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DEBT AND ADJUSTMENT: THE EXPERIENCE OF SOUTH ASIA AND
SUB-SAHARAN AFRICA

Shahid Javed Burki

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Developing Countries' Debt Problem:
A Perspective from South Asia

Introduction

This paper has four parts. The first provides the main features of what has come to be described as the developing countries' debt problem. These features - the size of the debt and the sources to which it is owed, the burden it currently imposes on the developing world, etc. - will be described in both quantitative and qualitative terms. The second part of the paper will attempt to answer the questions: How did the situation develop? Did the developing countries stumble into this situation carelessly or is the situation the result of circumstances over which they have had little control? It is, of course, an oversimplification to talk of a developing country's debt problem as if the entire developing world is simultaneously faced with it. It is useful, instead, to look at the problems from several regional perspectives; from the perspective, say, of the countries of Latin America, East Asia, South Asia, the oil exporting countries of the Middle East and North Africa, the sub-Saharan African countries, and the semi-developed countries of South and East Europe. Part three of this paper will provide a brief overview of some of these regional perspectives and then go on to

discuss the situation in South Asian countries. Finally, part four will provide an assessment of how the South Asian situation may develop in the years ahead: first, to pose the question whether South Asia would remain untouched by the developments that are taking place in other parts of the Third World and then, second, to ask the further question as to the set of circumstances that might result in changing the situation in South Asia.

I. The Present Assessment of the Magnitude of the Problem

The World Bank ^{1/} estimates the external liabilities of developing countries in 1983 at \$810 billion. The table below shows the build up in developing countries outstanding debt over the years of crisis. The most interesting thing about these statistics is the sharp decline in the rate of increases in developing countries external liabilities: they increased by 15% from 1980 to 1981, but by only 9% between 1981 and 1982 and by 6% between 1982 and 1983. The decline in the rate of increase of short term debt was also significant; it increased by 24% between 1980 and 1981 but by only 4% between 1981 and 1982. Between 1982 and 1983, outstanding short term debt liabilities declined by nearly 15%. Consequently, the share of short term liabilities in total outstanding debt declined from 22% in 1980 to less than 18% in 1983. This sharp decline in the rate of debt build-up in developing countries is the result essentially of a considerable amount of reluctance on the part of commercial lenders to continue to provide additional monies. This decline was compensated to some extent by purchases from the IMF by developing countries: these increased from \$9 billion in 1980 to \$30 billion in 1983. The IMF's share in developing countries' outstanding liabilities more than doubled: from 1.5% in 1980 to 3.7% in 1983.

Table 1: Growth in Developing Countries Debt
(\$ billion)

	1980		1981		1982		1983	
	<u>Amt.</u>	<u>%</u>	<u>Amt.</u>	<u>%</u>	<u>Amt.</u>	<u>%</u>	<u>Amt.</u>	<u>%</u>
Medium and Long term	466	76.8	523	74.6	574	74.9	635	78.4
of which public	(174)	(28.7)	(189)	(27.0)	(208)	(27.1)	(225)	(27.8)
of which private	(292)	(48.1)	(334)	(47.6)	(366)	(47.8)	(410)	(50.6)
Short term	132	21.7	164	23.4	170	22.2	145	17.9
IMF	9	1.5	14	2.0	22	2.9	30	3.7
	607	100.0	701	100.0	766	100.0	810	100.0

Source: Computed from The World Debt Tables, 1983-84 (Washington, D.C.,: The World Bank, 1984).

The implied increase in the rate of outstanding debt over the last dozen years in nominal terms is high -- of the order of 20% per annum since 1972. Since the rate of growth of the GNP of the developing countries was much lower, the ratio of debt to GNP increased during this period, from about 14% in 1970 to 27% in 1983. But even the ratio of debt to national income reached in 1983 is not very high - it has been exceeded in the past by many countries. Another way of looking at the burden of total outstanding debt is to compare it to total exports. The total exports of developing countries in 1983 were valued at about \$500 billion which means a debt:export ratio of less than 1.6. It has been estimated that the debt:export ratios were much higher in the early years of this century: of the order of 5.2 for Latin America and 2.4 for India.^{2/}

What these ratios imply is that it is not the quantum of outstanding debt that has created critical proportions. The real problem, instead, is in servicing it. Servicing in turn has become a

problem for the reason that for many countries a large proportion of debt was obtained on variable rates and these rates touched unprecedented levels during the early 1980s. For developing countries taken together, the share of loans on variable rates in total debt increased from only 10% in 1970 to 40% in 1980. At the same time, short term interest rates increased from less than 5% in the early 'seventies to over 20% a decade later. Consequently, debt service ratios increased from 13.5% in 1970 to nearly 21% in 1982.^{3/} But even these levels of debt service ratios are not high enough to produce a crisis -- the developing countries' payment situation came to be seen as a crisis since for some of them debt service ratios went way above the average for the Third World: in 1981 they were 33% for Brazil, 28% for Mexico and 27% for Chile and about twice as high a year later for these three countries. But, as pointed out by a recent study by the IMF staff, in sharp contrast to some earlier situations, "the emergence of serious Bank debt problems since mid-1982 occurred much more abruptly....."^{4/} It was this abruptness that produced the perception of a crisis.

II. How Did the Crisis Come About?

There are two sets of explanation of why the crisis occurred so suddenly and, for many, so unexpectedly, in the summer of 1982: the first, the more conventional one, is provided in economic and financial terms, the second -- better described as the more novel one -- takes a somewhat broader view and includes also political and psychological factors.

