DEBT CRISIS AND THE THIRD WORLD:
A CONSCIENTIOUS ANALYSIS

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ABSTRACT

Prosaically, third world countries perambulate and meander in unpalatable, inglorious debt. The debt being emphasized here is the one that is caused by internal and external, constant borrowing by governments of various third world states. Aside from being indebted to internal and external financial institutions, majority of the states of the third world operate in the realm of what is called “debt crisis”, which is a situation whereby the government of a state lacks the ability to pay back what it has borrowed. However it’s not that these states do not have the wherewithal to pay off what they have borrowed, but they find it ultra-difficult to do so because of certain factors. The factors, we could say, make them helpless slaves to debt. Howbeit, this article tries to look at debt crisis in the third world and bring to surface some of the internal and external factors of saliency responsible for it. At the same time, the article provides few panaceas to the problem.

KEYWORDS: Debt Crisis, Third World, Internal Factors, External Factors.

INTRODUCTION

It is a verity that the international system houses two major ‘worlds’ which are: the First World and the Third World; the Global North and the Global South respectively. While the First World comprises of highly developed and highly industrialized countries of the world, the Third world is composed of less-developed (or underdeveloped) and less-industrialized countries in the world. Countries categorized as third world spread across the continents of Asia, Africa and Latin America. These countries of the third world are facing and experiencing scourging poverty, political instability, crisis, high rate of corruption, unprecedented mass unemployment, mismanagement, inferior education, high rate of diseases, high mortality rate, malnutrition, low Gross National Product (GNP) and low Gross Domestic Product (GDP), and above all, huge and inglorious debt. These countries are highly indebted to their Western counterparts (i.e. the developed countries). As a matter of fact, most of the countries in the third world are unable to pay what they borrowed from their Western counterparts. Most of the countries of the third world now prefer servicing of debt to paying it e.g. Nigeria. Note, we can hardly point any country in the world that is debt-free because even the so-called well-developed countries are also indebted either internally or externally, but third world’s level of indebtedness is quite alarming and ignominious.

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DEBT CRISIS IN THE THIRD WORLD

Debt crisis is a phenomenon that is affecting the third world most especially. First, the term “third world” is used to refer to, in the words of Simone Williams (2018), “countries with high mortality rates, especially infant mortality rates”. Williams further described them as countries with unstable and inconsistent economy, and massive amount of poverty who often rely on industrialized countries for aid and stabilization of their respective national economies.

On the other hand, the duo-Andrea Pescatori and Amadou N. (2004:4) note that the term “debt crisis” can be viewed as “events when either there is a sovereign default or secondary market bond spreads are higher than a critical threshold”. In addition they inscribe, “In practice, market participants often view sovereign bond spreads above the 1,000 basis points (10 percentage points) mark as signaling a significant probability of default”.

In a semi-clear manner, Sachs (1984) in Pescatori and Amadou defined debt crisis as difficulties resulting in “non-repayment of pre-agreed debt service”. According to an agency named Standard and Poor’s, debt crisis occurs when there is failure on the part of an obligator “to meet a principal or interest payment on the due date (or within the specified grace period) contained in the original terms of the debt issue” (cited in Pescatori and Amadou, 2004:5-6).

For Nwosu (2013:244) debt simply means “a payment which must be made in the future...an outstanding credit obligation”. The third world countries are highly indebted internally and externally. Having defined debt, Nwosu (2013) went further to explain what external debt is all about in the following words: “external debt is liabilities on which a contractual obligation to repay exists”. Put differently, external debt is a kind of debt that a country owes to foreign creditors (which can be individuals, states or corporate financial institutions). Countries borrow money in order to advance development within their territories. Under normal circumstances, money may be borrowed for building of schools, industries, infrastructures, roads, and other amenities. However, when a country borrows but fails to utilize what it borrows judiciously it becomes a problem. In respect to this Nwosu (2013:245) opined:

“Public borrowing, external or internal could be advantageous if the sum is effectively, prudently and conscientiously used for developmental programmes for which the facility was acquired. Where the reverse becomes the case, that is where in the case of Nigeria foreign loans are frittered away into private accounts of political office holders and proposed development projects indefinitely abandoned, then the debt crises becomes a development challenge whose indelible marks shall remain with such underdeveloped countries”.

