

March 2012

Economics and Third World Debt: A Look at How Debt is Hazardous to Third World Countries

Mary A. Doyle

Liberty University, scholarlycommunication@liberty.edu

Follow this and additional works at: <http://digitalcommons.liberty.edu/si>

Recommended Citation

Doyle, Mary A. (2012) "Economics and Third World Debt: A Look at How Debt is Hazardous to Third World Countries," *Strategic Informer: Student Publication of the Strategic Intelligence Society*: Vol. 1: Iss. 1, Article 5.

Available at: <http://digitalcommons.liberty.edu/si/vol1/iss1/5>

This Article is brought to you for free and open access by DigitalCommons@Liberty University. It has been accepted for inclusion in Strategic Informer: Student Publication of the Strategic Intelligence Society by an authorized administrator of DigitalCommons@Liberty University. For more information, please contact scholarlycommunication@liberty.edu.

forces.⁸⁶ One such example is Executive Outcomes, a PSC which quickly ended a protracted war by training Sierra Leonean government soldiers and jointly confronting the RUF, a brutal rebel opposition army. With the aid of EO, government troops ousted the RUF from the country in a mere nine days' time.⁸⁷

Along with providing a viable solution for the African nations, PSCs are being used effectively in conjunction with the military in America's war on drugs.⁸⁸ Half of the \$630 million of U.S. funding for the anti-drug effort in Columbia is funneled to DynCorp and other private corporations.⁸⁹ In addition to their strategic value, PSCs offer the advantage of quicker preparation and deployment.

Security contracting companies present greater flexibility and ease of use because they can be employed and fired on an as-needed basis.⁹⁰ This allows the government to use swift, adaptive forces rather than military or federal personnel, which logistically take much longer to prepare.⁹¹ For example, a leading expert provides the tactical readiness of Blackwater: "at present, Blackwater has forces deployed in nine countries and boasts a database of 21,000 additional troops at the ready, a fleet of more than 20 aircraft, including helicopter gun-ships, and the world's largest private military facility – a 7,000-acre compound in North Carolina."⁹² This expedient force is more convenient than dispatching a larger military detachment, which would take months to prepare and transport. In addition, private security companies can also be used as a force multiplier or supplement rather than direct replacement for conventional forces.

According to Schwartz's report for Congress, private security contractors can assist the military by performing basic security.⁹³ This would leave the military forces unencumbered to conduct operations,

which would help prevent overlap of PSC and military operations. Clearly, there must be a distinction between PSC support and combat operations. Private security contractors could potentially be utilized as a support package for military operations if deemed necessary. Support could manifest in several ways such as providing logistical, security, and extremely limited combat support or by utilizing local nationals as contractors for the government, because of their terrain and language skills which traditional U.S. forces often lack.⁹⁴

This increased use of private contractors to fight in wars would also provide a cushion for U.S. civilians because fewer citizens would be sent to war and a draft would never be necessary as long as PSCs are available. Finally, private contractors are not officially included on the official casualty lists. A leading expert states that in just the Iraq war, "more than 900 U.S. contractors have been killed, with another 13,000 wounded."⁹⁵ These contractor casualties are not included in the official numbers, which would otherwise further tarnish public image. This supplementary strategy of hiring PSCs to deal with world problems will likely continue to increase over time as they become more adaptive and efficient.

Private security contractors are professional and expedient assets to the Department of Defense if used properly. If employed in conjunction with military forces, they would best be applied as a force multiplier in an effective support function. Additionally, if private security contractors are to be implemented strategically and in lieu of military personnel, they must remain under close supervision from the DOD or State Department. Proper strategic application of private security contractors could truly be the crucial force multiplier needed to resolve conflicts in today's chaotic world.

86 Ibid.

87 Ibid; McGhie, Stuart. "Private Military Companies: Soldiers, Inc." *Janes Defence Weekly*. 22 May 2002. <http://www.sandline.com/hotlinks/20020518-janes/default.html>. (accessed 20 March 2012).