There is little need to rehearse at length the economic and financial events that brought many developing countries to the brink

of bankruptcy. Some of these development - excessive reliance on variable interest borrowing and a steep climb in the rate of interest carried by such borrowing -- have already been mentioned. But there were additional circumstances, the most important of which was the sharp economic downturn in industrial countries and the resultant decline in world trade. The value of developing countries' exports, after having increased at the annual rate of 8.2% in 1965-73 and 4.2% in 1973-80, stagnated in 1980-82. This happened because of a precipitous fall in commodity prices. The sharpest declines in terms of trade occurred for low income Asia and middle income oil importers -- two groups of countries for whom the problem of debt became understandably very serious (see Table 2 below).

Table 2: Changes in terms of trade of developing countries, 1973-82 (percent) a/
1978 = 100

<u>Countries</u>	<u>1973-76</u>	<u>1979-82</u>
Low Income		
Asia	12.1	-3.2
Africa	-15.3	-13.8
Middle Income		
Oil importers	-9.5	-10.7
Oil exporters	59.9	31.8

a/ Ratio of export unit value index over import unit value index.

Source: The World Bank, World Development Report, 1983, (New York: Oxford University Press, 1983), Table 2.4, p. 13.

Even with such a drastic change in the terms of trade of groups of developing countries, outstanding debt need not have become a problem if flows of capital had been maintained at past levels..

After all, low income Africa and middle income oil importers had suffered terms of trade declines in the 1973-76 period but they were able to sustain a large burden of debt on account of significant amounts of concessional and non-concessional flows of capital that were then received. But in the second period -- particularly after 1981 -- commercial flows declined very significantly and thus brought about a situation of crisis.

To understand why commercial flows dried up suddenly, the explanation has to be taken beyond the realm of economics. The political aspect of the debt problem is as important as its economic and financial aspects. This is for two reasons. First, it takes a very long time to build political confidence but it can be destroyed very quickly. All the more reason, therefore, that political implications of the actions that are taken by governments, commercial banks and international organization are carefully and fully understood. Second, the nature of the financial relationship between developing countries on the one hand and creditor nations and institutions on the other has evolved in such a way that, over time, the number of parties associating themselves in these transactions has increased. As each new player was brought into the act, it increased the confidence of the creditors in their ability to get back what they lent. This increase in confidence was to the advantage of the borrowers since it reduced the cost at which they obtained financing. But at the same time, as there was an increase in the number of parties involved in this relationship, it also became more difficult

to resolve the problems whenever this relationship tended to sour. Developing countries now live in an extended financial family, a situation that is much different from the one that existed before the Second World War.

Although such a historical classification is highly simplified it is possible to divide the financial dealings between international money markets and developing countries into four periods. The first period ended with the Great Depression up to which time commercial banks mostly underwrote the bonds floated by developing countries; the second lasted from the end of the war to the early 'seventies when commercial banks took the back seat while official flows - a great deal of them from multilateral institutions - increased at a very rapid rate. The third period began with the 1973 increase in oil prices when commercial banks came upon a large quantum of resources received as deposits from the oil exporting countries. The third period ended rather suddenly in the summer of 1982 ushering in a fourth period when "involuntary lending" by commercial banks replaced the voluntary lending of the 'seventies. With each period, institutional intermediaries as well as direct institutional involvement has tended to become more complex. In the period before the Great Depression, the banks performed the role of underwriters leaving developing countries to access directly to the bond markets. The development of the multilateral financial system after the War brought into being a set of institutions that interposed themselves between the markets and the developing countries. After 1973, commercial banks entered the field on their own, undertaking

direct lending to developing countries quite independent of official institutions. Since 1982, various lenders have attempted to work together within a framework of policy reform that is first agreed upon with the borrowers.

This final transition -- from the laissez faire period of the 'seventies to the highly managed period that began in 1982 -- was not produced suddenly by a deterioration in the financial situation of the developing countries that had heavily borrowed from the international financial markets. Neither was this change the consequence of some sudden calamity that befell the principal providers of finance to developing countries. Instead this move was the product of a loss of confidence on the part of the commercial banks in the ability of their debtors to service outstanding debt. This confidence was lost in large measure due to a series of political developments that began with the turmoil in Poland and culminated in the Falklands conflict in South Atlantic.

The crisis in Poland reduced the confidence of the American and European bankers in the country's ability to keep on servicing its outstanding debt. The Banks balked at continuing a steady flow of commercial money to Poland but the East European country was saved from bankruptcy when several European governments and that of the United States provided tacit repayment guarantees to the commercial banks. This tripartite understanding between the borrowers, commercial banks and governments of industrial countries that was reached at the time of the Polish crisis was dealt a serious blow by the United States decision to support Britain rather than Argentina in the Falklands conflict of May-June 1982.

"As is well known, several American banks had an exposure in Latin America well beyond their capital and reserves, an exposure that could be viewed as prudent only if there was an expectation that the United States would come to the aid of those countries in the event that the region fell into a serious payments crisis." 5/ The United States support for Britain exploded this assumption causing the flow of funds to the countries of Latin America to virtually dry up. It was not too long after this that Mexico suspended payments to its creditors. By the end of 1982, this same fate befell Argentina, Brazil and Chile. In December 1982, these four countries together had \$162 billion of outstanding loans to commercial banks out of a total of \$363 billion to all developing countries. With as much as 45% of the outstanding loans in jeopardy, it is not surprising that the banks began to speak of developing countries' debt crisis.