In support of the above assertion Elom, D.N. (2005:69) avers:

“There is nothing bad for an individual, organization or a state to borrow money for capital projects or long term investment with an intention to make profit. But for such hope of profit maximization to be achieved, the loan must be properly used for what it is meant. Anything short of that will spell doom for the borrower”.

According to Kenneth, R. (2002), “by the end of 1990 the world’s poor and developing countries (the third world) owed more than 1.3 trillion dollars to industrialized countries. Among the largest problem debtors were Brazil (116 billion dollars), Mexico (97 billion dollars), and Argentina (67 billion dollars). Of the total developing-country debt, roughly half is owed to private creditors, mainly commercial banks”.

From the picture of words painted by Kenneth above, we can understand that the issue of debt is not a new phenomenon to third world
countries. That is to say, before the dawn of the 21st century, the debt of the third world had crossed the realm of billions to trillions. Also from Kenneth’s analysis, third world countries owe not only to states externally, but also to private external creditors.

In Africa, many country wander in debt crisis. Nigeria for example saw it as a herculean task for it to pay what it has borrowed and thus, President Olusegun Obasanjo made the clamour for debt forgiveness the priority of his foreign policy. In Ghana and Mozambique also, the same was the case. Mozambique in particular was unable to pay its debt to its creditors. In a paper titled "The New Developing World Debt Crisis", it was put this way:

“In October 2016 Mozambique announced it could not pay its debt to private foreign lenders. Ghana is already dependent on loans from IMF and World Bank to pay the high interest on loans to private lenders, as soon might be Zambia and Monolia”.

INTERNAL FACTORS OF DEBT CRISIS: AFRICA AS A CASE STUDY

Sincerely speaking, there are numerous internal factors that fosters debt crisis in the continent of Africa. First among such factors is corruption (gross mismanagement). Most African leaders and public office holders are unashamedly corrupt. They trouser public fund as if they are going to die the next minute. The public funds entrusted in their hands are not properly accounted for. They lack transparency and accountability. An example of embezzlement of public fund in African continent was revealed by Obiwuru, C.R. (2018) when he writes:

“The former Nigeria’s national security adviser in the person of Sambo Dasuki was arrested by the Economic and Financial Crime Commission (EFCC) for allegedly stealing the sum of 2 billion US dollars (£ 1.3bn). The money that was meant to be used in the purchase of bombers and ammunitions; the weaponries which would have been used for combating the Boko Haram, and thereby saving the lives of many Nigerians”.

In addition, “there is a culture of mismanagement of resources among African leaders that engendered the external and internal debt burden” (Nwosu, 2013: 247).

Apart from the above, another germane internal factor is high level of illiteracy on the part of political office holders. The reason why many African countries still experience debt crisis is because of the fact that most of their public office holders ‘live’ in illiteracy. Note, illiteracy is not all about being uneducated, rather it primarily means the inability to put one’s education to full use. Many public office holders adopt several policies (both economic and political) without properly analyzing the policies. That is, they fail to ask and answer these questions properly: Is this economic policy going to be advantageous to the nation? How will this policy affect the nation? If this policy fails, is there any other alternative? That policy is working perfectly for them over there, but can it really for us? In respect to the above Nwosu writes:

“Most African leaders are ignorant of what path to follow in the attainment of economic and national development. Such leaders perceive development as a global marathon in which they believe they can attain development by adopting Western development agenda”.

Hence, when policies (economic policies most especially) are not properly weighed before adoption there is a tendency that such policies may devastate a country and even plunge or douse the nation into debt.

