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INTRODUCTION

This paper compares and analyses the growth, structure and impact of external borrowing as a means of financing economic development, during the past two decades, in the more developed anglophone nations of Barbados, Guyana, Jamaica, and Trinidad and Tobago.

In the present international economic context, the transfer of financial resources from the developed nations to the developing nations is a factor whose potential effects are of major importance for re-establishing the general trends of economic progress. To the traditional role of those financial resources as a complement both to domestic savings and to the current foreign exchange inflows required for increasing investment and the rate of economic growth and social progress of the developing countries has been added in the last five years the task of contributing to the world monetary equilibrium and the adjustment to unprecedented external deficits caused by the recession of the industrial economies and the rise in fuel prices.

By the end of the 1940's capital flows to the developing nations were marginal. Some Third World countries had accumulated large international reserves after the Second World War as a result of relatively high prices for their exports. But the situation changed rapidly as the flows between the developing and developed nations were reversed and official transfers became important (Hughes 1979: 99). The experience of the 1960's and the early years of the 1970's brings out the generally positive results of the contribution of international financial cooperation to the acceleration of the economic growth of the developing

countries. That occurred during a period when international trade increased significantly and the economies of the developing countries became largely integrated into the world economy. As such, the international financial system succeeded during that period in placing a substantial part of its available resources in developing countries, which permitted them to cover extraordinary balance of payments deficits and to pursue adjustments that have depressed production and employment to only a minor extent. Because of the close correlation between monetary and trade flows, the maintenance of the import levels of the developing countries, in order to satisfy global demand, made it possible to lessen the intensity of the economic recession in the industrial countries and thus to avoid consequences that would probably have been worse.

As a result of the experience of recent years and a better understanding of the linkage of the economies of the developing countries with those of the industrial countries, international financial cooperation policies may be expected to change in the near future. The new policies may endeavour to take advantage of the opportunities for mutual benefit offered by economic relations between the developing and the industrial countries. Given the trends of past relations, a possible increase in external financing to developing countries for investment purposes may be expected to return to the industrial countries in the form of larger import payments. In turn, the composition of those imports would continue to be dominated by the products of those manufacturing branches in the industrial countries that are presently having high indices of idle capacity. Therefore, in these circumstances, the real economic cost of a larger transfer of resources to the developing countries would be substantially less than its nominal value, and its benefits for the two parties concerned would be significant (IDB 1978: 85-86).

EXTERNAL DEBT OF SOME CARIBBEAN COUNTRIES: GROWTH, STRUCTURE AND IMPACT

Table 1 indicates the countries' outstanding external public debt for the period 1960-1980. As can be seen, the external public debt has been increasing in all of them. This increase in recent years was mainly attributable to the large increases in the prices of oil, the worldwide inflation, and the severe recession in the industrial countries. In the face of the reduced demand for their products, and their falling com-

modity prices and export revenues, many of these Caribbean countries had to borrow heavily from abroad in order to finance the large expansion of their current account deficits and their investment program requirements. The bulk of these countries' foreign borrowings, which supplemented their domestic savings and helped finance their import requirements, traditionally took the form of official bilateral and multilateral assistance. But beginning in the early 1980's, as the official flow of external funds grew at a slow pace, the current-account deficits swelled to unprecedented levels, which forced many countries to resort to the private capital markets, particularly commercial banks. This shift in the source of financing enabled the countries to finance their development programmes during the recessionary period and to adjust to the impact of the higher oil prices.

TABLE 1. EXTERNAL PUBLIC DEBT OUTSTANDING^a, 1960-80 (MILLIONS OF U.S. DOLLARS)

Year	Barbados	Guyana	Jamaica	Trinidad & Tobago
1960	N.A.	50	N.A.	21
1966	13	69	143	76
1970	14	123	192	122
1973	38	254	501	190
1975	51	381	864	217
1976	60	458	1132	157
1977	79	480	1249	292
1978	103	651	1439	527
1979	122	719	1562	609
1980	154	743	1697	723

Sources: World Bank, *World Debt Tables - Two Volumes* (Washington, D.C.: World Bank, 1976); Organisation for Economic Cooperation and Development, *Total External Liabilities of Developing Countries* (Paris: OECD, 1975); Inter-American Development Bank, *Latin America's External Indebtedness: Current Situation and Prospects* (Washington, D.C.: IDB, May 1977); and Inter-American Development Bank, *Economic and Social Progress in Latin America* (Washington, D.C.: IDB, 1981).