As the Polish crisis had introduced industrial governments into what had been understood as a relationship strictly confined to the borrowers (governments as well as non-government entities) and commercial banks, the financial problem of Latin America brought yet another partner into this expanding relationship. The Mexican problem was resolved by the entry of the International Monetary Fund into the equation. It was a remarkable performance on the part of the Fund that saved Mexico from bankruptcy; it also created the precedence for the Fund to enter into similar arrangements with Brazil, Chile and Argentina when these countries too were faced with situations not too dissimilar from those of Mexico in August 1982. By now the "involuntary lending arrangements" between the countries in debt difficulties and commercial lenders have become a standard component

for the adjustment programs the Fund had initiated in a number of heavily indebted countries. 6/

Whether this approach is the right solution to the developing countries debt problem is a question that also deserves a political answer. It is possible that the confidence of the commercial banks might also be shaken in this type of arrangement. The Falklands crisis demonstrated that the protective umbrellas the governments had erected for their commercial banks could be easily taken down. The umbrellas were not real; they were really sets of assumptions in which the commercial banks developed belief at the urging of their governments. Likewise, the "involuntary arrangements" they have recently entered into are also based on a series of assumptions the belief in which must have been seriously shaken during the prolonged political battle that was waged in the United States Congress over the passage of the IMF quota authorization bill. The bill was passed and for the moment the banks and their debtors have accepted the assumption that the United States and other industrial countries are prepared to use the expanded Fund resources to help institute adjustment programs in developing countries. There is a further assumption that without these programs it would not be possible for the countries with large debt burdens to be able to remain solvent over the long run.

The fact that Mexico's debt problem surfaced suddenly is a vivid illustration of the importance of political and psychological factors that govern the relation between industrial and developing countries. In fact in the October 1980 issue of Euromoney, Mexico, Brazil and Argentina were ranked 20, 23 and 25 respectively in terms of country risk. 7/ These three countries were to experience

exceptional problems not very long after that assessment was made. The external finance position of these countries did deteriorate in the months following the publication of these ratings but the decline in their fortunes was not so significant as to warrant the kind of crises in which they found themselves.

There is a clear implication of this brief analysis of the politics of the debt problem: it is clear that changes in political attitudes and assumptions can bring about very wide savings in the quantum of capital that flows from industrial countries to the various groups of developing countries. But there is an asymmetry in these swings in the sense that flows can be turned off suddenly and it takes a long time to turn the spigot back on again.

Has this political understanding been eroded by the failure of the United States to provide full support to IDA? The question should be asked since the various components of the multilateral system cannot be separated. If it is essential for multilateral institutions to become partners in the delicate relations being constructed to overcome the debt problem then it is essential that the faith in the system must not be put into jeopardy. This is a subject to which we will return in a later part of the paper.

III. Regional Characteristics of Developing Countries'

Debt Problem

There are, of course, a number of important differences in the way external debt became a problem -- or, in some cases, did not become a problem -- in the Third World. These regional characteristics can be viewed from a number of perspectives: perhaps the three most interesting of these are: first, the rate at which the

current account deficit increased over the last dozen years or so, second, the way in which this deficit was financed and, third, the impact the financing of the deficit had on debt burden.

Table 3 below shows that from 1970 to 1981 developing countries' current account deficit increased nearly ten-fold, but the bulk of this increase occurred in the six year period between 1975 and 1981. It was during this period that the shock delivered by two oil price increases had to be absorbed by developing countries. Since 1981, a rather dramatic decline has occurred in the level of the deficit; it declined by as much as 35% over this two year period. The period since 1981 was the period of adjustment when country after country reduced the levels of their imports to bring them into line with the external resources that were now available. The level of deficits accordingly declined. There was a severe impact on the rate of growth of gross domestic products of several developing countries as a result of such a severe retrenchment in imports. In 1983, the combined GDP of the developing countries is estimated to have increased by only 2% - a rate somewhat less than the increase in population. In all the developing countries taken together, therefore, there was a decline in per capita income in 1983.

The table also reveals some rather striking regional differences in the way the size of these current account deficits grew and declined. For the low income countries the peak came a year earlier than that for the middle income countries, in 1980 as against 1981, but the decline was not as precipitous after this peak. For the low income countries, the 1983 deficit was 76% of that in 1980; for the middle income countries, the 1983 deficit was only 61% of that in 1981. Putting it in another way: after the peak deficit was reached in the middle income countries, the adjustment came rapidly, with the deficit declining at the rate of over 22% per annum. For the low income countries, the adjustment came at a much slower rate and over a longer period of time: at just over 9% per annum after 1980. It is not surprising, therefore, that the burden of adjustment from high levels of deficits that could be financed from external borrowing to a relatively low level that had to be sustained since external flows were reduced to a trickle was felt much more by the middle income countries than by poor nations.

There is also quite a significant difference in the behavior of current account deficits in low income Asia and Africa. For low income Asia, the 1983 deficit was only 53% of the peak in 1980; for the poor countries of Africa, the peak was reached in 1981 but the decline thereafter was very small in nominal terms.

The lower section of Table 3 provides estimates for current account deficits in 1980 dollars: by doing so, the real magnitude of adjustment can be gauged. We see now that in real terms, the 1983

current account for all developing countries was only 64% of that in 1981; for the middle income countries' oil imports, it was 60% of the peak; for low income Asian and African countries, only 53% and 92% respectively of their peaks.

Two significant changes occurred in the way developing countries financed their current account deficit. Up to 1981, the year before the Mexican crisis, net capital flows to developing countries were much larger than their deficits with the result that sizeable net additions were made by them to their reserves. In the three years up to 1981, developing countries added \$102 billion net to their collective reserve position. However, beginning with 1981 these reserves began to be run down since net financial flows were now much lower than current account balances. In the years up to 1983, developing countries' reserves declined by \$42 billion. The second important development was the significant decline in the share of net private flows in developing countries' financial receipts from a high of 53% in 1978 and 1979 to a low of 41% in 1982 and only 32% in 1983.

