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New Debt Crisis and South Asia – a Call for Collective Solutions

Amali Wedagedara*

Debt payments of developing countries exceed their national revenue. Even though external debt is crippling economies in the global South, neither the financial and economic reform policies (structural reforms) advocated by the International Monetary Fund (IMF) and the World Bank nor the developing countries as a geo-political bloc have responded sufficiently to address the crisis at hand. While the structural reforms advocated by IMF and the World Bank have become counterproductive, isolated responses of the developing countries to their respective debt crises have impeded a collaborated and coordinated strategy to hold international financial institutions like the IMF and the World Bank responsible and address the escalation of debt distress in developing countries following the interest rate hikes in the US and EU, Ukraine-Russia war and the COVID-19 pandemic, i.e. the New Debt Crisis.

The absence of an informed collective response vis-à-vis the external debt problem is more palpable in South Asia compared to Latin America or Africa. This article is a preliminary attempt to bridge the gap by analysing South Asia's debt crisis. While contextualising the new debt crisis affecting South Asian countries, I argue that cultural explanations of the debt crisis of developing countries, undermining the political economy dimension of corruption, have not just diverted our attention away from addressing the structural weaknesses of the South Asian economies, making us accept poison as medicine. They have also stopped us from holding the IMF and the World Bank responsible for failing to ensure the stability of the global financial order, particularly in the interests of developing countries.

External Debt Profile of South Asia

Spillovers of the global to the local, alias the 'New Debt Crisis,' are also evident in South Asia. Following Sri Lanka's default on its external debt in April 2022, the IMF reported that Pakistan and the Maldives were in high debt distress signalling that their public debt levels were unsustainable. In addition, both Nepal and Bangladesh sought financial assistance from the IMF in 2022 and 2023 to address their balance-of-payment needs.

A comparison of the external debt profiles of South Asian countries in Table 01 suggests a correlation between the regularity of engagements with the IMF and the degree of debt distress. Except for Maldives, India, and Nepal, all the other South Asian countries have engaged the IMF more than ten times. While Pakistan leads with 24 engagements with the IMF, Sri Lanka ranks second with 17 rounds. Incidences of interactions with the IMF insinuate the extent of the transformation of national

political and economic regimes after the Structural Adjustment reforms that the IMF and the World Bank promote. Instead of pro-growth policies aligned with local interests, developing countries are compelled to adopt the free market economic model catering to the interests of global capital. With time, productive sectors of the national economies, in manufacturing and agriculture, dissipate by limiting the economy to low-end primary exports. They borrow heavily to finance essential imports, including basic food needs.

Table 1: External Debt Profile – South Asia

Country	External Debt volume (USD)	Debt to GDP (%)	Major creditors	Engagement with IMF	Latest IMF loan
Afghanistan	3.3b	24.77%	Multilateral (IDA, ADB), commercial banks, Russia, Saudi Arabia, Italy	10	Membership – 1955 – ECF 2020
Bangladesh	98.11b	21.6%	Capital mkts (11.9b), multilateral (40.1b), bilateral (27.3b), IMF (3.9b)	14	2023, $ 4.5b in 7 installments
India	635.3b	18.61	Commercial, NRI deposits, short term trade credits, WB, IDA, ADB	7	1993, $ 1.6b
Nepal	7.8b	21.8%	WB, IDA, ADB, China, India	8	2022, $ 2.8b (till 2025)
Pakistan	99.1b	42%	Multilateral (WB, ADB), IMF, Eurobonds, Sukuk, commercial, China	24	2023, $ 3b for 9 months
Sri Lanka	34.8b	105%	Capital mkts, Japan, China, India, France, WB, ADB, IMF	17	2023, 2.9b
Maldives	3.1b	58.5%	China, India, capital markets, OPEC	3	02 loans, in 2009, Membership in 1978

Source: IMF, Ministries of Finance (respective countries)

