This mutation is mirrored in the figures for the seven biggest United States banks. Their profits from foreign operations, tangibly so in the periphery, rocketed from 22 per cent of profits in 1970 to 55 in 1981; and to a record 60 per cent in the following year (See Table 2).

### The debt model

A rudimentary arithmetic model conceived for pedagogical purposes elucidates the suicidal dynamics of this borrowing process (See Table 3). The unfolding logic of this model will then be compared to prevailing levels of actual debt servicing.

Three assumptions underlie the model:

- a country, say, obtains loans of 1 000 USD annually for a ten year period
- the loans are to be repaid over a 20 year period
- the rate of interest charged is 10 per cent.

The model's logic reveals one of the toxic impacts of debt: the sum left over after each year's debt service payment has been made becomes smaller and smaller. Indeed, what we perceive is that by the end of the eight year debt service payments (1 060 USD) outstrips new borrowing. At this point, the debtor must seek new financing[6] merely to meet payments on the old debt.

Indubitably, what is transpiring, in the real world of underdevelopment and indebtedness, is even more stunning than the model's numbers would suggest. Third World countries are compelled to borrow increasingly to make payments on their accumulated debts.

### The consequences

The stark implications of the dynamics of borrowing on halting the internal development process is that 70—80 per cent of the new loans to many of the bigger debtors since 1979 have gone into paying interest on the old loans.[7] Related to this occurrence is the gargantuan transfer of net resources from the periphery to the major capitalist centres.

The upshot is that for the first time in postwar history (1981) Third World countries have become net capital exporters: soaring from 7 G USD (1981) to 74 G USD (1985) — a ten-fold leap (see Table 4). For Latin America it moved from 0.2 G USD to 42.4 G USD or an 85 fold increase; in Africa from 5.3 G USD to 21.5 G USD; and Asia from 1.7 G

**Table 2**

**Growth in foreign profits of leading United States banks**

| Bank | Foreign profits M USD | | | Percentage of total profits | | |
|---|---|---|---|---|---|---|
| | 1970 | 1981 | 1982 | 1970 | 1981 | 1982 |
| Citicorp | 58 | 287 | 448 | 40 | 54 | 62 |
| J P Morgan | 26 | 234 | 283 | 25 | 67 | 72 |
| BankAmerica | 25 | 245 | 253 | 15 | 55 | 65 |
| Chase Manhattan | 31 | 247 | 215 | 22 | 60 | 70 |
| Manufacturers Hanover | 11 | 120 | 147 | 13 | 48 | 50 |
| Bankers Trust New York | 8 | 116 | 113 | 15 | 62 | 51 |
| Chemical New York | 8 | 74 | 104 | 10 | 34 | 39 |
| **Total** | **167** | **1 323** | **1 563** | **22** | **55** | **60** |

**Source:**
Calculated from data from Salomon Bros in *The Economist*, 1978-01-14, and *Forbes*, 1982-07-05 and 1983-07-04.

**Table 3**

**The imperatives of borrowing: a model (in USD)**

| Year | New borrowing (1) | Debt service on accumulated debt: Interest (2) | Amortization (3) | Total (4) | Disposable margins (1)-(4) (5) |
|---|---|---|---|---|---|
| 1 | 1 000 | 100 | 50 | 150 | 850 |
| 2 | 1 000 | 195 | 100 | 295 | 705 |
| 3 | 1 000 | 285 | 150 | 435 | 565 |
| 4 | 1 000 | 370 | 200 | 570 | 430 |
| 5 | 1 000 | 450 | 250 | 700 | 300 |
| 6 | 1 000 | 525 | 300 | 825 | 175 |
| 7 | 1 000 | 595 | 350 | 945 | 55 |
| **8** | **1 000** | **660** | **400** | **1 060** | **-60** |
| 9 | 1 000 | 720 | 450 | 1 170 | -170 |
| 10 | 1 000 | 775 | 500 | 1 275 | -275 |

**Source:**
Adapted from *Monthly Review*, New York, January 1984.

USD to 9.7 G USD. It should be added that the total net capital flows exclude TNCs profit repatriations and capital flights, as well as Middle East oil exporters.