EXTERNAL FACTORS OF DEBT CRISIS: AFRICA AS A CASE STUDY

African states are in debt crisis they find themselves today due to some external factors.
The major external factor that causes Africa’s debt crisis is the roles and policies of different international monetary organizations such as International Monetary Fund (IMF) and the World Bank. The activities of these two institutions in the third world have to a considerable extent proved that they are more or less agents of modern-day slavery, colonialism and neo-colonialism. These financial institutions claimed to be third world messiahs but their actions at times negate their claims. IMF and other popular international financial institutions like London and Paris Clubs ‘prefer servicing of debt to quick repayment of loan’, so that by this, they can fasten their grasp on the jugulars of the third world. An example of this was revealed in Stiglitz (2002:30) when he writes “Ethiopia had repaid an American Bank loan early, using some of its reserves. The transaction made perfect economic sense. In spite of the equality of the collateral (an airplane), Ethiopia was paying a higher interest rate on its loan than it was receiving on its reserves. The USA and the IMF objected to the early repayment. They objected not to the logic of the strategy, but to the fact that Ethiopia had undertaken this course without IMF approval” (cited in Obiwuru, C.R., 2018:33). In affirmation, Osagie (1987) concluded that ‘pressure of the IMF and World Bank has been responsible for Africa indebtedness and service payment difficulties’ (cited in Nwosu, 2013:251).

Also, Jubilee Debt Campaign, a global movement demanding freedom from the slavery of unjust debt and a new financial system, tried to paint a picture of the havoc loans from IMF and World Bank have wrought in the third world. Jubilee stated lucidly:

"Throughout the 1980s, 1990s and into the 2000s, many developing countries were caught in a debt trap, where unpayable debts held back progress in tackling poverty and inequality. Then, as now, more loans were given by IMF and World Bank to pay off private lenders, whilst the debt increased. Meanwhile, economies stagnated and poverty increased”.

Furthermore, exploitation of African resources by developed countries is yet another powerful factor responsible for debt crisis in Africa. Of a truth, much has not changed in the relationship between the developed and the developing countries; things are ‘still’ as they were during colonial era. Africans, to a very large extent, are still producers of raw materials and consumers of finished goods. The developed countries still maintain Africa as a market for their finished goods. They vigorously encourage the transplant of cheap raw materials from Africa continent to theirs. Africans farm and sell their farm produce to their western and industrialized counterparts at peanut prices. However when the same farm produce are processed or used to manufacture one thing or the other, the same Africans buy those things at very exorbitant prices. Therefore, if things are actually the way they are stated here, why won’t there be issue of debt crisis in Africa? For example, Nigeria exports crude oil to different industrialized countries at cheap prices and imports that same oil (after it has been refined) at very high prices.

Another germane factor responsible for Africa’s debt crisis is the willingness of banks and private financial institutions to lend out money to governments. It is generally believed among owners and managers of different financial institutions that “governments don’t default”. Tejvan Pettinger, an alumnus of Oxford University as well as an economic teacher and writer, puts it this way:

“In the 1970s, banks were eager to lend to developing countries. The theory was that ‘governments don’t default’. Banks have been criticized for irresponsible lending and failing to make sure loans were realistic. Citibank chairman at the time, Walter Wriston, said that lending to governments was safe banking because sovereign nations do not default on their debts. This is one
reason why external debts became so large—private banks never imagined default would occur”.

In the same vein, a UK essay titled “Third World Debt: Causes and Solutions”, note:

“During the high oil prices of 1970s, Arab nations deposited their excess cash with Western Banks. Western banks then lent it to the third world countries without doing proper due diligence on the use of funds or the capacity of the third world countries to repay in future”.

In fact, “world financial institutions are to be blamed for lending money to countries with dictators and undemocratic governments, knowingly well enough that most of such lending will not be used for benefits of public”. Also, Josep Stiglitz (2002) said “when the IMF and World Bank lent money to the Democratic Republic of Congo’s Mobutu, they should have known that most of the money would be used for personal enrichment of Mobutu” (see Essays, UK, 2018).

CONCLUSION AND RECOMMENDATION

Debt crisis is (and remains, for the moment) a bane and impediment to the overall development and advancement of third world countries. Third world countries are where they are today mainly because of their indebtedness, and the manipulations debt brings. However it should be noted that if third world countries really want to turn their desire to be at the same or equivalent pace of development and industrialization with the countries of the first world into reality, they must conquer debt and everyday or day-in-day-out borrowing, and annihilate corruption because these can lead them nowhere except to doom. Also, there should serious regulation of lending to third world countries since unregulated lending gets third world countries drowned in the ocean of debt. Lenders, internal and external, should take up the responsibility of supervising or monitoring how the fund lent to third world countries are spent because of the kleptomaniac and unreliable leaders that most of them have. At the same time, the Global North should, for goodness sake, pity the Global South by, at least, reducing their high level of exploitation, plunder and milking of third world countries to barest minimum.

REFERENCES