External Debt and the Developing World:

Introduction

One of the main problems facing the developing world today is large and confining debt. A major obstacle to continued capital acquisition and future economic growth, debt burden is now one of the main concerns in international affairs. Many lesser-developed countries (LDCs) today simply cannot repay these debts, without the assistance of developed countries (DCs). This article looks into the status of the current debt crisis, and solutions to this crisis through trade barrier reduction, International Monetary Fund (IMF) assistance, debt restructuring, and debt forgiveness.

The Current Debt Crisis

The debt crisis is particularly acute in Sub-Saharan Africa. According to the World Bank classification, twenty-six of the thirty-three severely indebted, low-income countries are found in Sub-Saharan Africa.[1] The external debt in these countries is approximately equal to their Gross National Income (GNI) (*See* Table 1, p. 46). According to E. Wayne Nafziger, a prominent development economist, “Sub-Saharan Africa’s high ratio of payment on debt to exports, without new foreign inflows or debt rescheduling, dampened new capital formation and external adjustment.”[2] The extremely high ratio of external debt has effectively squeezed out capital inflow.

One of the main problems with external debt is how it directly damages capital inflow. According to Nafziger, “Net Capital Inflows = Imports – Exports = Private Investment – Private Saving + Budget Deficit.”[3] Capital inflows are greater with higher imports, higher investment and a higher deficit. However, in order to pay off loans, just the opposite is true. It is necessary for LDCs to produce more than they spend, export more than they import, and save more than they invest. Debt payments come at the direct cost of foreign capital inflows.

No Events