If these additions were thrown into the scale the aggregate outflows would not be far short of 230/240 G USD. A sum four times larger than that of the Marshall plan; and, it must be emphasized, repaid with interest to the United States. In contrast, this tribute from the poor to the rich countries will not be repaid.

### Bank lending

Aggravating this terrifyring asymmetrical configuration is the direction of international bank lending which topped 216 G USD in 1985, a 21 per cent rise from that recorded in 1984. The core economies, as usual, absorbed almost the totality, 194 G USD as compared with 119 G USD in 1984; the underdeveloped world 3 G USD (1985) compared with 14 G USD in 1984: a derisory sum amounting to around 2 per cent of their global interest payments.[8] Pushing this juxtaposition one step furhter, we perceive this number 3 G USD can be compared with the Research and Development (R&D) outlays of Hitachi. This amounted in one single year (1985) to 1 G USD.

**Table 4**

**Capital flows of developing countries 1980—1985 (in G USD)**

| Regions | 1980 | 1981 | 1982 | 1983 | 1984 | 1985[d] |
|---|---|---|---|---|---|---|
| *Africa* | | | | | | |
| New borrowing and rescheduling[b] | 10.0 | 8.8 | 14.0 | 8.0 | 4.2 | -0.8 |
| Debt service | 14.6 | 14.1 | 15.5 | 17.4 | 19.1 | 20.7 |
| net capital flows[c] | -4.6 | -5.3 | -1.5 | -9.4 | -14.9 | -21.5 |
| *Latin America* | | | | | | |
| New borrowing and rescheduling[b] | 42.6 | 56.3 | 41.6 | 12.0 | 15.0 | 12.7 |
| Debt service | 42.1 | 56.5 | 61.1 | 51.0 | 55.2 | 55.1 |
| Net capital flows[c] | +0.5 | -0.2 | -19.5 | -39.0 | -40.2 | -42.4 |
| *Asia*[e] | | | | | | |
| New borrowing and rescheduling | 27.4 | 24.9 | 31.1 | 25.4 | 18.7 | 28.9 |
| Debt service | 30.9 | 26.6 | 29.7 | 33.4 | 36.5 | 38.6 |
| Net capital flows[c] | +6.5 | -1.7 | +1.4 | -8.0 | -17.8 | -9.7 |
| *Total developing countries* | | | | | | |
| New borrowing and rescheduling[b] | 80.8 | 90.0 | 86.7 | 45.4 | 37.9 | 40.8 |
| Debt service | 77.6 | 97.2 | 106.3 | 101.8 | 110.8 | 114.4 |
| Net capital flows[c] | +2.4 | -7.2 | -19.6 | -56.4 | -72.9 | -73.6 |

**Source:**
IMF, *World Economic Outlook, April 1986.*

**Notes:**

[a] End of year.

[b] Cumulative debt minus that of previous eyar.

[c] Net capital flows equals new borrowing and rescheduling minus debt service.

[d] IMF estimates.

[e] Excluding Middle East oil exporters.

### Interest rates: the doubling

As from the autumn of 1979, as against the *constant* interest rates postulated in the arithmetic model, US interest rates doubled in less than 18 months. This precipitous escalation stemming from US monetary policy, added billions of dollars to the periphery's already crushing debt service load. This is but one aspect of the holocaust.

No less agonising, as against the *constant* level of new borrowing assumed by the model, transnational banks began to slash their levels of new lending after 1981 when they grasped, in no uncertain terms, that the increasingly impoverished periphery would never be in a position to repay not merely the principal on these loans, but even the interest.

An additional factor that makes the reality even more overpowering than the model is that since Third World countries are lagging in both their principal and interest repayments, the dollar amount that they fail to repay each year is superimposed on their accumulated debt. And, so the accelerating velocity of indebtedness inexorably hurtles forward.

### Interest and amortization

Through the lenses of interest and amortization payments (i e debt service) the focus on Third World impoverish-

ment is brought into clearer perspective: from 78 G USD to over 114 G USD over the first half of the 1980s. Compare these numbers with non-oil primary commodity export earnings, which were driven down from 104 G USD (1980) to 87 G USD[9] (1985), highlighted in Table 5.