Once again, disaggregation between various groups of countries helps to clear the picture. The massive reserve build up that occurred in 1978-80 was largely accounted for by the oil exporting countries while the equally massive run down occurred in the oil-importing middle income countries. By the end of 1983, the reserves held by the middle income countries were at dangerously low

levels. The sources of finance used for meeting current account deficits also differ between groups of developing countries: for the middle-income oil importers, net private flows, accounted for three-fourths of the aggregate current account deficit while for the income countries of Asia and Africa, concessional flows were four-fifths of the combined deficit.

Table 4: Debt Service Ratios for All Developing Countries, 1970-82

<u>Country group</u>	<u>1970</u>	<u>1980</u>	<u>1981</u>	<u>1982</u> a/
All developing countries	13.5	13.6	16.3	20.7
Low-income				
Asia	13.3	7.9	8.4	10.1
Africa	6.5	8.8	11.6	28.3 b/
Middle Income				
Oil importers	14.0	14.9	18.0	23.0
East Asia	6.7	7.0	7.6	8.6
Latin America	13.0	33.3	39.6	53.2
Oil exporters	13.9	13.0	15.7	19.1

a/ Estimated.

b/ The sharp rise in 1982 reflects the accumulation of arrears and does not allow for any reschedulings in 1982.

Source: The World Bank, World Development Report 1983, (New York: Oxford University Press, 1983), Table 2.14, p. 21.

It was largely because of the differences in the sources used for meeting current account deficits and dependence on export earnings that the debt service ratios of different developing countries followed such different paths in the year since 1980. For

all developing countries, the debt service ratio increased from 13.6% in 1980 to 20.7% in 1982 but for Latin American oil importers, the ratio exploded -- from an already high 33.3% in 1980 to 53.2% in 1982. (See Table 4 above.) The rate of increase in the ratio for the poor African countries was sharper still while it remained stable for the low income countries of South Asia and for the middle income oil importing countries of East Asia.

IV. The South Asia Debt Situation

Low income Asia -- defined for the purpose of this article as Bangladesh, Burma, India, Maldives, Nepal, Pakistan and Sri Lanka -- did not experience the kind of economic problems encountered by other parts of the developing world and, accordingly, did not face a serious debt problem in the early 1980s.

Thus while the growth of low income Asia lagged behind the developing country average in the 1960s - 4.6% per annum in the period 1960-73 as against 6.0% for all developing countries - it showed a considerable increase and resilience in the 1970s and early 1980s. In the period since the first increase in the price of oil, the annual growth rate of low income Asia is estimated at 5.4% which is nearly 30% more than the average for the developing countries - estimated at 4.2% per annum.

The same switch in the trend occurred in export performance: in the period 1965-73, the volume of developing countries' exports increased at the annual rate of 8.2% but for low income Asia, it was much lower, only 7.3%. After 1973, the volume of low income Asian exports increased at a rate more than twice as much as for all developing countries - 9.9% against only 4.2%. This extraordinary performance was made possible in part by greater diversification in the products exported: for the three largest countries of this region, the share of manufactures in total exports exceeded 50%. It was 66% for Bangladesh, 59% for India, and 50% for Pakistan. This was a considerable improvement over the situation that prevailed in the early 1960s when the share of manufactures was about a third of the total. Shift in the direction of trade was another contributing factor in the impressive performance of low income Asian countries: in 1960, the bulk of their exports had gone to the industrial market countries - 75% for Sri Lanka, 66% for India and 56% for Pakistan and Bangladesh. These proportions declined very significantly between 1960 and 1981: by 1981 the share of industrial market economies in exports had declined to 58% for India, 42% for Sri Lanka, 36% for Pakistan and 34% for Bangladesh. This was a welcome development since a significant proportion of exports was now directed towards the oil exporting countries. Even during the recession of 1980-82, demand for imports - particularly those from South Asia - remained robust in these economies.

In part because of the diversification of exports and in part also because of their direction towards the more robust economies of the Middle East, the South Asian countries did not experience the sharp deterioration in their terms of trade that marked the export performance of the low income countries of Africa.

Table 5 below summarizes some pertinent trade statistics for the major low income South Asian economies and compares it with that of the trends for all low income countries. What stands out from this comparison is the extremely impressive export performance for South Asia which in turn made it possible for those countries to retain a high level of imports. With no need to curtail imports, South Asia did not suffer the economic downturn suffered by low income countries of Africa.

Table 5: Trade Balance, Terms of Trade for Major South Asian Countries

	Merchandise Trade		Average Annual				Terms of Trade
	(\$ million)		Growth Rate %				(1975 = 100)
	Exports	Imports	Exports	Imports	Exports	Imports	1981
	<u>1981</u>	<u>1981</u>	<u>1960/70</u>	<u>1970/81</u>	<u>1960/70</u>	<u>1970/81</u>	
Bangladesh	791	2594	6.5	-0.7	7.1	5.1	79
India	8064	15001	3.2	4.6	-0.9	3.2	66
Pakistan	2880	5342	8.3	3.0	5.3	4.0	75
Sri Lanka	<u>1036</u>	<u>1803</u>	<u>4.6</u>	<u>-1.5</u>	<u>-0.2</u>	<u>1.4</u>	<u>80</u>
Subtotal	12771	24740	4.4	3.4	1.3	3.4	75
All Low Income	42444	60117	4.9	-0.7	5.3	2.4	87

Source: Computed from the data in The World Bank, World Development Report 1983 (New York: Oxford University Press, 1983).

The above analysis of the economic performance of South Asia provides a useful background from which to view this debt situation.

The basic statistics on debt for the South Asian countries are presented in Table 6 below. The table provides time series for total outstanding and disbursed debt incurred by both public and private borrowers for the seven low income countries of the region. Net disbursements are the gross amounts received which are defined as the total flow less principal repayments. When interest payments are deducted from disbursements, the result is net transfers which is the actual amount of utilizable resource available to the borrower.

