In two solidarity actions last September 7 and 9, APMDD reiterated its call for international solidarity with the debt-burdened and climate-stricken peoples of Sri Lanka and Pakistan.

Sri Lanka’s borrowings went heavily into large scale infrastructure projects which have gone bust under the pandemic. Its debt-to-GDP ratio rose from 42% in 2019 to 104% in 2021. Up to $8.6 billion in debt payments fall due this year, but the country has less than $1.94 billion in its reserves.

Now in bailout negotiations with the International Monetary Fund, Sri Lanka faces austerity conditionalities typically attached to IMF lending programs. These include privatization of social services, cuts in public spending and regressive taxes such as Value Added Tax. Fiscal belt-tightening remains embedded in IMF debt restructuring despite experience showing that it heavily impacts the poor and marginalized, and further deepens inequality.

APMDD strongly slammed the Sri Lankan government for violations of rights to free speech and assembly. The acute shortages of fuel, food and medicines triggered widespread protests which were met with teargas, water cannons, arrests, increased military surveillance and questioning of civil society leaders.

In Sri Lanka, 33 CSOs led by FIAN Sri Lanka, Law and Society Trust, Movement for National Land and Agriculture Reform and Friends of the Earth (FOE) International urged the government “to undertake measures to cancel foreign debts identified as illegitimate instead of imposing additional taxes and selling national assets”. Hemantha Withanage, chairperson of FOE International and senior advisor for the Centre for Environmental Justice moved to conduct a “People’s Audit not only to bring wrongdoers to justice but to recover stolen money” which Sri Lanka urgently needs at this time.
Nine million people or close to half of Sri Lanka’s population of over 21 million, access to food and drinking water is nearly “impossible”.

He added during the press conference in Colombo on September 7 that although a democratically elected government incurred these debts, questions hound them because of lack of transparency in the terms of the loans and where the funds were spent. Several of these projects resulted in environmental damage or failed to even show any groundwork. He cited as examples, loans extended by China for such the Lotus Tower, the Hambantota Harbour Development project and the Hambantota Mahina Rajapaksa Convention Hall. China accounts for around 44% of Sri Lanka’s bilateral debt as of 2021.

Pakistan similarly faces an economic catastrophe with epic floods inundating a third of the country and a $250 billion public debt burden, of which $38 billion is reportedly falling due this year. At least 1500 people lost their lives on top of the 33 million people displaced and the destruction of vast agricultural lands.

In a symbolic “die-in” conducted by the APMDD rallyists, they called attention to the millions of people dying from the devastating impacts of the debt crisis and the climate emergency.

Pakistan produces less than 1% of global carbon emissions and yet is one of the countries that bear the worst consequences of the climate crisis. The demand for wealthy countries to meet their fair shares of global climate actions grows even more urgent, to stop catastrophic climate change. These include the obligation to deliver Climate Finance – to address loss and damage such as what the people of Pakistan are now experiencing, to enable peoples of the South to build resilience, and to ensure a global, equitable and just transition.

Lidy Nacpil, APMDD Coordinator said: “Though contributing the least to the climate crisis, their peoples suffer the extreme impacts of the multiple crises including that of climate. The historic monsoon rains, super typhoons and unprecedented heatwaves and other effects of climate change destroy lives, homes and livelihoods, deepen hunger, poverty and inequalities.”

At the same time, Pakistan bears a debt burden approaching $250 billion and mounting debt service payments. From July to December 2021 alone, the government paid US$5 billion in debt service to external debt creditors. The US$1.1 billion released by the International Monetary Fund carries austerity conditionalities such as increasing fuel levies and energy tariffs. On top of principal and interest payments, the country had to pay the IMF US$65 million in surcharges (additional interest rates) from 2018 to 2020, and will be charged an estimated $392 million more from 2021-2030.

“Debt injustice and the climate crisis go hand in hand because low-income (and often already heavily indebted) governments face a shortfall in funding and have little choice but to take out further loans to rebuild livelihoods and communities,” the Pakistan Kissan Rabita Committee (PKRC) said in a statement during a press conference in Lahore last September 9. “We are already seeing this cycle unfolding in Pakistan.”

Farooq Tariq, PKRC General Secretary called for the “delivery of adequate, additional, public and non-debt creating Climate Finance for mitigation, adaptation and loss and damage is as urgent as public financing of measures to fight flood crisis, economic assistance for those whose jobs, livelihoods and well-being are most affected, and programs for building more just, equitable, resilient and sustainable economies that are the foundations towards solving the multiple crises.”

Click here to read the full statement.
Several other Asian countries with massive debts and are at the same time among the most climate-threatened in the world, are dangerously as Sri Lanka and Pakistan. The Philippines for one, registered historic public debts of PhP12.89 trillion as of end-July, which includes recently incurred debts of PhP96.1 billion in the first month of the Marcos presidency. Total debt service in 2022 amounted to PhP1.35 trillion or 26.8% of the total budget of PhP5.024 trillion. Next year, debt service is projected to rise to 29.8% of the proposed budget, or PhP1.6 trillion, “the highest yearly debt servicing on record.”

