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INTRODUCTION

Rising debt levels pose a threat to sustainability of external debt in the countries. The current economical crisis is the worst that the world has seen since the Great Depression of the 1930s. The effects of the crisis became noticeable with growing external debts in the early 1980s and it persisted into the 21st century. Those effects demonstrate that the problem has deep roots and does not have only temporary causes. Debt itself starts creating a huge problem when the borrower is impotent to compose sufficient funds to compensate the repayments. Growing debt rates of each state turned into a global economic phenomenon when the developing and emerging-market economies were affected, mainly through the trade channels. Many developing and some developed countries faced difficulties and they used the term debt crisis to describe the situation. The issue among developing countries took significance in August 1982 when Mexican Government proclaimed that they are unable to meet the repayments on their external debt. In the following decades, many developing countries had to make sacrifices in key areas of austerity measures in order to service their debt. During that era, World Bank and International Monetary Fund (IMF) became the major players offering conditional credits and try to help manage the debt of the developing countries. Still debt remained a major issue for many of those countries. In 2010 the total stock of external debt for all developing countries stood at approximately $4 trillion, according to a World Bank study, an amount that represented 21 percent of the Gross Domestic Product (GDP) of these countries; in the developing countries of Europe and Central Asia alone, external debt was 43 percent of GDP.

DEFINITION OF KEY TERMS

Gross Domestic Product (GDP): The value of a country's overall output of goods and services, typically during one fiscal year, at market prices, excluding net income from abroad.

Economic Crisis: There is no clear cut distinction between a financial crisis and an economic crisis, as the terms are closely interconnected. However, as the financial crisis, which refers to the problems in the financial sector, becomes broader it affects the entire economy. It is this fall in GDP and in the economic output that turn a financial crisis into an economic crisis.

External debt: External debt is the portion of a country's debt that was borrowed from foreign lenders including commercial banks, governments or international financial institutions. These loans, including interest, must usually be paid in the currency in which the loan was made. In order to earn the needed currency, the borrowing country may sell and export goods to the lender's country.

Trade war: A trade war is an economic conflict resulting from extreme protectionism in which states raise or create tariffs or other trade barriers against each other in response to trade barriers created by the other party. Increased protection causes both nations' output compositions to move towards their autarky position.

MEDC: This stands for 'More Economically Developed Country'. MEDCs are mostly located in the northern hemisphere and usually have all the essential resources that allow them to develop and modernize.

LEDC: This stands for 'Less Economically Developed Country'. Unlike MEDCs, LEDCs do not have all the essential resources to develop and modernize. Another factor could be their geographical position and conflict which affects the sustainability in the country.

Debtor Countries: A national government that owes money to international institutions such as the World Bank or to foreign governments and leaders. Debtor countries will usually have a negative balance on trade because the money they owe to a foreign government is greater than the money the country gains from its exports and trade. Most Debtor countries are LEDCs.

Creditor Countries: Creditor countries are those who have invested more resources, mostly funds, in other countries than anyone else and they usually have a positive net investment. A creditor country will usually put the country they have invested to in debt. To determine if a country is a creditor nation, they would usually have a positive balance in trade. Most creditor countries are MEDCs, however the UN also acts as a creditor meaning that it invests in other countries but expects to be repaid.

Bankruptcy: Bankruptcy is a legal term for when a person or business cannot repay their outstanding debts. The bankruptcy process begins with a petition filed by the debtor, which is most common, or on behalf of creditors, which is less common. All of the debtor's assets are measured and evaluated, and the assets may be used to repay a portion of outstanding debt**.**