^a Includes the undisbursed portion.

The cost of foreign capital and the net transfer of resources from abroad depend to a great extent on the volume of external debt as well as its structure by type of creditor and its evolution over time. This is so, due to the diversity of interest rates and maturities existing in the various sources of international financing. The current rate of development in these Caribbean countries requires a net transfer of resources

from abroad to cover the gap between savings and investment as well as the balance of payments deficit. This means that new indebtedness should exceed the outflow of foreign exchange to service the external debt and that the balance of total debt should continue to grow so long as requirements of economic efficiency and flexibility are met.

From the standpoint of economic theory, at a more advanced stage of economic development, the increase of external debt will stop as the growth of domestic savings enables the countries to finance, internally, the investment requirements to maintain the expansion of their productive capacity and the payments of interest and principal on their outstanding external debt.

TABLE 2. COMPOSITION OF CARIBBEAN EXTERNAL PUBLIC DEBT BY CREDITOR, 1960-80 (PERCENTAGES)

Country/creditor	1960	1970	1975	1980
<i>Barbados</i>				
Official Multilateral	N.A.	-	4.6	69.7
Official Bilateral	N.A.	21.4	34.1	18.7
Suppliers	N.A.	-	2.3	0.6
Private Banks	N.A.	-	52.3	11.0
Other Credits ^a	-	78.6	6.7	-
<i>Guyana</i>				
Official Multilateral	N.A.	10.6	14.6	29.0
Official Bilateral	N.A.	77.2	53.3	39.9
Suppliers	N.A.	-	2.7	3.1
Private Banks	N.A.	5.7	14.1	17.2
Other Credits ^a	N.A.	6.5	16.1	10.8
<i>Jamaica</i>				
Official Multilateral	N.A.	27.5	19.3	26.3
Official Bilateral	N.A.	27.5	20.4	41.7
Suppliers	N.A.	-	2.7	2.3
Private Banks	N.A.	10.2	50.9	24.6
Other Credits ^a	N.A.	38.8	6.7	5.1
<i>Trinidad & Tobago</i>				
Official Multilateral	-	42.4	42.7	12.2
Official Bilateral	-	25.3	21.6	21.7
Suppliers	14.3	4.0	3.3	-
Private Banks	38.1	15.2	29.1	60.2
Other Credits ^a	47.6	13.1	3.3	5.9

Sources: Same as for Table 1.

^a Includes nationalization, bond issues and credits from private financial institutions other than commercial banks.

N.A. (Not Available).

- Zero or not significant.

As Shown in Table 2, the composition of external public debt changed drastically during the last decade, with an increasing use of commercial banks' credits and a lower proportion of debt contracted with foreign governments. This was due in general to a decline in the growth of financing from official sources in comparison with the expanding requirements for external financing by the Caribbean countries, a situation that led the countries to resort to private banks at a time when these institutions had ample liquidity. Except in Barbados and Jamaica, credits with foreign commercial banks rose progressively in all of the countries. Likewise, except in Trinidad and Tobago and Jamaica, obligations with foreign governments have been decreasing in terms of proportion. Suppliers' credits during the past decade have been a relatively stable component of the external public debt of the four countries.

The rapid growth in borrowing through financial markets by the Caribbean countries has affected the timing of their future debt service obligations. This may be seen in the changes of the maturity structure of external debt, as revealed by time profile ratios which show future debt service payments as a percentage of debt outstanding at some base date. Interest rates and maturities constitute one of the main determining factors in the servicing of external debt. The accelerated growth in the past decade of interest and principal payments abroad may be explained by the expansion and change in the structure of the external public debt together with a trend towards a progressive hardening of conditions in the loans contracted by the Caribbean countries.