“Sri Lanka, Pakistan, the Philippines and many other global South countries share common problems that go beyond borders. And we are made to follow rules in policy-making arenas where we are not at the table. This has to stop,” Nacpil stated. “International solidarity enables us to be heard and amplify the issues and demands that would otherwise simply be ignored.”

Click to read the press releases:
Solidarity with the people of Sri Lanka
Solidarity with the people of Pakistan

Days of Solidarity Actions with the people of Sri Lanka and Pakistan
APMDD calls for debt cancellation and climate reparations for peoples’ survival
In solidarity with the Sri Lankan people: 
**Cry debt justice!**

Long, winding lines of people for food, medicine and fuel fill images of Sri Lanka, the country that has defaulted on loan payments for the first time in its history and is now facing the worst economic crisis since 1948. But the world has also come to know images of a people who will not be silenced, sustaining the groundswell of protest since March this year against the miserable conditions they did not cause.

The people’s struggles “drive home the point of how people and communities are being tremendously and devastatingly affected by the current economic crisis,” said Lidy Nacpil, APMDD Coordinator. “Behind the debt default, is an economic catastrophe that has been building up over many years of neoliberal policies, heavy borrowings and prioritization of debt payments above the rights and welfare of the people of Sri Lanka. The ensuing economic crisis reached a point when the government no longer had funds to meet debt service payments. The debt default did trigger further collapse, but it was, to begin with, an outcome of an economy that was already crashing.”

Nacpil stressed the message of deep solidarity with the Sri Lankan people in a webinar held by APMDD last July 21. She added that the debt problem is not confined to just a few countries but, for many South countries, an urgent and huge problem which became more acute amid the COVID-19 pandemic and the devastating multiple crises in its wake.

Co-organized by APMDD with the Centre for Environmental Justice in Sri Lanka, the webinar “Cry Debt Justice!” featured resource persons and experts who, together with Nacpil spoke on the beginnings and the different issues involved in the Sri Lankan debt crisis.

Sri Lanka’s severe debt problem led to the country defaulting on its external debt payments in May 2022. The following month, Hamilton Reserve Bank Ltd., one of the private lenders holding Sri Lankan international sovereign bonds sued the Sri Lankan government and demanded full payment of more than $257.5 million in principal and interest.

The panel showed that the situation in Sri Lanka and the heightening debt crisis in other countries did not develop overnight but erupted from years of deepening inequalities and widespread poverty under more intense pressure with the onset of the pandemic, and a worsening climate crisis impacting hugely the lives of people and the environment.

Nacpil, in addition to stressing the importance of the call for debt justice and cancellation, highlighted the debt problem itself as one of the expressions of flawed economic and financial systems globally and domestically. She explained that Southern country-governments should be held accountable, but stressed that in large part, the weight of responsibility lies with creditors. “The emergence of the debt problem has primarily been caused by supply-driven and predatory lending. This means that lending by Northern creditors, both public and private, is not driven by the needs in the South, but by their own profit-driven interest to promote their products and to ensure the openness of Southern economies to these products and their investments.”

She further exposed failed debt relief schemes, past and present, which are driven by the interest to “clean up” or rehabilitate the books and allow debt-distressed countries to borrow again. But while they extend loans again, these are no longer on concessional terms,

Click here to watch the recording of the webinar.
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but at market rates with more stringent and much higher interest rates.

Debt relief schemes of the G7/G20 and endorsed by the IMF and the World Bank involved only debt service suspension for a limited time and only for 73 countries deemed eligible. After the Debt Service Suspension Initiative (DSSI) expired in December 2021, debt servicing resumed for participating countries which had accumulated more debts by then. The DSSI and its successor, the Common Framework for Debt Treatments beyond DSSI still ignore so-called middle-income countries, despite many of them becoming similarly situated as low-income countries; and remain unable to require the participation of private creditors to whom many developing countries are now heavily exposed.

“Even with these debt relief schemes, the net result in the last two years is even bigger debt burdens for Southern countries,” said Nacpil.

Speaking to the Sri Lanka situation, Nacpil noted how situations of debt distress or debt crisis are defined primarily from the perspective of creditors. “They define a debt crisis or a debt default when countries are no longer able to service their debts….But there is a difference between making a decision on your part which debts you would like to pay, how much you can afford to pay without sacrificing human rights, and which debts we must repudiate and reject because these were incurred against our interests. There is a difference between that and defaults because default is when you are already pushed to the brink, where you can no longer pay because you don’t have the money to pay the debts even if you wanted to. And this is the problem, as illustrated in Sri Lanka’s case. It is a cautionary tale, where the government of Sri Lanka and the lenders to Sri Lanka should not have allowed the country to reach this state of massive economic crisis that is wreaking devastating impacts on the people of Sri Lanka.”