Table 6: Public and Private Debt of Low Income Asia

(US \$ Million)

	<u>1973</u>	<u>1975</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Outstanding & Disbursed	15894	19985	25191	27915	29170	32992	34347	37530
Disbursements	1769	3598	2717	3094	3416	5039	4181	5002
Principal Repayments	624	874	899	984	1129	1211	1196	1258
Net Flows	1145	2724	1818	2110	2287	3828	2985	3744
Interest Payments	375	408	498	626	716	750	739	879
Net Transfers	770	2315	1320	1485	1572	3078	2246	2865
Total Debt Service	999	1282	1397	1609	1845	1961	1935	2137
; % of combined GDP:								
Outstanding & Disbursed	16.8	16.5	18.2	17.7	16.5	15.5	15.5	17.3
New Flows	1.2	2.2	1.3	1.3	1.3	1.8	1.3	1.7
Net Transfers	0.8	1.9	1.0	0.9	0.9	1.4	1.0	1.3

Source: The World Bank, World Debt Tables, 1983-84 (Washington, D.C.: The World Bank, 1984), p. 13.

There are four characteristics of the South Asian debt situation that makes it so different from the situation of other developing countries:

First, the rate of increase in debt outstanding from 1973 -- the year before the first oil crisis -- to 1982 - the year of the depth of the world wide economic recession - was much higher for middle income countries as compared to the poor countries of South Asia. In the case of South Asia, debt outstanding increased by 136% in this nine year period -- which translates into a growth rate of 10% per annum in nominal terms. For the middle income countries, the growth rate was much higher; of the order of 20% per annum. The large increase in the case of the middle income countries was not necessarily the consequence of their greater creditworthiness since the low income countries of Africa also accumulated debt at the rate of 18% per annum. It appears that South Asia relied much more on the export earnings and not a great deal on borrowing to finance imports.

Second, a considerable proportion of South Asian debt was obtained on highly concessional terms. In 1973, 83% of the outstanding debt for this group of countries was on terms that carried a very low rate of interest; between then and 1982, the proportion of concessional element in outstanding debt increased by three percentage point, to reach nearly 86%. In other words, concessional debt outstanding increased by nearly 11% per annum during this period. The trend was quite the opposite for the middle income countries: for them the proportion of concessional debt in

total outstanding debt declined from 38% in 1973 to 20% in 1982. There was also a slight decline in the case of low income Africa; from 58% to 55% -- another indicator to show that the Africans were prepared to go to the private markets to maintain the level of imports. These changes in the ratio of concessional debt to total debt notwithstanding, it is important to underscore that the quantum of concessional debt accumulated by other countries during the 1973-82 period was considerably higher than that collected by South Asia. In 1973-82, outstanding concessional debt increased by \$87 billion but out of this South Asia's share was only \$19 billion, that of low income Africa \$9 billion and that of middle income countries \$59 billion (see Table 7 below).

Table 7: Sources of Developing Countries' Debt
(\$ billion)

<u>Debt Outstanding and Disbursed</u>						
Countries	<u>1973</u>	<u>1975</u>	<u>1978</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Low Income Asia	16	20	28	33	34	38
Low Income Africa	5	8	14	20	22	23
Middle Income	<u>88</u>	<u>134</u>	<u>258</u>	<u>354</u>	<u>409</u>	<u>457</u>
All developing	109	162	300	407	465	518
Of which from concessional sources						
Low Income Asia	13	17	25	29	30	32
Low Income Africa	3	4	8	10	11	12
Middle Income	<u>34</u>	<u>45</u>	<u>66</u>	<u>82</u>	<u>90</u>	<u>93</u>
All developing	50	66	99	121	131	137

Source: The World Bank, World Debt Tables, 1983-84 (Washington, D.C.: The World Bank, 1984)

Third, because of the structure of South Asian debt, the quantum of net transfers have remained substantially high. In 1973, the share of South Asia in total net transfers to developing countries was 7%; nine years later in 1982, the share increased to as much as 43%.

Fourth, and finally, in view of their good export performance and reliance by them on concessional sources for external borrowing, it is not surprising that the countries of South Asia did not have much of a problem servicing their debts. Of the 59 reschedulings that were undertaken in 1981, 1982 and 1983 - 30 under the aegis of the Paris Club for debt from official sources and 29 involving commercial banks -- there was only one case that involved a South Asian country. This was Pakistan which in 1981 had \$263 million of official debt rescheduled. In other words, of the more than \$75 billion of debt owed to public and private sources that was rescheduled during this period, South Asia's share was only 0.4%. As against this, there were 19 reschedulings for low income Africa amounting to a total of over \$4.5 billion. Twelve African countries had their debts rescheduled in this period, suggesting that several of them had to return repeatedly for relief to their creditors.

The above analysis of the debt situation in South Asia points to a remarkable amount of constraint exercised by the governments of the region at the time when commercial debt was easily available.

Conservative financial policies -- although important in explaining the South Asian situation -- were not the only reason that these countries came out relatively unscathed from this period of immense trouble for other parts of the Third World. There were other circumstances which favored South Asia: two of these - access to concessional flows and a very good export performance - have already been mentioned. The third was South Asia's Middle East connections.

The migration to the Middle East on the part of millions of South Asians in search of jobs and the consequent flow of remittances back to the home countries provided external resources that covered a fairly large proportion of the increase in the value of imports that occurred as a result of the hike in oil prices in 1973 and again in 1979. In 1980, migrants remitted back a total of \$3 billion to South Asia and this is perhaps a very conservative estimate since a fairly large amount flowed back through unofficial channels. Low income Africa did not benefit to the same extent: for the countries in that region, remittances sent by the migrants for 1980 are estimated at only \$300 million.