Structural Adjustments accompanied by austerity policies, the 'bitter medicine' that the IMF and World Bank advocate for countries grappling with economic hardships, have become poison to developing countries worldwide, making them debt-dependent (Fischer and Storm 2023). Even though a minority of financial and political élites benefit, others in the productive economy, such as women, peasant farmers, fishers, small and medium entrepreneurs, manufacturers, and industrialists, incur losses from the liberalisation of the trade, capital, labour, land markets, deregulation of environmental laws, dismantling of the state-owned enterprises, and public services such as education, health and social security. Even though budget deficits, fragile currencies, declining government revenue as a share of GDP, heavy reliance on capital markets and corruption could be attributed to the reforms that the IMF and World Bank advocated over the years (over 17 and 24 rounds of engagements in case of Sri Lanka, and Pakistan) economic failure of these countries continue to be explained by cultural factors attributed to poor developing countries such as corruption, nepotism and mismanagement, ascribing a sense of superiority to advanced capitalist countries in the global North. For example, post-default economic reforms in Sri Lanka, as advocated by the IMF and WB, demonstrated zero reflection on the economic policies practised over 45 years since the liberalisation of the economy in 1977. There is a revolving door linking deregulation and restructuring policies and corruption – the close nexus between the political and economic élites has meant that deregulation and restructuring abets private profiteering. Even though the political élites concur with the IMF and the World Bank in enacting structural reforms and embracing good governance, neither party have extended their interest to explore the illegitimacy of public debt due to corruption or illicit financial flows. Trade Unions in Sri

Lanka pointed out an estimated US$40 billion lost to the national economy between 2009 and 2018 due to illegal financial flows linked to trade and offshore accounts.

The inherent implications of the crisis-instigating policies are concealed under the much-hyped hearsay on debt-trap diplomacy linked to Chinese loans. The real debt trap is in the IMF-World Bank loans, which impose structural reforms that deny development and the policy-making autonomy of developing countries, and high-interest international sovereign bonds (ISBs) issued by private bondholders in capital markets prioritising debt extraction over development.

Straitjacket Responses to the New Debt Crisis

The International Debt Report 2023, published by the World Bank, documented a debt crisis of an unprecedented scale. Eighteen developing countries have defaulted since 2021, surpassing the number of defaults over the last two decades. Twenty-four countries eligible to borrow from the International Development Association (IDA), the lending arm of the World Bank to low-income countries on concessional terms, are reported as high debt distressed, while 11 others are listed as debt distressed. The same report indicates that debt has become a “paralysing burden” (The World Bank 2024; IX), making servicing debt difficult in 2023. Three South Asian countries are undergoing debt crises, with Bangladesh and Nepal receiving IMF assistance along with Sri Lanka. Taking the volume of external debt or debt to GDP as an indicator of the debt crisis, one may wonder how Maldives, with a little over US$3 billion debt volume, ended up in debt distress. How many countries undergo debt crises can only be explained if we look at the problem vis-à-vis several developments since 2021, i.e., 1. Interest rate hike in the US and EU in 2021, 2. COVID-19 pandemic (2021-2022), and 3. Ukraine War. It is impossible to understand the current debt crisis without putting it in perspective of these global developments.

1. **Interest rate hikes in the US and EU in 2021**: The US Federal Reserve reduced interest rates to 0% to tackle the Global Financial Crisis 2008. Lower interest rates were expected to make managing and refinancing public debt in global North countries easier while keeping the financial markets afloat. Low interest rates made developing countries that would otherwise have avoided capital markets (due to high interest rates) borrow from them at an unprecedented scale. Countries like Sri Lanka, disqualified from concessional borrowings after graduating into the Middle-Income Countries category, had to turn to capital markets to source their external financial needs. Sri Lanka borrowed US$17b from capital markets between 2007 and 2019 at 5-8%. In 2021, the US Federal Reserves and EU Central Bank increased interest rates by 4-5%. With the US dollar's value appreciating, investors repatriated their capital to countries in the global North. Amidst capital flight from the global South, developing countries had to incur extremely high costs to refinance their loans. For example, Zambia and Egypt paid coupon rates as high as 26% (they borrowed at 6-8%).
2. **COVID-19 pandemic (2020-2021)**: Covid-19 pandemic brought the world economy to a standstill. It was particularly hard for developing countries that were excessively dependent on tourism, remittances, and primary and low-end exports to source foreign exchange needed to finance essential imports and service dollar-denominated foreign debts. For example, the tourism sector in Sri Lanka encountered a hard blow too soon after the Easter Bomb Attack in 2019. On top of declining foreign remittances, Sri Lanka also lost 24% of its export revenue. The Maldivian economy, which heavily depends on the tourism sector, has contracted by 33.5% (Asia Development Bank 2022).