**Sri Lanka’s total foreign debt stands at around $51.7 billion and it is due to pay about $7 billion in 2022 but only has less than $2 billion in foreign reserves.**

Hemantha Withanage, Senior Policy Adviser of the Centre for Environmental Justice in Sri Lanka, shared the geopolitical interest in Sri Lanka of the governments of the US, India and China, and how Sri Lanka’s large borrowings from these countries have given them a tighter foothold in his country. Sri Lanka’s total foreign debt stands at around $51.7 billion (as of 2019), and it is due to pay about $7 billion in 2022 but only has less than $2 billion in foreign reserves. Commercial borrowings have also increased, outpacing official multilateral and bilateral lending. As a middle-income country, it was not eligible for debt relief under the DSSI or the Common Framework, although it was only in 2020 that the IMF gave Sri Lanka the stamp of good housekeeping, as a sustainable borrower.

A major issue in the current debt crisis is corruption, which has reached the highest levels of government, and casts a long shadow on the legitimacy of debt-funded projects. Withanage called into question illegitimate debt projects such as the Gin Nilwala River Diversion Project. Built primarily to support the industrial expansion of the Greater Hambantota Development area, the project is tainted with charges of financial fraud involving no less than the Secretary to the Ministry of Irrigation and Water Management. Up to Rs. 4.1 billion cannot be accounted for.

Another potential illegitimate debt case is the Colombo Port City Development Project, a $14-billion undertaking financed with loans from China as part of the Belt and Road Initiative. The target of popular protest since 2012, it was suspended in 2015 by the Wickresinghe administration due to social and environmental concerns but it was revived by the Rajapaksa government in 2017.

Withanage stressed the need to publicly audit the debt being claimed from the Sri Lankan people for such big loan-funded infrastructure projects that were neither consulted with affected communities nor redounded to their benefit. Contracted by the Rajapaksa government, they significantly contributed to Sri Lanka’s debt accumulation and eventual plunge into
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bankruptcy.

Meanwhile, the humanitarian toll grows deeper by the day. About 5.7 million people are in need of humanitarian help, said Withanage, and about 1.7 million more require emergency assistance. The effects of COVID-19 also significantly reduced incomes for families of overseas workers and those employed in the tourism industry. Farmers have been among the hardest hit due to the sudden policy shift to organic farming without adequate government support.

A number of families have been pushed to the extreme of committing suicide or drowning their children. People are dying in protest actions and in queues for food and petrol. Over 3,000 people have been arrested and human rights violations are rampant. A report by the Save the Children Fund alarmingly noted the rise in case of sex slavery, child marriages and other forms of gender-based violence.

Withanage urged vigilance as he warned about "solutions" being offered such as the move of an NGO called the Nature Conservancy to buy back about $1 billion of Sri Lanka’s debt in a debt-for-nature swap arrangement. Reports say that the Sri Lankan Treasury is already processing this Debt for Nature Swap. As the name suggests, this mode of debt restructuring entails the cancellation by a lender/s of public debts owed under certain conditions related to nature conservation. Without informed public consultation, debt-for-nature or climate swaps carry far-reaching implications for communities that depend on environmental resources for their daily subsistence and survival.

Building on Withanage’s inputs, Sandun Thudugala of the Center for Law and Society in Sri Lanka, presented other economic indicators showing the gravity of the crisis. Inflation, for one, spiked over the last six months and now registers at more than 57%. Fuel prices have also increased, rapidly worsening the debt and food crisis. Sri Lanka is due to pay $7 billion but the country only has about $1.9 billion in reserves.

He also commented on the common view that the crisis is due to the Chinese debt trap. “Figures show that while China lending is an issue, it is not the only reason. There are also powerful private lenders, multilaterals that include the World Bank, ADB, IMF loans, which are also extremely high. So our debt situation is much more than just like a Chinese debt trap.” He warned that focusing on China alone could promote the erroneous belief that a Western multilateral organization such as the IMF will save Sri Lanka.

Thudugala challenged the belief that Sri Lanka is now left with no choice but to seek help from the IMF and accept its conditions. “This idea is questionable. As civil movements we must be critical about IMF conditions over the years which have pushed us into this situation.” He pointed out the 16 IMF packages from 1965 onwards. “We are in this crisis because of a certain economic model that we have been adopting and the IMF is part of that economic model throughout. So we are looking at the IMF as a solution but it has been part of the problem all throughout. Successive governments in the country managed the economy in a way that the IMF asked them to do. Similarly, with the World Bank, we have been partnering with the World Bank from 1955 onwards. Again, all our macro-level economic policy, especially after 1977, has been shaped by IMF-World Bank recommendations, conditions, support frameworks and advice.”