This brings us finally to the point where a number of important questions should be raised about South Asia's economic prospects: whether these trends can be expected to continue in the future; whether South Asia can expect to increase its export earnings at rates more than the average for developing countries; whether

remittances from the workers who have migrated to the Middle East would continue to increase; whether the countries of South Asia would continue to receive concessional flows at past levels? While the future is difficult to predict when it depends upon the political and economic actions of a number of different countries, it does appear that the economic environment for South Asia would be less hospitable than it has been in the past. Some of this worsening in the environment has already occurred and is the result of the political decision taken by several large donors to reduce the quantum of monies available to IDA - the soft window of the World Bank. Up to now, IDA was a significant provider of development finance to South Asia. With IDA's monies seriously constrained, it does not seem possible that South Asia will have in future the trend of access it has enjoyed until now to concessional finance.

According to current estimates, the amount of concessional assistance being provided to developing countries is not likely to increase at the rate of the sixties and the seventies. The OECD has estimated 8/ that ODA - official development assistance - may increase at the rate of 2.0% to 3.0% in real terms in the remaining years of this decade. This rate will be lower than the rate of increase in the gross domestic product of the OECD countries which means that ODA as a proportion of GNP of the industrial countries may decline from the already low level of 0.38 to about 0.35 by the end of the 1980s. Also, it appears that more ODA flows will be directed towards Sub-saharan Africa, while the share of the middle income countries will remain about the same. This would mean a decline in the proportion of ODA going to South Asia.

It also appears that the import elasticity for South Asian products in industrial countries - percentage increase in imports from South Asia for every one percentage point increase in the gross domestic product of industrial countries - is expected to decline. This might happen as a result of the level of "penetration" reached by the more important South Asian exports such as textiles, clothing, garments and leather products. In 1980, the penetration ratio - share of imports in estimated consumption - was of the order of 5.4% for textiles, 16.3% for clothing and footwear and 17.3% for leather products. These are considered to be high levels of penetration which have already caused the United States and some European countries to adopt import restricting policies. At the same time, in part because of the aging of the populations of industrial countries, consumption of these products may not increase as rapidly as it did in the past. It appears, therefore, that unless South Asia further diversifies its exports, its performance in this area may not equal that of the past.

Remittances sent by migrant workers, the second important source of foreign exchange for the countries of South Asia, may not increase at the rates they have done in the past. Construction in the Middle East was the largest employer of Asian labor, but there has been a considerable slowdown of activity in this sector. There is some fear that some reverse movement of labor may begin. Politics may also intervene here and cause disruptions to take place in the economies of the Middle East. If this happens, not only will there be a decrease in the rate of increase in remittances, it is possible that the quantum of remittances may actually decline.

If these trends materialize - that is to say, if the rate of increase in South Asian exports, workers' remittances to South Asia, and the share in ODA of South Asia all decline - then the countries of South Asia will be faced with two choices. They could either cut down on the rate of investment and make an effort to increase the rate of return from reduced level of investment or take the road travelled earlier by the middle income countries and the countries of Africa. The second option would mean greater reliance on non-concessional flows from both private and public sectors. If they make the first choice, the result may well be reduced growth in gross domestic products; if they choose to go the second route, there may not be an immediate impact on growth rates but difficult problems may have to be confronted in the future.

In sum, for a variety of reasons, South Asia has fared better than many other parts of the developing world; whether it will continue to do so will depend upon a number of factors over which these countries do not have a great deal of control. The countries of South Asia did not face the kind of debt problem which resulted in drastic restructuring of the economies of Latin America and Sub-Saharan Africa. But, it is by no means certain that down the road South Asia will not run into the same difficulties that have marred the economic performance of other parts of the Third World. If, sometime in the future, South Asians find themselves in the same situation that now exists for Latin America and Sub-Saharan Africa, the reason for that will not be entirely economic. Politics will also have played a part.

Footnotes

- 1/ The World Bank, World Debt Tables, 1983-84 (Washington, D.C.: The World Bank, 1984), p.1.
- 2/ Lewis, W. Arthur, Growth and Fluctuations, 1870-1913 (London: Allen and Unwin, 1978), p. ____.
- 3/ The World Bank, World Development Report 1983 (New York: Oxford University Press, 1983), p. 21
- 4/ International Monetary Fund, Recent Multilateral Debt Restructurings with Official and Bank Creditors, Occasional Paper No. 25, (Washington, D.C.: IMF, 1983), p. 6.
- 5/ Sjaastad, Larry A., "International Debt Quagmire - to whom do we owe it?", World Economy (September 1983), Vol. 6, pp. 305-324.
- 6/ IMF, op. cit., pp. 9-14.
- 7/ Euromoney, October 1980, p. 30.
- 8/ Organization for Economic Cooperation and Development, Development Cooperation: Efforts and Policies (Paris: OECD, 1983), pp. 77-78.