88 Scahill, "A Very Private War."

89 Ibid.

90 Schwartz, 5.

91 Ibid, 5.

92 Scahill, "A Very Private War."

93 Schwartz, CRS Report for Congress.

94 Ibid.

95 Scahill, "A Very Private War."

Economics and Third World Debt

A Look at How Debt is Hazardous to Third World Countries

Mary A. Doyle

Third world debt is a serious concern in the world today, the cause of which can be attributed to the debt crisis that occurred in the 1970s when a rise in oil price induced higher interest and lending rates. As a result, third world countries incurred a significant amount of debt. Factors such as colonialism, illegitimate loans, mismanaged lending, and subsidizing have stimulated the rise in debt. Consequently, there has been a decrease in education, policy reform, and health spending, resulting in poorer health conditions and weaker economic performance. In response, there are numerous organizations working to alleviate, and eventually end, third world debt.

Poverty is a worldwide phenomenon that has existed for thousands of years and affects a multitude of people on a daily basis. There are numerous factors - particularly debt - which induce poverty. Underdeveloped countries have been found to have the poorest economies and thus contain the highest poverty and debt rates. By building a better understanding of the contributing factors of debt and its effect on a country, society could collectively work to end debt. The cause of third world debt is a combination of several factors, including the debt crisis of the 1970s, overspending, illegitimate loans, and embezzlement. These in turn cause poor economic performance, a decrease in government spending for health and education, and higher unemployment levels.

It was not until the 1970s that debt began to significantly impact global society. During this time, the United States government exceeded its budget, resulting in the printing of more money to cover the loss. Inflation occurred which led to a rise in oil prices by oil producing countries. Oil producers had also deposited their profits into western banks, which stimulated a rise in interest rates within the banking sector. This in turn forced banks to lend money to third world countries that wanted to continue developing, as well as meet the rising costs of oil production. According to the Jubilee Debt Campaign (JDC), debt "often arose through reckless or self-interested

lending by the rich world."⁹⁶ Countries that profited from the rise in oil prices disbursed loans to poor countries as a means of accruing more revenue and obtaining allies, regardless of the country's political stance. With the rise in "world interest rates, a global recession, and low commodity prices," the amount of debts grew dramatically and the ratio between debt and repayment became unevenly distributed.⁹⁷

Additional facets of debt include colonialism, illegitimate loans (also known as odious debt), mismanaged lending, and subsidizing (corruption and embezzlement of money by the rich). Odious debt is defined by the Jubilee USA Network as "debt that resulted from loans to an illegitimate or dictatorial government that used the money to oppress the people or for personal purposes."⁹⁸ This type of debt is prevalent in countries like South Africa, Tanzania, and Cuba. The practice of mismanaged lending transpires when a country incurs a debt to another country, the country in which the debt owed to is pardoned, and the cycle repeats itself as the in-debt country continues to seek loans. Subsidizing occurs when the political elite in developing countries rise to power and deposit money in foreign banks with certain regulations; this in turn causes more money to be withdrawn from developing countries. As a result, developing countries are forced to reduce the process of economic reforms, which leads to a weakened economic performance. The consequence of subsidizing is a dramatic decrease on the price of commodities, which creates a devalued currency rate.

Third world countries have continued to experience the negative impact of the 1970s' debt crisis. An expert on the matter notes, "debt has impeded sustainable human development, security, and political or economic stability."⁹⁹ Third world

96 Jubilee Debt Campaign, "Where Did the Debt Come From? Jubilee Debt Campaign". <http://www.jubileedebtcampaign.org.uk/33720Where3720did3720the3720debt3720come3720from373F+2649.twl>, (accessed 14 March 2012).

97 Third World Debt Crisis. *New Internationalist Magazine*. 1999. <http://www.newint.org/easier-english/money/debt.html>, (accessed 14 March 2012).

98 G-8 Summit 2004; Iraq's Odious Debt: Rhetoric to Reality. Jubilee USA. 2003. http://www.jubileeusa.org/press_room/iraqdebt.pdf, (accessed 14 March 2012).