He pointed to the food crisis in the country, the gravest so far, as an example. Sri Lanka depends on food imports for around 60% of its food requirements, and only produces 40% for its own food requirements. The recent moves to ban chemical fertilizers has completely destroyed that capacity as well. Sri Lanka is an agricultural country with around 65 to 70% of its people living in rural areas. Forty percent of this figure who depends on agriculture for their livelihoods has become food insecure.

Thudugala recalled World Bank advice to the Sri Lankan government from the 1990s onwards to move away from supporting subsistence agriculture and to encourage industrial export-oriented commodity production. The government adopted policies which drove this policy direction.

The Sri Lanka policy towards agriculture for the last three decades has been to discourage subsistence small scale food production, and instead undertake large scale, industrial commodity production and tourism. This led to the deregulation of land and labor markets, the appropriation of land devoted previously to food production for use by large-scale, industrial farming and the dispossession of thousands of small scale producers.

“We took loan after loan from the World Bank, from the ADB from China or from other creditors to develop infrastructure that is not needed by the local people but by foreign investors. Local communities who need water, electricity, etc. did not ask for airports, highways, ports,” Thudugala said. This
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“We took loan after loan from the World Bank, from the ADB from China or from other creditors to develop infrastructure that is not needed by the local people but by foreign investors. Local communities who need water, electricity, etc. did not ask for airports, highways, ports.”

infrastructure development, which is responsible for most of our debt burdens today, aimed to attract foreign investors at the expense of the poor and local producers. Now we have all these big infrastructure projects, which no one is using, and a debt burden that we cannot pay.”

He supported Withanage’s assertion to question the Colombo Port City Projectas an illegitimate debt. “We never asked for another city here in our sea. But we were told that China will come and invest and other investors will follow. Now what we have is just a pile of sand, just sitting in the sea without anything, while fisherfolk have lost their livelihoods and we are paying for the loans. Can we consider this as illegitimate debt also, because we didn’t ask for this and we haven’t benefited from it at all. And can we say, no, we won’t and don’t want to pay that?”

On the IMF bailout negotiations, Thudugala decried the lack of public information on the conditions being negotiated. “What we know is how the IMF has promoted austerity measures which we experienced when it asked for cuts in social, health, social security, health and education expenditures in 2016 in exchange of a loan.”

The 2017 and 2018 budgets saw drastic cuts in allocations for health, social security and education, as well as reductions in the fertilizer subsidy and other expenditures. Our health allocation is just 1.5% of GDP, which is really low when compared to even regional standards. Education expenditure is only 9% of GDP. The Samurdhi (Prosperity) program, Sri Lanka’s largest poverty reduction initiative, accounts for a paltry 0.35% of our GDP.

“We fear the upcoming IMF recommendations, negotiations will force us to cut this further.” He added that the way for people to overcome this crisis is to be able to access social security, health services, education and other forms of social support. The imposition of indirect taxes, as one outcome of previous bailouts, could lead to the reduction and even removal of subsidies, which will impact those already bearing the brunt of the crisis—poor and low-income families.

“As citizens, we think we have a right to be part of those negotiations,” said Thudugala in closing. “We have the right to decide whether we should pay loans that were incurred without consulting us, without considering our needs…If we did not benefit as citizens, why should we pay the loans being claimed from us?”

Bhumika Muchhala, Senior Advisor and Advocate on Global Economic Governance and Justice of Third World Network built on the previous inputs to flesh out the political economy of the private debt crises and particularly the aggressive and predatory nature of this sort of debt, and how it has become so linked with national economic policy.

Tracing the debt crises to changes in creditor types, Muchhala linked this trend to the rise of neoliberal financialization in the last several decades, which saw a shift in borrowings from official bilateral creditors to predominantly commercial creditors. “This shift to commercial creditors has taken place in the context of a huge increase in financial actor concentration, and the growing reliance of developing countries on private credit. Developing country government elites also act on behalf of financial markets in order to appease and comply with their requirements, oftentimes behind the curtains.”

At play here is the threat of being locked out of international credit markets, of not having access to private credit and to external foreign exchange financing. “We must challenge this mentality…this ingrained logic that developing countries must do what it takes to keep the creditors happy. We must interrogate the deep power asymmetry between developing countries and financial markets, not only in terms of debt repayment, which is demanded by creditors without loss, but more fundamentally, what is the uncoded and unwritten priorities that are assumed by developing countries such as Sri Lanka to assure that market confidence to demonstrate sound macroeconomic fundamentals that is stated over and over again in IMF loan reports and surveillance reports in financial market analysts’ language.”