Compared with borrowing from official sources, borrowing from private sources requires repayment in a shorter period of time and also at a higher rate of interest. Therefore, as the maturity of the countries' debt decreases and the average interest rate rises, the time profile ratio will increase accordingly. As such, the effect on the debt structure of the relative growth in private source borrowing has been to bring about a net increase in the time profile ratios.

The growing dependence upon financial markets by these Caribbean countries puts more stress on their debt management capabilities. One reason for this is, of course, that loans from private financial institutions now have, in large part, variable interest rates. Except in Trinidad and Tobago, the increment in the implicit average rate of interest of the outstanding external public debt reflects the higher cost of money in the industrial countries as well as in the international capital markets as a result of inflation, the adoption of restrictive monetary policies to deal with inflation, and risk and uncertainty factors prevalent in recent years.

Basically, interest rates charged by private lenders are higher than those applied to credits extended by government agencies or multilateral financing institutions. Although the practice of variable interest rates introduces greater uncertainties, it can have potential advantages to borrowers as well. The reference rate may rise as it did during 1973–74 but when it declines, as it did during 1974–76, the reduction in the cost of money is passed along to the borrower. This would not have been the case if the borrowing had been at a fixed rate. The funds which have been lent to the countries under discussion in recent years have come, to a large extent, from institutions receiving Eurocurrency deposits. The lending rate has been based on the rate paid on these deposits plus a margin. The margin is determined by the creditworthiness of the debtor and the external debt capacity of the country. The most common base rate for international lending by private financial institutions is the six month London Inter-Bank Offered Rate (LIBOR). The debt servicing costs of the borrower therefore vary parallel to the movements of the six-months' Eurodollar rate which is subject to substantial fluctuations.

The attractiveness of Eurocurrency lending for the developing countries lies primarily in the fact that they are untied and can be obtained with a minimum of red tape. But, in view of their relatively high cost, Eurocurrency flows will add importantly to the debt service burden of the borrowers. Moreover, it appears that Eurocurrency credits are extended at least by some of the lending banks primarily on insurance principles (spreading of risks) and only secondarily on a creditworthiness analysis of the borrower.

The foreign debt of a developing economy plays a complex role in its economic affairs. At the same time, the growth of external debt requires adequate growth in the amount of foreign exchange earnings which must be devoted to debt service. The debt servicing capacity of a developing economy may conveniently be discussed in terms of benefits and cost of foreign capital in the process of economic growth. Foreign capital supplements national resources and thus helps raise the rate of capital formation. By making possible a higher rate of investment than would otherwise be feasible, foreign capital raises the rate of income growth.

TABLE 3. INTEREST PAYMENTS ON THE EXTERNAL PUBLIC DEBT, 1966-80 (MILLIONS OF U.S. DOLLARS)

Year	Barbados	Guyana	Jamaica	Trinidad & Tobago
1966	1	4	5	4
1970	1	3	8	6
1971	1	3	10	5
1972	1	6	12	6
1973	1	6	18	8
1974	3	8	33	15
1975	2	10	49	12
1976	2	18	53	10
1977	2	16	59	7
1978	3	17	71	22
1980	6	26	111	45

Sources: Same as for Table 1.

TABLE 4. DEBT SERVICE PAYMENTS AS A RATIO OF EXPORT OF GOODS AND SERVICES, 1965-80 (PERCENTAGES)

Year	Barbados	Guyana	Jamaica	Trinidad & Tobago
1965	1.6	4.2	2.0	2.0
1966	1.4	5.6	1.8	1.9
1967	1.4	5.0	2.3	2.0
1968	1.3	6.1	3.1	1.4
1969	1.2	3.5	2.8	2.2
1970	1.0	3.4	2.7	2.5
1971	0.9	3.0	3.5	3.7
1972	5.5	5.5	4.7	1.5
1973	2.7	5.7	6.0	1.8
1974	2.1	5.1	6.1	2.2
1975	1.8	4.8	7.2	1.2
1976	1.9	10.4	11.6	2.9
1977	3.4	18.8	15.0	0.5
1978	2.0	16.1	17.0	2.0
1980	2.5	16.9	13.1	2.4

Sources: Same as for Table 1.