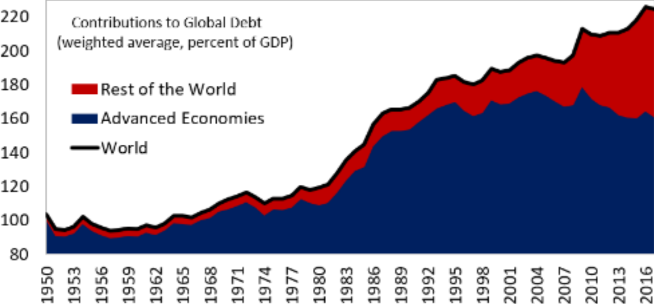
GENERAL OVERVIEW

Over the last two decades the total level of international debt has been on a fast increment. Most of the countries including developed ones have been borrowing at an alarming rate that their debt/GDP ratio has been approximately 200 percent more. As a share of the world economy, the rise went from 248% of GDP to 318%. In the early 2018 alone, global debt increased by $8 trillion. The figures include all major countries and most types of debt: consumer, business and government. If such a rise in global debt would be allowed to continue, it will be very dangerous for all the economies of the world. Growing global debt has more than one reason. First one is the global trade war. With globalization taking over the principle markets of the world, the entire world is in a trade war. Every country faced competition in every sector of the world market. Now, such an expanding trade war threatens to squeeze incomes. With the onset of protectionist politics of the United States of America, a number of economies are hit with restrictions which make it difficult for borrowers to repay their debts. Moreover, due to reduction in the cash flow of the country, governments are tempted to borrow more from numerous sources. Second one is deficit spending policy of the countries which means that their incomes are less than their expenses. In order to eliminate

such problem countries borrow loans from other countries. Deficit spending is often considered by governments as a progrowth apparatus, possibly as it helps in increasing productivity due to availability of more funds. However, since government spending is a component of GDP, it is evident that they both rise and fall together. However, if left unchecked, rise in debt could threaten economic growth. Too much debt, due to constant deficits, could cause a government to raise taxes, seek ways to increase inflation, and default on its debt, thereby adversely affecting the economic growth of the country.

Origin of the modern day rise in international debt goes back to the early 1970s When the Organization of Petroleum Exporting Countries (OPEC) increased the price of oil in 1973, OPEC nations deposited much of their new wealth in commercial banks. There banks, having no regard for development, distributed these new investments as loans to a number of developed countries without monitoring how they were being used. Thus a large part of such loans were used for armaments and unproductive purposes rather than eradication of poverty and rise in employment among other important measures. Meanwhile, as inflation rose in the U.S., the U.S. adopted extremely tight monetary policies that soon contributed to a sharp rise in interest rates and a worldwide recession. The irresponsible lending on the part of creditors, mismanagement on the part of debtors, and the worldwide recession all contributed to the debt crisis of the early 1980s. Developing countries were hurt the most in the worldwide recession. The high cost of fuel, high interest rates, and declining exports made it increasingly difficult for them to repay their debts. Thus, the countries which were already under deficit spending fiscal policies were put under further pressure. Hence the debt of many of the world's poorest countries still remains well beyond their ability to repay it.

A history of debt
While global debt has risen dramatically since 1950, the global debt ratio came down in 2017.



Sources: Global Debt Database and authors' calculations.

MAJOR PARTIES INVOLVED

United States of America

United States has the most powerful economy in the world and people think a country that looks like the United States, a debt crisis is fundamentally not possible. According to the International Monetary Fund (IMF), the global debt has achieved $184 trillion with $86,000 per person, a figure that is twice larger than the global average income per-capita. Out of the $184 trillion, The Balance reported that $21 trillion comes from the U.S., making up for around 11.4 percent of the global debt. With corporate, mortgage, credit card, and student loan debt rising to historic highs, some analysts are concerned regarding the build-up of a bubble that could implode in the years to come. Throughout 2017, the U.S. stock market had one of the strongest rallies in recent history. As the U.S. stock market demonstrated strength and momentum, both corporations and individuals started to spend more, acquiring all types of loans. In a bull market, consumer confidence rises and naturally spending increases significantly.

Many individuals started to purchase homes they could not afford with high-interest mortgage loans and obtain debt to buy expensive products. Consequently, in January, credit card debt in the U.S. hit an all-time high, surpassing $1 trillion for the first time.

