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EXTERNAL DEBT PROBLEMS OF INDIA: A COMPARATIVE STUDY

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KEYWORDS :

India is politically, economically and socially backward. The economic growth the country achieved through 5-year plans can at best be called modest. Due to its development efforts imports of the country is ever growing and exports can hardly match the imports. The trade gap is ever widening and a moderate increase in debt service also can put the country into hardships, unless there is a substantial trade surplus in the years to come, it is difficult for the county to absorb an increase in debt service ratio. Ever increasing trade deficits will potentially reduce the country's ability to service its debts.

"A Situation where External Indebtedness is growing and the nation needs more and more assistance, whatever be the reason for the increasing dependence, fears of the country falling into a debt trap is quite natural, more so when the government places more reliance on commercial borrowings and N. R.I remittances, to say that the debt Situation of the country is better compared to other countries does not improve the situation"[1]

In the backdrop of the above, this study is an effort to Compare and analyze the debt position of India with other major debt-ridden countries of the world and find out to where India actually stands with regard to external debts, three and a half decades after the emergence of the debt crisis in the 1980s.

India is a major recipient of foreign aid, absorbing about 40% of the world bank lending in any one year. In recent times voices are heard from many quarters, that India's external debt has reached the magnitude that the Indian government is becoming susceptible to the dictates of international agencies commercial banks and foreign governments. In light of this, it will be helpful to analyze the economic factors that the country Susceptible to external debt. Here an attempt is made to identify the factors that make the country so dependent on external debt and how these factors, coupled with poor management of debt, can bring the country to a near debt trap.

Objectives of the Study and Methodology Used:

Evaluating a country's debt position and establishing its capacity to absorb and repay debt is a complex process. "Although there is a large body of literature dealing with developing a system of measurement for evaluating debt situation and determining critical levels of indebtedness no commonly accepted single indicator exists. Determination of a country's debt servicing capacity is largely judgemental rather than a Quantitative phenomenon."[2]

Any discussion on the problem of debt concentrated mainly on the debt problems of middle-income Latin America Countries. The debt problems of low-income Countries, especially of the South Asian region, were totally neglected. This chapter deals with the justification of the topic selected, Statement of objectives, Hypothesis, and method of approach Selected for the Study.

Need for Study of Debt Problems of India

India is one of the low-income countries of the world with almost 20% of the world's population. According to the Government of India's sources, 22% of India's People live below the poverty line. This being the case, the important task of the government is improving the living standards of the people and development of the economy as a whole. Emerging out of the centuries-old British rule, India was capital poor and the country had to borrow heavily to finance its development projects. After several decades of freedom, India Still faces the same old problems of low capital, poor infrastructure, Poverty, low production, savings, investment and to add to all these there is a population explosion. In such Circumstances, the need for external Funds will only increase in the near future. Thus there is a bigger threat of the country landing in a Debt Crisis, and coming out of it will be a difficult task considering low economic growth, low-income levels, and meager export earnings. Not much research had gone into the debt problems of South Asia and especially of India earlier. Therefore a study on the debt problems of India is Very Significant. A detailed study of the debt Problems of India, its present trends and possible problems in the Future, will reveal India's position with regard to external Debt, This explains the need for the present study.

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Criteria for Selection of countries

Selection of countries for the Comparative study has been made very carefully considering the relative strengths, weaknesses, state of development, economic aggregates, absorbing capacity, etc. For example, it is not correct to compare the overall borrowing of a Latin American middle-income country to that of India and conclude that India has borrowed less and hence it does not face any serious debt problems.

While comparing the debt problems of different countries one should take into consideration their relative economic Strengths and weaknesses. Hence the present study not only

Compares India's debt position with that of the major debtors of the World but also with other low, income countries. Further, all the SAARC Countries and China also form part of this Comparative study.