The debt service ratio is the most frequently used measure in determining a country's creditworthiness. The ratio is the interest and amortisation on external public debt expressed as a percentage of the value of exports of goods and services. The higher the ratio the greater is considered to be the pressure of debt service on the debtor's economy. Table 4 shows the debt service ratios for the period 1965-80. As can be

gleaned, except in Trinidad and Tobago, the debt service ratio has increased unevenly in all of the countries from 1965 to 1980. In 1980, Guyana had the highest debt service ratio while Trinidad and Tobago had the lowest ratio. The size of the debt service ratio from year to year will vary widely from country to country and depends, among other national and external factors, on the management of financial and economic policies, the general economic performance, and the size of capital flows and export earnings.

The debt service ratio is usually calculated for a single year. The attraction of this ratio lies essentially in its simplicity and easy calculation.

Its main value is that it shows the short-run rigidity in the debtor's balance of payments and the pressure to which debtor countries would be exposed if their export earnings declined or their imports increased. It also indicates how much debt a country has actually been able to service in the past.

But despite those advantages, the debt service ratio has been recognised as an incomplete indicator of a country's debt position and, as such, international comparisons of these ratios have only limited meaning. Part of the deficiency of the debt service ratio is based on the fact that there seems to be no critical level beyond which default may be expected. In some developing countries difficulties have been met with relatively low debt service ratios while others avoided difficulties with high debt service ratios. Moreover, the debt service ratio may be particularly misleading for poor countries with a large export sector. In such countries, external debt liabilities may appear small in relation to export earnings but their more serious effect is on internal demand management, in particular, savings and the fiscal system (OECD 1974: 14).

In attempting to determine a country's ability to service its debt, a number of factors must be considered. Among these are the stability and diversity of the composition of the country's exports, the extent to which imports can be reduced without adversely affecting production, the size of foreign exchange reserves and so on. Further, external public debt, though usually the largest debt, constitutes only a part of the total public debt of the developing countries and thus may considerably understate the extent of indebtedness in some cases.

Because of the above arguments it has been advocated that a new measure be used to indicate the burden which a given level of debt service may impose. The burden may be assessed in relation to the country's total resources (GNP). This is regarded as a comprehensive

indicator relating the totality of a country's external liabilities to its total product. For the long run, this is perhaps the most important debt service indicator. However, in practical terms, since debt represents a contractual obligation of payments abroad, the levels of reserves and export earnings are more relevant in the short run (Hughes 1979: 108-109).

TABLE 5. RATIO OF EXTERNAL PUBLIC DEBT TO GNP, 1960-80 (PERCENTAGES)

Year	Barbados	Guyana	Jamaica	Trinidad & Tobago
1960	N.A.	17.9	N.A.	2.4
1966	9.6	24.6	11.5	9.2
1970	7.3	44.9	11.9	11.8
1971	8.6	63.1	15.2	10.9
1972	5.7	75.7	19.2	13.3
1973	10.1	62.9	17.2	13.8
1974	10.7	81.5	24.2	16.3
1975	13.8	81.5	30.4	14.8
1976	15.6	83.0	42.4	9.3
1977	19.7	93.0	49.2	18.6
1978	20.4	129.0	52.1	26.4
1980	23.6	135.1	54.0	14.1

Sources: Same as for Table 1.

Table 5 above shows the relationship between external public debt and GNP. The ratio of external public debt to GNP has consistently been highest in Guyana primarily because of the greater openness of the Guyana economy. During 1960-80, the ratio never exceeded 30 percent in Barbados and Trinidad and Tobago while in Jamaica the ratio exceeded 30 percent only after 1974. The annual variations in the ratio of external public debt to GNP show no similarity to the variations in the debt service ratio. But, of course, this should not be surprising. The debt service ratio, because of the contractual charge of debt service on exports, remains the relevant starting point in the analysis of credit-worthiness but it cannot substitute for an in-depth knowledge of a country's situation, prospects, and total economic performance. Moreover, the evaluation of future debt service burdens must also take account of the interrelationships among economic, social and political considerations, which may be subject to sudden and substantial change. In some instances these changes may result from, or be amenable to influence by, a country's own choice of policies and its success in

implementing them. But the pattern of future developments in a given country will also depend on factors outside its sphere of control or direct influence.