Conspicuous is that over the same duration debt service payments as a per cent of primary commodity exports, were rocketing: from 75 per cent (1980) to around 132 per cent (1985). What this meant was that the periphery paid more than 32 per cent on the money it was earning from its non-oil primary commodity exports. This gap of 32 per cent was offset by exports of manufactures, service earnings and, of course, new borrowings and debt rescheduling.

### World Bank forecasts

Exacerbating the widening rift between debt service payments owed and primary commodity export receipts is the sinister conditionality that has accompanied new World Bank and IMF lending. A major component of this conditionality is that the Third World, merely to repay their debt, are prodded to boost the volume of their primary commodity exports.

Of vital importance and one which has been overlooked is the role played (one is almost tempted to use the word deliberately) by the commodity price forecasts of the World Bank. These forecasts simply have no claim to scientific validity; amounting to no more than a witch's incantation. But they serve a purpose. These forecasts are directly related to the worsening of Third World debt. They are highly contrived with clearly defined goals. The fraudulent nature of these creatures is being reorganized for what they are by a growing body of intelligent technocrats in the underdeveloped countries.

Malaysia's primary industries minister Paul Leong recently castigated the World Bank for creating a world oversupply of natural rubber with over optimistic price forecasts that bore no relation to reality. He indicated that the World Bank had forecast in April 1984 that the rubber price would be 391.80 Malaysian cents per kg in 1985, and could rise to 593.10 cents in 1990. But the average rubber price (1985) was only 187.50 cents a kilo. The minister charged that these high and unrealistic forecasts had stimulated the periphery to plant more rubber trees.[10] What the minister knew but did not say is that this was deliberate policy engineered to boost oversupply and lower prices. That is to sustain the deflationary processes within the capitalist core countries.

To clinch the case one has merely to compare World Bank forecasts with the actual price movements of all commodities since 1980, as measured by UNCTAD's actual price indicators.

In a world economy hammered by an unrelenting economic crisis and declining international trade, such deliberate stimuli to overproduction is tantamount to a Third World celebration of the hole-

**Table 5**

**Developing countries: debt, capital flows and exports[a], 1980 to 1985 (in G USD)**

| Items | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|
| Total debt | 499.7 | 589.7 | 676.4 | 721.8 | 759.7 | 800.5 |
| Debt service | 77.6 | 97.2 | 106.3 | 101.8 | 110.8 | 114.4 |
| *of which* | | | | | | |
| Interest payments | 39.3 | 53.4 | 61.1 | 58.7 | 64.6 | 64.2 |
| Amortization payments | 38.3 | 43.8 | 45.2 | 43.1 | 46.2 | 50.2 |
| Goods and services exports | 456.4 | 475.6 | 444.4 | 443.5 | 485.9 | 479.1 |
| Primary commodities exp[d] | 104.2 | 98.1 | 89.8 | 92.2 | 95.9 | 86.7 |
| *Debt service as % of* | | | | | | |
| Goods and services exp | 17.0 | 20.4 | 24.0 | 23.0 | 22.8 | 23.9 |
| Primary commodity exp | 74.5 | 99.1 | 118.4 | 110.4 | 115.5 | 131.9 |
| New borrowing and rescheduling[b] | 80.8 | 90.0 | 86.7 | 45.4 | 37.9 | 40.8 |
| Debt service | 77.6 | 97.2 | 106.3 | 101.8 | 110.8 | 114.4 |
| Net capital flows[c] | +2.4 | -7.2 | -19.6 | -56.4 | -72.9 | -73.6 |

**Source:**
IMF, *World Economic Outlook*, April 1986, Table A47 and Table A51; UNCTAD, *yearbook of International Commodity Statistics, 1985.*

**Notes:**

a Excluding Middle East oil exporters.

b Cumulative debt minus that of previous year.

c Net capital flows equals new borrowing and rescheduling minus debt service.

d Excluding petroleum.

caust — their own. The consequence is at once apparent: due to IMF/World Bank edicts and the strategies they have ordered (slash imports, boost exports) Third World countries are fleshing each other ferociously in a drastically shrinking global market.