The debt crisis erupted in the Latin American region which has major borrowers of the world. From this region, 2 Countries are included for this study, they are Argentina and Brazil, Mexico was included, being the country where debt problems had originated. Comparison with these three major debtors of the world will help us understand where India stands and how close it is to a debt crisis. Like South Asia, Africa also has some of the poorest nations of the world, Kenya, Nigeria, Ethiopia, and Uganda are chosen for the study from this region, Added to this list is all the SAARC Countries, namely Maldives, Myanmar, Nepal, Sri Lanka, and Pakistan. These countries are added because studies on the debt problems undertaken thus far have not paid much attention to this area, where a quarter of the world's population and 40 percent of the world's poor live. This study will throw light on the actual situation of these countries with regard to debt. Finally, China faces a similar population problem like the one in India. It has always been competing with India on many fronts. Like India, it has adopted centralized planning. Due to all these reasons, China is also included in this study. This justifies the Selection of countries for this Study.

PERIOD OF STUDY

The period selected for this study Starts in 1980 and Covers four decades viz, 1980-89, 1990-99, 2000-2009 and 2010-2017. Debt problems emerged in 1982 and hence the Study begins in the 1980s. The Four decades were chosen to know how the Problem evolved over time and what the present state of the country with regard to external debt is.

Objectives of the Present Study

The main objective of the present study is to examine and asses the External Debt related problems faced by India, compare it with that of other countries facing similar problems and evaluate the Present positions of India with regard to External Debt. However, the specific objectives of the study are as listed below

1) To Study how the external debt of India grew in the last Four decades
2) To examine the trend of different Components of External Debt and servicing of these debts in the last four decades.
3) To compare and verify the debt problems of India with that of other countries
4) To identify the areas in which India needs better management to avoid debt Problems.

METHODOLOGY OF APPROACH

This section explains the Sources through which data have been collected, the methodology followed to study the objectives and the statistical tools used for the Study.

This study is mainly based on secondary data. The data collected for this study relate to the flow of funds from Creditors to debtors and reverse flow of Fund in the form of repayment from debtors to creditors.

Data on Debt is usually drawn from two sources. First, there is a "Debtor Reporting System" (DRS) of the World Bank which Collects Statistical data and information of Loans of most of the debtors. Then there is an Expanded Reporting System (ERS) of the OECD/IBRD which Collects data on debts owed to or guaranteed by the official sector in Some countries. Data on External Debt of India is also available to the Economic surveys Published annually by Department of Finance, Government of India and also from reports of Reserve Bank of India. This study is mainly based on data available From World Debt Table, Global Development Finance, and International Debt Statistics Published by "World Bank's" "Debtor Report System" where debtors themselves report their external liabilities.

This is a comparative study and a common currency will make Comparison easier. Hence the Study uses the data given by DRS where the debtors repost their External liabilities in terms of dollars. The latest data is available in the "International Debt Statistics" 2019. The data or economic aggregates like G.N.P, exports, etc were also collected from the world financial statistics Published by IMF based on these data the debt problems of India in relation to other countries are analyzed.

Analysis of Data and Statistical Tools Used

The data collected has been tabulated and analyzed so as to fulfill the objectives of the study. The data related to Total Debt Stocks, its various constituents, Total Debt Service and economic aggregates. The data based on which the analysis has been made relates to a period from 1980 to 2017. To study the share of various countries in the total world debt Stock and share of various components of Total Debt Stock, percentage analysis has been used. To study the growth of debt service etc, index numbers were worked out keeping 1980 as the base year. Growth rates have been worked out to know the trend of external debt throughout the period.

Limitations of the study

1. Literature in external debt problems of low-income countries, especially in the South Asian Region is limited. No comprehensive study was made on debt problems of India. Literature available on "External Debt" usually dealt with Latin American countries, These are not entirely applicable to India. Hence this study faces the problem of Non-Availability of quality literature.
2. Data Published in various sources did not tally and there are many variations. Due to this, the Study had to largely depend on data available with the World Bank Debtor Reporting system.
3. For South Asia in general and India in Particular, per capita incomes are among the Lowest in the world and the majority of the world's Poor live in this region. In judging the relative burden of debt, data would have to be adjusted taking in to account the portion of G.N.P needed to cover the basic needs of the population.