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Table 1: Developing Countries, Current Account Balance,
Excluding Official Transfers
 (billions of current dollars)

	<u>1970</u>	<u>1975</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
All LDCs	-12.0	-36.9	-35.9	-31.3	-58.9	-125.0	-121.3	-81.2
Low Income								
Asia	-0.7	-2.7	-1.9	-5.4	-11.6	-6.8	-2.5	-6.2
Africa	<u>-0.6</u>	<u>-3.0</u>	<u>-2.6</u>	<u>-3.0</u>	<u>-3.7</u>	<u>-5.9</u>	<u>-5.3</u>	<u>-5.5</u>
	-1.3	-5.7	-4.5	-8.4	-15.3	-12.7	-7.8	-11.7
Middle-income								
Oil importers	-7.5	-28.7	-21.8	-36.2	-56.2	-70.2	-62.1	-42.6
Oil exporters	-3.2	-2.5	-9.6	13.3	12.6	-42.1	-51.4	-26.9

(billions of 1980 dollars)

	<u>1970</u>	<u>1975</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
All LDCs	-31.2	-57.6	-43.3	-34.2	-58.9	-125.9	-123.3	-80.6
Low-income								
Asia	-1.8	-4.3	-2.3	-5.9	-11.6	-6.9	-2.6	-6.1
Africa	<u>-1.4</u>	<u>-4.7</u>	<u>-3.1</u>	<u>-3.3</u>	<u>-3.7</u>	<u>-5.9</u>	<u>-5.4</u>	<u>-5.4</u>
	-3.2	-9.0	-5.4	-9.2	-15.3	-12.8	-8.0	-11.5
Middle-income								
Oil importers	-19.6	-44.7	-26.3	-39.5	-56.2	-70.7	-63.1	-42.4
Oil exporters	-8.4	-3.9	-11.6	14.5	12.6	-42.4	-52.2	-26.7
Deflator:	38.4	64.1	83.0	91.7	100.0	99.3	98.4	100.6
1980 = 100								

Source: World Bank data files

Table 2: Growth in Developing Countries Debt
(\$ billion)

	1980		1981		1982		1983	
	<u>Amt.</u>	<u>%</u>	<u>Amt.</u>	<u>%</u>	<u>Amt.</u>	<u>%</u>	<u>Amt.</u>	<u>%</u>
Medium and Long term	466	76.8	523	74.6	574	74.9	635	78.4
of which public	(174)	(28.7)	(189)	(27.0)	(208)	(27.1)	(225)	(27.8)
of which private	(292)	(48.1)	(334)	(47.6)	(366)	(47.8)	(410)	(50.6)
Short term	132	21.7	164	23.4	170	22.2	145	17.9
IMF	9	1.5	14	2.0	22	2.9	30	3.7
	607	100.0	701	100.0	766	100.0	810	100.0

Source: Computed from The World Debt Tables, 1983-84 (Washington, D.C.,: The World Bank, 1984).

Table 3: Low Income Africa
(US\$ Million)

	1973	1975	1977	1978	1979	1980	1981	1982
PUBLIC AND PRIVATE DEBT								
DEBT OUTS. DISB. ONLY	4,982.7	7,776.7	11,637.7	14,233.5	17,244.6	19,825.9	21,819.9	22,659.1
DISBURSEMENTS	1,085.7	1,884.5	2,217.1	2,532.9	3,058.9	3,885.3	3,150.8	2,508.0
PRINCIPAL REPAYMENTS	273.7	345.8	339.8	400.7	432.7	633.1	591.3	757.7
NET FLOWS	812.0	1,538.8	1,877.4	2,132.2	2,624.2	3,232.1	2,559.6	1,748.3
INTEREST PAYMENTS	123.5	199.7	248.1	317.4	367.2	520.9	438.0	412.9
NET TRANSFERS	688.8	1,339.0	1,829.3	1,814.8	2,258.9	2,711.2	2,121.6	1,335.4
TOTAL DEBT SERVICE	397.2	545.5	587.8	718.1	800.0	1,154.0	1,029.3	1,170.8
	1983	1984	1985	1986	1987	1988	1989	1990
PROJECTED PUBLIC AND PRIVATE DEBT SERVICE^a								
TOTAL DEBT SERVICE	2,932.1	2,909.8	2,843.0	2,739.2	2,489.0	2,287.1	1,953.8	1,550.2
PRINCIPAL	2,017.3	2,039.9	2,065.1	2,045.2	1,914.2	1,813.2	1,571.2	1,239.3
INTEREST	914.9	869.9	777.9	694.0	574.8	473.9	382.6	310.9

Source: The World Bank, Debt and Developing World (Washington, D.C. 1984) p. 9.

Table 4: Public and Private Debt of Low Income Asia

(US \$ Million)

	<u>1973</u>	<u>1975</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Outstanding & Disbursed	15894	19985	25191	27915	29170	32992	34347	37530
Disbursements	1769	3598	2717	3094	3416	5039	4181	5002
Principal Repayments	624	874	899	984	1129	1211	1196	1258
Net Flows	1145	2724	1818	2110	2287	3828	2985	3744
Interest Payments	375	408	498	626	716	750	739	879
Net Transfers	770	2315	1320	1485	1572	3078	2246	2865
Total Debt Service	999	1282	1397	1609	1845	1961	1935	2137
As % of combined GDP:								
Outstanding & Disbursed	16.8	16.5	18.2	17.7	16.5	15.5	15.5	17.3
New Flows	1.2	2.2	1.3	1.3	1.3	1.8	1.3	1.7
Net Transfers	0.8	1.9	1.0	0.9	0.9	1.4	1.0	1.3

Source: The World Bank, World Debt Tables, 1983-84 (Washington, D.C.: The World Bank, 1984), p. 13.

Table 5: Net ODA Receipts from All Sources a/

	<u>1973</u>	<u>1975</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Low Income Asia								
Bangladesh	422	1018	766	990	1156	1262	1096	1293
Burma	71	58	102	274	364	309	284	316
India	780	1709	1106	1339	1379	2236	1914	1562
Maldives	1	3	3	8	7	31	13	5
Nepal	35	46	80	77	137	163	181	201
Pakistan	283	892	550	651	561	1031	749	747
Sri Lanka	<u>58</u>	<u>172</u>	<u>187</u>	<u>324</u>	<u>323</u>	<u>443</u>	<u>378</u>	<u>417</u>
Total	1649	3897	2793	3662	3925	5475	4613	4540
Low Income Africa	959	2165	2484	3198	4014	4824	4780	4686

a/ DAC, OPEC and multilateral agencies.