This is the unequal situation in which Sri Lanka is trapped, said Muchhala, which is tightly linked to trade liberalization. The framework of trade liberalization has been pursued at the expense of economic diversification and industrial policy, which are necessary for local production and investing in food sovereignty, that really prioritizes self-sufficiency over and above the export sector which seeks to generate foreign exchange to service the debt
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**Cry debt justice!**

and sustain the borrowing cycle.

She also stressed that economic diversification is at the center of a just transition and debt justice movements. The Global South produces the low-cost, low value-added resources, commodities, metals and products that do not generate adequate revenue and funds, leading to a cycle of debt to austerity trap. Developing countries experienced such an extensive range of constraints in the international financial and trade systems that systematically prevented this ability to diversify their economies.

Muchhala concluded by underscoring the importance for debt justice movements to interrogate the role of the liberalization and financialization framework in keeping most of the Global South hostage to the priorities of the financial markets. “It is really this blind faith in the efficiency and rationality of international capital markets that needs to be questioned at the height of it, at the epicenter of debt justice.” (See page 9 for Bhumika Muchhala’s full input.)

Sakshi Rai, of the United Nations Office of the High Commissioner of Human Rights, shared UNHCR’s close monitoring of the situation in Sri Lanka, both on the economic and social rights as well as political rights dimension.

UN independent experts and special rapporteurs have sounded the alarm on the economic crisis that has engulfed the country, commenting on the social impact of the measures arising from this foreign debt. They warned that there is an imminent need to have human rights at its core to mitigate any economic crisis in particular in the context of the negotiation with the IMF.

In the press release of the UNHCR, Prof. Attiya Waris, UN independent expert on foreign debt and human rights said: “Time and again, we have seen the grave systemic repercussions a debt crisis has had on countries, exposing deep structural gaps of the global financial system, and affecting the implementation of human rights.” The experts highlight that “Sri Lanka’s economic collapse needs immediate global attention, not just from humanitarian agencies, but from international financial institutions, private lenders and other countries who must come to the country’s aid.”

Sakshi Rai also spoke on previous UN mandate holders on foreign debt who have brought out thematic reports on issues of international debt architecture reform and human rights, debt relief, debt crisis prevention, as well as the role of credit rating agencies. Sakshi cited the emblematic Report on the Impact of Economic Reforms, in particular austerity and fiscal consolidation measures on women, human rights.

She noted the country visit report to Sri Lanka in 2018 by former independent expert on foreign debt, Juan Pablo Bohoslavsky, highlighted the issue of institutional debt in the country. He already found at that time that the debt repayments were the country’s largest expenditure and it emphasized the need for complementary alternatives, and pursuit of less harmful policy options.

Bohoslavsky reported the public debt of Sri Lanka increasing significantly in recent years, from 68.7 percent of GDP in 2012 to 78.8 percent in 2016. The government adopted IMF advice of stabilizing the economy by strengthening the fiscal and external sectors, and that foreign borrowings would help achieve this goal. The strategy also included financing big infrastructure projects that together with economic stabilization and export promotion would lead to sustainable growth. This did not happen, however. Foreign direct investment and exports did not increase as envisioned, nor did GDP grow as vigorously as projected. He recommended that the debt sustainability analyses carried out by the government and international financial institutions be based on “a more comprehensive understanding of debt sustainability, incorporating human rights…and the social and environmental dimensions of sustainability”.

Rai added that earlier this year Prof. Attiya Waris, along with other mandate holders, like the special rapporteur on the right to development on extreme poverty and human rights, and the working group on discrimination against women and girls, sent a letter to the IMF over their initiative to develop gender strategy that, in their view could positively impact women and girls human rights in the context of its surveillance, lending and capacity development programs.

She shared about a special procedures process where independent experts send communications, if a potential violation could be happening or has already happened. This includes both state as well as non state actors. A 60-day comment period ideally is allowed for the organization institution or a government arm to respond after which the communication is made public. Submitting this information with independent experts will be helpful for any future communications that can be strategically sent.

Rai also urged submitting information on illicit financial flows, particularly tax and fiscal policy that Sri Lanka has pursued over the many years. Shedding more light in particular on debt for nature swaps would be very helpful as well or could be considered as a standing request.
Financial and trade liberalization on unequal terms is at the heart of debt justice

Bhumika Muchhala
Political and Feminist Economist
Third World Network

Sri Lanka is the first nation to go into debt default this year in 2022, however, according to the World Bank, as many as a dozen middle-income countries will be unable to service their debt this year, adding to the many debt-distressed low-income countries. What we are seeing today is undoubtedly, the greatest debt crises in developing economies in a generation, to be marked by a historic cascade of debt defaults. This is layered upon the food and fuel inflation, which UNDP is now saying an additional 71 million people will be pushed into extreme poverty. We are also in a context of persisting weak vaccination rates due to the vaccination apartheid, and the economic downturn created by the COVID-19 pandemic.