Australia

Australian household debt has steadily risen over the past three decades as more of us aim to own homes and continue to rely on products such as car loans and credit cards. In fact, the ratio of household debt to income has more than doubled between 1995 and 2015, going from 104% to 212%, according to the OECD Data released in 2015. This means if the average person earns $80,000 net, they are spending $169,600 per year. While many other developed countries have seen a decline or “leveling out” of personal debt since the 2008 global financial crisis, Australia’s debt levels have continued to increase. As a result, Australia is now reported to have some of the highest personal debt levels in the world which badly contributes to growing global debt.

France

France’s external debt balances have gradually declined from a residue in 1990s to a balanced deficit in the second half of 2000s. Over the past decade, the current account crumbled gradually from a surplus of 3.1 percent of GDP in 1999 to a loss of 1.7 percent of GDP in 2010. External debt in France increased to 5.15 trillion EUR in the second quarter of 2018 from 5.00 trillion EUR in the first quarter of 2018. It is statistically proven that external debt in France averaged about 4.32 Trillion EUR from 2008 until 2018. This is strange to many considering the fact that France is an MEDC. However, the lack of competition with other major developed countries led to a decline of the trade balance on goods and services. At the same time, the current account balance has continuously worsened from an excess to a bearable loss, due to rising labor costs. Consolidation is needed to ensure financial sustainability, while structural reforms are critical to improving competitiveness and keeping the current account loss in check. Labor market reform should focus on increasing labor market participation and reabsorbing the unemployed. Although progress has been made to reabsorb the unemployed by providing appropriate encouragement for both firms and job-seekers, more effort is needed.

Japan

The G-20 (international forum for the governments and central bank governors) indicative guidelines described Japan as experiencing “limited” or “large” fiscal and private saving imbalances. Fiscal imbalances have steadily risen over the past two decades, to unsuitable levels. Earlier, the government has been able to finance its debt at a low cost because private savings continued to be high. But to reduce the risks to the global economy, growth-enhancing structural reforms and fiscal consolidation are needed. Since the asset price downfall in the early 1990s, potential growth has slowed rapidly, because of a shrinking labor force, weak investment and a decline in factor productivity. The collapse of asset markets marked the origin of an extended period of economic inactivity in Japan, which has had long-lasting effects on growth, public debt and saving. External debt in Japan increased to 426,882 billion JPY in the second quarter of 2018 from 413,946 billion JPY in the first quarter of 2018. External debt in Japan averaged 247,720 billion JPY from 2003 until 2018. This is manly due to the decreasing population and the increasing number of old dependents. The number of young dependents is Japan are low to the extent that they do not have enough people to fill in jobs. At the same time, household saving has fallen to less than 3 percent of GDP, owing to life cycle indications of a rapidly aging population and decline wages among younger households. To address imbalances and anchor strong, Japan needs to begin growth-enhancing structural reforms and fiscally consolidate. Structural reforms, including advancing competition in services and increasing labor force participation, will help annex productivity and potential growth. Such reforms will also help decrease the negative effects of fiscal consolidation.

International Monetary Fund (IMF)

The International Monetary Fund (IMF) is an organization made up of 189 countries, working to advance global monetary cooperation, secure financial stability, further international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. The IMF's main purpose is to protect the balance and strength of the international monetary system, the system of exchange rates and international payments that allows different countries to execute with each other. The Fund's authority was updated in 2012 to include all macroeconomic and financial sector issues that carry on global stability. Unlike the General Assembly of the UN, where each country has one vote, decision making at the IMF was designed to cast the relative positions of its member countries in the global economy. The IMF continues to initiate reforms to ensure that its structure appropriately reflects crucial changes taking place in the global economy. The IMF inspects the international monetary system and monitors the economic and financial policies of its 189 members. The IMF grant loans to member countries who are experiencing actual or potential payment problems, to help them rebuild their international reserves, maintain their currencies, continuing to pay for imports, and improve conditions for a stronger economic growth, while managing problems correctly.