There is a full consensus among economists, however, that, despite the nature of the measure used to determine a country's debt burden, the developing countries themselves bear the fundamental responsibility for their debt management. Most of the measures to avoid debt difficulties lie with them, rather than with the capital providers. Developing countries bear the responsibility to take all reasonable measures within their means to ensure that debt-servicing difficulties are avoided. However, domestic policies designed to avoid debt-servicing difficulties can only be fully successful in a suitable and favourable external environment. As such, it must be part of the development cooperation effort between richer and poorer countries that donors will do what they can to help poorer countries steer the difficult course between accelerating their development to the maximum extent and staying clear of a collapse in their external payments position. It means frank cooperation between debtor and creditor countries. The need for such cooperation becomes particularly important when the external payments position of any developing country is endangered by events beyond their control, such as a rapid deterioration of their terms of trade.

Avoiding debt service difficulties requires, among other things, policies with regard to the mobilisation of domestic savings, which have an important bearing on investment programmes and therefore on rates of growth of output. The avoidance of debt servicing difficulties under conditions that are consistent with an orderly development process in developing countries is, therefore, in the interest of both debtor and creditor countries. This means the use of policies that are in harmony. These policies may have many areas of overlap and a broad measure of understanding and complementarity should be promoted in order to achieve a fruitful rapprochement with regard to matters on which divergencies may exist. Due to the importance of export earnings in determining total foreign exchange availabilities in debtor countries, policies in creditor and debtor countries regarding trade have an important bearing on the capacity of the latter to service debt. In this connection, appropriate exchange rate and export promotion policies in debtor countries, including when necessary the prompt adjustment of exchange rates, will play an important role in fostering an expansion in export earnings. Most of the countries under discussion seem to have recognised this and during the last five years, particularly in

Jamaica, there have been several changes in the exchange rates, some of which were imposed by the International Monetary Fund.

The extent of foreign borrowing as a means of financing development is shown in Table 6. As a percentage of gross domestic product, net external borrowing has been relatively more stable in Jamaica during the past decade while in Guyana, Barbados and Trinidad and Tobago there have been some fluctuations. The greatest fluctuations have occurred in Guyana. However, except in Trinidad and Barbados in 1980, net domestic borrowing as a percentage of gross domestic product exceeded the similar ratios for net foreign borrowing.

TABLE 6. CENTRAL GOVERNMENT OVERALL SURPLUS OR DEFICIT FINANCED BY NET FOREIGN BORROWING, 1970-80 (PERCENTAGES OF GDP)

Country/activity	1970	1971	1972-76	1980
<i>Barbados</i>				
Surplus or Deficit	-1.0	-2.5	-4.2	-5.4
Net Foreign Borrowing	-1.0	N.A.	0.8	4.3
<i>Guyana</i>				
Surplus or Deficit	-6.6	-28.3	-14.9	-30.8
Net Foreign Borrowing	3.1	23.0	4.3	5.6
<i>Jamaica</i>				
Surplus or Deficit	-5.1	-4.3	-10.3	-18.0
Net Foreign Borrowing	2.5	2.1	2.7	4.6
<i>Trinidad & Tobago</i>				
Surplus or Deficit	-3.3	-6.4	1.9	6.5
Net Foreign Borrowing	-0.5	2.6	1.3	1.1

Sources: Same as for Table 1.

It seems obvious though that if development is to proceed, there will be some need for capital inflows from the developed nations. If the terms on which this is provided are made more appropriate to the repayment capacity of the countries and if the regular and continuous flow of this capital can be better assured, the countries will be more able to ensure a more efficient management of their economies.