Over the last several decades, many Global South nations have experienced a growing dependence on private credit through the market issuance of international sovereign bonds (ISBs). Some key features of private debt are issuance of bonds with high and variable interest rates, foreign currency denomination and the lack of enforceability over private lenders to ensure comparability of treatment in debt restructuring exercises—all of which generates systemic risk in the debt profile of developing countries. The creditor composition of sovereign debt has made a sharp turn over the last few decades from official bilateral creditors, nearly all of whom were Paris Club members, to commercial creditors as well as non-Paris Club bilateral creditors. Consequently, by 2021, low- and middle-income economies owed five times as much to commercial creditors as they did to bilateral creditors (World Bank 2022).

This shift to commercial creditors has taken place in the context of a significant increase in financial actor concentration, as well as the power of financial agents such as credit rating agencies and macroeconomic surveillance reports that ensure state compliance to creditors through the threat of constraining or harming the state’s access to external credit. It is also a context where developing country government elites act on behalf of financial markets in order to appease and comply with their uncoded requirements, oftentimes behind the curtains.

In the international capital markets today, private credit, and more specifically, the international sovereign bonds market, is at the center of today’s debt crisis. The dominance of the bond market has unfolded in a context of decline of long-term public financing at concessional rates. In previous eras, there was Official Development Assistance and/or long-term and concessional public financing. These far more benign sources of financing have significantly decreased. Now, states finance their public expenditures and investments, their foreign exchange needs for import payments, and foreign debt servicing, among other expenses, through largely foreign currency denominated borrowing from private lenders. This is happening on a greater scale than domestic revenue mobilization, especially in the context of tax evasion and tax avoidance by transnational corporations.

Due to this nexus between South states and the structural power of finance, there is an ever proliferating debt stock that must then be financed with an ever greater share of national foreign exchange revenue. This has led to a disproportionate focus on the external sector, meaning the export-oriented sector, in order to obtain that foreign exchange. In turn, this results in more intense natural resource extraction, as well as the wage stagnation, and more precarious and exploitative global value chains that many developing countries are inserted in.

This debt-generating cycle of lending and borrowing, has de facto generated a structural dependence of developing country states on access to external finance and borrowings. And this is creating compliance of the domestic authorities, especially the financial elites and political policymakers to global financial markets, and particularly the banks and non-bank firms. And so we see what can be called a state finance nexus, that private creditors and lenders today exercise unprecedented political influence, and importantly, structural power over the state. In turn, the borrower state has to take care to gain and preserve the financial markets’ confidence by not only servicing the debt it owes them, but also altering its economic policy frameworks and distorting the national economic priorities of the country in order to service the priorities of the creditors.

At play here is the threat of being locked out of international credit markets, of not having access to private credit and to external foreign exchange financing. In bilateral conversations, IFIs such as the IMF have said that indebted developing countries must keep their creditors happy and not scare away potential investors. We must challenge this mentality, this ingrained logic that developing countries must do what it takes to keep the creditors happy. We must interrogate the entrenched power asymmetry between developing countries and financial markets, not
Financial and trade liberalization on unequal terms is at the heart of debt justice

only in terms of debt repayment, which is demanded by creditors without loss and at market rates of profit, but more fundamentally, what is the uncoded and unwritten priorities that are assumed by developing countries such as Sri Lanka to assure market confidence to investors and markets? What does this act of ensuring market confidence involve? What is the content, and social and economic implications, of the ‘sound macroeconomic fundamentals’ (in IMF language) that must be demonstrated by national governments to markets?

In other words, how do developing countries have to consistently perform macro-policy compliance to creditor interests of short-term profit gains in order to reassure markets that they are credit-worthy and are ‘safe’ to invest in? This essentially implies that South countries ensure markets that their public budgets are under control through fiscal consolidation or austerity measures, that domestic interest rates are attractively high, and state-owned enterprises open for privatization schemes and labor, environmental and public interest legislation and standards deregulated in order to attract foreign investment and private creditors. Currency rates must also be kept stable, which often means the liberalization of currency bonds, meaning currencies that are floating and are pegged to the dollar.

For example, developing countries have to show that inflation is low, even when economic history repeatedly shows that some degree of inflation is actually necessary for economic development. Inflation is not a bogeyman, inflation is not a bad thing in and of itself, especially when it is generated from productive investments toward building local production and employment. It is particularly food and fuel price inflation that is usually an exogenous shock from outside. It is not generated by demand but by the supply-side shocks, which cannot be addressed by constantly increasing the interest rate.

Another key macro element demanded by financial markets is that capital accounts remain open and liberalized so that the hot money flows in and out; these surges of capital outflows can jeopardize entire economic stability by currency depreciation, as well as foreign exchange reserves depletion.