3. **Ukraine War (2023)**: Speculations around the sanctions on Russia and disruptions to global supply chains against the backdrop of the Russia-Ukraine war led to price hikes in oil, food grains and fertiliser, which affected developing countries by drastically increasing their import costs (Ghosh 2022).

Overlapping emergencies like the COVID-19 pandemic and Russia-Ukraine war at a global scale, along with the interest rate hikes in the US and EU, have created systemic shocks destabilising economies of developing countries like Sri Lanka, Pakistan, Maldives, and other countries in debt distress in the global South. As a result, the cost of debt refinancing has multiplied, pushing some countries like Sri Lanka, Zambia, Ghana, and Suriname to default. The impact of these external causes on debt distress is more significant than internal causes. However, responses from the IMF and the World Bank do not reflect a cognisance of the new nature of the debt crisis. Instead of factoring in the impact of the external shocks and enacting their responsibility to create a mechanism to smoothen the vulnerabilities aggravated by the external shocks, the IMF and the World Bank blame developing countries and impose harsher structural reforms.

There is a clear gap in understanding the crisis and its scale, as manifested in the interests of the IFIs and interventions that developing countries need. Economic reforms such as deregulating capital markets and exchange rates, privatising state-owned enterprises, and reducing government expenditure on public services will only deteriorate the structural vulnerability of developing countries. Not only are these reforms incompetent in tackling the problems trickling down from developments in the global North explained above, but they also suggest that developing countries should bear the burden of problems created as a result of policy-making in the global North. One wonders about the purpose of the IMF and the World Bank, created as financial and development arms of the UN, to foster stability and development of countries across the board.

Collaborated and Coordinated Action against Debt in South Asia?

Against the backdrop of the Asian Financial Crisis in 1997, Asian countries affected by the crisis, like Thailand, Malaysia and Japan, proposed to create a mutual supporting system, an Asian Monetary Fund (AMF), to ensure “domestic, regional and Asian strength, not necessarily to compete but to have a buffer zone”. (Takahashi 2023). Even though the AMF never saw the light of the day due to the strong opposition from the US and the lack of commitment from China, ASEAN, along with the Chiang Mai Initiative, has moved along the critical ideas behind the AMF. Jubilee 2000 was another instance when developing countries gathered to demand debt justice. Social movements of working people, peasants, women, students, environmental activists and academics have underscored the dangerous consequences of the IMF and the World Bank policies and have advocated reforms for a long time (World Social Forum, La Via Campesina, Bretton Woods Project, Committee for the Abolition of Illegitimate Debt). Thomas Sankara, the former President of Burkina Faso (assassinated in 1987), outlining the predatory and imperialist nature of debt, called for a United Front Against Debt (Sankara 1987).

While the urgency of the developing countries coming together to propose collective solutions to the New Debt Crisis while holding the international financial institutions accountable is evident, the IMF and the World Bank are using their mediation to tighten the grip over the indebted countries. Rather than encouraging indebted countries to pursue collective solutions, IMF-WB mediation has only trapped them in structural reforms and debt restructuring processes that favour the creditors.

Argentina, a long-time client of the IMF, is experiencing recurrent debt crises and has repeatedly been subjected to debt restructuring, manifesting the destiny of countries following the IMF route.

Debt crises, debt distress, and defaults have systemic impacts. People's livelihoods get decimated. Economies regress years into the past. Women, children and other vulnerable people assume a disproportionate burden. Working people are made to pay more in the process of economic recovery. The overwhelming impact of economic crises indicates that such crises should not reoccur. However, ensuring that debt crises are a thing of the past demands innovative interventions rather than structural reforms and debt restructuring favourable to creditors. United Front Against Debt and Global South Alliances for Development will empower developing countries and enable a collective vision to transcend debt distress.

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[*]***Dr. Amali Wedagedera*** *is a Senior Researcher at the Bandaranaike Centre for International Studies (BCIS).*