### The outcome

The outcome, like a Greek tragedy, is ineluctable: they are literally being driven to market fatter and fatter volumes of commodities at lower and lower prices on the global market in return for higher prices goods and services imports. Which means that larger and larger amounts of their dwindling export earnings must reimburse an unending spiral of bigger and bigger debt interest and amortization payments. Official price indicators tell us only a part of the story of the formation of pricing policy. The mega TNC multi-commodity traders simply use the so-called market price indicators as a starting point in their trading transactions. Because of the periphery's predicament they are able to gouge out massive price discounts from them which are seldom, if ever, recorded in official price flow data.

### Capital flight

One more ingredient completes the recipe for a disaster of the periphery's international payments engine: capital flight[11]. In this context it would thus be a crude perversion to label the periphery, as has traditionally been designated, "developing economies". According to data compiled by the Morgan Guaranty Trust Company, nearly 200 G USD has flowed from 18 leading debtor nations in capital flight over the last decade, a figure which is grossly understated. This haemorrhage, facilitated by the pumping mechanisms of the transnational banking circuit has obviously not flowed into Third World development projects or into debt service payment. Rather, most of these funds are being emptied into speculative ventures, not least the commodities futures markets so characteristic a feature of the grand Casino Society.

What our analysis pinpoints is that the debt outflow payments (plus capital flight) organically linked to the debacle in commodity prices (and crumbling national currencies bled by sustained devaluations) have become an unprecedented source of inflows and savings to the centre. In short, an historically unprecedented transfer of resources from the poor to the rich countries which, in the very short run, is unsustainable and morally retrograde. In terms of scale and sheer magnitude the tribute extracted from the Indian sub-continent (and one of the major sources of financing of the 18th century industrial revolution) by such nabobs as Warren Hastings and the British East India Company pales in comparison to the current outflows.

Commenting on the capital exodus from Latin America (1983—1985) of 105 G USD while obtaining 18 G USD in new loans and investment, President Miguel de la Madrid lugubriously noted in words that apply no less to the entire Third World:

> "We have reached the limit of being able to sustain this net transfer of resources to the rest of the world which violates economic logic and is tremendously inequitable.[12]

### In a few words

What the foregoing analysis substantiates, in the context of the holocaust, is that it is impossible that the outstanding principal of Third World debt will ever be repaid. Simply deferring interest payments and principal to the transnational banking circuit and seeking, like an obsequious mendicant, for rescheduling agreements would perhaps mitigate the bleeding and the pain. It can by no means stop the haemorrhage. In fact neither can the principal nor can the interest ever be repaid. Nor is it desirable that the debt (interest and principal) should be repaid. Debt repudiation stands out as the only ethically feasible and rational solution for the periphery in its march to the holocaust.

Moreover what our analysis exemplifies is that such trivial utopian measures as UNCTAD's compensatory finance concoctions and the advocacy of interest rates reduction, while noble in their aims, cannot even begin to aspire to tackle a problem of such magnitude. UNCTAD's verdict encapsulated in the first *Trade and Development Report* (1981), bearing on compensatory financing and other related issues ought not to be confined to the archives of history:

> "The measures proposed in this respect have been of a reformist character. Commodity agreements, the generalized system of preferences, codes of conduct and the like (liner conferences, transfer of technolocy, restrictive business practices), compensatory balance-of-payments financing and the ODA target do not challenge the foundations of the international economic system centred on the Bretton Woods agreement and the GATT. In fact, it may be argued that such measures serve to strengthen the functioning of the present system." [13]

The present configuration of international indebtedness, and its vast political and social ramifications is one of extreme gravity that is geared to demolish not merely trade and financial relations between the core and the periphery; but the entire warp and woof of the international finance, trade and payments system as it has evolved — admittedly in a grotesquely, inequitable and fractured form — in the aftermath of World War II.