This is the kind of unequal political economy in which debt crises are being systematically generated. This is the context in which just this year, 142 countries have suffered depreciation of their currencies. These countries have also seen their interest rates remarkably increase by an average of 77 basis points. And the language of financial market analysts is that there are a lot of interesting countries yielding much more than they should because of the current market distress. Actually, this interest rate increase is seen as an attractive proposition for the predatory aggressive creditor and lenders.

We must thus bear in mind that we are in a political economy that is really shaped by and for the risky private creditors and lenders who want to see high interest rates, who want to see austerity resolving the debt crisis in order for a perpetual cycle of more and more lending and borrowing to continue unhindered.

We are in a political economy that is really shaped by and for the risky private creditors and lenders who want to see high interest rates, who want to see austerity resolving the debt crisis in order for a perpetual cycle of more and more lending and borrowing to continue unhindered.

This is the unequal situation in which Sri Lanka is very much embedded within, involving, for example, systematic wholesale liberalization of trade, of finance, of capital accounts, of the bond market. Sri Lanka started floating its sovereign bonds in 2007. Since then, there has been an astronomical rise in the private debt, comprising today almost 40-50% of the Sri Lankan foreign debt is owed to private creditors and lenders.

This is intrinsically connected to trade liberalization as well. It is the framework of slashing import tariffs, cutting food subsidies, floating the exchange rate, and pursuing export-oriented development at the expense of economic diversification and industrial policy that can invest in local production and investment. Domestic industrial policy that creates decent work opportunities requires the ability to establish backward and forward linkages to local industries that invest in food sovereignty, that really prioritizes self-sufficiency over and above the export sector which seeks to generate foreign exchange in order to service the debt and sustain the borrowing cycle.

We should also stress economic diversification at the forefront. It may appear unrelated to the debt crisis, but it’s absolutely at the center, because economic diversification would yield domestic revenue mobilization for production and investment – virtuous cycles that could build economic...
Financial and trade liberalization on unequal terms is at the heart of debt justice

and social autonomy, self-sufficiency, economic dignity, employment creation – because it is precisely diversification that meets basic needs and reduces the economic dependency of developing countries such as Sri Lanka on foreign borrowings and reduces the dependency on fossil fuel and commodity extraction, low-wage manufacturing and foreign-controlled global value chains.

There is much talk about just transition. Especially for marginalized and precarious women workers, the center of just transition is exactly economic diversification. It is not exactly by accident that much of the Global South produces the low-cost, low value-added resources, commodities, metals and products that do not generate adequate and scale revenue and funds, leading to cycles of the notorious debt-to-austerity trap. Developing countries experienced such an extensive range of constraints in the international financial and trade systems that systematically prevented this ability to diversify their economies.

These constraints to economic diversification should be addressed as part of the debt justice movement. It’s very much part of debt justice to address, for example, intellectual property rights, the constraints to technology transfer, the investment treaties that prohibit developing countries from supporting the local industries, through clauses such as performance requirements, privatization requirements and IMF loan conditionality. Today, in response to COVID, many of the IMF loan frameworks are prioritizing trade liberalization, especially in natural resources. In fact, the IMF loan to Ecuador that was agreed upon and signed in 2019, has a footnote stating that the revenues generated from natural resource extraction and foreign direct investment in the lithium and mining industry, cannot be applied to national climate adaptation financing. So we see at the very center of so-called green and inclusive recovery promoted by international financial institutions are literally, binding constraints in the loan frameworks.

The liberalization and financialization frameworks that have become normalized across many developing countries over the last few decades is at the very center of our conversation about debt justice and debt dependence.

The liberalization and financialization frameworks that have become normalized across many developing countries over the last few decades is at the very center of our conversation about debt justice and debt dependence. This has resulted in keeping most of the Global South hostage to the imperatives of the financial markets; where a finance minister’s top priority is bound to keeping foreign investors happy will run counter to prioritizing developmental goals. Thus, it is really this blind faith in the efficiency and rationality of international capital markets that needs to be questioned at the epicenter of debt justice. Debt justice requires a clear-eyed and honest look at the history and politics of trade and financial liberalization and the specific policy and legislative frameworks that are perpetuating this liberalization through various mechanisms, whether they are international financial institutions, private creditors, as well as the credit rating agencies that are constantly rating developing countries based on how liberalized they are.