REVIEW OF LITERATURE:

Most of the works on external debt are related to the debt problems of Latin American countries. The works on the debt problems of the Asian countries are very limited in number. The reason for this was the lesser importance given to the debt problems of these countries compared to Latin America and Africa. There are not many books published on the debt problems of Asian countries. Moreover, in the books published on the economic issues of Asia, the debt problems of India have not been discussed adequately. The literature on Asia mainly concentrated on trade-related aspects. Thus a study about the debt problems of Asia and India, in particular, are scarce. The main sources for the study for this research work are secondary data published by The World Bank, IMF and economic Survey's made by U.N. and Asian Development Bank, on South Asia. However, the World Bank's World Debt Tables for various years give detailed data on debt and also there were some studies made on the debt problems of the South Asian region in it. In the analysis, the data taken from various sources, many books by different authors on debt problem in general and studies on the debt problems of other regions have helped. Since many Asian countries are classified under the low-income country group, books and articles related to the debt problems of low-income countries are of much use, in undertaking a study on the debt problems of India.

Asian development Economic success and policy Lessons,[3]

According to the author debt servicing, problems arise when Export earnings Stagnate during the recession, but crisis situation arises mostly from inappropriate domestic policies. In Asia, most countries undertook domestic policy adjustments before the debt Crisis appeared. Fiscal monetary restraint, plus the relaxation of trade restrictions, flexibility in wage setting and realistic pricing on energy food and foreign exchange have all been the hallmarks of Majority of Asian countries' Economic policies.

Does Aid Work in India: A country study on the impact of ODA[4]

The work makes an effort to study the effectiveness of aid. Açcording to the author India has been singled out in the debate on development strategy as the archetype of the country which had adopted the wrong development strategy.

Impact of American aid on India's Economy[5]

In the book impact of U.S aid on India's Economic growth has been examined in relation to the contribution made by it to indicators of economic development like national income savings and investment. The book also makes an attempted to analyze U.S. aid in relation to the sectoral allocation of resources.

International Debt Crisis of the Third World: Cause and consequences for Third World Economy.[6]

This work is an attempt to find out the cause of Developing country debt problem. Among the various causes according to the author most important are structural weaknesses and current account deficits.

The works reviewed above explain the fact that debt positions and problems of the SAARC region are not studied much and hence there is a need for a systematic study to analyze debt position of SAARC countries compared to other developing regions This study is a humble effort in this direction.

Public Debt and Economic Planning in India.[7]

In this book, the author analyses both internal and external debt problems of India in a detailed manner. According to him, External Debt Servicing is proving to be a strain on the Balance of payment position of India. He says Rise in external indebtedness should be accompanied by an increase in debt service capacity so that there may not be an undue strain on the balance of payments owing to the outflow of funds through Debt Services. Further, He says that the present state of affairs regarding public debt in India needs thorough investigation, particularly regarded its burden, its contribution to economic growth and requires effective measures to ease the burden of debt servicing.

External Debt Stocks in Recent Times:

External debt Stocks of India stood at $ 256312 million in the year 2010. In the 7 years that followed, the debt stock accumulated and reached $513209 million. Thus there was a 200% increase in the external debt stock of India in just 7 years. With News Paper reports indicating a 56% increase in the last 4 years, the picture did not look very good for the Indian economy as there is a sharp decline in the G. N. P, fall in export earnings and general sluggishness in the economy in recent times. To India's credit, in the last four decades, there was never a debt restructuring or debt servicing crisis. However, the rate at the which external liabilities is growing the country has to tread very cautiously in the coming future. Comparison of India's debt Stock with the other major debtors bring out the following results:

External debt Stock of Brazil and Mexico was $352364 million and $193343 million respectively in 2010. By 2017, Brazils external debt stock increased to $542980 million while that of Mexico increased to $455058 million. Correspondingly, the percentage increase was 154% For Brazil and 235% For Mexico. Thus, in the present decade also India's External borrowing is not only keeping pace with the major debtors but also exceeding them at times. Among the other debtors under study, China's EDT grew from $ 73465million to $1710235 million during the period between 2010 - 2017 at an enormous rate of 2327.9%. The mammoth expansion of China's total debt stock can be very misleading as the ratios that indicate the seriousness of the debt problem show that China is below the moderately indebted levels, and is in a better position than in India when debt ratios are taken into consideration.

Long term and Short term Debt From 2010 – 2017

The decade Starting from 2010 Marked a change is the attitude of some debtors towards short term debt. In the African region, of the four Countries, considered for this Study two, Viz, Ethiopia and Kenya, increased their short term borrowings. In 2017, 20 % of Ethiopia's total debt Stock consisted of short term loans. Kenya also increased its short term borrowings to above 10%. Uganda and Nigeria however, cut the short term borrowings drastically. For Nigeria, Short term debt reduced to 0 and 0.2% in 2010 and 2017 respectively. Share of short term borrowings in Uganda's total debt Stock Was 0.87% and 4.22% in 2010 and 2017 respectively.

Long term and short term Debt of India and Latin American Countries (in Million U.S dollars)

Source: IDS

Countries		2010	%	2017	%
India	EDT	290428		513208	
	LDOD	227853	78.45	409935	79.87
	ST	56448	19.43	97607	19.18
Brazil	EDT	352364		542980	
	LDOD	282426	80.15	486460	89.59
	ST	65492	18.58	52408	9.65
Mexico	EDT	245907		155058	
	LDOD	198455	80.70	397764	87.40
	ST	43061	17.51	53234	11.69
Argentina	EDT				
	LDOD	22529		34763	
	ST	2949		10767	

The comparison showed that India's share of Short term debt was more than that of the 3 Latin American debtors, Percentage of India's short term debt was 19.43% and 19.18% respectively, in 2010 and 2017. At the same period, it was 18.58% and 9.65% respectively for Brazil and 17.1% and 11.69% for Mexico.

Public and publicly Guaranteed debt and private Non-Guaranteed Debt - 2010 - 17

During this period, the growth rate of India's public and publicly guaranteed debt was 95%. It increased from $100563 million in 2010 to $196176 Million in 2017. The share of public and publicly guaranteed debt in the total debt stock was 34.6% in 2010. In 2017 its share increases slightly to 38.2%. The growth rate of private non guaranteed debt during this period was 67.93%. The most heartening of this period was that share of private debt in the total debt stock was more than that of public and publicly guaranteed debt.

Another interesting factor about the 2010s relates to Private non guaranteed debt. During this period out of the 16 Countries, 13 countries had positive growth rate in their private non guaranteed debt. The 3 countries that showed the opposite trend were Ethiopia, Maldives, and Sri Lanka. While Maldives and Srilanka showed a negative growth rate, Ethiopia had zero private non guaranteed debt. India recorded a 67.9% growth in the private non-guaranteed debt. The Most astonishing fact was that for China, a socialist country, the growth of private non guaranteed debt was 298.6% during this period. The following table explains the trend of public and publicly guaranteed and private non guaranteed debt during 2010 – 2017.

DISBURSEMENTS:

In the decade Starting from 2010 again, India's disbursement did not increase on a regular basis. In 2010 the percentage of disbursement was 14.9% however in 2011, 2012 2015 and 2016, the percentage fell below the 2010 Mark. In 2014 the total disbursement Stood at 28% percent. The Overall disbursement for the 8 years under Study was 15.65%. 6 out of the other 14 countries had better disbursement rate than India. Among all the countries Brazil with a disbursement rate of 20.59% Fared better than all the other countries Considered in this study.