CONCLUSIONS

The financing of the development effort in the Caribbean countries under discussion has displayed a tendency toward use of external financing primarily through borrowing from private banks in the international financial markets. However, the policy of deficit-financing to expand economic activities and effect the infra-structural development to transform the economies has not been successful in terms of reducing unemployment and sustaining increases in national income. Moreover, the dynamics of international debt peonage are intimately tied to the dependent structures of Caribbean productive systems. The recent increase in Caribbean external borrowing from private creditors has also contributed to the shortening of debt-maturity payments for the Latin American region. The portion of the external debt falling due in five years or less rose gradually from approximately 43 percent in 1973 to 50 percent in 1980. Payments maturing in more than fifteen years dropped from 18 percent in 1970 to 5 percent in 1980.

However, the increase in private bank lending of Eurocurrency to Caribbean countries must be subject to careful interpretation. This is so because the loans are new and therefore represent gross lending; with mounting repayments on earlier loans, the difference between gross and net figures will become increasingly important. Hence, the gross figures on Euro-loans do not necessarily reflect new indebtedness. These loans have tended to replace other forms of lending, especially export credits. The continued availability of Eurocurrency, however, depends on developments in the market which are difficult to foresee. On the one hand, some of the revenues of the oil-exporting countries are beginning to flow back into the Euro-market and provide available funds for lending but, on the other hand, the balance of payments problems of oil importers have led, and will lead, to large demands on the same funds. On balance, however, it seems likely that Euro-loans will continue to be available for lending to most established borrowers in the market for some time to come.

Foreign capital has played an important role in the economic development of many countries which are presently considered mature or developed economies. Most of the developing countries are still at a stage where their development depends, in part, on the flow of foreign funds in the form of grants, loans and direct foreign investment. It is, therefore, not surprising that a substantial research effort, of both an empirical and theoretical nature, has been directed at the study of the relationship between economic development and foreign funds. How-

ever, whether it is a good idea to borrow or not obviously depends on whether the funds can be used to such an advantage as to warrant the cost of borrowing. If foreign loans are wasted, the obligation to service the debt will leave a country worse off than if it had never sought or accepted foreign loans at all.

At a conceptual level, it is possible for a country to have borrowed too much abroad, even if its debt service ratio is falling, if the return on the domestic investment were lower than the incremental interest rate on external debt. Debt service payments, like the amounts of outstanding debt, are generally affected by inflation and real growth of underlying variables.

For the Caribbean nations the primary issue with respect to their use of external borrowing to finance development is that of sound debt management. The key to sound debt management is to ensure consistency between a country's macroeconomic growth objectives, a current account deficit, and the amount and terms of capital inflow which is available to assure servicing of old debt and provide the necessary net addition of foreign resources. This may mean acceptance of quantitative limitations on new external borrowing in certain maturity brackets and interest levels and the adjustment of related economic variables (OECD 1979: 20–21).

In addition to pursuing effective economic and financial policies and adhering to debt ceiling limitations, the Caribbean countries can strengthen their debt management by measures directly designed to assure control and surveillance of their total external debt. These measures include screening procedures to ascertain that foreign loans are contracted only for high priority projects, prior authorisation procedures for public loans, and central registration procedures for private loans (Seiber 1982: 76; Hope 1984: 22–24). This system for central debt recording enables a country to continually check its overall indebtedness and service obligations.

NOTES

1. Helen Hughes, "Debt and Development: The Role of Foreign Capital in Economic Growth", *World Development* 7 (February 1979), p. 99.
2. *Ibid.*
3. Inter-American Development Bank, *Economic and Social Progress in Latin America* (Washington, D.C.: IDB, 1978), pp. 85–86.

4. Organization for Economic Cooperation and Development, *Debt Problems of Developing Countries* (Paris: OECD, 1974), p. 14.
5. Helen Hughes, "Debt and Development: The Role of Foreign Capital in Economic Growth", pp. 108-109.
6. Organization for Economic Cooperation and Development, *External Indebtedness of Developing Countries: Present Situation and Future Prospects* (Paris: OECD, 1979), pp. 20-21.
7. Marily J. Seiber, *International Borrowing by Developing Countries* (New York: Pergamon Press, 1982), p. 76; and Kempe Ronald Hope, "External Borrowing and the Debt Problem of the Developing Countries", *International Journal of Development Banking* 2 (January 1984), pp. 22-24.

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