TIMELINE OF EVENTS

YEAR	EVENT	DESCRIPTION
1973-1974	Oil Crisis	Embargo imposed by Arab oil exporters, caused a slump across the Western World
1991	India's economic crisis	India's government was close to default, its central bank had refused new credit and foreign exchange reserves were reduced.
1994	Economic crisis in Mexico	The Mexican peso crisis was a currency crisis sparked by the Mexican government's sudden devaluation of the peso against the U.S. dollar
1996	Creation of initiative for poor countries	The G7 groups of rich countries create the Heavily Indebted Poor Countries initiative to cancel some of the debts of some of the most impoverished countries, if those countries implement more IMF and World Bank free market economic policies.
1998	Argentine great depression	Caused widespread unemployment, riots, the fall of the government, a default on the country's foreign debt, the rise of alternative currencies and the end of the peso's fixed exchange rate to the US dollar
1998	Russian financial crisis	It resulted in the Russian government and the Russian Central Bank defaulting on its debt.
2007	Demand for securitized loans	Demand for securitized loans linked to US sub-prime housing lending begins to fall. There is a run on British bank Northern Rock. Having had $6.7 billion of debt cancelled by public institutions, Zambia is sued in UK courts by vulture fund Donegal International for $42 million on a debt it paid

		$4 million for. The British judge rules a debt is owed, but only $20 million**.**
2014	Increase of loans	International loans to the governments of the most impoverished countries increase from $56 billion in 2008 to $151 billion by 2014.

PREVIOUS ATTEMPTS TO RESOLVE THE ISSUE

It has been estimated that in 2006, about 41 of the poorest countries in the world had to owe more than US $200 billion worth of debt all together; this means that each person living in sub- Saharan Africa would have to pay at least US $357 each day to remove the debt. More than 40% of government budgets in these HIPCs are spent on repaying external debt. This is more than what is spent on healthcare and education. Throughout the debt crisis, the United Nations General Assembly has become a facilitator in the discussions about this topic. The UN along with the international community tried to observe the possible aspects and the effects of the debt crisis affecting regions such as sub-Saharan Africa and Central America. The General Assembly also focused on strategies to address debt from bilateral sources, multilateral lenders and commercial lending institutions. All countries and regions, whether they are creditor or debtor, eventually are at risk as they continue to discuss the crisis. However, other than having discussions, not much has been done overall to solve this issue of external debt.

RELEVANT UN DOCUMENTS AND TREATIES

- Report of the Secretary-General on “External debt sustainability and development” (A/73/180) – 16 July 2018
- GA resolution 72/204 on “External debt sustainability and development” (A/RES/72/204) – 20 December 2017
- Report of the Second Committee on “Macroeconomic policy questions: external debt sustainability and development” (A/72/418/Add.3) – 8 December 2017
- GA resolution on “External debt sustainability and development” (A/RES/71/216) – 21 December 2016

POSSIBLE SOLUTIONS

The international financial system needs a mechanism that fairly deals with sovereign debt. Creation of an international bankruptcy court would bring stability to the global economy and empower poor countries struggling to pay their debts. This mechanism could end current ad hoc, unpredictable, and often chaotic debt procedures that create instability and dire humanitarian outcomes for the poorest every time a country finds itself unable to pay its debts. Governments can create commercial banks and multinational institutions are mostly preferred for many reasons. First, it would contribute to preventing an economic and financial crisis by extending the due date of debts, or by removing portions from the debt depending on the state of the state. Also, many MEDC's can compensate the debts by imposing sanctions on aggressive countries that tend to have bilateral tensions with innocent states. This can also help reduce the impacts of an aggressor on the world. This means that debt collectors can collect money from aggressors, gathered by imposing sanctions, instead of collecting it back from the country they lend the money to in the first place. Many have stated that the debt crisis will eventually be over when debtor countries have normal access to the international capital markets. This means that all sales are at similar or the same prices for every country weather it is an MEDC or an LEDC. This is because not all countries are able to raise funds on the same terms. If the net outflow of resources from the developing debtor countries is significantly reduced and most of them are able to run current account deficits, it would contribute towards solving the debt crisis. The resource inflows would finance investment to raise the growth rate and over time move living standards closer to those of the developed countries. However, accomplishing that goal is difficult since MEDCs will have to reduce the amount of resources that go in the market.

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