Analysis through Debt Indicators:

The World Bank has designed several indicators to understand and assess the debt burden of the debtor countries. There are many indicators of the burden of external debt each indicator has its own strengths and weakness. Therefore, no single indicator can be used to assess the debt burden of a country. Hence economists use a combination of indicators to offset problems inherent in the use of any single indicator. "There are four key indicators of the debt burden of a country firstly "Ratio of Debt to G.N.P." Second Ratio of Debt to exports, third ratio of accrued debt service to exports and finally the ratio accrued interest to exports. A country is defined as debt-burdened if three of the key indicators of debt and debt service have values greater than empirically observed values."[8]

As noted earlier use of a combination of ratios reduced the shortcomings and problems inherent in the release on a single ratio. The World Bank identified three broad groups of debt-burdened countries, namely, severally indebted, moderately indebted and less indebted. According to the world debt tables 1989-90 a "Debt to GNP" ratio of 50%, A debt to the Export ratio of 275%, a total Debt Service to the Export ratio of 30% and Interest Payment to the Export ratio of 20% are the critical values. If the observed values fall above these a country is classified as severally indebted and if at least 3 out of the four observed values exceed 60% of these critical values then it is classified as moderately indebted.[9]

However, in the Asian Development Bank review of 1990, it is stated that. "A country is likely to face a high risk of running up arrears when its debt to export ratios exceeds 200 percent. To avoid this risk and still be able to borrow a country would be expected to keep these ratios well below 200 percent and possibly within 150 percent as a conservative limit."[10]

The present study depends on the above indicators to assess the debt burden of India and other countries which are part of this study.

Debt to GNP Ratio

According to the World Bank, if a country's EDT/GNP ratio is above 50% it comes under the severally indebted category.
During the present decade (2010-2017) India reduced its EDT/GNP ratio further to 14.8% and thus remained below the moderately indebted level. Comparative positions of the other countries are listed below.

India	:	14.80%
Brazil	:	24.6%
China	:	15.8%
Ethiopia	:	29.9%
Kenya	:	28.6%
Mexico	:	32.83%
Pakistan	:	13%
Sri Lanka	:	52.5%
Uganda	:	30.4

As can be seen from the table Sri Lanka during the present decade crossed the severally indebted levels while Mexico and Uganda were above the moderately indebted levels. All the other countries managed to stay below the moderately indebted levels.

DEBT TO EXPORT RATIO:

From 2010-17 India's EDT/KGS value further came down to 65.3%. values for the other countries are as in the table below:
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India	:	65.3%
Brazil	:	179.6%
China	:	55.3%
Ethiopia	:	125.5%
Kenya	:	150%
Mexico	:	94.9%
Pakistan	:	220.5%
Sri Lanka	:	243.8%
Uganda	:	154%

The table reveals that all the countries except Pakistan and Brazil were below the moderately indebted level during the present decade.

TDS to Exports and Interest to Export 2010s

The following table gives the comparison of India's position with that of other countries during the present decade

TDS to Exports and Interest to Export 2010s

Country	TDS/XGS	INT/XGS
India	10.5	2.1
Brazil	27.75	6.62
China	0.4	1.7
Ethiopia	5.9	0.4
Kenya	7.9	2.8
Mexico	13.5	5.3
Pakistan	16.1	4.9
Sri Lanka	19.0	4.7
Uganda	0.4	1.7

Decade-wise analysis of debt indicators, confirms that India's position regarding internal debt is comfortable compared to most of the countries. Unless there is an unprecedented economic crisis or natural calamity, the chance of India falling into a debt trap is remote.

In conclusion, though all the conventional tools for assessing debt problems put India below moderate levels there is no scope for complacency as India's is among the 10 largest debtors of the world in terms of total debt stock, and a sudden increase in the interest rates or a sharp unexpected fall in the value of rupee can change the situation overnight for the worse.

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