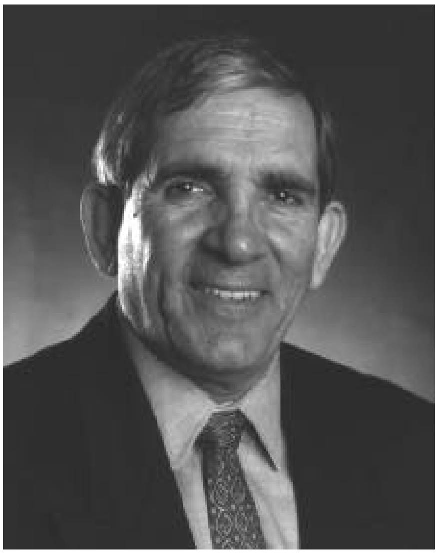

Speech by

Hon. J. FOURAS

MEMBER FOR ASHGROVE

Hansard 11 December 2001

THIRD WORLD DEBT

Hon. J. FOURAS (Ashgrove—ALP) (11.41 a.m.): I wish to address the debt crisis of developing nations. The model of borrow, invest, export and repay states that a nation wishing to develop will borrow funds and invest these in agricultural or industrial projects and infrastructure development. Goods can then be exported and the surplus revenue used to repay the capital loan, with the country ending up in an improved position with a more highly developed economy. This is a flawed model because no Third World nation has ever succeeded in restoring solvency once funds have been borrowed from the World Bank and the IMF.

Third World debt is inherently unrepayable. History has been marked by countries being drawn deeper and deeper into crisis. As a consequence, these countries have been obliged to submit to the demands of free market deregulatory economic policies, forced to cut or abandon spending on education, health and welfare, to end support for domestic industry, to produce food for export instead of home consumption, and to sell their businesses and factories to Western buyers. Honourable members should contrast this with the recent events in the USA, where quotas will be placed on steel imports and a $340 billion 10-year program for agricultural subsidies is being debated in the Congress. America, the champion of free trade, says one thing and does another.

The theory of free trade is almost a religion amongst economists. However, free trade produces inequality. The neoclassical doctrine of convergence predicts that as a consequence of trade the disparities between trading nations should disappear over time. This is not so. The permanent capital flows both through trade imbalances and debt remission inevitably confer an increasing advantage on creditor nations, whilst debtor nations find themselves progressively impoverished. Third World countries continue to experience declining commodity prices and declining terms of trade, currency instability and the wholesale transfer of wealth to developed countries. The pittance paid to Third World nations for their exports and assets is an international disgrace. The continual issue of loans and constant foreign investment buy-outs has become the normal state of affairs. However, this massive transfer of wealth to foreign investors is not accounted as a loss to debtor nations. Foreign owned assets and their output are accounted as part of the capital base of developing nations. As a consequence, economists regard a heavily indebted nation as prosperous, disregarding that the output is exported and the profits repatriated.

The World Bank and the IMF do not want to address the fact that the wealth created by foreign buy-outs fails to improve the lot of the poor majority, which continues to grow while the true domestic economy contracts as it is progressively sold off. The world debt is growing exponentially. It is now over $US2.33 trillion. Argentina has been in the news lately, with nervous investors queuing at banks to withdraw their savings. In 1971, Argentina owed $2.3 billion. In 1998 the debt was $133 billion. Recently, the IMF has demanded structural adjustments such as reducing the budget deficit at a time when unemployment rates are approaching 20 per cent.

In 1998 South Korea was offered a $56 billion package by the IMF and commercial banks to recover from the Asian crisis. In 1999 Korean exports totalled $133 billion while imports were only $94 billion—a trade surplus of $39 billion. One could thus presume that this surplus would allow South Korea to significantly decrease its $154 billion debt. Wrong! International debts have been paid off by government taxation, collected by the difference between tax receipts and expenditure. In 1999 the Korean government did not manage a tax surplus for any debt repayments despite this massive

$39 billion trade surplus. That is because this surplus accrued to private business and much was repatriated abroad.

Jubilee 2000 resulted in the forgiving of less than one per cent of Third World debt, yet people gave it great praise. The current levels of debt are inherently unrepayable. This indicates the broad failure of the economic institutions involved in the accounting of world trade, such as the IMF, the World Bank and the World Trade Organisation.

The need for further cancellation of world debt is an issue that will not go away. In relation to the pressures from economic migration and refugees because of this debt crisis, I think the developed world will have to come to terms with that crisis, because it will not go away. This unrepayable debt will be something that we will live with day by day in the future.