99 Shah, Anup, "Causes of the Debt Crisis," *Global Issues*. 03 June 2007. <http://www.globalissues.org/article/29/causes-of-the-debt-crisis>, (accessed 13 March 2012).

countries are compelled to spend millions of dollars each day to pay off debt with money that could be used for economic reform, education, healthcare, or a multitude of other beneficial areas. In fact, government spending on education and improving the health of its citizens has declined due to an increase in debt. This downward spiral has led to higher death rates, particularly among children. An estimated 21,000 children die each day from poverty-related causes, according to UNICEF's Progress of Nations 2000 report.¹⁰⁰ This figure implies the statistic of one child's death every four seconds, which amounts to fourteen children each minute.¹⁰¹ In addition to poor healthcare, low-income countries have suffered from weak economic performance, which has resulted in a decrease in economic reforms.

Despite these seemingly high statistics, there are numerous organizations whose sole focus is to end, or lessen, third world debt. These groups include Jubilee 2000 UK / Jubilee Debt Campaign (JDC), Christian-Aid, Oxfam UK, World Development Movement, Catholic Agency for Overseas Development (CAFOD), and Tearfund. Of these organizations, JDC is the most significant in that it is highly involved in aiding third world countries. Their mission is to bring "an end to all unpayable poor country debts by fair and transparent means."¹⁰² JDC hopes to amend government policy on debt in order to cancel all third world debt. They argue that the accumulation of debt by third world countries was unjust and is only making their economies worse.

Third world debt plays a critical role in how countries govern themselves. Countries that are unable to maintain a stable government and economy, such as Nigeria, Somalia, and Yemen, are often dominated by stronger ones; therefore, the welfare of third world economies is at risk of being controlled by terrorists groups. In a speech to the Council on Foreign Relations, Princeton N. Lyman explained that in east Africa, "some [immediate threats] arise from failed or

failing states that allow financial exploitation by terrorist groups or exploitation of internal conflicts to recruit members to terrorist networks."¹⁰³ Terrorist groups such as al-Qaeda and al-Shabab have already demonstrated this by infiltrating numerous regions throughout Africa and seizing control of various aspects of society as a result of weak governmental security.

In order for third world countries to become more robust against infiltrations by terrorists groups, as well as reduce or even put an end to the debt crisis, governments and bank sectors should put a greater emphasis on analyzing their current financial situations. While numerous online resources such as PovcalNet, have been created to allow the public the ability to assess the current poverty calculations, this should not be viewed as the sole solution for such a wide-scale problem.¹⁰⁴ The Jubilee Debt Campaign suggests that a complete cancellation of all debt would be the ideal solution; however, this is unrealistic. Instead, debt should be analyzed as to what is payable versus unpayable, while having grants issued as opposed to additional loans, which frequently result in an exponential growth of debt. If such changes are implemented in resolving the debt crisis, third world countries would have a better opportunity to become stable as well as more secure against terrorist organizations.

The effects of debt on third world countries are alarming and will likely continue to increase. The deficit is affecting all aspects of society and has impacted relations between the rich and poor countries. Various campaign groups are working to desperately amend government policy on debt by analyzing the two types of debt, the possibility of issuing grants rather than loans, and making society more aware of the severity of this crisis, which are crucial first steps in empowering the third world to develop a better environment for its citizenry, and a worse one for subversive organizations.

¹⁰⁰ Shah, Anup. "Debt and the Effect on Children," Global Issues. 04 July 2000. <http://www.globalissues.org/article/33/debt-and-the-effect-on-children>, (accessed 13 March 2012).

¹⁰¹ Ibid.

¹⁰² Jubilee Debt Campaign UK, "Our Mission". <http://www.jubileedebtcampaign.org.uk/Our3720mission+2245.twl>, (accessed 13 March 2012).

¹⁰³ Lyman, Princeton, N. The Terrorist Threat in Africa, Council on Foreign Relations. <http://www.cfr.org/africa/terrorist-threat-africa/p6912>, (accessed 14 March 2012).

¹⁰⁴ "PovcalNet: An Online Poverty Analysis Tool," The World Bank. <http://iresearch.worldbank.org/PovcalNet/index.htm>, (accessed 01 July 2012).

The Revolutionary Armed Forces of Colombia

A Realistic and Imminent Danger to U.S. Security

Andrew D. Grabau

The United States is susceptible to a potential attack by the Revolutionary Armed Forces of Colombia, a terrorist group known as FARC. Several guerilla tactics are viable for implementation military and civilian personnel in addition to clandestine operations. There is a 70 percent probability that FARC will soon engage in retaliatory, covert operations against key U.S. military installations in U.S. cities bordering the Gulf of Mexico.