What the evidence and analysis of these research findings unmistakably pinpoints is that there is only one direction that the Third World can take: unequivocal debt repudiation to be galvanized as swiftly as possible. Other options, even if they did exist, have now been scrubbed from the historical slate.

*Demonstration in Brazil against IMF-imposed austerity decree.*

Such an option springs not merely from an ethical imperative, but from the demands of biological and national survival involving tens of millions of individuals; it is the unique option of historical necessity imposed by the nature of the accumulation and dis-accumulation process of capital. In large part, the rationale of repudiation stems from the retrograde, obnoxious and above all repressive features of the international finance and credit system, in which the functioning and the rules of the game, casino-like, have been rigged against the Third World.

The global finance credit system in turn is dominated by the transnational banks and their political allies in the creditor nations to whom they are inextricably linked. Further, the imperative of debt repudiation stems from the irreversible dynamics of the global economic depression in which the Third World is compelled to bear the brunt of the so-called adjustment process.

What is of the essence, however, is that the imperatives of repudiation are not without precedents over the last one hundred years. The United States in this respect has proved to be a remarkable pacesetter. "To find respectable arguments for default", as Claude Cockburn shrewdly reminded us in *The Wall Street Journal,* "we might note that the US itself effectively defaulted on a foreign debt of 68 G USD in 1971 when it reneged on the Bretton Woods Agreements to convert foreign holdings of dollars into gold at 35 USD an ounce. The US used the default option without a twinge of conscience." [14] And so must the under-developing world.

**Notes:**

[1] *The Economist* ,1986-05-31, reminds us that even if — and that is a very big if — a 30 billion (G) USD trade deficit were achieved by 1990, the US external debt would still rise to over 500 G USD by the end of the decade. These monstrous numbers could well be correct, but the point is that well before that critical number is reached, the world financial system would be literally demolished — with the US being the major demolisher of its own economic existence and that of the periphery.

[2] The figure of total liabilities (950 G USD: 1985) includes the Third World countries that do not report in standard format under the Debtor Reporting System (DRS). See The World Bank, *World Debt Tables: External Debt of Developing Countries,* Washington, DC, p x, 1986. The bulk of these foreign liabilities, that is over 500 G USD was raised with commercial banks, the remainder with the public sector institutions in developed market economies. This debt is highly concentrated: 61 per cent of long term debt and financial flow debts are accounted for by the twelve largest debtor countries.

[3] See also Gerard de Bernis, *Le Monde Diplomatique,* May 1986.

[4] Their debt service as a percentage of primary commodities exports rose from 75.9 per cent 1980 to 100.5 per cent in 1984; the corresponding numbers for Latin America and Asia respectively were 45.8 and 43.0; and 51.9 and 101.4.

[5] Quoted in *Special United Nations Service* (SUNS). "Latin America: Mexican President calls for economic restructuring", 1986-04-25.

[6] Includes rescheduling.

[7] *IMF Survey,* 1986-06-30. Buttressing this decline in commercial lending has been a drop in the flow of economic resources into the periphery for 1985. This marks a decline for the fourth year running. See OECD, *Financial Resources for Developing Countries: 1985 and Recent Trends,* Paris 1986.

[8] See US Congressman Charles Schumer and Alfred Watkins, "Faustian Finance", The New Republic, 1985-03-11.

[9] Estimate of the UNCTAD secretariat. Primary commodities, in these calculations, comprise the sum of agricultural primary commodities and mineral commodities defined as SITC section 0, section 1, section 2 (less groups 233, 244, 266, 267), section 4, division 68 and item 522.56.

[10] *The Financial Times,* 1986-01-28.

[11] Capital flight has been defined by Morgan Guaranty as "the reported and unreported acquisition of foreign assets by the non-bank private sector and some elements of the public sector." See Morgan Guaranty, *World Financial Markets,* March 1986, pp 13—15.

[12] Quoted in *SUNS op cit,* 1986-04-25. Related to this is that Latin America must export one quarter more goods to acquire the same export earnings as it did in 1970.

[13] UNCTAD *Trade and Development,* New York, 1981, p 24, TD/B/863/Rev 1.

[14] *The Wall Street Journal,* 1986-07-01. ■