The above only begins to illustrate a complex and historical web of constraints on the policy space for equitable development generated by multiple forms of liberalization which serve to hollow out domestic revenue generation, and economic sovereignty for social development and tackling climate change, in large parts of the South. Augmenting these systemic trade and financial forces of economic disarticulation is the financial drain from the South to the North through corporate and investor tax evasion and avoidance, which further strengthens the South’s necessity of having to turn toward external financing. In this way, the accountability gap apparent in many South regions on the part of policymakers to deliver and ensure economic and social rights, public services, and climate financing toward achieving the SDGs and the Paris Climate Agreement, for example, can be understood as a consequence of how the structural power of finance demands that states fulfill the interests of creditors over at the expense of communities.
On the occasion of the 2022 G7 Summit: 

**Cancel the debt in the face of the health, economic, and climate crises**

This year’s G7 Summit is again approaching in a world that has seen little progressive change but has instead fallen deeper into debt bondage, inequality and impoverishment under a neoliberal system led and maintained by the richest countries. Bearing the heaviest yoke of debt burdens are the billions of people in the global south who have experienced the greatest threat to their survival and human rights during the COVID-19 pandemic. They remain in the grip of the multiple crises of health, economic recession, and intensifying climate change. These crises worsen under the weight of the accumulation and servicing of unsustainable and illegitimate debts, as well as fiscal consolidation under IMF loans. This has in turn led to worsening inequality, particularly among women, minorities, refugees and other marginalized groups.

The G7, with the support of the International Monetary Fund, the World Bank and private lenders, have persisted in pushing their debt “relief” measures – with dire consequences – and now promise “enhancements” in the face of failure. Many countries in the global south that entered the pandemic with existing high levels of debt are now deeper in debt than before as a consequence of both fiscal stimulus response measures to the pandemic and a low interest rate in a global context. This has fueled excessive lending and borrowing. As we warned, the inadequate, piecemeal, temporary and debt-creating responses of the G7/G20 solutions have missed the mark and only made conditions worse. They have shown, once more, their inadequacy in enforcing the participation of private lenders, to which global south countries have become heavily exposed. They have proven once again to be false solutions that are only eroding more livelihoods, deepening inequality, exacerbating the climate crisis, and threatening more lives, particularly in the wake of the current food and fuel price inflation shock.

Totally ignored is a major call from the global debt justice movement for the unconditional cancellation of public external debt payments by all lenders – bilateral, multilateral and private – for all countries in need for at least the next four years as an immediate step, and a clear program towards the unconditional cancellation of outstanding debt. No heed has been paid to the decades-long call by debt justice movements to establish a transparent and binding multilateral framework for debt crisis resolution that addresses unsustainable and illegitimate debt and provides systematic, timely and fair restructuring of sovereign debt, including debt cancellation, in a process convening all creditors.

Much of this debt is unsustainable and illegitimate. Loan conditionalities of austerity have contributed to the vulnerabilities of the global south to multiple crises that continue to plunge peoples into greater deprivation. Yet, payments for these debts continue to be claimed, without the benefit of any audit or review as to their questionable nature and terms. There also appears to be little serious concern for increasingly catastrophic climate change risks, and no regard for the scale and gravity of COVID-19’s adverse impacts on peoples’ health and lives, livelihoods and incomes, and the overall enjoyment of human rights. It is increasingly clear that the financial priorities of creditors supersede the human rights of people and nations across the global south.

We stress anew the urgency of canceling unsustainable and illegitimate debts to free up resources for immediate needs – for vital and universal healthcare, social protection, and other essential services and rights; to secure the safety and well-being of people and communities; to undertake urgent climate action, and build economies that are equitable, that uphold human rights, promote gender, race and ecological justice, and are climate resilient and compatible with the health of the planet.

Click here to read this statement on the APMDD website.
Funds freed from debt cancellation should not be counted as part of fulfilling the obligation of the global north and G7 countries to deliver climate finance for the global south. The refusal of global north leaders to meet their full obligations is costing the global south dearly in terms of urgently needed adaptation programs, coverage of climate-related loss and damage, ecological restoration, and the rapid and just transition out of fossil fuel energy systems. Meanwhile, more loans are being pushed forward as climate finance and there is a persistence in fossil fuel lending, plunging the global south deeper into debt, and exacerbating the climate crisis. The G7 and G20 are peddling more inadequate and/or false solutions such as debt-for-climate swaps which, at best, have brought meager relief, and at worst, legitimized dubious and harmful loans and brought in costly terms and conditionalities.

On the occasion of the 2022 G7 Summit:

**Cancel the debt in the face of the health, economic, and climate crises!**

With stronger voices and an ever-growing reach, we reiterate our demands for debt justice:

- for immediate debt cancellation to enable people to deal with the multiple crises; to that end the G7 countries should enact national laws that make it mandatory for private creditors to participate in debt relief;
- for an end to the exploitation of peoples and destruction of the environment through lending;
- for the immediate delivery of new, additional and non-debt creating climate finance for adaptation, mitigation and loss and damage, far beyond the unmet $100 billion/year pledge, that adequately meets the needs of the global south;
- for stopping over-reliance on borrowing by supporting structural transformation across the global south towards economic diversification and policy autonomy; and
- for systemic changes in financial and economic systems to stop the accumulation of unsustainable and illegitimate debt, to offer fair and comprehensive solutions to debt crises, and to build more equitable, just and post-carbon societies.