Table 6: Sources of Developing Countries' Debt
(\$ billion)

	<u>Debt Outstanding and Disbursed</u>					
	<u>1973</u>	<u>1975</u>	<u>1978</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Countries						
Low Income Asia	16	20	28	33	34	38
Low Income Africa	5	8	14	20	22	23
Middle Income	<u>88</u>	<u>134</u>	<u>258</u>	<u>354</u>	<u>409</u>	<u>457</u>
All developing	109	162	300	407	465	518
	Of which from concessional sources					
Low Income Asia	13	17	25	29	30	32
Low Income Africa	3	4	8	10	11	12
Middle Income	<u>34</u>	<u>45</u>	<u>66</u>	<u>82</u>	<u>90</u>	<u>93</u>
All developing	50	66	99	121	131	137

Source: The World Bank, World Debt Tables, 1983-84 (Washington, D.C.: The World Bank, 1984)

Table 7: Middle Income Oil Importers a/

(US\$ Millions)

	1973	1975	1977	1978	1979	1980	1981	1982
PRIVATE NON-GUARANTEED DEBT								
DEBT OUTS. DISB. ONLY	17,970.8	25,786.4	33,861.5	39,823.8	46,477.1	53,201.2	67,486.8	74,913.2
Official Sources	..	..	..	..	..	..	..	..
Private Sources	..	..	..	..	..	..	..	..
Foreign Parent Comp.	..	..	..	..	..	..	..	..
Financial Institutions	..	..	..	..	..	..	..	..
Suppliers	..	..	..	..	..	..	..	..
DISBURSEMENTS	4,969.2	7,521.7	10,232.1	12,418.0	13,606.1	15,762.9	23,558.5	15,127.2
Official Sources	..	..	..	..	..	..	..	..
Private Sources	..	..	..	..	..	..	..	..
Foreign Parent Comp.	..	..	..	..	..	..	..	..
Financial Institutions	..	..	..	..	..	..	..	..
Suppliers	..	..	..	..	..	..	..	..
PRINCIPAL REPAYMENTS	2,970.9	4,155.0	5,332.6	7,281.1	8,041.5	8,860.4	9,287.5	9,631.1
Official Sources	..	..	..	..	..	..	..	..
Private Sources	..	..	..	..	..	..	..	..
Foreign Parent Comp.	..	..	..	..	..	..	..	..
Financial Institutions	..	..	..	..	..	..	..	..
Suppliers	..	..	..	..	..	..	..	..
NET FLOWS	1,998.3	3,366.7	4,899.5	5,136.9	5,564.6	6,902.5	14,271.0	5,496.1
Official Sources	..	..	..	..	..	..	..	..
Private Sources	..	..	..	..	..	..	..	..
Foreign Parent Comp.	..	..	..	..	..	..	..	..
Financial Institutions	..	..	..	..	..	..	..	..
Suppliers	..	..	..	..	..	..	..	..
INTEREST PAYMENTS	1,196.8	2,142.5	1,965.8	2,826.2	4,087.0	5,118.1	7,394.5	9,918.7
Official Sources	..	..	..	..	..	..	..	..
Private Sources	..	..	..	..	..	..	..	..
Foreign Parent Comp.	..	..	..	..	..	..	..	..
Financial Institutions	..	..	..	..	..	..	..	..
Suppliers	..	..	..	..	..	..	..	..
NET TRANSFERS	801.5	1,224.2	2,933.7	2,310.7	1,477.6	1,784.4	6,876.5	-4,422.6
Official Sources	..	..	..	..	..	..	..	..
Private Sources	..	..	..	..	..	..	..	..
Foreign Parent Comp.	..	..	..	..	..	..	..	..
Financial Institutions	..	..	..	..	..	..	..	..
Suppliers	..	..	..	..	..	..	..	..
TOTAL DEBT SERVICE	4,167.7	6,297.5	7,298.4	10,107.3	12,128.5	13,978.5	16,882.0	19,549.8
Official Sources	..	..	..	..	..	..	..	..
Private Sources	..	..	..	..	..	..	..	..
Foreign Parent Comp.	..	..	..	..	..	..	..	..
Financial Institutions	..	..	..	..	..	..	..	..
Suppliers	..	..	..	..	..	..	..	..
	1983	1984	1985	1986	1987	1988	1989	1990
PROJECTED NON-GUARANTEED DEBT SERVICE^c								
TOTAL DEBT SERVICE	24,800.3	18,707.0	18,736.6	14,513.5	12,079.1	8,770.4	5,480.9	2,292.4
Principal	16,262.0	12,090.6	11,514.1	10,609.4	9,514.6	7,189.4	4,737.3	2,013.7
Interest	8,338.3	6,616.4	5,222.5	3,904.1	2,564.5	1,581.0	723.6	278.7

Source: The World Bank, Debt and Developing World (Washington, D.C. 1984), p. 16.

Table 8: Debt/Export Ratios for Groups of Developing Countries (%)

	<u>1973</u>	<u>1975</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Low Income Asia	271	222	192	183	155	137	-	-
Low Income Africa	100	136	160	248	267	332	-	-
Middle Income Oil Importers	68	73	76	85	84	81	84	-
Oil Exporters	79	72	93	111	88	71	80	-
Major Borrowers	<u>111</u>	<u>109</u>	<u>117</u>	<u>129</u>	<u>117</u>	<u>100</u>	<u>107</u>	<u>-</u>
All Developing	85	83	92	104	93	84	-	-

Source: Computed from The World Bank, Debt and Developing World (Washington, D.C. 1984).