The history of the Revolutionary Armed Forces of Colombia can be traced to an early 1960s guerilla group of rebel peasants that was established as its transliterated acronym "FARC" in 1964. Through the 1980s, this terrorist group accumulated a large portion of its revenue from kidnapping and extortion. Many of the U.S. anti-drug policies of the 1990s inadvertently aided FARC and enabled the organization to increase its territory within Colombia.¹⁰⁵ FARC has engaged in multiple deadly firefights with the Colombian military and the DEA since the 1990s. In fiscal year 1999, the United States expanded its assistance to Colombia to \$317 million, and later to almost \$1 billion in 2000.¹⁰⁶ President Andres Pastrana attempted to negotiate a peaceful resolution with FARC in 1999, but was unsuccessful in the endeavor. During that year, the rebel organization was able to capture a third of the country's territory. By 2002, the massive rebel war machine and drug trafficking empire reached its peak.¹⁰⁷

The United States, as an ally of the Colombian military, has caused significant setbacks to FARC's

strategic objectives since 2001; however, U.S. involvement did not immediately deter the terrorist group's financing methods. In 2002 alone, the guerillas were responsible for almost all of Colombia's 2,882 kidnappings, which amassed millions of dollars in ransom.¹⁰⁸ The group also held three Americans captive for four years, releasing them in 2006; this demonstrates their willingness to kidnap American personnel.¹⁰⁹ For years, the United States has been funding and training the AUC, or the United Self-Defense Groups of Colombia, to fight against FARC forces. In addition, the U.S. has allocated massive financial support to the Colombian government for the sole purpose of destroying the terrorist faction.

Since the beginning, FARC's leadership structure has consisted of a seven-man council. In 2008, the Colombian military launched a massive raid with the support of U.S. intelligence against a FARC camp located across the border in Ecuador. The raid resulted in the deaths of key leaders Raul Reyes and Ivan Rios, with the eventual elimination of top commander Manuel Marulanda two years later. The dismantling of leadership, in conjunction with captured intelligence, struck a massive blow to FARC and its capabilities. Intelligence recovered in the raid indicated that Ecuadorian president Rafael Correa, along with Venezuela, had been rendering financial support to FARC and providing a safe haven in Ecuador.¹¹⁰ A Colombian bombing raid dispatched FARC commander Mono Jojoy in September of 2010, while a similar raid the following year resulted in the death of FARC's chief leader and commander, Alfonso Cano. The President of Colombia, Juan Manuel Santos, called it the "most devastating blow to the group in its decades-long insurgency."¹¹¹ Now that five of the original seven council commanders have been killed, FARC's strength has decreased and its operational ability has been limited.

¹⁰⁵ Peceny, Mark and Michael Durnan, "The FARC's Best Friend U.S. Antidrug Policies and the Deepening of Colombia's Civil War in the 1990s," Latin American Politics Society vol. 48, no.2. July 2006. <http://onlinelibrary.wiley.com/doi/10.1111/j.1548-2456.2006.tb00348.x/abstract> (accessed 17 March 2012), 97.

¹⁰⁶ Ibid, 110.

¹⁰⁷ McDermott, Jeremy. "Colombia's FARC Rebels: End to Kidnap a New Start?," BBC News. 27 February 2012. <http://www.bbc.co.uk/news/world-latin-america-17177643?print=true>, (accessed 17 March 2012).

¹⁰⁸ Ibid, 2.

¹⁰⁹ Sullivan, Mark. Latin America: Terrorism Issues. (Washington, D.C.: Congressional Research Service, 2008). <http://www.fas.org/sgp/crs/terror/RS21049.pdf>, (accessed 14 March 2012), 2.

¹¹⁰ Beittel, June. Colombia: Issues for Congress. (Washington, D.C.: Congressional Research Service, 2011). <http://www.fas.org/sgp/crs/row/RL32250.pdf>, (accessed 14 March 2012), 10.

¹¹¹ McDermott, Jeremy. "Top FARC Rebel Leader Alfonso Cano Killed in Colombia," BBC News. 05 November 2011. <http://www.bbc.co.uk/news/world-15604456>, (accessed 28 March 2012).